By John F. Ince, AlterNet. Posted March 20, 2007.

In addition to borrowing from the world's poorest countries, Bush & Co. are secretly confiscating your hard-earned dollars to support their out-of-control spending habits.

Tools

Sometime in the next year, Congress will start going through their periodic rituals and related public relations charades in an effort to absolve themselves of any blame for raising of the federal government's debt ceiling.

With Bush and cronies having added over $3 trillion dollars to the national debt, the country's credit card tab now stands at $8.8 trillion. This represents an astounding increase of over 45 percent since Bush came into office in January of 2001. And all this fiscal profligacy took place during the years when the CBO originally forecasted record surpluses of approximately $2.5 trillion. And there is no end in sight to the deficits.

More alarmingly we now rely on foreigners to finance over 40 percent of this debt with the lion's share coming from the Asian central banks. In FY 2006 the current account trade deficit is on track to set yet another record, on the order of $700 billion. To put this in perspective, billionaire investor Warren Buffet points out that, "15 years ago, the U.S. had no trade deficit with China. Now, it's 200 billion dollars." He says if the country does not change course, the rest of the world could end up owning 15 trillion-dollars worth of the United States. That's equal to the value of all American stock.

Is it a natural state of affairs for the world's richest nation to be borrowing from the world's poorest nations, to the tune of over 6 percent of its GDP? Harvard Economic Professor and former Chief Economist at the International Monetary Fund, Kenneth Rogoff doesn't think so. Rogoff goes on camera in the recently released documentary film, TIME-BOMB: America's Debt Crises, Causes, Consequences and Solutions and says, "This is not a normal state of affairs. And it's certainly not something we expect to see from the world's richest country. Back when Britain was on top they were lending money to the world, but we're borrowing from the rest of the world. Our current account trade deficit is now more than our defense spending and incredibly we've been borrowing from the rest of the world like this for several years now. I think we're going to reach a point where the rest of the world decides that they don't want to lend to us. And that can be kind of traumatic."

America's high deficit strategy is due for a critical review, but the review won't be coming from Congress, the media or the American electorate, because these issues just don't rank high on a national agenda dominated by war, sports, celebrity worship, and scandal. But like it or not, Bush's deficit strategy will be getting critical review from the people who matter most: global investors.

There are renewed signs that global investors may be getting concerned about the level of U.S. borrowing. Recently the Chinese, holders of about $1 billion in U.S. Treasuries, recently set up a new agency of their central bank to take a hard look at their investments overseas, and their continued financing of U. S. deficits may come under close scrutiny. If global investors were to begin to balk at picking up the tab for American excesses, it would be a monumental embarrassment to the United States.

More palpably it would force the Fed to raise interest rates to make the T-bills marketable. That, of course, would have serious effects for the U. S. economy, the stock market and the real estate market. Could this be the beginning of the unraveling? Perhaps.

There are of course, countervailing forces that could enable the U.S. Treasury to continue its glut of borrowing. China and the Asian Central banks would hate to see the markets for their exports go soft and they know that only by continuing their financial largesse will the United States continue to be the "shopper of last resort" in the global marketplace. Oil producing nations are also awash in capital and, as long as the dollar remains the default currency for petrodollars, they view the dollar as a safe bet. But these conditions can't continue indefinitely and no investor wants to be the last to react to bad news.

If history is any guide, we need to be concerned. The last time there was a changing of the guard at the Fed, Alan Greenspan was greeted just about 90 days into his new tenure with the stock market crash of '87, which overnight wiped out over 20 percent of the amassed wealth of investors. The recent hiccup in the global financial markets has raised new concerns about market instability. With the softening of the real estate market, the subprime mortgage market has already sent shock waves through mortgage lending circles, with several notable bankruptcies. There is concern that it may move up the food chain jeopardizing the lending portfolio's major banks, most of whom have been quietly raising the loan loss reserves.

Nobody knows for sure how this will play itself out, but the big picture is not a rosy one for the American economy. In the past year the median sales price for a home in America actually declined and homeowners are starting to feel the hangover of over $1.5 trillion that Americans have extracted from the equity of their homes with interest-only loans and the easy money the banks are throwing at them. The derivatives market, despite having been racked with scandals, is still highly leveraged and due for a "correction". And the stock market has turned jittery on news from China and spiked oil prices.

True to form, the Bush administration's response is not to address any of the root causes of these potential instabilities, but rather to go into public relations high gear to accentuate the positive. When faced with bad news, Bush sent his advisors on a global marketing blitz last year to "Sell the Economy's Sizzle" with pitch saleman, aka Treasury Secretary, Hank Paulson, sputtering forth the administration's talking points out on the lecture circuit.

These are serious issues and their implications go well beyond the cold numbers that politicians and economists like to manipulate to their advantage. Here are four reasons why America's debt load is today the most serious issue facing this country:

First and most fundamentally, as America's borrows more from foreigners, we are jeopardizing our stature as a world leader. The lessons of history are clear. A nation's borrowing from abroad is generally a precurcursor to decline.

Harvard Economics Professor Benjamin Friedman, says in the TIME-BOMB documentary, "Historically whichever country has been the world's leading lender, deploying its capital for use around the world has always accrued a particular kind of influence in world affairs, whether it's the Dutch in the 17th century, or before that the Spanish in the 16th century, or more recently the British from the mid 19th century through the twentieth century or the United States in the great part of the 20th century after World War I.

"Again and again it has always been the world's leading lending country that has been the premier country in terms of political influence, diplomatic influence and cultural influence. It's no accident that we took over that role from the British at the same time that we took over from the the job of being world's leading lending country. Today we are no longer the world's leading lending country. In fact we are now the world's biggest debtor country, and we are continuing to wield influence on the basis of military prowess alone. As an American citizen, I hope that we can continue to do this but I have to observe that the tides of world history do not speak well for that strategy."

Second, the persistent deficits are ultimately destabilizing to financial markets. Peter G. Peterson, former Secretary of Commerce under President Nixon, and today Chairman of The Blackstone Group, says in TIME-BOMB, " I'm not smart enough to predict where or when, but there are very serious people that believe our current fiscal irresponsibility is heading this country towards a hard landing. A hard landing is one where the foreigners lose confidence in putting their money in this country. The scenario then is that the dollar drops very sharply; interest rates rise very sharply. It has serious effects obviously on the stock market and the economy, and it heads us towards this dreaded stagflation where you have both inflation and recession at the same time."

Third, America's standard of living will surely take a tumble. When the dollar takes a fall on the global exchange, as it must eventually, everything Americans buy from abroad will cost more. With America's manufacturing base all but evaporated, virtually every industry sector will start to feel inflationary pressures. Inflation would force the Fed to raise interest rates further which will have effects throughout the entire economy, forcing many businesses large and small to the brink of insolvency and raising unemployment.

Fourth, the high deficits are putting the assets of all American's at risk through inflation. Inflation is a poorly understood phenemenon, but its effects are both powerful and insidious. As even the modern day father of deficit spending, economist John Maynard Keynes acknowledged, "The best way to destroy the capitalist system is to debauch the currency. By a continuing