THE REPUBLICAN STUDY COMMITTEE

BUDGET & SPENDING TASK FORCE

Rep. Scott Garrett, Task Force Chairman

RSC

202.226.9717
rsc.jordan.house.gov

Congressman Scott Garrett (R-NJ), Chairman **November 30, 2011**

A Short History of the National Debt

This month, the national debt passed the **$15 trillion** mark. Below is a short chronology of the national debt and American history:

1790: Washington Administration inherits a debt of $78 million.

1790s: Hamilton establishes American credit, the Washington Administration keeps government small, and American bonds are considered among the most secure in the world just years after the economic crisis that led to the Constitutional Convention. Meanwhile, Thomas Jefferson, and the Republicans, believe that federal borrowing is a betrayal of the American Revolution. In 1798, Jefferson states:

> *"I wish it were possible to obtain a single amendment to our Constitution. I would be willing to depend on that alone for the reduction of the administration of our government to the genuine principles of its Constitution; I mean an additional article, taking from the federal government the power of borrowing."*

1801-1809: The federal debt goes down in each year of the Jefferson Administration. President Jefferson accomplishes this while doubling the size of the United States through the Louisiana Purchase, winning the First Barbary War, *and* eliminating all direct taxes (the federal government still collected tariffs).

1809-1834: Jefferson's goal was to completely eliminate the national debt. The War of 1812 and the Panic of 1819 delayed that goal for a few decades. **But in 1834, Andrew Jackson succeeded in paying off the national debt in its entirety.**

1835-1919: The national debt comes back into existence during the economic downturn of the late 1830s/early 1840s. During the Civil War it climbed to as much as 40% of GDP. It hit another peak, but again less than 40% of GDP, during World War I.

1920-1930: The federal government runs 11 straight years of surpluses.

1945: Debt passes **$250 billion** mark.
1975: Debt passes **$500 billion** mark.
1982: Debt passes **$1 trillion** mark.
1986: Debt passes **$2 trillion** mark.
1990: Debt passes **$3 trillion** mark.
1993: Debt passes **$4 trillion** mark.
1996: Debt passes **$5 trillion** mark.
2002: Debt passes **$6 trillion** mark.
2004: Debt passes **$7 trillion** mark.
2006: Debt passes **$8 trillion** mark.
2008: Debt passes **$9 trillion** and **$10 trillion** mark.
2009: Debt passes **$11 trillion** mark.
2010: Debt passes **$12 trillion** and **$13 trillion** marks.
2011: Debt passes **$14 trillion** and **$15 trillion** marks.

Quote of the Week:

"The era of procrastination, of half-measures, of soothing and baffling expedients, of delays, is coming to a close. In its place we are entering a period of consequences…"

-Winston Churchill, 1936

Potential Cost of Provisions in the "Extenders" Package

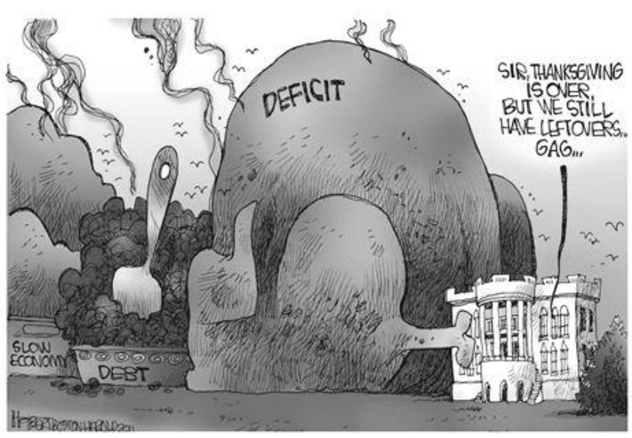
The following is a breakdown of the score (either a tax cut, or spending increase) of some potential provisions to be included in a tax/spending extenders provision package later this year:

Payroll Tax Holiday: $240 billion tax cut under President's plan.

AMT Patch: $93 billion tax cut to keep the "patch" extended for one year.

Emergency Additional Unemployment Benefits Program Extension: The President's plan proposes $44 billion of new spending to extend the program for one year.

"Doc Fix": $12 billion of new spending in 2012 ($298 billion for a ten-year "doc fix").



CR/Omnibus: This legislation will finish the FY 2012 appropriations process with a total figure of around $1.05 trillion (including disaster funding).

THE WALL STREET JOURNAL.

Blame It on Berlin

Wall Street Journal Editorial

Which century is this anyway? We ask because elite opinion is once again blaming Germany for ruining the rest of Europe, if not the entire world economy. All that's missing are references to the Kaiser or Herr Schicklgruber, but we hope the Germans don't fall for this global guilt trip.

Berlin's alleged sin is its reluctance to write a blank check to save the euro—either by underwriting a new euro-zone fiscal union, or granting permission for the European Central Bank to buy trillions in sovereign debt. The chant comes in unison from the debtor nations themselves, the bailout caucus in Brussels, an Obama White House concerned about its re-election, and liberal pundits worried that their welfare-state economic model is under assault. Like the "rich" in America who must pay their "fair share," the Germans are supposed to pay up to save a united Europe.

The reality is that the Germans—along with the Dutch and the Finns—are the rare Europeans who understand that saving the euro requires more than a blank check. It requires a new political commitment to better economic policy. Chancellor Angela Merkel and her cabinet are as euro-centric as the French, but they realize that money alone won't solve Europe's more fundamental debt and growth problem.

It's certainly true that the Germans have benefited from the euro, which is one reason they want to preserve it. Their exports have flourished, often to other European countries, thanks to a stable currency and free-trade zone. But one reason for their relative economic success is that Germany is a rare European country that used the early years of the euro to reform its labor markets and improve fiscal policies. While the Greeks and Italians used their years of near-German borrowing rates to live beyond their means, the Bavarians became more competitive.

Until the crisis hit Italy, the rest of Europe still didn't think it had a problem. Politicians said the markets were acting in predatory fashion, rather than sensibly recalibrating the risk of sovereign default. Even now, 18 months into this euro mess, only the recent jump in sovereign bond yields has caused Italy and France to realize they have to shape up.

Europe's original sin in this crisis was not letting Greece default, remaining in the euro but shrinking its debt load as it reformed its economy. The example would have sent a useful message of discipline to countries and creditors alike. The fear at the time was that a default would spread the contagion of higher bond rates, but those rates have soared despite the bailouts of Greece and Portugal.

By now the policy choices are more painful. One option is to let the euro zone break up, one country at a time or all at once, but the costs of dissolution would be very high. At best it would mean a deep recession, as debts and contracts were recalculated in national currencies, and savers and investors fled to the safest havens. This is something no one but doctrinaire devaluationists should want.

The second option is the blank check, starting with the ECB printing trillions in euros to buy up sovereign debt. This might crush bond yields, at least for a while, but the minute those yields fall the pressure for economic reform will also ease.

Meanwhile, the ECB will have sacrificed its independence under political duress, while gambling that printing trillions of euros won't lead to inflation down the road. This would be a short-term palliative to get the French and Americans past the next election.

The third option, and the one the Germans seem to prefer, is a closer fiscal union across the euro zone with stricter rules on debt and deficits. This is the essence of the tentative Franco-German plan leaked over the weekend. In return for issuing euro bonds or perhaps granting countries access to ECB bond purchases, Germany would require those nations to live by German-approved fiscal rules. This has the virtue of distinguishing between countries that follow the rules and those that don't, enforcing good behavior with carrots and bad with sticks.

This is better than the other options, but it too is no panacea. Germany isn't about to send the Wehrmacht to Rome or Athens to enforce fiscal policy. So enforcement would still largely depend on the political will of the countries themselves. Such debt and deficit rules could also be counterproductive if they led to growth-killing tax increases instead of spending cuts and entitlement reforms.

It's no accident that Ireland, with its 12.5% corporate tax rate that has attracted export businesses, is climbing out of its debt hole faster than are Portugal, Spain or Greece. Any new fiscal rules need to allow for tax and labor-policy competition.

The tragedy is that the euro-zone countries failed to abide by their original fiscal rules, a failure that has brought them to this unhappy pass. The Brussels-Washington bailout caucus now wants to extend the damage to monetary policy by printing more euros and worrying about the consequences later.

In opposing that option, the Germans are said to be imposing their Prussian morality on everyone else. But without reforms, the countries of southern Europe will never pull out of their downward debt spiral. The Germans are at least telling the truth.