

# Stealing from our children

Sen. Ron Johnson's wake up call for a new era of federal spending insanity and its consequences

By Michael Jahr

*This interview with Sen. Johnson has been shortened and edited for clarity.*

**P**icture the national debt as a steady drive up a mountainside, with presidents and members of Congress from both parties taking turns at the wheel, accelerating as the incline increases, year after year driving to new altitudes.

Now picture those drivers installing a turbocharger.

Trillion-dollar COVID-19 aid bills, a virus-ravaged economy and the relentless growth of entitlement programs could, by one estimate, add \$5.8 trillion to the current \$26.6 trillion debt. With new "stimulus" packages in play in Congress, short-term deficits and long-term public

debt are likely to grow even more before the year is out.

Politicians are ignoring the long-term ramifications of spending trillions of dollars that don't exist. Are they selling out America's posterity for



short-term political gain?

Wisconsin Sen. Ron Johnson thinks so, and he is publicly calling on his congressional colleagues to exercise restraint. In a July *Wall Street Journal* op-ed titled "No More Blank Checks From Congress for Coronavirus," he admonished them not to "authorize another dime" until they determined what had already been spent and whether it had worked. The man who made runaway national debt a centerpiece of his 2010 Senate campaign asked, "Is no one concerned about how much of our children's future is mortgaged?"

Badger Institute Senior

Vice President Michael Jahr sat down with Sen. Johnson in mid-August to discuss the debt crisis, federal spending realities, the likelihood of entitlement reform and the likelihood of restoring federalism as a governing philosophy.

**Q Michael Jahr: Senator Johnson, thank you for taking time to sit down with the Badger Institute to discuss the public debt crisis.**

**Ron Johnson:** I'm happy to. I'm glad somebody is also concerned about it.

**Q Jahr: You are a businessman who decided to run for office in part because of your concern over federal spending and the growing national debt. Why did these issues grab your attention and prompt you to make a career change?**

**Johnson:** I just remember, at the beginning of the Obama Administration, we were something like — this is off the top of my head — \$10.7 trillion in debt. By the time I ran, we were already over \$14 trillion in debt, and I primarily ran on a platform that we're mortgaging our kids' future. It's immoral. It's intergenerational theft. It's got to stop.

But I am very disappointed to say, here we are in 2020 in this COVID crisis, and we just authorized \$2.9 trillion to \$3.6 trillion of additional spending, which is 13.5% to almost 17% of our economy. Before the ink is even dry on the agreement, Nancy Pelosi passed another \$3.5 trillion (aid package).

We're \$26.5 trillion in debt. We're on our way to \$27 trillion to \$28 trillion by the end of this fiscal year, and there's just nobody talking about it. I would be one of the very few lonely voices out there. It seems like everybody else in Washington, D.C., just views this as Monopoly money, like we just keep printing it and there'll be no impact from it. I don't think anything can be further from the truth.

**Q Jahr: The numbers are mind-blowing, and maybe that's part of the issue. It's hard to get your head around multiple trillions of dollars. Is that part of the problem? Are these numbers so unfathomable that people can't fully grasp their magnitude?**

**Johnson:** I think it was Everett Dirksen who famously said decades ago, you know, "A billion dollars here, a billion dollars there, pretty soon you're talking about real money."

I was always concerned when we started talking not in hundreds of billions but in trillions. For some reason, \$700 billion sounds like an awful lot of money, but (now) it's a trillion. Now they're arguing over — you know, Nancy Pelosi won't even come to the negotiating table until Republicans

say, "Okay, we'll spend at least another \$2 trillion."

Think of that. We haven't spent or obligated at least \$1.2 trillion in what we've already passed almost unanimously in Congress. This is Democrats. This is Republicans. This is the president. They're all saying, at a minimum, we want to spend a trillion, and Nancy Pelosi is out there saying she wants to spend another \$3.5 trillion. It is beyond absurd.

I'm opposed to the Republican proposal to spend a trillion dollars until we actually spend and obligate the \$1.2 trillion of the over \$3 trillion we've already authorized but haven't either spent or obligated.

**Q Jahr: We've observed this pattern, too. Regardless of who is in the White House, regardless of who controls Congress, the trajectory is inexorably upward. Is there an end in sight? At some point is there a wake-up call?**

**Johnson:** I don't see one. We promised all these benefits. We haven't put in provisions to pay for them. To try and pay for them by increasing taxes, you harm economic growth. From my standpoint, the number one part of a solution for our debt and deficit is we have to grow our economy faster.

We were actually doing quite well in the first few years of the Trump administration because President Trump recognized that overregulation strangles the economy. Over-taxation does the same thing. So we stopped overregulating the economy. We actually reduced our regulatory burden a little bit. We

certainly made our tax system more competitive.

The result was pretty strong economic growth. Record low (levels) of unemployment across all demographic areas. But then COVID hit. We have this dramatic reduction in GDP, particularly because I think we overreacted. We shut down way too much of our economy.

I think there's a tendency, particularly on the part of Democratic governors, to keep it shut down. I fear that there's a little politics involved in that as well, which is unfortunate. We need to focus on economic growth because that's the only way we have a chance of digging our way out of this or preventing a debt bomb going off in the near future.

**Q Jahr: Let's take a step back for a little Federal Spending 101. What are the elements that contribute to the national debt? Talk us through that. →**



**Johnson:** Well, you have to understand we have discretionary spending, and we have mandatory spending. It ought to be all discretionary. All spending ought to be budgeted every year, but what past Congresses have done by creating these entitlements, if you're entitled to get the money, you get it no matter the cost. What has exploded since the Great Society is entitlement spending — Social Security, Medicare, Medicaid, food stamps, a host of other things — that are just mandatory spending to the point where the discretionary part of the budget, which is all the agencies, defense spending, all that type of thing, is less than 30% of total spending. Over 70% is mandatory spending, and it's completely out of control.

Whether it's Social Security, whether it's Medicare — we haven't put in the payment mechanisms, the level of taxation, to match the level of benefits. Of course, everybody loves the benefits, but nobody wants to pay for it. Politicians take that signal very strongly and they continue to promise more benefits, and nobody ever considers how it's ever going to be paid for.

The solution isn't increasing people's taxes because, again, that would harm economic growth. When you reduce growth, you reduce revenue inside of the government, and so raising taxes reduces growth and is actually counterproductive. You may think you're going to raise more revenue by increasing taxes but, in many cases — in probably most cases — you actually reduce revenue.

**Q** **Jahr:** Chris Edwards, an economist at the Cato Institute, recently estimated that increased federal spending in the CARES Act, the Families First Relief Package and other stimulus spending, combined with the COVID-created recession, could add \$5.8 trillion to the national debt. That's before all of the new federal spending that you're talking about.

**You mentioned Monopoly money. Are we basically spending money that doesn't exist? If we are, is there a better way to revive the COVID economy going forward?**

**Johnson:** When we spend more than we have, we have to issue government bonds. When the government bonds aren't being purchased in the private sector, they're being purchased by the Federal Reserve. We're printing money. It's very easy to print money but nobody can really tell you at what point in time does all that additional money create a level of inflation that's simply unsustainable.

The other thing, and this is where we are really in big trouble, is when creditors from around the world — we are still selling some government bonds to creditors, you know maybe close to 50%. When creditors say, "U.S., you look like

kind of a credit risk. Rather than the reserved currency, you're a credit risk. We're going to demand a higher interest rate for whatever money we do loan to you."

If we would just revert to historic interest rates on government debt over the last 30 years, prior to these artificially low ones starting after the Great Recession, that would be over a trillion dollars just in interest expense — and total discretionary spending right now is a little over a trillion dollars.

Again, that is the debt bomb I'm talking about going off if creditors really start demanding more in terms of interest rates for the debt that we are issuing and we cease to be the world's reserved currency. Then we're in a heap of trouble.

**Q** **Jahr:** People, probably including some of your colleagues, don't often think about the fact that higher debt means higher interest payments. The Congressional Budget Office last year estimated that the federal government will soon spend more on interest payments than on Medicaid and that, in six years, interest payments will actually surpass national defense spending. By 2041, CBO projects that entitlement spending and interest payments on the debt will consume all federal revenues. These projections, again, will only be accelerated by what we're witnessing in 2020.

**Does discretionary spending simply disappear? What happens at that point?**

**Johnson:** Well, nobody knows. That's the grand experiment, and that's what's so dangerous about our current situation. Again, I know I'm not a very uplifting character, but we're in a very serious situation right here, and there's just not the political will to do anything serious about it mainly because the public is not demanding it. The public demands the benefits. Everybody likes their benefit.

The Paycheck Protection Program aimed to do something to provide financial relief for businesses that could be viable and could reopen and reignite our economy. But we didn't have to do it in such a shotgun approach. The reason the PPP is so popular is the initial certification was so low anybody could, with integrity, get a loan, and they're all going to be forgiven. No wonder the PPP is such a popular program. It's just the government literally giving away half a trillion dollars with very few questions asked.

That's the kind of oversight, that's the type of reform we have to make to these programs as we move forward. We have to make sure that we're spending these precious dollars that we don't have, that are going to further mortgage our kids' future, providing that fast relief to people who truly need it.



**Q Jahr:** I worked on Capitol Hill several years ago, and one thing I routinely observed was that all the incentives inside the Beltway are wrong. PACs and party leadership reward politicians who support their projects and toe the party line. Opponents will attack you as mean spirited if you vote against bloated spending bills. If a candidate or elected official puts forth even the most reasonable entitlement reform, it will be portrayed as an attack on the elderly, children and the poor.

You've described it in the past as "Washington's lust for spending and power." Is there a way to counter these incentives or are there better incentives that can help turn the ship?

**Johnson:** Until the American public educates themselves, until they truly understand the danger of the debt we're in, the deficits we're running, the fact is that we're mortgaging our kids' future. What we're talking about is reduced opportunity because too high a debt level is going to eventually erode economic growth and erode your economic prosperity. Until the American public is educated to the danger that we are in and demands from their politicians fiscal responsibility, it's not going to happen because, again, the political rewards right now are promising people everything, telling people what they want to hear as opposed to telling them the ugly and very, you know, not uplifting truth.

**Q Jahr:** Perhaps one reason that the American people aren't more vexed by the growing debt crisis is that it's hard for them to visualize a scenario that could shatter the American Dream. Paint for us a picture of what it could look like if one day this all goes south.

**Johnson:** We don't have to really think about or assume any-

thing. We can actually look at past examples. In the recent decade or so, we had Greece, Spain, Portugal. We had these countries have a debt crisis. It's again exactly what I was talking about in terms of America.

When creditors look at a country, a nation, and say, "You're really a credit risk. We're not going to loan you money at 1%, 2%, or 3%. You're like a junk bond. We're going to demand 8%, 9% and 10%." It crashes an economy.

All of a sudden, all those dollars that we were going to appropriate for benefits through government spending, they all get sucked up paying interest on the debt because interest payments to your creditors really have the first claim to those dollars. **If you don't pay off the debt, then you are in total chaos. It just crowds out all other spending, and that creates some real social upheaval.**

**Q Jahr:** Public debt as a percentage of GDP at this point is now over 100%. Is that a valid measure of the hole that we're digging?

**Johnson:** Well, people have used that in the past. Japan is way beyond that. But again, Japan has not had economic growth for decades. They've just been living through a kind of flat economy without the type of opportunity you need for a growing population.

Again, we don't have to theorize about these things. We can see examples of where it's happened in the past, and it's not pretty. It's nothing that is sustainable here in the U.S.

**Q Jahr:** Much of the debt is owned by the Social Security Trust Fund. Talk a little bit about the role that entitlements like Social Security and Medicare play in this. Given the political "third rail," is there any hope for reform in these areas? →

**Johnson:** Well, I came under a lot of criticism when I first ran in 2010 because I called Social Security a Ponzi scheme — and I was right. A Ponzi scheme is when a bad operator, a con man, takes your money and then pays off somebody else and pretends you have all kinds of returns. Then when you finally say, “Okay, I want to take my money out,” they say, “Well, we don’t have it because I’ve been paying it all to the early investors,” kind of in a Ponzi scheme, a pyramid scheme. They got the high returns, but it’s the latest investors that get left holding the bag. That’s basically what Social Security is. The trust fund is a fiction.

I used to give a PowerPoint presentation. It was just too depressing. I would show one of the slides that showed a four-drawer file in a little town in West Virginia that is the Social Security Trust Fund. It’s just a four-drawer file. It looks pretty secured. It even has locks on it, but it’s just government bonds.

We’re in this position right now where Social Security pays out more benefits than it takes in annually. It still may, off of that trust fund, make enough in terms of interest payments so that they maybe aren’t quite paying off those bonds. But in the not too distant future, if they’re not already doing it, they have to take those bonds to pay for the benefits. They give those to the Treasury Department, and the Treasury Department gives them the money for the bonds. But then the Treasury Department just has to create a whole new bond to sell to the general public or have the Federal Reserve pay it off.

Again, the trust fund has no financial worth. It would have if we actually would have taken those excess revenues and invested those in assets not owned by the federal government. If we would have invested those assets like in an ETF (Exchange Traded Fund) or private sector bonds, then you’d have real assets and the trust fund would have some worth. But a promissory note to the U.S. government is not worth the paper it’s written on. It’s a Ponzi scheme.

**Q** **Jahr:** Is reform simply beyond our reach in this political environment?

**Johnson:** George W. Bush tried a very modest reform.

He was just looking at young people, allowing them to keep some of their retirement savings rather than have all their retiring savings go into the Social Security Trust Fund, into that Ponzi scheme, just a very modest reform. Just take a small percentage of an employee’s contribution to their

retirement, and let them keep that themselves in their own retirement fund so they would have ownership of something.

He got slaughtered for it politically: the privatization of Social Security. So again, politicians learned from that. They realized rhetorically they can attack anybody who even proposes some kind of solution.

I’ll tell you, when I first started running, my campaign advisers told me to shut up about calling Social Security a Ponzi scheme and said, “Repeat after me: I’m going to protect your Social Security.”

For your audience, just think of how many politicians utter that phrase, “I’m going to protect your Social Security.” Protect it with what?

**Q** **Jahr:** Right. Their hope as a politician is that whenever this all goes south, they’re not in office at the time and don’t have to worry about it.

**Johnson:** Somebody else will be left holding the bag. Yep. The very definition of a Ponzi scheme.

**Q** **Jahr:** Congress rarely follows the budget process that’s been established by law. Budget deadlines and spending enforcement rules are routinely ignored. Other efforts over the years to rein in spending have also failed. There’s been Gramm-Rudman and PAYGO and the debt ceiling and so on. In the long run, none of these had the teeth or substance to have an impact on fiscal spending.

You support a constitutional amendment to limit the size of spending in relationship to GDP, and you also support a statute that would, in essence, do the same thing. How likely is it for a constitutional amendment to advance and, if there is a statute, would it have the necessary enforcement mechanisms, the teeth, to make it effective?

**Johnson:** Well, under the Budget Control Act — which I



voted against because of the sequestration — I thought that would be harmful when the military was already hollowed out and we had to increase military spending. But I will fully admit that the cost caps or the spending caps in the Budget Control Act worked. For a couple of years, we actually reduced, in real terms, discretionary spending for about two or three years by, I think, \$175 billion. That statutory cap had teeth, but just for a couple of years.

Eventually, Congress figured out some way to weasel around it. I think the only long-term solution would be some kind of structural constitutional control that would limit.

My concern about a constitutional amendment to balance the budget is you're going to have to have waivers for war, for emergencies. And again, those waivers would be routinely dismissed. I think that the best formula, really, is just a constitutional amendment to limit spending to a certain size of prior GDPs, so you know how to do that. That would be a real constraint.

The other thing I've been promoting is a pretty simple bill called Preventing Government Shutdown Act because what happens right now — by the way, when you hear bipartisanship, that's not always a good thing because what happens on a bipartisan basis is people figure out how to spend more of your money or money that we don't have. That's what happens at the end of these years anyway. It's not like we become fiscally prudent in these budget fights. What ends up happening to solve the budget impasse is we spend even more money.

**Q** **Jahr: Right.**

**Johnson:** What the Preventing Government Shutdown Act would do ... would just provide an automatic appropriation based on last year's spending when we come to an impasse. I think that would get rid of government shutdowns, which are economically harmful by themselves, but (would) also be a pretty powerful fiscal constraint to have people sit down at the bargaining table. Otherwise, all the government is going to get is what they spent last year. I think that would also be a structural discipline, and that's what Washington needs, is discipline.

**Q** **Jahr: Would the restoration of federalism, the constitutional delegation of specific and finite authority to federal and state governments, help bring about a return of fiscal responsibility and balance?**

**If so, is there any way that those ideals can be revived?**

**Johnson:** Long term I think that is the only solution. If you go back 100 years, the federal government spent about 2% of our economy and state and local governments spent

about 5%, so total government spending 100 years ago was about 7%. Today, it's approaching 40%, and that's flipped where state and local governments — I don't have the exact numbers — but state and local government are a far smaller percentage than what the federal government gobbles up.

The federal government, again, is just completely out of control. State governments have to balance their budgets, so you have fiscal discipline kind of locked into that system. I've always said that, long term, the solution is economic growth. We need strong economic growth to have any chance. Then we need to limit the federal government. We need to shrink it long term in terms of what it represents, in terms of the size of our government, and shift that constitutional balance back to where our founders intended.

Government (should be) close to the governed, where most money is raised through taxes at the local level and spent at the local level rather than have the federal government confiscate all this growth out of the states and then figure out how it reallocates it based on political power. Again, we've turned the constitutional structure or frame work on its head, and our founders have to be spinning in their graves based on what our current situation is.

**Q** **Jahr: Given this dismal, bleak assessment, what do you say at your town hall meetings when you talk to Wisconsin residents and tell them, "This is what you need to do"?**

**Johnson:** Firstly, you have to get educated. You have to understand what's happening. You can't listen to the rhetoric, the demagoguery. You have to understand what the facts are.

We all have to grow up. We all have to become responsible. We all have to realize what we are doing to our future generations and how wrong and how utterly immoral it is.

I'm a budget scold. I end up lecturing. It's not real popular. I'll repeat again, I'm not the most uplifting character because I'm going to tell people the truth. I can't operate any other way.

**Q** **Jahr: Senator Johnson, thank you for continuing to highlight this issue. We do appreciate that you've been a champion of this from the very beginning.**

**Thank you for taking the time to talk to us.**

**Johnson:** Well, I appreciate it, and I appreciate your efforts to educate the public as well. ❏

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*Michael Jahr is senior vice president of the Badger Institute.*