Kay Bailey Hutchison: Don’t forget our national debt

By KAY BAILEY HUTCHISON

With the president’s State of the Union this week and the new Congress organizing itself, now is the time to set priorities, preferably priorities that can achieve bipartisan agreement — like the national debt.

Despite short-term improvement in the annual budget deficit, the nation’s debt still stands at record levels. According to the Campaign to Fix the Debt, the debt held by the public is nearly $13 trillion, or about 74 percent of the U.S. economy, as measured by gross domestic product. That’s the highest it has been since around World War II. The U.S. post-World War II debt average is about 40 percent.

Under current law, public debt is projected to reach 77 percent of GDP by 2024 and will exceed the size of the economy by the late 2030s. Congress and the president should make this a top five priority for action in this session.

The president is calling for tax cuts for middle-income families. This is certainly a bipartisan goal. But raising taxes on those who make more doesn’t help the economy and could hurt small businesses by lowering their ability to create jobs. Raising taxes also won’t address the debt. Tax cuts should be achieved through pro-growth policies and government belt-tightening.

Debt reduction cannot happen overnight. Congress and the president will need to be in it for the long haul.

The growth in projected debt is due in large part to the aging of the population and growing health care costs, resulting in increased Social Security and federal health spending. By 2045, 100 percent of federal revenue will go toward our major entitlement programs and interest on the debt unless steps are taken.

Social Security can be stabilized for 75 years with a few reforms now. The longer this is put off, the quicker Social Security will go into automatic cuts in benefits or increases in taxing present workers. Under today’s rates of withdrawal, the automatic triggers would occur in 2033.

By gradually raising the age of retirement to better reflect actuarial tables, reform could begin. Basing increases on a more reliable spending projection (Chained Consumer Price Index) would further add to long-term stabilization of the Social Security system.

Interest is the fastest-growing portion of the federal budget. The cost of debt accounted for 7 percent, or $228 billion, of the federal budget last year. By 2025, it is estimated that interest payments will grow to be 15 percent of the budget. Interest is a potential time bomb if inflation results in increased nominal interest rates; it is possible a 1 percentage point increase in interest rates will cost the U.S. $1.2 trillion over the next 10 years, digging a deeper hole in our fiscal predicament.

Federal funds that would otherwise be used for public investment to grow our economy will be crowded out by the increased cost of debt. Having a higher portion of our budget allocated to cover interest payments will make it harder for businesses small and large to borrow, invest and grow, and will put pressure on wages and job growth — something that will affect people of all walks of life.

Don’t forget the debt. We mustn’t further burden future generations with financial uncertainty. There will be many opportunities this year to reach agreement on reforms and belt-tightening that will improve the fiscal situation. At a minimum, Congress should not make things worse.

Former U.S. Sen. Kay Bailey Hutchison represented Texas from 1993 to 2012. Reach her at kbhutchoffice@gmail.com.