

March 14, 2005      Most Americans are vaguely aware that Congress has run up huge deficits in recent years, but the numbers involved are so large that it's hard to grasp what our government's indebtedness really means to us as individuals. The total federal debt is quickly approaching \$8 trillion, courtesy of an administration that borrows roughly one billion dollars every day to pay its bills. Ultimately, the U.S. government will either repay its debts or default on them. We need only look at the Argentine debt crisis of 2001 for an example of what happens when a government fails to make even minimum payments to creditors. The Argentine economy virtually collapsed, and the value of her money tumbled. This is something most Americans cannot fathom, especially a political class that mistakenly thinks it can't happen here. Repaying trillions of dollars will not be easy, however. Interest payments alone already consume nearly 10% of the annual federal budget, and Congress shows no sign of abating its spending appetite anytime soon. In fact, present spending rates will produce single-year deficits of \$1 trillion in coming years unless the public finally gets fed up and demands an end to it. When the federal government spends more each year than it collects in tax revenues, it has three choices: It can raise taxes, print money, or borrow money. While these actions may benefit politicians, all three options are bad for average Americans. Deficits mean future tax increases, pure and simple. Deficit spending should be viewed as a tax on future generations, and politicians who create deficits should be exposed as tax hikers. The federal government still consumes more of the private economy than it ever has except during World War II, despite the administration's anti-tax rhetoric. Deficits mean more monetary inflation. Deficit spending necessitates the creation of more fiat dollars by the Federal Reserve to keep the government afloat. Congress knows it can always fall back on the Fed money machine, which of course encourages more deficit spending. It's a vicious cycle that ultimately makes every dollar you have worth less. Deficits mean more borrowing overseas, which threatens U.S. sovereignty. Never before has the American economy depended so much on the actions of foreign governments and central banks. China and other foreign creditors could in essence wage economic war against us simply by dumping their huge holdings of U.S. dollars, driving the value of those dollars sharply downward and severely damaging our economy. Every dollar the federal government borrows makes us less secure as a nation, by making America beholden to interests outside our borders. The economic situation today is reminiscent of the 1970s. The economic malaise of that era resulted from the profligacy of the 1960s, when Congress wildly expanded the welfare state and fought an expensive war in southeast Asia. Large federal deficits led to stagflation-- a combination of high price inflation, high interest rates, high unemployment, and stagnant economic growth. I fear that today's economic fundamentals are worse than the 1970s: federal deficits are higher, the supply of fiat dollars is much greater, and personal savings rates are much lower. If the federal government won't stop spending, borrowing, printing, and taxing, we may find ourselves in far worse shape than 30 years ago.