

**A Special Report on
Deficit Spending
from Yankee Steve Cakouros**

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A special report for OldLineConservative.com readers

Definition of deficit spending: The practice of continuing to make expenditures for which there is not enough money. The money used for deficit spending is borrowed. The money that governments owe to lenders or to their own departments becomes the national debt.

What exactly is the national debt? In essence it is the money the federal government owes that it will not or cannot pay back during the next fiscal year. It carries over from one year to the next.

Note: At the rate we are collecting revenue it is likely that we will not be out of debt for another half century. Presently we are only capable of paying the interest on loans made to us by individual and professional lenders. The national debt is now equal to one year's Gross Domestic Product [GDP] or an alarming \$14 trillion. It speaks to us of bankruptcy which when it happens will be accompanied by terrible hardship and even anarchy. President Barack Obama has offered a solution: increase the national debt in the hope that this will bring about an increase in revenues. Presently, the national indebtedness of Japan is 180% of its GDP. That could happen to us if we follow Obama's leading.

Maybe I can explain the real meaning of deficit spending which has many of asking, "How can anyone spend what they do not have or may never have?"

Governments spend money they do not have because they are allowed to do what no self-respecting head of a family would ever think of doing. As such these governments take it upon themselves to do any one or all of the following:

- ✓ Rely on money still to be collected from individual taxpayers and corporations. Spend with that money in mind. In other words have faith in the future. The assumption is that revenues will remain at past levels. However, if there is a downturn in the economy and revenues decrease, the government will have to invent new ways of taxing citizens. If it doesn't do this it will have to run up even larger debts which is usually what happens.

Note: When it comes to taxing, governments are not only authoritarian but ingenious. This is why serfs in the Middle Ages lived in windowless shacks. The government had placed a tax on their windows. President Obama in order to finance his proposed welfare budget, which included providing health insurance for all, had devised a scheme through which he could raise the necessary money. His plan, which was turned down by a senate committee (thereby preventing it from coming to the floor for a vote), was the

elimination of income tax deductions for amounts given to charities. The senators knew that this would seriously curtail charitable giving.

- ✓ Tax people and corporations, and after taxing them, return the money to the ordinary consumer (mainly through entitlement programs that are “free”) so that citizens will be able to spend money on manufactured goods and services. The idea is to get people spending. Government money used for entitlement programs will mean that the money that citizens would have spent on these services (e.g., health care) can be directed toward those things that will keep the factories humming. In that way industry will remain a source of revenue.

In other words if the government can turn everyone into a consumer then all the free programs will have been worth it because it will lead to more taxable incomes. (Note: A close look will show that this does not work because it really does not put a dent in the national debt. What happens is that the so-called free services increase the size of the national budget. Entitlement programs never shrink in size they always get bigger.)

- ✓ Turn the government into an employment agency of sorts. Those employed by the government will hire more people thus giving them something to occupy their time, and in turn they will pay taxes which then can be used to pay down the national debt. However this does not work either because the bigger the government becomes the more it will have to pay out to its employees. All that will do is increase the national debt.

If these employees who have been hired to see to it that others work pay back one-third in taxes to the government, then the government takes a two-third's loss for each and everyone. Note: Obama will soon [April, 2009] sign into law a bill that will allow the government to hire people to do nothing but distribute goods to the poor at a cost of \$5,300 a year per employee. Those employed by the government for this purpose will be competing with volunteer agencies that are already efficient. It will be a waste of money.

- ✓ Print more money and give that money to the government so that it can pay off its debts. Where there would normally be one dollar now there will be two dollars. Use that money to pay off the debt. (The Germans are now asking if Obama is going to start printing money. They know that this will lead to our national ruin. Older Germans remember that Hitler came to power because of runaway inflation, which was brought on by printing too much money.)

Rumor has it that Obama and his kind want to create a new international currency. This will in time bring about the end of our national sovereignty. If this comes about it will prove that Obama is a communist, a trans-nationalist who does not want to preserve American sovereignty.

- ✓ And last but not least, don't fret the debt. Treat debt as a norm, a way of life for all the governments of the world. Keep borrowing if you like because government policies will more than likely lead to an increase in productivity which will be accompanied by an increase in both corporate and personal income taxes that can be used to pay off the

national debt. Those who support President Obama ask, “Why not trust the government to do the right thing?” It is assumed that an interventionist government will always be a smart government, a government that knows what is wrong with the economy and as such will do what is necessary in order to fix that economy.

But so far interventionist policies have not worked under Presidents George W. Bush or Obama or classic interventionists like that of Franklin Roosevelt. At the end of World War II the national debt was 108.6% of the GDP. Much of that was due to the Socialist policies and the big government spending of FDR. Interventionists always expand the size of government.

Deficit Spending a.k.a. Keynesian Economics

Let us agree on one point. Deficit spending is not a good thing, and not to be desired. (Even Socialists would prefer to spend money they already have although I am not sure that Prime Minister Gordon Brown of United Kingdom could be used to prove that point.)

And let us admit that the real culprit when it comes to deficit spending has not been some far left Democrat, but a politician who somehow gained the confidence of conservative voters only to prove in the end that he was a fiscal Socialist, a big spender. I am speaking of none other than George W. Bush, a man who never really wanted to be president and whose presidency was a most regrettable thing. If our ship of state sinks during the present economic storm it will be largely due to W who drove our bark onto a jagged reef, thus allowing Obama to come to power because his ineptitude. We now have in the White House a neophyte who thinks that **to pay off the national debt we have to increase that debt.**

Alan Greenspan was right on the money when he said that Bush made a lot of his decisions for political reasons, and not because they made fiscal sense. This does not bode well for America because it resulted in Obama becoming president. Why should Obama, a tax-and-spend Democrat, be any different? Spending is second nature to Democrats who think that governments provide the answer to everything. With Obama it will be more of the same and then some. Stand by America. Obama will outspend the biggest of the big spenders.

Bush set the stage for the man from Chicago. Together they have within the last 12 months [3/08 to 3/09] heaped up \$5.32 trillion in newly acquired debts, and this, it appears, is just the beginning. The head of the European Union, Czech Prime Minister Mirek Topolanek, spoke out saying that if we follow Obama he will lead us down “to hell” because he refuses to learn from history. He is of the opinion that if the government spends enough money it can spend itself right out of a recession. But is that what history teaches us?

We must never forget that Socialists are convinced that the only way is their way. That is why they continue to defend policies which in the past have bankrupted entire nations. Obama could do the same. Like Brown of Great Britain he will continue to row with only one oar. As a consequence he will go round in circles all the while demanding that we just give his policies a chance. But Mr. President we did that when FDR was in the oval office. Some things never change. What did not work then will not work now.

Everyone is wondering why George W. Bush and Barack Obama seem to handle money problems in the same way; that is with a gallon or two of red ink!

The answer to our query is John Maynard Keynes [1883-1946] who at one time was the most touted economist in the English-speaking world. He should have aroused suspicion among his peers because he was accustomed to using his own specially crafted nomenclature. What does that mean? It means that factual errors are not easily detected. Who wants to hike through a forest of terms and phrases? It is easier just to nod and give the impression that you understand what has been said.

That is why we have to salute economists Milton Friedman and Anna Schwartz. They subjected Keynesian thinking to a scrutiny unlike anything before or since. Friedman used Keynes own code words to prove that he was in error no matter whose terms were being employed. Napoleon said, "Nothing is quite as obstinate as a fact," and Friedman and Schwartz as fact-gatherers were obstinate.

Nevertheless Keynes, the wizard of the boardroom who beguiled his fellows at England's Eton Prep School and who repeated his performance at Cambridge, was dazzled when the red carpet rolled out in Washington, that is before Friedman and Schwartz analyzed his ideas.

FDR who was grasping at straws during the Great Depression welcomed Keynes with open arms. Cambridge and Harvard met in the oval office, and we have never been the same since. By this time we should have been rid of Keynes, but as anyone can see his followers have refused to give up his key to the White House. Even back then someone suggested that the locks should be changed.

Because of Keynes the Democrats continue to believe that "deficit spending" is not a contradictory idea, while the ordinary American thinks that spending money you do not have should be called gambling or if you want to be polite, borrowing. Keynes made deficit spending respectable when it should be eyed with suspicion. A person lands a good job. Instead of using his new found money to pay off existing debts he uses it to increase his debt. He buys a Mercedes he has always wanted when he should have paid off his mortgage. He is gambling on the idea that he will always have that lucrative job. But will he? He can't hear economist Adam Smith's echo from the past advising, "Save!"

<p>So we ask, why didn't Socialist Brown pay down the national debt of England during time of prosperity? Why did he run up even more debt? (Apparently Socialists will always find a reason to spend.) Brown did this because he assumed that things would always stay as they were or even get better. England is now the least prepared of the G-20 (Group of Twenty Finance Ministers and Central Bank Governors) to face an economy fully operating in the red.</p>
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Socialists are spenders and not savers because they think that if the economy experiences a downturn that they will be able to rely on the government to see them through it, because the government like your parent, will take care of you. But is that so? Socialists should know better, but they seem to live in a dream world. *They never suspect that government policies more*

often than not have caused economic hardships. Most governments are stupid. They are also devious. Twenty-two nations that have been calling for free trade have of late done things favoring protectionism, thereby proving that free trade exponents often speak out of both sides of their mouth. [USA Today 2/2/09]

Credit Crunch

Someone loans money that he has borrowed in order to loan it to someone else who loans it yet again to another. On and on it goes. Lending houses live off each other. It is asked then, "Does anyone have their own money, or just who is or who are the real fat cats with money?" We know that companies that show a quarterly or yearly profit do so only because they are allowed to remain in debt, and this is not factored into their ledger..

When an economy lives on credit and not on existing capital, and that credit runs out, which has happened in America during some quarters in the last 18 months, panic sets in immediately. Curiously, those who have made a living by offering credit need some of their own medicine. Our nation runs on credit because few if any people have the money they need to do the things they want to do, or to acquire the things they want to own. No one has money because no one saves. Before the present crisis saving by some estimates was at an all time low, near zero percent.

The credit industry, the most regulated industry in the U.S., ran out of money because it expected the government to back thousands upon thousands of sub-prime (i.e., weak, questionable, and very likely to fail) loans. This was done at the behest of a number of Socialists in Washington who think that the government ought to see to it that everyone in America gets a private home, even if they are not able to afford the down payment, or if higher rates of interest may kick in later which would then mean that these buyers would probably default on their loan. When this happens enough times it can cripple the credit market. (Rest assured Obama was in the thick of it in Chicago and that more than one banker can remember how he pressured him to grant a loan.)

When these loans went south, money that lenders intended to use for subsequent loans went south, too. There is after all just so much money. When credit markets dried up a number of the companies that subsist on credit had to close their doors. This is why the government forced some money-lending organizations to accept the money it wanted to pump into the system. What is ironic is that the **government had to borrow in order to do this**. If our government were likened to one of our neighbors it would be that person who is always getting eviction notices but who still keeps inviting his friends over for big expensive parties. Our government is in real trouble.

The collapse of ancient Rome was preceded by a flurry of credit peddling. No one had any money, not even the rich. The Romans appeared prosperous, but they were not wealthy. They had purchased their possessions with someone else's money and were paying interest on that money. Their economy eventually broke under this strain. Our economy is breaking down and Obama does not, as you may have noticed, use the word "save" in his speeches. His objective is consumer confidence or the idea that we should spend because he believes that we can spend our way out of a recession even if what you spend is borrowed.

Deficit Spending and Welfare

Keynes' ideas, which appealed to FDR, permits a government to spend like a drunken sailor, **especially if that government is building a welfare state**, or what should be called a poor man's oligarchy. This same kind of welfare state appeals to Obama, too. **His stimulus bill is designed around creating a welfare state.** This is why he has included in that bill a number of measures that will not put people to work, things such as health care.

I would suggest that Obama may have tacked these things on to an economic stimulus bill because the devil is in the details. The economic hardships some are facing at this time have allowed Obama a *distraction*, so that certain un-American or Socialist features in his style of governing may be able to pass undetected. Obama is after all a confirmed Socialist, i.e., a Keynesian.

That means that he will place welfare concerns above productivity even if that makes no sense to someone who thinks that an economic stimulus bill is supposed to stimulate the economy. Those who scratch their heads over Obama's stimulus bill should first of all know that he is governed above all by his interpretation of the nature of government. Obama thinks that the purpose of government is to provide for those who are not providing for their family. Government is looked upon as a parent.

Unless Obama undergoes a change we will discover that his fiscal policies are governed by one consideration above all others - what can the government do to see to it that the rich do not prosper too much, for if that were to happen our nation would then be willing to tolerate a painful injustice, namely that there are haves and have-nots. He can only go so far with this, but nevertheless the importance of this cannot be overstated. Socialists, we should remember, always attempt policies that over time will limit our freedoms. On this subject, economist Friedrich Hayek quoted journalist Walter Lippmann,

. . . the generation to which we belong is now learning from experience what happens when men retreat from freedom to a coercive organization of their affairs. Though they promise themselves a more abundant life, they must in practice renounce it; as the organized direction increases, the variety of ends must give way to uniformity. That is the nemesis of the planned society and the authoritarian principle in human affairs.

A Closer Look

Keynes became the central lobe in the “Brain Trust” of FDR which was put in place of the old guard, the traditionalists who had fallen out of favor with the president. The Great Depression continued year after year, and the economic recovery Roosevelt promised didn’t occur. FDR, the man who wanted to be president for life, became desperate.

The new brain trust was empty-headed. Things grew worse not better. Eight years after Roosevelt took office [1940] there were two million more unemployed than when he was sworn in. The reason why the government could not bring about a national recovery was due to its interference in the private sector. The free market is like science, it is self-correcting. It must be self-correcting, or it will not survive.

There should be planning, but not by the government. Planning should be done by private industry. Those who want to make a profit that have invested their own money and not the government’s money, will find a way to create new and improved markets. We may be assured of that. However, when they do not plan correctly they will have to pay a price for mismanagement. The government should not step in to save them which is what it is doing with General Motors. GM planned its inventories so poorly that if it stopped production today it would take at least one and one-half to two years to clear their inventory. Now that is bad planning.

Keynes had to admit that he was indebted to John A. Hobson [1858-1940] a man even more eccentric than himself. Like C. H. Douglas, pioneer of the Social Credit movement [1879-1952], and others of that period, Hobson frankly admitted that he was not sure what money was. Was it a fiction? Still and all he never tired of attacking the gold standard so that by 1914, England abandoned the gold standard which was used to back the British pound. And “... **On August 15, 1971, President Richard M. Nixon announced that the United States would no longer redeem currency for gold. This was the final step in abandoning the gold standard.**” [Michael Bardo]

America has not as yet recovered from this fatal step. The gold standard had been a hedge against inflation. Listen again to Professor Bardo of Rutgers University, “**Between 1880 and 1914, the period when the United States was on the ‘classical gold standard,’ inflation averaged only 0.1 percent per year.**”

Note: One of President Obama’s supporters is the international criminal and power broker George Soros [b. 1930 Gyorgy Schwartz in Hungary]. Soros is calling for and predicting the collapse of the dollar. He may even be engineering its collapse. His dirty dealing with the English pound and also with Thai currencies, not to mention other things he has done to foreign stock markets make us think that the days of the dollar are numbered. Needless to say, if the dollar were backed by gold we would have nothing to fear from Soros.

Hobson was the creator of the **under-consumption** theory of unemployment which is one of the concepts that we associate with Keynes and now with Obama. Hobson’s theory is simple enough. Economic depression results whenever manufacturers fail to move product. This is

followed by layoffs or depression because factories have less need of workers since they do not have to produce as they once did. There is on the one hand under-consumption; and on the other hand there is **under-employment**. One causes the other.

Hobson said that the poorer classes are consumers, not savers. Saving is a luxury they cannot afford; they simply do not have the money to spare. The government must therefore find a way to get money into the hands of those with lower incomes so that they can spend it on products and services which will get industry going again.

How will the government get money into the hands of the poor? Hobson had an answer. The government should distribute money. He then hinted at the **redistribution of other people's wealth**. Take what belongs to others and give it to those who need it so that a sagging economy can be saved from ruin. In other words the government can get us out of a recession by placing money in the hands of those who cannot afford to save, thus keeping money in circulation. Poor folk are the secret to the expected recovery. But how will the government acquire the money it gives to those who will spend it? It can tax the "haves" so that they may give it to the "have-nots." In other words recessions can be ended by government spending the monies it has previously confiscated from taxpayers, especially the wealthy. That is Hobson and Keynes. And I should say that is Obama, too!

But why talk about savers? Are there any savers? Yes, according to Hobson; the savers are or should be the fat cats, the industrialists and the manufacturers. However, all this saving should come to an end forthwith even with them. What these investors should do instead of continuing to save their money is invest that extra cash in manufacturing and at the same time lower prices on the things they manufacture and sell. That will mean that the poorer classes, which do most of the consuming, will be able to increase their spending and push the economy into the fast lane. Ah but, lamented Hobson, most of the time manufacturers maintain prices to make a profit. Then with profits in hand these scoundrels begin to look overseas for new markets. Reacting to this Hobson wrote *Imperialism* in which he denounced Capitalists who would dare to do such a thing. On reading it Vladimir Lenin took up his pen so that he could also criticize the practice of making a profit in overseas markets. In other words profit for profit's sake is shameful in Hobson's and Lenin's opinion. Capitalism must be contained. Unless it is contained it will teach others around the world that profit for profit's sake is not an evil. Hobson was of a mind that Capitalism should not be allowed to spread. (Try and tell that to the people of the Czechoslovakia who are now thriving on Capitalism which they installed in place of a tired, worn out Socialism.)

Keynesian economics is simple because it follows Hobson's line of reasoning. According to Keynes, if there is an economic depression, attended by high unemployment, like the one inherited by Roosevelt when he took office in 1932, the government can fix the problem because it can rely on deficit spending. The government can find a way to get money into the hands of the poorer classes because they are active consumers who will keep the factories humming. Money like that will come right back to the government in the form of taxes.

Keynes advised that during times of economic depression the government should cut taxes on industry so that industry can get rolling again. That seems reasonable doesn't it? However, he

did not stop there. At the same time, while cutting taxes on industry, the government should increase its spending especially on welfare programs. What will happen then? Obviously with fewer taxes being collected from industry and with an increase in welfare programs a deficit will emerge, one that the government created by installing a welfare program. Red ink will be splattered all over Washington and in every state capital that depends in on federal monies. The problem will bleed down to the states. So what to do with that deficit? Obviously, it can't just sit there or be allowed to grow. Even Keynes would have wanted to do something about it.

Keynes argued that by lowering taxes on manufacturers that that would lead to an increase in investments which would bring about an increase in employment or what we should think of as an added source for taxes which could then be used to pay off the deficit. If the taxes we impose on manufacturers are lowered, the difference will be made up by those who are being hired for the factories because they will need to pay their share of the tax burden.

We see, do we not, that Keynes and his Socialist New Deal friends treat taxes as if they are indispensable especially for the little guy? A Keynesian will always write taxes into our future. He must tax because he has taken on the burden of industry. **The Keynesian really does not act as if there is a private sector.** He starts with the assumption that the government is the land owner, and we are the share-croppers or serfs. The Socialist is a carry-over from that time when serfs said, "Yes, my Lord." This explains why Obama and his Secretary of the Treasury Timothy Geithner put so much pressure on the CEO of General Motors causing him to resign. **They are Socialists which is to say they are bullies.** Obama is a bully. He has no right to interfere in the private sector even if he is loaning money to GM. This I might add is just the tip of the iceberg. The worst is yet to come. It will be argued that GM asked for money and that by doing so it opened itself up to government interference. I foresee a day when Obama may do things like this even with companies that have refused government monies. It would not be the first time a Socialist president tried to bully the private sector. If Obama were not a bully he would not have come out against a federal law that allows a health provider to refuse to participate in an abortion. Obama wants to eliminate this right of conscience. I repeat Obama is a bully!

Note: It is against the law for governments to inject capital into private companies without repayment, and it is also illegal for the government to interfere in the general day-to-day operation of companies that are not in violation of the law.

In April of 1952 during the Korean War, President Harry Truman, another New Deal Socialist, issued an executive order directing the Secretary of Commerce to seize and operate most of the nation's steel mills. Fortunately he lost in a 6-3 vote when his actions were brought before the Supreme Court. For the majority opinion, Justice Hugo Black wrote,

"The President's power, if any, to issue the order must stem either from an act of Congress or from the Constitution itself. There is no statute that expressly authorizes the President to take possession of property as he did here. Nor is there any act of Congress to which our attention has been directed from which such a power can fairly be implied."

The court dismissed the claim that presidential power should be implied from the powers listed in Article II of the Constitution. Seizing private property, according to Justice Black, simply cannot fall under the President's powers as Commander-in-Chief.

Black said, "In the framework of our Constitution, the President's power to see that the laws are faithfully executed refutes the idea that he is to be a lawmaker. The Constitution limits his functions in the lawmaking process to the recommending of laws he thinks wise and the vetoing of laws he thinks bad."

Obama needs to rethink the way he does business. A lot is at stake, namely our freedoms, which I think do not mean a great deal to Obama and his gang of tax-dodging Socialists.

In keeping with this problem of interfering with the private sector we should take note of the fact that Keynes said that the government should have the right go into business, and that if it wanted to it could create agencies that only do one thing - put people to work. Is that what Obama is doing? Certainly he is, and it is the same thing Brown has done in England. The unproductive part of the work force, i.e., the government or the bureaucracy, in both countries, is growing in leaps and bounds when compared with the private sector.

Now if that were not enough, the government said Keynes, could print more money which it could just give to the voters. Keynes assured FDR that **every dollar given the voter would become four dollars in the market place**. This is that famous "multiplier" for which Keynes is remembered. Why not give money to taxpayers since we know they spend it, and with that keep industry droning along? But what about the deficit run up by Keynes brought on by these government handouts? Keynes answered that a deficit is nothing more than numbers on a ledger and that you need not worry. FDR was thrilled to find out that a deficit could actually be spent.

Roosevelt, looking for a quick fix, entered into what someone has called "a fateful alliance with the spenders." That alliance has never, but for a short time, been broken. The government can now do what no ordinary citizen would do if his head was screwed on properly, namely this, spend very large amounts of money in anticipation of the money he will have in the future even though he is at this time unemployed, unskilled, penniless, and without any prospects. He can spend what he does not have and is likely never to have.

Roosevelt liked the idea of spending; he was a New England high-born. Spending appealed to those around him as well, especially because they would not have to face the bill collector. More important than dollars and cents is the fact that by listening to Keynes, America changed the way it would approach economic downturns. Eventually this had an effect on the legislature and our freedoms which brings us to Whittaker Chambers who was there when Keynes performed his magic show.

Chambers at first thought that the New Deal promoted by FDR was little more than a reform movement. But suddenly he discovered what happens when a government, even our government, starts to inject money into the economy. Eventually this will have an effect on liberty. This is not all theory. This has to do with freedom from government interference. Chambers said,

I saw that the New Deal was only superficially a reform movement. I had to acknowledge the truth of what its more frightful protagonists, sometimes unwarily, sometimes defiantly; averred: the New Deal was a genuine revolution, whose deepest purpose was not reform within existing traditions, but a basic change in the social, and,

above all, the power relationships within the nation. It was not a revolution by violence. It was a revolution by bookkeeping and law making. In so far as it was successful, the power of politics had replaced the power of business.

This is the basic power shift of all revolutions of our time. This shift was the revolution. It was only of incidental interest that the revolution was not complete, that it was not made by tanks and machine guns, but by acts of Congress, and decisions of the Supreme Court, or that many of the revolutionists did not know what they were or denied it. But revolution is always an affair of force, whatever forms the force disguises itself in. Whether the revolutionists prefer to call themselves Fabians (Socialists) who seek power by the inevitability of gradualism, or Bolsheviks, who seek power by the dictatorship of the proletariat, the struggle is for power.

Go Away Pay-Go

At the insistence of Republicans the “pay as you go” system was put in place during the administration of President Bill Clinton. The government would no longer be allowed to spend money if it did not have money, no more using MasterCard to pay VISA, no gambling on the future.

And wouldn't you know pay-go came to an end when W, fiscal Liberal if ever there was one, determined to curry favor with senior citizens, possibly looking ahead to re-election by his supposedly conservative base among the elderly.

Citizens demanded a Socialist-like program which called for deficit spending. As you probably know, the program subsidizes payment for prescription medicine. In other words, the government or we ourselves, seniors said, should be willing to incur a large or if you like an incurable debt. Deficit spending prompted by entitlement programs is now a part of what we are. Red ink has become a way of life with us.

The mantle of Socialist Roosevelt fell on Bush who went right along with the scheme. However, the prescription medicine debacle now seems like baby steps. To promote an unnecessary war and in order to seize control of struggling banks, Bush began to take giant steps. What Obama is now doing with a \$780 billion “stimulus” bill (containing some 8,500 ear marks) and an annual budget of \$410 billion laden with pork fat, means that the idea of deficit spending is no longer horrifying. Pay-go was given the bum's rush. Keynes has swept into the White House.

America, or the federal government, like many of its citizens, no longer thinks that it will ever be free of the need to go on borrowing. The government regularly borrows money just so that it can pay its creditors. That very thought should send chills up our spine. So how does America borrow and from whom? I ask this because we are in such a state that if we did not have creditors we would lose our economy altogether. Credit keeps us afloat.

When the federal government borrows it sells to the public and to investment houses across the world, what are called **debt instruments** the most important of these being Treasury Bills and Treasury Bonds. At this time 60 percent of those who invest in America are Americans. The

rest are foreign investors. The deficit will increase by \$1.7 trillion this year alone. Many Americans and foreigners must be convinced that the U.S. is a safe investment because we have tied our future to credit.

At this time America only has the money it will someday be able to collect from taxpayers, many of whom are unemployed and not paying taxes, and many who are not required to pay taxes. At this rate we will never be out of debt because we do not have a way of adding to our taxable GDP.

Are you surprised that China now thinks that U.S. T-bills and T-bonds are no longer a safe investment, or as safe as they once were.

So where will America get money when it runs out of creditors and if it can't find new creditors? Most of us know. The President will call the printing house and say, "Gentlemen, we need some fifties and twenties, some fives and tens, you know what I mean. Let's get some money into the system. I need to pay those T-bills that have come due." **That will be the beginning of the end.** Those who loan our government money in the future, Americans as well as foreigners, **will demand more interest** on their investments because they will realize that we are trying to make good on our bonds by using money that has been devalued. A vicious cycle will have begun.

Conclusion

Now to balance the budget and keep America solvent we must do one of the following:

- ✓ Raise taxes and at the same time cut expensive services from the budget. Use the left-over monies to pay down the national debt. *These entitlement programs cannot be sustained indefinitely or enlarged willy-nilly.*
- ✓ Leave taxes at their present rates and reduce or cut services. This will leave more money to reduce the national debt.
- ✓ Cut taxes, especially on industry, and also cut services. This approach is the best one. It creates more wealth than the others because societies in which people and manufacturers are allowed to keep their earnings become prosperous and self-sufficient. Some taxes are necessary if the government is to operate efficiently, but the government's budget should be limited to five percent of the national GDP by Friedman's assessment.

Now, if America does not want to solve our fiscal problems, and if we only want to prolong our misery, and if we choose to teeter on the edge of bankruptcy (which is what radical Islam is hoping for) and if we prefer to act as if a deficit is nothing more than numbers on a ledger, we only need to do one thing. **Keep spending the money we do not have** because we think that someday we will have all the money we need and more. Be a spender. Gamble on the future. Belly up to the roulette wheel and put down borrowed money and have a blissful, short vacation in Vegas.

Socialism is not the answer. The answer is a free market economy and a hands-off government.