

# Playing Politics with U.S. Deficits and Debt

Michael Coffman, Ph.D. and Kristie Pelletier

July 11, 2011

As the European Union appears to be heading for total collapse, Progressive Democrats seem to have completely lost all connection to reality and refuse to take *any* corrective action on our out-of-control deficits and staggering national debt.

In addition to the now probable economic collapse in Europe negatively affecting the U.S. economy, America's staggering \$14.5 trillion debt and trillion dollar deficits also threaten to sink us. There are two sides to the debt problem; (1) the inability or unwillingness of China and Japan to continue loaning us money to fund our enormous deficits and expand our debt; and (2) the progressives in the U.S. continuing to fast-track America toward economic ruin.

China is the United States' largest lender and holds at [least \\$1.115 trillion in U.S. government debt](#), approximately 26 percent of all U.S. debt. There is compelling evidence that China's banks are thoroughly corrupt and its economic might is just a new credit bubble.<sup>1</sup> China's local governments are carrying at least a \$1.7 trillion debt, most of which is coming due over the next five years with only a weak ability to pay it off. If China's economy flounders, will it be able to buy U.S. Treasuries to increase and sustain our deficits and debt?

In another wrinkle, an in-depth exposé by Reuters found that China has been buying much more U.S. debt than was even being disclosed. [Reuters warns](#), "If the Chinese sold their [U.S.] Treasuries all at once, it could undermine U.S. markets and the economy by driving interest rates higher very quickly. Scenarios of this sort have been discussed in Washington defense-policy circles for at least a year now."

Japan was the second largest buyer of U.S. Treasuries prior to its devastating earthquake and Fukushima nuclear meltdown. Since that tragedy, Japan's ability to buy our debt is [greatly reduced](#). Japan may have to even [sell their U.S. Treasury Notes](#) to pay for the cleanup and reconstruction. [Japan's bonds](#) are already threatened with downgrades by rating agencies. It will be hard for them to take on more debt.

If China and Japan reduce or stop buying U.S. Treasuries, it is almost certain the interest rates we pay on the debt (already around \$400 billion a year) will increase significantly. [Interest on the debt is at historical lows](#); 1 to 3 percent, depending on the type of Treasury bond. [Raising the interest](#) to 6 percent (last seen in 2000) would double the interest to \$840 billion a year. An 8 percent rate (last seen in 1990) would increase payments to \$1.1 trillion annually! It doesn't take a rocket scientist to realize these interest rates are unsustainable.

Worse, when the government borrows money, the loss of that money hinders the ability of business to expand or build new production facilities in the private sector. The jobs that would have been created with the new or expanded facilities are lost, perhaps forever.

Additionally, Progressive Democrats have passed thousands of pages of new laws that are creating tens of thousands of pages of new regulations that are still being written. Just as you would not open a savings account with a bank that won't tell you what interest rate you will earn, businesses *will not hire* until there is more certainty in regulations and the debt and deficit. Raising taxes on those businesses has a similar negative effect on job creation. High unemployment will continue.

A chilling [Harris poll](#) of small businesses across America clearly proves these points. The poll found that an incredible 76 percent of small businesses either have no plans to hire over the next year or plan to lay employees off. The reason? Overwhelmingly it is because of the concerns outlined above. Eighty-four percent say Obama's economic policies are on the wrong track. Over eighty percent want Washington to get out of the way and less than 15 percent want Washington's help – exactly the opposite of what Progressive Democrats believe. Yet, Progressive Democrats continue to believe big government is the answer to everything. They obviously don't have a clue to what makes the American economy tick. Needless to say, this is extremely dangerous.

In addition to keeping interest rates low, [which it did](#), QE2 was also supposed to make money available to small businesses. That was apparently a lie. The Fed never intended that QE2 be used to increase money available to small businesses in the U.S.

As explained in our "[Brink of Total Financial Collapse](#)" Op-ed last week, the [Fed used most of QE2](#) to bail out failing European banks in a desperate attempt to forestall the collapse of the European Union. Even so, most economists now predict that Greece cannot be saved. Spain and Italy are also on the brink. If any of these nations default it is likely to set up a chain reaction that will result in total financial collapse of the Western World.

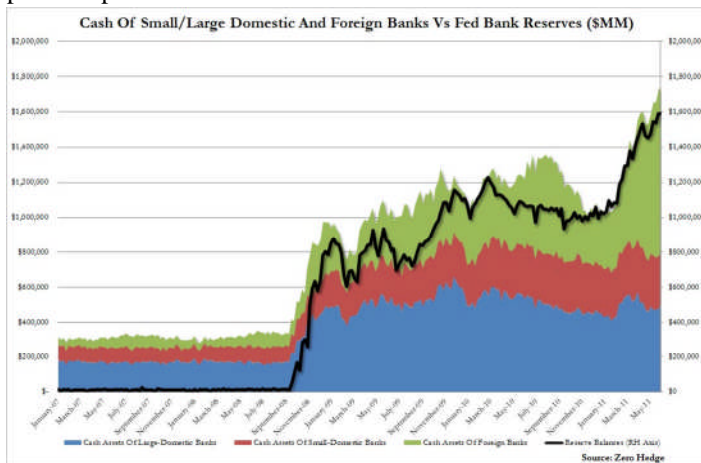
## The U.S. National Debt

Meanwhile we are witnessing an unbelievable game of chicken in Congress as the national debt slams against the debt limit. Much of the \$14.5 trillion debt is the direct result of the

---

<sup>1</sup> Porter Stansberry. The S&A Digest, June 20, 2011.

massive social programs and wars that were “not really wars” over the past 50 years. These programs and wars are the direct result of legislation or actions taken by Progressives from both political parties.



According to [ZeroHedge.com](http://ZeroHedge.com), a good portion of the Fed's QE1 (Nov 25, 2008, to Mar 30, 2010), and most of QE2 (Nov 3, 2010 to June 30, 2011) went to failing European banks (green). Cash assets of large (blue) and small (red) domestic banks received little to no money from QE2. [Enlarge](#)

The debt problem in the U.S. is not insufficient revenues as many in Congress claim, but excessive spending that is spiraling out of control. The Progressives blindly continue to demand tax increases on the so-called rich to be “fair” even though they already pay one of the highest tax rates (33-35%) in the world, and pay about [55 percent of all taxes in the U.S.](#) At the same time, the bottom *half* of tax brackets only pay about 4 percent of all taxes. That's fair?

Between high tax rates and strangling regulations passed by Progressive Democrats, most U.S. companies have fled the U.S. to other nations which are providing a more favorable business climate, taking badly needed jobs with them. The Progressive Democrats then claim that capitalism doesn't work because the middle class is being destroyed by fleeing corporations, when they themselves created the nightmare in the first place.

Progressive Democrats have no plan except to increase spending even more. President Obama is even becoming known as the absentee president because he remains disengaged on most issues until the last moment when he can sweep in to force a final solution. Although Progressives blame conservatives for being obstructionists and having no plan, they are the ones who have refused to deal with any of the issues threatening America, especially entitlements. They couldn't even pass a budget when they controlled both houses of Congress in 2010. With the mainstream media's help, they depend on demagoguery and class warfare to blame conservatives. Tragically, the strategy has worked brilliantly for decades.

President Obama in a very *UN*presidential move engaged in these contemptible tactics in his press conference on June 29. He told the American people that we have tough choices to make. That much is true. However, he then said that if we keep tax

breaks for corporate jets and big oil, “then that means we've got to cut some kids off from getting a college scholarship.” Obama hammered on the corporate jet tax break six times in his speech to drive home the point the rich get cushy tax breaks and that somehow steals from the poor. This is at the heart of his progressive ideology of redistributing wealth that he told Joe the Plummer during the 2008 campaign.

Syndicated Columnist Charles Krauthammer illustrated this absurdity on the Fox News All-Stars that night, “I did the math on this. If you collect the corporate jet tax every year for the next 5,000 years, you will cover one year of the debt that Obama has run up. *One year.*” In other words, the reality of Obama's point was absurd and designed to mislead the listener.

Worse, this kind of nit-picking can have severe unintended consequences if actually implemented. When Congress imposed a luxury tax in 1990 thousands of people lost their jobs and the government lost more in unemployment and lost income taxes than they ever got out of the tax. The tax had such a negative affect that it was [quickly repealed in 1993](#). Obviously, Obama knows this. The *only* possible reason for him to use the corporate jet example is to stoke the fires of class warfare thereby misdirecting the public's awareness away from the fact that his economic policies have been a huge failure.

Obama, along with his Progressive Democrats in Congress, are not interested in finding a solution to the massive debt or else he would have included deep cuts in his proposed 2012 budget earlier in the year. Instead, he wanted another big increase in spending. The solution for progressives is *always* more government and more spending.

Now that the polls are showing that people are concerned about the debt and deficit, Obama suddenly is talking about the need for budget cuts (vaguely including Social Security) to reduce the deficit. But this new tact is not about believing in the need for radical action, but is about winning the next election. Everything Obama has done is about politics. Everything. He has never stopped campaigning since 2007.

If Obama were serious about his proclamations he would give concrete examples of budget cuts, especially in entitlements. But he refuses because the cuts he and his progressive colleagues will be smoke and mirrors. That is exactly what is happening. The only [trial balloon Democrats have only floated](#) to date has been a nebulous \$4 trillion reduction in deficit spending over 12 years by increased taxes of \$2 trillion (mostly on millionaires) and sharp budget cuts in the military. Entitlements remain off-limits. Implementations of new taxes come early, while budget cuts will occur at the end of the 12 years – long after they are out of office.

Progressive Democrats have always made decisions on the basis of their emotions, not reality. They are like a stage-four cancer patient who refuses surgery because it painful, and will not believe he will surely die if surgery is delayed.

America could be facing the worst financial crisis in U.S. history in the next year, almost certainly the next 3 years, and Obama is fixated on corporate jets, not the real crises we face. The probable PIIGS defaults in Europe, the out-of-control debt/looming interest rates, and the [\\$114.5 trillion unfunded entitlement liabilities](#) will likely sink our economy worse than the Great Depression if not dealt with immediately. Yet, the Progressives seem to be willing to blindly follow Greece into debt-based bankruptcy, and to let Social Security and Medicare completely fail thereby pushing seniors off the cliff entirely, than to make hard choices. What they are doing borders on criminal neglect.

America is at the crisis stage. We cannot play politics any longer. As obvious as that is to most Americans, Progressives don't seem to believe it. Their game of politics has reached an *extremely* dangerous level. Either Progressives are such ideologues that they literally cannot see the reality of the situation; or they are deliberately attempting to destroy the economic base of the United States to create a utopian society based on their unworkable ideology. If the latter, they couldn't be following a better strategy.

Progressives must be voted out of office at every level of government in the 2012 election and replaced with those candidates who understand the problem and will gradually turn the nation back to a Constitutional government and prosperity.

Dr. Coffman is President of Environmental Perspectives Incorporated ([epi-us.com](http://epi-us.com)) and CEO of Sovereignty International ([sovereignty.net](http://sovereignty.net)) in Bangor Maine. He has had over 30 years of university teaching, research and consulting experience in forestry, environmental sciences and geopolitics. He and four colleagues stopped the ratification of the Convention on Biological Diversity in the U.S. Senate one hour before the cloture vote. He produced the acclaimed DVD Global Warming or Global Governance ([warmingdvd.com](http://warmingdvd.com)). His newest book, *Rescuing a Broken America* ([rescuingamericabook.com](http://rescuingamericabook.com)) is receiving wide acclaim. He can be reached at 207-945-9878 or [mcoffman@epi-us.com](mailto:mcoffman@epi-us.com). Kristie Pelletier is a researcher and freelance writer who works frequently with Dr. Coffman on specific issues. Her research allowed her to predict a terrorist attack by Osama bin Laden on American soil two years before the events of 9-11. She can be emailed at [kristiepelletier@gmail.com](mailto:kristiepelletier@gmail.com).