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America's Debt Time Bomb

By [John F. Ince](#), [AlterNet](#). Posted [December 1, 2005](#).

Every day that we fail to address our exploding debt we increase the chances that the country will be facing an economic crisis of major proportions.

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America's exploding debt is a ticking time-bomb. No one can say for sure what might trigger a crisis and when the bomb might explode, but this much is for sure: America's current level of borrowing is unsustainable.

America's debt crisis is reflected both in our exploding national debt and our astounding level of borrowing from foreigners, as measured in the current account trade deficit. Every day we fail to address these problems, we increase the chances that the country will be facing an economic crisis of major proportions. Yet few Americans are aware that anything is amiss. The mainstream media covers the issue intermittently, but because the debt increases incrementally, the issue lacks the sort of "crisis" banner that motivates editors and reporters. The lessons of history are clear: a nation's heavy borrowing from abroad is usually a precursor to decline. America's debt is also a moral issue, because we are in effect stealing from future generations. By borrowing so heavily today, we are hollowing out the foundation of America's economic future.

There are two components of America's debt time-bomb: the national debt and the current accounts trade deficit.

**The national debt:** When President Bush took office in 2000, the projected surplus for the U.S. government for the next decade was approximately \$5 trillion. By fiscal year 2005 the surplus was entirely gone and the annual domestic deficits were at record levels, somewhere in the range of \$350-450 billion depending on whose estimates you use. This is the most radical reversal of government finances in U.S. history. Today the national debt is approximately \$7.9 trillion, and growing by over a billion a day.

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**The current account trade deficit:** In the last 25 years America has gone from the world's largest creditor nation to the world's largest debtor nation. Today we rely upon foreigners to finance over 40% of our national debt. In fiscal year 2005 our current account trade deficit is on track to be almost \$700 billion, which represents over 6% of our GDP. When America borrows from abroad to finance its domestic deficits, we give foreigners a claim to the financial assets of this country through either interest payments or a share of profits. Essentially America has been borrowing from abroad to finance our military buildup and war in Iraq. Should we continue to run current account deficits comparable to those now prevailing, the net ownership of the U.S. by other countries and their citizens a decade from now will amount to roughly \$11 trillion.

## **Uncharted Territory**

The globalization of financial markets has made it easier for American policymakers to engage in potentially dangerous borrowing patterns. Today there is a worldwide glut of savings, and because the United States is viewed favorably by global investors, we have been able to borrow from abroad without any appreciable pain.

But this is all based on a short-term perspective. Sooner or later America must begin paying foreigners back. Even with recent increases in interest rates, they remain relatively low by historical standards and inflation does not seem to be a major concern of policymakers in the short run. This state of affairs has perplexed many economists because, with capital flowing so freely across international boundaries, many of the traditional guideposts used by the Fed to gauge the economy have diminished relevance. If potential long-term problems are masked, the magnitude of an eventual downturn could be greatly magnified.

A confluence of factors could quickly create a downward spiral in the economy. Most likely it would begin when foreign investors lose confidence in America as an investment opportunity. Suddenly and traumatically, this would create a contraction of our economy.

An economy in recession further increases the size of the deficits because of increased interest costs on the existing debt and transfer payments through entitlement programs such as unemployment insurance. This further creates pressures on the financial markets through the "crowding out" effect as the government absorbs a higher share of the available pool of capital.

As businesses have more difficulty raising capital, it further depresses the economy and places additional upward pressure on interest rates. Rising interest rates would take the steam out of a real estate market that has become increasingly speculative and exhibits many bubble-like characteristics. Highly leveraged sectors like the derivative markets could also encounter a severe contraction. Combine these factors with the coming demographic wave of retiring baby boomers and you have the outlines of a major crisis.

Based upon a credit analysis of America's current borrowing and our long-term commitments through

entitlement programs, some economists are suggesting that the U.S. Treasury will have no other option than to "monetize" the debt by reducing its real value through intentionally inflationary policies. This is essentially a means by which the government would default on its debt without calling it a default. Individuals and institutions that lent money to the federal government by investing in Treasury bills would be paid back with dollars that are worth less than the dollars they lent.

## **Confiscating Assets**

The integrity of our nation is being compromised by the fiscal irresponsibility of our policymakers. In the process, the stability of our currency and economy is being jeopardized. We should all be concerned because 1) The market value of everyone's financial assets will be reduced dramatically if we stand by and do nothing; 2) The costs of things we buy will rise dramatically if the government inflates the currency; and 3) Republicans will use the exploding national debt as a pretext for cutting social programs.

The unraveling happens in countless invisible acts that most Americans will never be aware of until it is too late. If the U.S. Treasury does "monetize" the debt to reduce its real value, it would be tantamount to the government's "confiscating" the financial assets of its citizens through intentionally inflationary policies. This course of action would have profound implications not only for the sustainability of the global financial system, but all for individual investors. In the words of former Fed Chairman Alan Greenspan, "In the absence of the gold standard, there is no way to protect savings from confiscation through inflation." As Harvard economist John Maynard Keynes explained: "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens."

Since the terrorist attacks on the World Trade Center on September 11, the debate over America's priorities has been framed in patriotic terms as a need for strong measures to protect the nation from future attacks, whatever the cost. The wars in Iraq and Afghanistan have been linked to this "war on terrorism" and funding for these initiatives has by and large sailed through Congress without substantive debate or questioning. Yet it hardly makes sense for a nation to go into debt to pay for wars and a military buildup, at the expense of other more fundamental and abiding national needs.

While military expenditures go unquestioned in Congress, funding is being cut for education, environmental protection, sustainable energy programs and many other programs that arguably will have a more profound effect on the strength and economic competitiveness of our country. Increasingly the battleground of modern international conflict will be in the global marketplace, rather than in the military sphere. China's economy is growing at an impressive pace. Its need for energy and other resources will ultimately place its national requirements on a collision course with those of the U. S. and other Western nations.

Sooner or later, America must begin paying off its debts, and its binge of borrowing must come to an end. If our leaders continue to ignore the problem, we will all suffer the consequences.

*John Ince wrote, directed and produced the documentary film, [Time Bomb](#).*

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**uh...what?**

Posted by: owsliveintrees on Dec 1, 2005 1:09 AM [\[Report this comment\]](#)

"A confluence of factors could quickly create a downward spiral in the economy. Most likely it would begin when foreign investors lose confidence in America as an investment opportunity"

Um yeah but if our debt isn't viewed as a good investment that means we've already had an economic downturn. Interest rates are so low because American debt is a good investment. Usually good customers who are low risk and always pay on time have low interest rates. It seems like the people who have the most to lose (their capital) think its a perfect investment.

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**Dominick G.**

Posted by: Pendelton on Dec 1, 2005 1:58 AM [\[Report this comment\]](#)

RE: John Inces' America's Debt Time Bomb

Perhaps I have a partial solution to the looming financial crisis that slowly appears on our moneys horizon.

Open government by accountability.

Hold "OUR" elected members to their voting record. By this I mean get your Senators & House of Represenatives votes on issues YOU care about AND FOLLOW THROUGH WITH; Phone calls, e-mail, regular mail, letters to newspapers, speak to your friends & relatives, ect.

THEN exercise your constitutional right at election time. (make sure you mention that you intend to hold them responsible come election time) Put this in your letters!

We have elected people who make much more than a 'living wage', get retirement benifits, along with medical/dental, not to mention the "perks" that come with a Federal Office while the poorest of our nations people go without the basic of necessities. Something is definately wrong here.

A chain is only as strong as its weakest link

How can we as a nation continue to profit from "war". It is not sustainable. (unless you are a corporation) Once "the enemy" is conquered where is the next area to pour blood & government \$ into? We do not have a defense budget. It is a military budget, that gets larger each year due to the scare tactic of THEM.

Nations, cultures, ethnic regions, areas around this globe we all share space on that have no viable sustainability have become breeding grounds for conflict. We export military hardware and promote repressive governments and some of us in this country wonder why there is so much animosity towards us?

People who go to bed at night without hunger, their children are vaccinated, a roof over their heads, a job to go to, a government that isn't going to make them disappear for their opinions..... These people have a future and don't use violence as a means to communicate.

Please let your elected members know how you feel about their misappropriations of this country priorities.

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**drew**

Posted by: drew on Dec 1, 2005 2:24 AM [[Report this comment](#)]

debt is the most direct threat to our long term well being that we are experiencing at this time. It is unfortunate that it is not a sexy problem, one that generates a strong reaction from the people who will be its victims- it certainly will be the only concern when the consequences of irresponsibility occur. It is notable that the democrates, with a few exceptions, are as irresponsible with the economic future as the republicans. this is clearly a frame in which national priorities should be discussed and another reason that the extremely privileged pay taxes in a manner proportional to their benefits and use of social capital.

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