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Should Congress Cut Up Uncle Sam's Credit Card?

Imagine that each month, you spend $2,000 more than you earn and charge the difference to your credit card. You make interest payments but never attempt to pay down your debt, instead just letting it grow. There will inevitably come a time when you have to ask the credit card company to increase your limit. That's how Uncle Sam has handled his spending and, as a result, debt. Now, come Feb. 28, he hopes that his ability to borrow will be extended once again.

This is where the analogy between you and the federal government ends. In your case, if you ask the credit card company for an increase in your balance limit, it'll be approved only if the bank trusts you. However, when Uncle Sam wants an increase, he ask Congress to approve an increase in the debt ceiling, and then the Treasury Department can go to domestic and foreign investors for more money.

In the past few years, some in Congress have questioned the tradition of approving the request to borrow more money without any conditions to repay or reform bad spending habits. They have clashed with other lawmakers who believe the debt ceiling should be raised and the country should go into more debt with no questions asked.

To be sure, today there are plenty of lenders willing to give the United States more cash in exchange for relatively low interest rates. But Congress' approval is important. When you ask your credit card company, it's your credit score and financial sanity that are on the line. When Uncle Sam wants more money, we, the American people, will pay the price if something goes wrong.

Congress is supposed to watch after our interests. It fails to do so, as evidenced by the growth in our spending and borrowing needs without a requirement of some degree of fiscal responsibility. In recent years, however, this has forced a discussion about our government's insatiable appetite for debt.

This matters because there will be a point when investors will no longer be willing to extend more cheap capital to the United States. It's not likely that they'll stop lending us money, but they very well could demand much higher interest rates than we're expecting them to charge us.

Even before that, our overspending habits will have a high price tag. Because of the demographic pressure of baby boomers aging, our spending is set to explode. According to the Congressional Budget Office, total outlays will go from roughly $4 trillion in 2018 to $6.6 trillion by 2027. Revenue will fail to grow as fast as spending, and our deficit will increase by $900 billion, along with the amount of interest we pay for that debt. The CBO calculates that in 2018, the cost of interest on our debt will grow from $307 billion, or 7 percent of total spending, to $818 billion, or 12 percent of spending, by 2027. That's more than the government will spend on all its "investments," such as research and development, education, training, and infrastructure.

The long run looks even worse, with interest payments consuming 21 percent of all spending in 2047. That's $1 of every $5 the federal government spends going toward interest on our debt. Considering the underlying growth in entitlement spending — from 55 percent of today's budget to 70 percent by 2047 — you don't have to think too hard to imagine what it means for other parts of the budget, such as education and infrastructure.

This also assumes that interest rates will behave as projected by the CBO. In December 2015, the Committee for a Responsible Federal Budget estimated that an increase of a half-point above the projections would add $850 billion to the deficit over 10 years, while a 1-point increase would add $1.7 trillion. A return to the average rates during the 1980s would add $6 trillion to the deficit. Having more deficit and more debt means less ability to respond to recessions, foreign attacks and other emergencies if needed, not to mention higher taxes in the future.

These numbers should scare lawmakers. But they don't. After passing tax cuts that Congress wouldn't pay for with spending cuts, the Republicans won't reform entitlement or welfare programs in 2018. They will, however, add to the country's credit card debt by jacking up spending on defense and infrastructure.

Think about that when you hear talks about raising the debt ceiling again in February without adopting fiscally responsible measures.

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