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$11 TRILLION PUBLIC DEBT: THE IMMOVABLE OBJECT

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The U.S. public debt today amounts to roughly $11 trillion. If we were to pay down that debt by $1 billion a year, it would take 11,000 years to retire it provided we shut down future borrowing entirely and paid all of the interest owed on that debt from tax revenues. Paying down at the rate of $1 billion a month would reduce the debt to zero in 917 years. Finally, if we paid down at the rate of $1 billion a day it would take 30 years to wipe it out completely.

Years ago, students in Economics 101 were told not to worry, since we owe the debt to ourselves. But that was when the debt was much smaller. Fifty years ago, for example, the debt amounted to $285 billion. And it was held internally, by Americans. In the words of Paul Samuelson in the 1955 edition of his widely adopted principles of economics textbook: "The interest on an internal debt is paid by Americans to Americans … When interest on the debt is paid out of taxation, there is no direct loss of disposable income; Paul receives what Peter loses, and sometimes – but only sometimes – Paul and Peter are one and the same person" In the 1950s, Samuelson rationalized the large internally held debt as the cost of fighting and winning World War II.

In the 1980s, the same justification was employed to support the costly efforts to destroy the Evil Empire. And more recently the growing public debt was defended as the cost of removing Saddam Hussein and waging the war of terror. But today, the huge increases in the debt brought on by massive deficit spending are the price taxpaying Americans must pay in order to clean up the wreckage of broken financial institutions which took on high-risk investments for the promise of huge returns and financially strapped homeowners who cannot pay their mortgages. Today we are paying for our mistakes.

Unlike years ago, a large (more than $3 trillion) and growing amount of the debt is externally held and interest increasingly is being paid by Americans to foreign investors. Additionally, about 40 percent of federal income tax filers pay no taxes and their numbers are growing due to new provisions in the tax code including refundable tax credits. Since the income tax is the principal source of federal revenues, interest on the debt increasingly is being paid by *some* Americans to those foreign investors. Put differently, some of the very persons who created the current mess are not bearing the cost of cleaning it up.

We are forced to concede that the public debt is an immovable object. In this case, however, there is no irresistible force: not the White House, not the Congress, not the Treasury, not the Federal Reserve, not even the American people. Virtually everyone is resigned to an ever-growing public debt as far into the future as anyone dare look. When your grandchildren ask you one day "Grandpa, what did you do to fight this mountain of

public debt?" you'll have to tell them "nothing because there was nothing anyone could do about it."

There is, however, an irresistible *option*. This option is so ugly that we hardly know if we should mention it. But difficult times require harsh measures. Hyper-inflate the currency so that $1 billion a day becomes in effect $100 a day, and retiring the debt in 30 years becomes child's play. The downside of this "solution" is the reduction of the United States to the status of a banana republic.

All of this is made even worse by President Obama's proposals to increase marginal tax rates for taxpayers with incomes above $250,000 and to impose a new cap-and-trade tax -- some call it tax-and-trade -- on industry in order to reduce greenhouse gas emissions. The higher marginal tax rates will lead to reduced work effort and as Samuelson pointed out more than 50 years ago "less technological progress and fewer jobs." If physicians decide to reduce their work effort, the higher taxes mean that access to affordable quality health care, a priority issue to the White House, is further restricted even with universal health coverage. A cap-and-trade tax necessarily becomes a cost of business and can be shifted forward to the consumer in the form of higher prices.

So where does that leave us? Taking into account not only current economic conditions but a record of more than 50 consecutive years of annual increases in the public debt, there will be no reduction in the public debt in the foreseeable future. It follows that year in and year out those Americans who pay income taxes will be saddled with at least $500 billion in interest charges. Those who don't may not object to even higher income taxes because it costs them nothing.

Sharing one's good fortune with the less fortune helps make a person virtuous when the sharing is voluntary. When one is forced by a powerful self-righteous government to share with others including those who recklessly invested their monies or lived beyond their means makes a person downright angry. And angry taxpayers look for ways to get around the tax code. The banana republic becomes trapped inside a syndrome of ever-increasing public spending, deficits, and debt and ever-increasing resistance to shoulder the burdens of the spend-borrow-tax cycle.

President Obama should put his "change-you-can-believe-in" agenda on hold until the financial bleeding is arrested. He might even consider spending some time listening to traders on the floor of the New York Stock Exchange or the Chicago Mercantile Exchange to figure out why the market has spiraled downward since his inauguration. He'll learn more there than he did sitting courtside watching his hometown Chicago Bulls lose to the Washington Wizards.

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