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The United States government is effectively bankrupt. Washington no longer can afford to micromanage the world. International social engineering is a dubious venture under the best of circumstances. It is folly to attempt while drowning in red ink.

Traditional military threats against America have largely disappeared. There's no more Soviet Union and Warsaw Pact, Maoist China is distant history and Washington is allied with virtually every industrialized state. As Colin Powell famously put it while Chairman of the Joint Chiefs: "I'm running out of enemies. . . . I'm down to Kim Il-Sung and Castro." However, the United States continues to act as the globe's 911 number.

Unfortunately, a hyperactive foreign policy requires a big military. America accounts for roughly half of global military outlays. In real terms Washington spends more on "defense" today than it during the Cold War, Korean War and Vietnam War.

U.S. military expenditures are extraordinary by any measure. My Cato Institute colleagues Chris Preble and Charles Zakaib recently compared American and European military outlays. U.S. expenditures have been trending upward and now approach five percent of GDP. In contrast, European outlays have consistently fallen as a percentage of GDP, to an average of less than two percent.

The difference is even starker when comparing per capita GDP military expenditures. The U.S. is around \$2,200. Most European states fall well below \$1,000. Adding in non-Pentagon defense spending—Homeland Security, Veterans Affairs, and Department of Energy (nuclear weapons)—yields American military outlays of \$835.1 billion in 2008, which represented 5.9 percent of GDP and \$2,700 per capita.

Max Boot of the Council on Foreign Relations worries that the increased financial obligations (forget unrealistic estimates about cutting the deficit) resulting from health-care legislation will

preclude maintaining such oversize expenditures in the future, thereby threatening America's "global standing." He asks: Who [will](#) "police the sea lanes, stop the proliferation of weapons of mass destruction, combat terrorism, respond to genocide and other unconscionable human rights violations, and deter rogue states from aggression?"

Of course, nobody is threatening to close the sea lanes these days. Washington has found it hard to stop nuclear proliferation without initiating war, yet promiscuous U.S. military intervention creates a powerful incentive for nations to seek nuclear weapons. Armored divisions and carrier groups aren't useful in confronting terrorists. Iraq demonstrates how the brutality of war often is more inhumane than the depredations of dictators. And there are lots of other nations capable of deterring rogue states.

The United States should not attempt to do everything even if it could afford to do so. But it can't. When it comes to the federal Treasury, there's nothing there. If Uncle Sam was a real person, he would declare bankruptcy.

The current national debt is \$12.7 trillion. The Congressional Budget Office figures that current policy—unrealistically assuming no new spending increases—will run up \$10 trillion in deficits over the coming decade. But more spending—a lot more spending—is on the way.

Fannie Mae and Freddie Mac remain as active as ever, underwriting \$5.4 trillion worth of mortgages while running up additional losses. The Federal Housing Administration's portfolio of insured mortgages continues to rise along with defaults. Exposure for Ginnie Mae, which issues guaranteed mortgage-backed securities, also is jumping skyward. The FDIC shut down a record 140 banks last year and is running low on cash. Last year the Pension Benefit Guaranty Corporation figured its fund was running a \$34 billion deficit. Federal pensions are underfunded by \$1 trillion. State and local retirement funds are short about \$3 trillion.

Outlays for the Iraq war will persist decades after the troops return as the government cares for seriously injured military personnel; total expenditures will hit \$2 trillion or more. Extending and expanding the war in Afghanistan will further bloat federal outlays.

Worst of all, last year the combined Social Security/Medicare unfunded liability was estimated to be \$107 trillion. Social Security, originally expected to go negative in 2016, will spend more than

it collects this year, and the “trust fund” is an accounting fiction. Medicaid, a joint federal-state program, also is breaking budgets. At their current growth rate, CBO says that by 2050 these three programs alone will consume virtually the entire federal budget.

Uncle Sam’s current net liabilities exceed Americans’ net worth. Yet the debt-to-GDP ratio will continue rising and could eventually hit World War II levels. Net interest is expected to more than quadruple to \$840 billion annually by 2020.

Federal Reserve Chairman Ben Bernanke [says](#) : “It’s not something that is ten years away. It affects the markets currently.” In March, Treasury notes commanded a yield of 3.5 basis points higher than those for Warren Buffett’s Berkshire Hathaway.

Moody’s recently threatened to downgrade federal debt: “Although AAA governments benefit from an unusual degree of balance sheet flexibility, that flexibility is not infinite.” In 2008, Tom Lemmon of Moody’s warned: “The underlying credit rating of the U.S. government faces the risk of downgrading in the next ten years if solutions are not found to our growing Medicare and Social Security unfunded obligations.”

This is all without counting a dollar of increased federal spending due to federalizing American medicine.

The United States faces a fiscal crisis. If America’s survival was at stake, extraordinary military expenditures would still be justified. But not to protect other nations, especially prosperous and populous states well able to defend themselves. Boot warns: “it will be increasingly hard to be globocop and nanny state at the same time.” America should be neither.

The issue is not just money. The Constitution envisions a limited government focused on defending Americans, not transforming the rest of the world. Moreover, if Washington continues to act as globocop, America’s friends and allies will never have an incentive to do more.

The United States will be a world power for decades. But it can no afford to act as if it is the only power. America must begin the process of becoming a normal nation with a normal foreign

Bankrupt Empire

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