



May 17, 2010

America's Approaching Debt Disaster

Written by Dale Hurd

When the Greek economy melted down recently its citizens rioted in the streets. Some have called it "the death-spiral of a welfare state" -- too much borrowing for too many social programs for too long.

Eventually, the bottom falls out.

But if you don't think the economic chaos in Greece can come to America, economists say think again. America is on a fiscal course economists warn is unsustainable - racking up debts we will not be able to repay. This nation, they warn, is already on the path to economic ruin.

Debt Out of Balance

Federal debt as a percentage of the Gross Domestic Product now stands officially at around 60 percent. But with the course the country is on, it will hit 150 percent in 10 years, and 300 percent by 2050.

By comparison, Greece began to melt down when its debt reached 115 percent of GDP.

Anne Vorce with the Committee for a Responsible Federal Budget, said it's not clear when America will enter economic crisis.

"The problem is you don't know when you reach a tipping point until you reach it," she

explained. "But we're well beyond normal peacetime historical experience already."

Economic Similarities

What does America's future look like? Some say it resembles Argentina. Before World War II, Argentina was one of the most prosperous nations in the world. With a strong industrial base and thriving middle class, it attracted immigrants much like America.

But within 15 years, Argentina went one of the richest nations to one of the poorest. Argentina President Juan Peron, who some historians say was a fascist, fomented class warfare and bashed business, banks and the wealthy. He made labor unions his allies and unleashed massive social spending that the nation couldn't afford.

As a result, one of the strongest nations in the world was ruined.

Six Possible Scenarios

The Committee for a Responsible Federal Budget has laid out six future scenarios for America, and all of them are bad. The best case is long-term economic stagnation. The worst case -- default -- when the government can no longer pay its bills.

Another possible scenario is runaway inflation. What worries the experts is that Washington, D.C., has heard all the warnings and not only keeps spending, but spends more.

Brian Williams, legislative director for the National Center for Policy Analysis, said lawmakers would rather give their constituents government-financed freebies than a balanced federal budget.

"As long as the American electorate is in a mode of getting free education and free health care and free transportation and everything for free -- somebody pays for it," he said.

Government entitlement spending, or welfare, could reach half of our Gross Domestic Product by 2080.

Golden State a Preview?

This didn't start with Barack Obama. George W. Bush added \$5 trillion to the national debt. But the Obama administration is running it up at a faster clip.

Moody's Investors Service warns that America's credit rating could be downgraded as soon as 2013 when principal and interest on the debt reaches 20 percent of the federal budget. The only way to stave off a downgrade would be a massive tax hike.

"There will be tax policy implications for decades to come," Williams added.

Vorce pointed to California as a likely preview of our future -- a government that can no longer afford some basic services.

"Look at education. Look at bridges. Police, public safety workers," she said. "The things you expect government to do and you won't be able to afford them anymore, because you're paying debt service."

Greece may be the first of many welfare states to fail in the coming months and years, as populations age and entitlement costs soar.

And while you shouldn't expect riots in American streets, financial experts say if the country continues to pile up debt, the economic meltdown in Greece is a road show that will come to America.