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UA forecaster sees storyline he hoped wouldn't pan out

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Imagine if the current economic slowdown were just a warm-up to a far greater crisis.

In 2004, University of Arizona economics professor Gerald Swanson's "America the Broke" described such a possibility.

In the book, he describes how rampant government spending and the skyrocketing national debt could cause the value of the dollar to plummet, push the government to the edge of insolvency and leave Americans without the safety nets of Medicare, Medicaid and Social Security.

Now that America is caught in a credit crisis fueled by similar spending behavior by consumers, some of Swanson's predictions about the economy have started to come true.

The dollar is sinking, foreign investors are becoming less enthusiastic about American markets, home prices are falling and concern about the future of Social Security is rising.

As bad as those problems are, Swanson said the situation could get even worse if the U.S. government doesn't rein in its own spending habits and start to take on the more than \$9 trillion national debt. If interest rates rise dramatically, debt payments could consume all of the government's tax revenue, Swanson warned in his book.

Here is more of what Swanson had to say about the predictions in his book and the current state of the economy.

Q: What do you think of the current economic situation? Are things better or worse than they were when you wrote the book?

A: I think we're definitely in more perilous times than when I wrote the book. I think the imbalances that exist economically within our country and externally are much greater than they were when I wrote the book. Some of the things that I talked about in the book are coming true, which is sort of scary. I certainly did not want them to come true.

Q: In what ways are we starting to feel the impact of the national debt?

A: The world is beginning to look at us as a country that's addicted to debt, both personally and as a national government. I think they're getting a little worried about whether or not we can sustain this long-term.

Q: How does the national debt relate to the crisis we're seeing in the credit markets now as a result of mortgage industry problems?

A: I would say, it's a matter of "do as I say and not as I do." When the public watches the government borrow to finance everything, when they see politicians have no restraints on the earmarks they send through Congress for tens to hundreds of million of dollars, they say, you know, I think I could live that way, too. I really do believe we have an attitude of not saving. The federal government doesn't think it should save and pay down debt. And individuals don't think they should save.

Q: Are there any other common factors between how the national debt is growing and how personal debt is growing?

A: I think it's just we want everything now. Any project that comes along, a politician is on a two-year election cycle so they look for a way to earmark some projects and bring them back to the home district so they can get re-elected.

And I think individuals, when they saw that they could refinance rather easily in the mortgage market, they took all the equity out of their house, instead of leaving it as a nest egg to retire on, and bought big-screen televisions and new cars and everything that went along with it.

Q: The value of the dollar has been sinking, and markets seem kind of volatile, but so far we haven't seen the doomsday scenario that you painted in the book. Looking back, do you think any of your assertions were too alarmist?

A: I think (I) did push it to the extreme in terms of what might happen. But the key thing here is that what everybody is worried is that the dollar used to be the major currency in the world. We now have a major rival called the euro. ... As the demand for dollars goes down in the international market, the value of the dollar is going to go down.

Q: What do you think of the efforts to stimulate the economy — the rate-cutting campaign by the Federal Reserve and the stimulus package?

A: Let's start with the Fed ... What's happened is the money has gone into the banks, and the banks aren't lending it out. They can't find credit-worthy people ... Until the banks feel more comfortable with the quality of the people coming in to borrow, and until people themselves feel more comfortable with the state of the economy, it's going to be a long haul...

On the stimulus package, it's not a huge thing. ... I don't think it's going to have much of an impact at all.

Q: A casual reader who is a conservative might peg you as a gloomy liberal, especially because of your heavy praise of the Clinton administration's economic policies and criticism of President Bush's tax cuts and defense spending. How would you respond to that?

A: It turns out, one, I'm not a liberal. And two, I'm disappointed in the Republicans in the way that they handled the budget. There's been no spending vetoes. The one thing (I) did say about the Clinton administration, which I liked, is that it was a split. We had a Republican house and a Democratic president, and therefore they had to cooperate.

"The world is beginning to look at us as a country that's addicted to debt."

— Gerald Swanson, University of Arizona

what he said in 2004

Predictions made by University of Arizona economist Gerald Swanson in his 2004 book, "America the Broke."

- National debt to rise to \$9 trillion by 2007

The national debt was at \$7.3 trillion when Swanson wrote the book. It reached \$9.2 trillion by the end of 2007 and is on track to keep rising.

- Growing pressure to cut domestic programs

Some programs such as job-training programs and the State Children's Health Insurance Program have either seen funding cut or held to tight limits.

- Falling home prices, payment shock for adjustable-rate mortgage borrowers

Swanson said rising interest rates could cause these problems. So far, interest rates have stayed low, but housing prices are still dropping, and some people are finding themselves unable to pay higher payments for adjustable-rate loans.

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