The National Debt: How Soon Before Uncle Sam Cries 'Uncle'?

When Bob Schieffer of NBC News asked the rhetorical question: "…has going a trillion dollars in hock to one country [China] made us more secure?", he was reminded of Everett Dirksen (Illinois Senator for nearly 20 years) and his famous comment: "…a billion here and a billion there and pretty soon you're talking about real money!".

The [current account deficit](), at the present moment, is over $12 trillion and climbing. About half of that debt is owned by foreign countries, most notably China (about $800 billion) and India (about $300 billion), with the balance owned by Japan, Germany, and others.

So what's the big deal?

Investors are lined up two or three deep to make purchases of Treasury bills paying zero percent interest. Despite the fact that the U. S. Treasury faces the daunting prospect of "rolling over" this debt every 50 months or so, there seems to be no end to the demand for them.

In fact, almost 20 times as much money has been moving into bonds than into equities, according to [Mark Hulbert]():

"From the beginning of this past March, bond mutual funds have received a net inflow of some $214 billion. The comparable total for U. S. equity mutual funds is "just" $10.5 billion, or less than 5% as much."

And so the real question must be asked: why are investors so willing to buy bonds paying little if any interest which will be redeemed in dollars that will be worth less than they are now?

And why, especially, are the Chinese so willing to play this losing game? Are they just ignorant? Are they really hoping to get their money back in the future, with the same purchasing power?

On a recent *Saturday Night Live* skit, a bawdy but delightful parody about President Obama's recent trip to China appeared.

Although crude, this skit makes it plain what everyone knows: China ISN"T going to get its money back. And if the audience knows it, then everyone knows it. And if everyone knows it, then perhaps it's a "game" of musical chairs, with the participants hoping they'll be able to quit the game before they run out of chairs!

Or perhaps something much more troubling.

The U.S. is not alone in inflating its currency. China has been growing its money supply enormously in order to cheapen its currency, to keep Americans buying their goods and to keep their massive workforce employed. And so they have a "chip in the game", and they know it.

What happens when the music stops?

Ask Great Britain.

In 1946, a pivotal decision was made that shifted world preeminence from Great Britain to the United States. After fighting two world wars (and losing millions of lives), the British treasury was dramatically depleted. According to Zachary Karabell:

"In spite of its global empire, a powerful military, and an enviable position at the center of world-wide commerce, in early 1946 the British government faced a serious risk of defaulting on its financial obligations. [And so] it asked the U. S. for a loan of $5 billion.

"To the surprise and shock of the British, Washington refused."

The music stopped.

Unable to avoid insolvency, Britain was forced to agree to a remarkable set of conditions in order to receive the needed funds, including:

• Great Britain must abide by the 1944 Bretton Woods plan (which made the dollar the "reference point" for global exchange rates, instead of the pound sterling); and

• Great Britain must make the pound sterling freely convertible; and

• Great Britain must end its "system of imperial preferences" which meant no more tariffs and duties on goods to and from colonies such as India.

By accepting these conditions, Great Britain essentially acknowledged the end of the British Empire.

Is it possible that China could "pull the chair" on the US in this game?

Consider:

It is estimated that by the year 2030 China's economy will be larger than that of the United States.

Here is a visual presentation (from 2007, which makes the analysis even more poignant) of the direction of the American economy:

http://perotcharts.com/challenges/

The last 4 charts of this presentation are stunning. They show clearly that the U. S. may be about to pass the "tipping point":

> A tipping point can be applied to a process in which, beyond a certain point, the rate at which a process continues will increase dramatically. The budget of the United States has reached a tipping point. A recent event could have, in fact, marked that point in time. The first Baby Boomer — born January 1, 1946 — has applied for early retirement at age 62 and has just received her first Social Security check. On the chart, an upturn in the Medicare growth rate can be detected in 2011 when the first Baby Boomers reach age 65. Thereafter the number of retirees continues to increase while the number of workers per retiree continues to decrease.

With America's continuing Greater Recession (not reflected in the presentation of course), that "tipping point" with China could occur a lot sooner.

In order to meet this challenge, at least five general solutions have been proposed by various "experts":

1. Reduce benefits

   Allow this to happen salami-slice by salami-slice in order to reduce the pain.

2. Raise taxes

   The tax cuts passed under the Bush administration will expire in 2010 under the Obama administration, resulting in an increase in taxes without any legislation required. Further additional taxes are proposed, to "reduce" the deficit.

3. Borrow more

   Musical chairs (see above).

4. Cut spending

   Being Keynesians, the economists advising the Obama administration are recommending the opposite.

5. Enhance growth

   If the limitations placed on government by the Constitution (and sworn to be upheld by each member of Congress) were followed, the free enterprise system (the greatest engine of economic growth the world has ever seen) would be unleashed.

With the growing awareness of these problems by the citizens, and the resulting pressure on their elected representatives to follow the Constitution, there is an increasing opportunity to slow down and then reverse the slide into slavery, and to do it "before the music stops."

Photo: AP Images