



AMERICA'S DEBT CRISIS EXPLAINED

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If you are under, say, 30, you have a tsunami-sized problem coming toward you, and you probably don't even know it. That killer wave is the national debt.

Countries, like people, go into debt when they spend more than they have. You and I buy things with the money we earn. Governments buy things with money they get from taxes. When spending outstrips revenue, the government is "in the hole." Right now, the hole is \$17 trillion dollars deep.

This is an incomprehensible number. What is a trillion dollars, let alone \$17 or 20 trillion? Common analogies like "you'd have to stack \$1 bills 67,000 miles high to reach the current debt," though impressive-sounding, don't help much, if at all. So, let's bring the problem down to earth.

Right now, most investors believe the United States is a safe bet. They believe, in other words, that they'll get the money they loan to the US back with interest. But this can't go on indefinitely. At some point investors are going to say, "you have too much debt; you're a bad risk. No more money." What happens then?

We don't have to guess. We can look at Europe, specifically Greece. Investors were happy to loan Greece money until 2010, when it finally dawned on them that Greece couldn't possibly pay them back. Almost overnight, Greece became a very bad credit risk and the economy went into a death spiral. Businesses failed. Thousands were thrown out of work. The government couldn't pay its bills. Germany and the other European economies had to step in and bail Greece out. But the Greeks suffered terribly. The same thing happened in Portugal and Spain.

Yes, the United States is much, much bigger than Greece and has a much more dynamic economy. That's true. But the principle doesn't change. We can borrow more money than Greece, but sooner or later, investors will say "no more." And if they ever do, our economy will go into the same downward spiral the Greek economy did.

Here's another point. At the time I am giving this course, the interest on our debt is very low, around 2%. But what happens when the interest rate rises from 2% to the much more normal 5% – as it inevitably will? Where is the U.S. going to get the money to pay the higher interest on its enormous debt? Do we borrow even more? Well, that just gets us deeper in debt. Raise taxes? Well, that cuts economic growth.

Then there's the question of who these investors are who are loaning us all this money. The biggest investor right now is China, not exactly a trusted ally. The more money they loan

us, the more influence they have over us. Maybe they'll never exercise this power, but do we really want to give them the option?

And consider one final point: is it moral to saddle future generations with this massive debt they had little or nothing to do with? How would you feel about yourself if you knew that you were leaving your children on the hook for debts you incurred during your life? You had a great time living in a big house, driving a nice car, but you never paid for these things. You've left it to your son or daughter to pick up the tab.

That's why the people who should care the most about the national debt are young people. They're the ones who will be stuck with the bill. Seniors and even those who are now in middle age, the ones who took on all this debt, might be able to shrug it off, but young people in their thirties or younger can't or at least shouldn't.

Is there a good way out? Yes, there is. If the economy grows robustly, the government will take in more revenue. And it can then use that increased revenue to pay the debt down.

The second way out of debt is to cut spending. If we spend more than we take in, which is what we've been doing, we're going to go deeper and deeper into debt. Common sense would suggest that we bring our revenue, the money the government takes in in taxes, and our spending in line. If you combine the two -- robust growth and reduced spending -- we have a real chance to get control of our national finances.

So, is the debt a big problem? If you're worried just about tomorrow, probably not. But if you're worried about the future and, especially, if you have a lot of future in front of you, yes, it is a really big problem - as big as a tsunami.

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