

# ISSUES IN PERSPECTIVE

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## PERSPECTIVE NUMBER ONE

### *AN OVERVIEW OF THE DEBT-CEILING CRISIS*

As I am writing this, congressional leaders and the president have presumably reached a last-minute agreement on raising the debt ceiling of the United States in exchange, among other things, for a reduction in future spending of the US. It is apparently a complicated agreement, one which will be, in the days to come, analyzed in scrutinizing detail. In this *Perspective*, I hope to provide some important background and analysis to the crisis.

- First, some historical analysis:
  1. The debt limit, or ceiling, is the amount of money the US is permitted to borrow and is a commitment the US has already made—i.e., budget bills already passed by Congress, Social Security checks promised to retirees, payments due to private companies with federal contracts, interest on the national debt (in the form of bonds), etc. Washington has long spent more money than it takes in and plans always to make up the difference in borrowing. Increasing this debt ceiling is mandatory for the government to pay for existing obligations. In short, the US debt reflects previously enacted tax and spending policies of the US Congress. [Over the years, raising the debt ceiling has been somewhat controversial, but never like this. (When President Obama was in the Senate, for example, he voted against raising the debt ceiling during the presidency of George W. Bush.)]
  2. This debt ceiling system goes back to World War I, when Congress first placed a limit on federal debt, in part to allow the Treasury to issue Liberty Bonds to help pay for the First World War. It was to eliminate the need for Congress to approve each issuance of new bonds by the Treasury Department. Over the years, this ceiling has been raised to its current \$14.3 trillion from roughly \$40 billion in 1940.
  3. How did the US get \$14.3 trillion of debt? Before President Reagan in the 1980s, the total debt from wars and economic downturns was about \$1 trillion. During Reagan's presidency the debt increased \$1.9 trillion. The presidencies of G.H.W. Bush and Bill Clinton each added about \$1.5 trillion. But it was the presidency of George W. Bush (2001-2009) that added \$6.1 trillion (due to tax cuts, the wars in Iraq and Afghanistan, the economic downturn in 2001 and the financial catastrophe that began in 2007). President Obama has already added \$2.4 trillion to the debt. So, in just the last decade the debt has swelled by over \$8.5 trillion!!

4. Who holds the US debt? The US public holds \$3.6 trillion (individuals, corporations, banks, pensions and mutual funds). Nations: China (\$1.2 trillion), Japan (.9 trillion), Britain (.3 trillion), others (\$2.1 trillion). The US government itself (the Federal Reserve System, as collateral for US currency and a store of liquidity for emergency needs) holds \$1.6 trillion. The Social Security Trust fund (surpluses generated by the program that have been invested in US government bonds) holds \$2.7 trillion. Other US government trust funds hold another \$1.9 trillion.
  5. The US has not always operated with this much debt. After World War II, in which the US did accumulate debt to fight the war, the US debt remained stable for over 25 years, going from \$242 billion in 1946 to \$283 billion by 1970. But the debt has increased since then under every president, with the largest by far being under George W. Bush. He cut taxes, fought two wars and added the drug benefit program to Medicare without adding any revenue to pay for it. He made it clear that it would be funded by debt! As the debt has grown, so have interest payments. In 2003, the government paid \$150 billion in interest payments. This year it is estimated to be over \$200 billion. These interest payments are taking up more federal spending than federal outlays on education, transportation, and housing combined. Nonetheless, low interest rates have helped keep the interest payments lower than expected, but as the economy recovers and as interest rates go up, so will the cost to the US government of its debt!
- Second, the US is not alone in this debt crisis. It is a part of every major developed nation and represents the demise of the old order of things. Constructed after World War II, this old order, economist Robert Samuelson argues, rested on three pillars: the welfare state, a strong faith in economic growth and the expansion of global trade and finance that benefited everyone. All three of these pillars are wobbling. The welfare state is the most obvious. With aging populations, government spending as a part of GDP is becoming unsustainable. In addition, strong economic growth, which could help all developed nations afford their welfare states, is a mirage. Conventional policy approaches to grow the economies of the developed world are failing. In the US the Federal Reserve has held interest rates artificially low but it has not helped. Hence, budget deficits are high and growing. Fear of default among the developed nations is real (e.g., Greece, Portugal, Ireland, etc.). The recent debt ceiling crisis in the US was a further symptom of the problem. Austerity, out of necessity, is the pattern in the developed world but this likewise produces a huge drag on the world economy. But China frustrates the possibility of worldwide economic expansion by keeping its currency artificially low as a means of subsidizing its exports and sustaining its large trade surpluses. Hence, the foundation of the global trading system is at risk. It would seem that the “old order” is passing away, to be replaced by what? At this point, no one knows. We are perhaps crossing one of those massively important thresholds of human history.
  - Third, the entire debt ceiling crisis boils down to a disagreement about the role of the US government in our lives and in our economy. As the columnist Charles Krauthammer has argued, as a nation, we are in the midst of an enormous debate on the size and reach of government, the future of the welfare state and the nature of the social contract between citizen and state. There are two visions for the US—one a social-democratic one, as in Europe, and one of limited government. This reality of two competing visions of America has informed every major issue since President Obama was inaugurated—the stimulus, the

auto bailouts, health-care legislation, financial regulation and deficit spending. The most recent debt ceiling crisis manifests this divide as well. These two visions for America are in competition and the definitive popular verdict has yet to be rendered. [Presumably, the 2012 presidential and congressional elections will do this.] President Obama faces two massive challenges—jobs and debt. He tried a typical Keynesian solution, an enormous stimulus package that resulted in a stagnant economy and a staggering debt burden. The American public will hold him accountable for this. But the future of the US depends on how the public processes these two competing visions. At this point, it is uncertain which one of these visions will win out.

- Finally, a thought about the tone of our national dialog. The language of dialog in America is poisonous and filled with vituperation. There is little room for kindness or compassion. As a nation we do not seek to understand those with whom we disagree. It seems impossible to be civil or reasoned in our national debates. The discussion over the debt ceiling, for example, was so intense and fixed that no middle ground seemed possible or feasible. Any kind of compromise was not discernible until the nation was at the brink of disaster. This kind of rigidity extends to discussion about social policy. What Juan Williams calls “speech code,” informs national dialog about social issues. He writes: “No one is supposed to talk about family breakdown and the number of out-of-wedlock births in the nation. If you do, be prepared to be charged with airing dirty laundry and wreaking psychological damage on the children of single women.” Or consider this: “. . . to bluntly say immigrants need to assimilate—to learn English, to be patriotic, to abide by US standards of law—is to risk attack by one civil rights group or another for being insensitive to people who want to celebrate their roots.” The Obama administration refuses to use the term “terrorist,” for fear of offending Muslims who sympathize with the political goals of the terrorist who uses violence against civilians. I have experienced the reality that it is impossible to have a reasoned discussion about the ethics of human sexuality. There is no more room for reasoned discussion, for example, about the ethical issues related to homosexuality or same-sex marriage. For much of our culture, the debate about same-sex issues is over. Try and have a reasoned discussion about this issue and you will be called a bigot, a “Nazi,” or even worse. I have experienced this personally! For a democracy, free and honest public debate is a given, but this is no longer the case in America’s democracy. Politically correct speech governs dialog and there are now so many issues that you simply cannot discuss. Speech codes and political correctness drown out honest intellectual debate in America today—and that is not healthy for our democracy or for the future of our nation. May God help us.

See Juan Williams in *USA Today* (27 July 2011); Charles Krauthammer in the *Washington Post* (28 July 2011); Robert Samuelson in the *Washington Post* (25 July 2011); and Michael Cooper and Louise Story in the *New York Times* (28 July 2011).

## **PERSPECTIVE NUMBER TWO**

### ***WHY THE “ARAB SPRING?”***

As is so often the case, history gives us increased understanding about events of our day. For that reason, I think it helpful to explore how the generation of Arab dictators came to power into

the Middle East. To have that background brings an understanding to the current “Arab Spring” unfolding before our eyes in 2011.

- First, since the collapse of the Ottoman Empire at the end of World War I, the old order of landholders and merchants that dominated the region after the British and French mandates ended after World War II. That order was replaced in the 1950s and 1960s with a political and military class that assumed power in most of the Arab nations of the region. Fouad Ajami, senior fellow at Stanford University’s Hoover Institution, writes that “the officers and ideologues who came to rule in Egypt, Syria, Iraq, Libya, Algeria, and Yemen were men contemptuous of the marketplace and of economic freedom. As a rule, they hailed from the underclass and had no regard for the sanctity of wealth and property. They had come to level the economic order, and they put the merchant class, and those who were the mainstay of the free market, to flight.” This was especially true in Egypt where the military class and their socialist advisers distrusted free trade and the marketplace and were determined to rule without these forces. Other Arab nations followed. In Iraq, for example, Jews, who had lived there for over 2,000 years, were dispossessed and banished in 1950-51. Ajami writes that “they had mastered the retail trade and were the most active community in the commerce of Baghdad.” Hence, the Baath Party began to rule Iraq and the oil wealth. The members of this Party, like Egypt, were believers in central planning, and, one of their key leaders, Saddam Hussein, saw the wealth of Iraq as his own wealth! In Libya, a deranged Moammar Gadhafi, after his coup in 1969, demolished the private sector in 1973 and established what he called “Islamic Socialism,” thereby nationalizing the entire economy. The unbelievably brutal dictatorship in Syria of Hafez al-Hassad and now his son, Bashar, followed a similar path as Egypt, Iraq and Libya. Totalitarian power, mixed with subsidies and economic redistribution, explain the horrific grip on Syria by the Alawites, the religious sect to which the Assad clan belongs.
- Second, a few years ago, the grand bargain I summarized above in Egypt, Iraq, Syria and Libya, began to unravel. As Ajami demonstrates, the populations of these Arab lands began to swell and it was now impossible for these dictatorships to guarantee jobs for the young and poorly educated. These nations began to experience the highest unemployment levels among the developing nations of the world, the highest jobless rates among the young and the lowest rate of participation among women. As these regimes tried to reform, the public sector gave way to a private sector of crony capitalism, where the children of the dictators ran the economy. Economic plunder and massive corruption followed. This plunder and corruption is what broke Hosni Mubarak’s rule in Egypt. Ajami concludes that “the sad truth of Arab social and economic development is that the free-market reforms and economic liberalization that remade East Asia and Latin America bypassed the Arab world. This is the great challenge of the Arab Spring and of the forces that brought it about. The marketplace has had few, if any, Arab defenders.” Will the Arab Spring leaders make the connection between political and economic liberty that has remade Asia and Latin America? As of this writing, that connection is not being made. Further, when one adds the rigidity and authoritarian tendencies of Islam, it is difficult to be optimistic about the Arab lands. The centrality of worldview and a proper understanding of human freedom are once again being demonstrated in the Middle Eastern nations of 2011.

See Ajami’s brilliant essay in the *Wall Street Journal* (8 July 2011).