

The Root Problem

Chapter Seven

THE NATIONAL DEBT

Let me get right to the point. The U.S. national debt, also known as public debt, is money owed by the federal government. As the government represents We the People (supposedly anyway), government debt can be seen as an indirect debt of We the People.

Impact of the Budget Deficit

When it comes to the national debt, you hear our representatives falling all over themselves talking about the budget deficit, about how we need to control the budget deficit, about how we need a “balanced budget amendment” to eliminate the budget deficit. Folks, the real problem is our national debt. All a budget deficit does is add to the national debt. All a “balanced budget” will accomplish is to leave the national debt where it is at although, unless the interest on the debt is paid each year it will compound (it will accrue more interest on the outstanding principal *and* interest) and the debt will continue to grow. A bit later in this chapter we will show you how a huge chunk of the national debt can be eliminated and how the rest can be paid off in a fairly short time.

The following quote represents a touch of wisdom and common sense from over 2,000 (two thousand) years ago: *"The budget should be balanced; the treasury should be refilled; public debt should be reduced; and the arrogance of public officials should be controlled."* --- Cicero, 106-43 B.C.

A budget is a budget is a budget. If you spend more money than you have coming in, then you have a deficit. You owe money and you are in debt. If you continue to spend more than you bring home, then you go deeper and deeper into debt. When the interest or minimum payment on that debt finally becomes greater than your income, you are bankrupt. If you can discharge your debts, then you can make a fresh start, albeit without credit and assuming you can get a job of course. You are then forced to live within your means and if your means, your income, does not cover the cost of your food, shelter and other necessities, then you are up the creek without the proverbial paddle. So too with our government; only on a greater scale.

Nature of the Debt

The U.S. government incurs debt by issuing Treasuries (bills, notes and bonds). These securities are either sold on the open market or directly to the Federal Reserve. The real issue here is not how the debt is incurred but why? We will get to that later in this chapter. The U.S. national debt, as of July 17, 2007 stood at \$8.887 trillion. As of August, 2011, the debt was rapidly approaching 15 trillion dollars, almost doubling in four short years. Nearly two-thirds is the public debt, which is owed to the people, businesses and foreign governments. Foreign governments alone account for nearly one-third. The rest is owed by the government to itself, and is held as Government Account securities. Government

Account securities are a promise to repay the money “borrowed” from Social Security and other trust funds which were running surpluses due to employee and employer contributions.

Consider how the U.S. has benefited itself at the expense of We the People. First, as just mentioned, the Social Security Trust Fund had more money than it needed. Ideally, this money should have been invested to be available when the Boomers retire. Instead, the money was “loaned” to the government’s general fund to finance increased deficit spending -- mostly for the military, which is something that will be discussed in the chapter on the Federal Reserve Banking System. This “interest-free loan” helped keep Treasury bond interest rates low, allowing yet more debt financing. Now, this “loan” is not really a loan, since the way things are it can only be repaid by increased taxes when the Boomers do retire. This not only smells to me like the imposition of double taxation but, by taking money from the trust fund, the government was in contravention of its role as a fiduciary, a legal caretaker who is supposed to act prudently with the money entrusted to it. They have been anything but prudent.

Folks, 15 trillion dollars is an insanely large number for a nation without a real economy since our economy is based largely on debt. *We are not a wealthy nation because debt is not wealth.*

How is the Debt Reported to We the People

One thing I will touch on but not really get into is how the government accounts for the deficit and the debt as well as how the debt is reported. In other words, what are the accounting principles used and how really meaningful are the figures that are reported? I submit that if the figures are not meaningful to the average American then they are meaningless.

Some analysts, such as those at Heritage.org, consider that all government liabilities, including those that the government has contracted for but not yet paid, should also be included in the national debt. Corporations must report such liabilities in their annual financial statements under GAAP (Generally Accepted Accounting Principles). Why shouldn’t the government? Consider that money “borrowed” from the trust funds does not appear as part of the debt but is used in the budget to offset other debt. This is absolute sleight of hand as far as I am concerned.

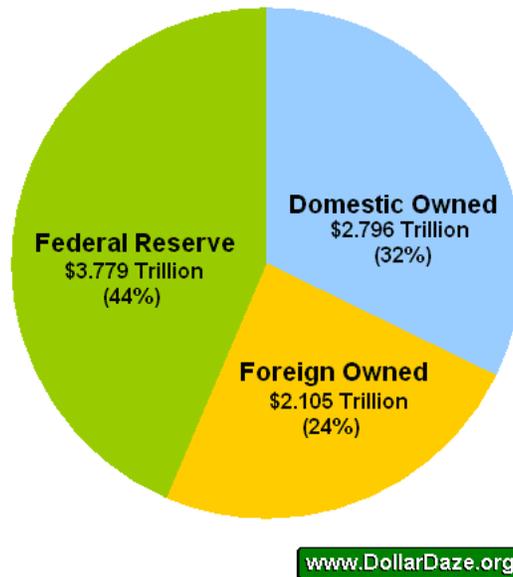
These "off-balance sheet" items include the future payments for federal pensions, Medicare and Social Security. Inclusion of these obligations would dramatically increase the U.S. national debt to \$59.1 trillion or 403% of GDP (see Appendix V - Gross Domestic Product)! To simplify things, view GDP as income. We owe 400% more than we earn! On a per capita basis this amounts to \$516,348 for every U.S. household! By means of comparison, the *average American household* owes \$112,043 for mortgages, car loans, credit cards and all other debt combined. I defy the government to prove the essence of any of these figures incorrect.

Our massive debt generates massive interest payments and the downgrading of our government’s credit rating in August of 2011 will only serve to increase those interest payments. Since all of this indirectly falls upon We the People, it would appear that everything this government seems to do comes back and bites We the People. Enough already!

So to whom do we owe the national debt? The Department of the Treasury publishes “The Debt to the Penny and Who Holds It.” This up-to-date information divides the debt into two sections – Public and Intra-governmental Holdings. The former grouping includes domestic and foreign owned portions of the

debt. The U.S. Treasury publishes “Ownership of Federal Securities” which is another break-down of the composition. The Federal Reserve District Banks themselves publish additional data. The combination of those two sets of data as of December 2006, almost five years ago, yielded the following:

Composition of the U.S. National Debt
(Source: Department of the Treasury)



Folks, please take note of to whom we owe the most money and that was five years ago. I submit that today, *at least 50% of our national debt is owed to the Fed*. Also, consider that this simple pie chart is not readily available from the government. We are inundated with facts and figures and reports in such a manner as to obscure the simplest of realities, that of governmental waste and wrong-doing. The next few chapters of this Manifesto will serve to show who the real culprits are and why? In fact, the very next chapter will open your eyes about the Federal Reserve.

The Exploding Debt

It all began in 1980 when Ronald Reagan was elected president. Reagan got elected by telling the country that the debt was “out of control.” Compared to national income, it happened to be the *lowest in 50 years*. Reagan probably didn't know this but, his supply-side economists did. They lied to America. They lied to We the People. And the rest is history. What else is new?

In 1981 Reagan's economists prepared his budgets and set the stage for tax cuts for the wealthy. The Senate was controlled by the Republicans and Reagan succeeded in getting Southern Democrats in the House to vote for him. All Republicans and a few Democrats voted for the budget. *The national debt had its worst year since 1945*. The next year it got worse, and for *20 out of 20 years*, the supply-side economists raised the debt relative to our ability to pay.

Supply-Side Economics

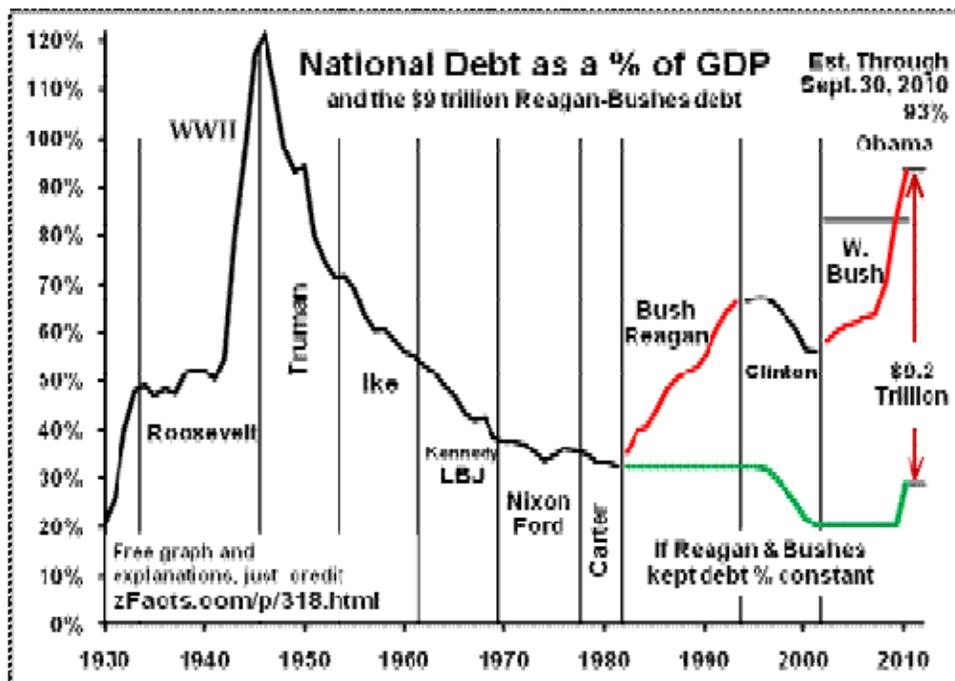
To put things in the proper perspective folks, this has nothing to do with Republicans versus Democrats. It has everything to do with “voodoo economics,” a phrase coined by George H.W. Bush in 1980, which has caused most of our national debt. It is a concept that came from Wall Street and goes by the name of “supply-side economics.”

The debt problem exists because the Wall Street “supply-siders” took over the Republican Party. Consider that Presidents Eisenhower, Nixon and Ford, all good Republicans, brought the debt down in 11 out of 16 years. The “supply-siders” brought it down *not once in 20 years*. Folks, in fairness to the first President Bush who was no “supply-sider” (he called it voodoo economics), he simply got trapped by Reagan's supply-side policies. He was not re-elected because the supply-side Republicans turned on him after he passed a tax increase trying to partially undo the damage caused by Reagan.

Now, remember the classic concept of “supply and demand.” Both conservative and liberal economists say that the government needs to stimulate demand in a recession, and today, in September of 2011, we are in the midst of what can aptly be called “The Great Recession.” The “supply-side” economists however, say both the conservatives and liberals are wrong; that we need to give tax cuts to the rich to stimulate them to work harder, be more productive and make the economy hum again because they will make so much more money that they will end up paying more taxes. They also say that if you cut the tax rate for the bottom 98% of the population you will not see greater tax revenue.

So, as was mentioned, this was tried under Reagan. Big tax cuts for the rich because the idea that cutting taxes for the rich would collect more money not less. Of course it never worked, and that's the reason the supply-siders ran up the debt for 20 out of 20 years. Other Presidents, both Republicans and Democrats did not have this problem.

National Debt as a Percent of National Income



The above graph shows that \$9.2 Trillion of the \$12 Trillion supply-sider increase in national debt is considered problematic by economists. They say it is fine to increase the debt in step with national income. The green line shows what would have happened if Reagan and the Bushes had just *kept the debt growing at the same rate as the economy*. That would have made their parts flat. But no, what the supply-siders have done is make the rich richer at the expense of the common man and woman. As is shown, every previous post-war president had actually reduced the debt as a fraction of GDP.

WWII caused the debt to shoot up, starting in 1942, and reach 30% higher relative to the country's wealth than it is today. *The economic stimulus of that government spending pulled us out of the great depression* and into high gear to win the war.

Impact of Interest

By the end of the Reagan-Bush 12-year “revolution,” the extra debt they had piled on the country was costing the country an extra 2.6% of GDP in interest—\$300 million a day. Without that interest working against him, Clinton would have paid down the debt a bit faster. That helps the green-line go down in the Clinton years which is what would have happened without the Reagan-Bush interest burden.

Now, if George W. Bush had held the line as all non-supply-side presidents had done, the national debt would have been only 21% of GDP, and the country would have been ready to pull itself out of the Great Recession with ease. In fact when G.W. Bush's last budget year ended we would have been \$9 Trillion less in debt.

So folks, lower the tax rate for the wealthy and the more money the government collects to pay down the debt! If you exercise that pearl of wisdom, you can really run up one heck of a debt as has been proven.

These supply-siders are radical conservatives and it is time to rethink what radical conservatives have done and are doing to our country. It makes great sense when you look at the big picture and the reality behind our fiat currency and the Federal Reserve (the next two chapters).

The *Reagan-Bushes National Debt now totals \$9.2 trillion*. That's the lion's share of our present debt.

Recap of the Exploding Debt

Let's do a quick recap from Oct. 1, 1981, the day Reagan started his first budget. First Reagan increased the debt by \$1.9 Trillion. Then Bush brought that to \$3.4 Trillion. Then all that started collecting interest for the next 17 years which with compounding grew to \$8.2 Trillion by Sept. 30, 2010. Clinton, Bush II and Obama are not to blame for that interest. Without it, Clinton would have paid off most of the \$1 Trillion WWII debt that Reagan scared us with in order to get elected. And Bush II (and his supply-siders) would have run up only \$3.8 Trillion, not \$6.1 Trillion, which is what actually happened under his watch.

Before the advent of the supply-siders, Democrats and Republicans brought the debt down relative to our income in 27 out of 35 years. The supply-siders (with Reagan and the Bushes) raised it *20 out of 20 years*. That is no accident.

The voodoo didn't work for We the People in 20 out of 20 years. And now, during the Great Recession, they are doing it again. Why are they doing it again? Because it works for them! The next few chapters will give you some insight as to what they are out to accomplish. Remember that Wall Street was the genesis of supply-side economics. They have been doing their level best to scare the heck out of We the People about the debt. And, it's actually easier to do that now since they have already run it through the roof.

The Great Depression lasted about 12 years with business conservatives scaring people about inflation (there was none) and about government borrowing (negligible until WWII). Now the supply-siders are keeping us in the Great Recession the same way.

Lessons to be Learned

World War II got us out of the Great Depression because the U.S. government *borrowed the equivalent of 10.5 Trillion dollars* and bought war goods from private industry. Supply-siders say this does not create jobs. But industry hired “Rosie the Riveter” and millions more. “Rosie” represented the American women who worked in factories during World War II, producing munitions and war supplies. *Unemployment ended with over-employment.* The U.S. had its greatest economic boom ever, by far. *It doubled output in six years.*

Radical Republicans today want to not only maintain tax cuts for the wealthy but they would increase them if possible. This is what got us into this debt in the first place. And though the rich will spend a bit more on gardeners, nannies, and yachts, the country will have nothing to show for this extra debt.

Does it help future generations more to build battle ships or to fix our bridges and dams? Does it help the economy more to put We the People to work at home or send them to die or get maimed in some foreign country in a questionable war? It's hard to imagine a more ridiculous claim that spending for war is more productive than spending on infrastructure and education for our future.

Supply-side economics is an immoral trick of thievery designed for today's rich at the expense of the future. It hoodwinks many by offering the middle class some of the booty -- the rich get the big tax cuts, but hey, the middle class can have some too, also at the expense of the future. The result of falling for all this is an out-of-control debt that scares us into staying in recession and will soon be used to kill social security and Medicare unless we put a stop to all the bullshit.

It is way past time to put America back to work.

Good Economics Is Not About Punishing Bad Economies

When it comes to the national debt, many people think the country has been bad and needs to be punished. Punishment means “cut government spending.” Cutting spending means even fewer jobs. *Fewer jobs!* Can you think of a worse time to cut back on jobs? Well, can you?

This is well-meaning, moralistic nonsense. If someone's back went out because they were not strong enough to lift something, we would not accuse them of slacking off on exercise and tell them to start

lifting weights immediately. No, we would first let their back heal. Then we would prescribe the necessary exercise.

The Great Depression lasted 12 years because “cutting spending to prevent inflation” carried the day. Today’s supply-siders are giving us the exact same nonsense. Only when the government spent like crazy for WWII did we pull out of the Great Depression. And the key was not WWII; the key was “spending like crazy.”

You also do not *not* spend because the government has been guilty of wasteful spending. If you notice you are wasting money on things you don’t really need or use, do you cut your spending across the board? Or, do you cut the waste so you can spend the money on something you really do need?

As for inflation, government spending can cause inflation by over-heating the economy. But, an economy cannot be over-heated and in recession, that’s a contradiction. So first we need to spend to get us out of the recession. We need to create jobs to generate tax revenue. This is not rocket science as this is exactly what we want! Then we can cut back on spending and raise interest rates to avoid inflation. We will discuss inflation with regard to the Federal Reserve in the next chapter.

We are in danger and it is not from debt. The danger is from self-styled radical conservatives, supply-siders who ran up the debt during good times and want to pay it off in bad times. You might ask yourself why they would want to do that and the next few chapters will give you the answer. Even more dangerous is that a lot of Democrats are buying into this as well. They all mean well of course, maybe. But, the road to hell is still paved with good intentions. Approximately 15 million Americans are out of work with still more unemployment on the horizon and these people want to cut spending which means cutting jobs. Back when the economy was booming was the time to cut spending.

The Future Big Picture

Over the next 20 years, the Social Security funds must be paid back as the Baby Boomers retire. Since this money has been spent, resources need to be identified to repay this loan. That would probably mean higher taxes, since it doesn’t make sense “to borrow from Peter to pay Paul.” Unfortunately, it’s most likely that these benefits will be curtailed, either to retirees younger than 70, or to those with high income who theoretically don’t need Social Security.

Many foreign holders of U.S. debt are investing more in their own economies. Over time, diminished demand for U.S. Treasuries could increase interest rates just as our lower credit rating will and further slow the economy. Just the anticipation of this lower demand puts downward pressure on the dollar. The U.S. government may be tempted to let the value of the dollar fall so that the debt repayment will be in cheaper dollars, and less expensive. If this happens, foreign governments and investors will be less willing to buy Treasury Securities, forcing interest rates still higher.

The interest on the debt is added to the deficit each year. About 5% of the budget is allocated to debt interest payments. Interest on the debt was \$383 billion in Fiscal Year 2009. By 2020, the interest payment will, at the least, quadruple to \$840 billion, making it the fourth largest budget item.

The bottom line is that the large Federal debt in concert with the Great Recession is like driving with the emergency brake on, constantly slowing the U.S. economy. Everything is circular and everything affects

everything else. This is the “ripple effect” that I discussed in Part I. I could go on and on explaining this eight ways from Sunday but I am sure that by now you have a good sense of what is going on though not necessarily why it is going on, really why it is going on. The next few chapters will give you that.

The Greatest Danger

Why is it that the politicians, the puppets owned by the Federal Reserve and the International Banking Cartel, never mention that the Social Security system has been compiling a huge surplus since it was created? Simply put, it is because they have been illegally looting that surplus for years in order to hide the real size of the federal budget deficit. This is the supply-side game that has allowed them to continue to spend more while justifying tax cuts for the wealthy. See Appendix VI - About Social Security.

The U.S. Office of Management and Budget (OMB) data show that while the government's reported deficit averaged about \$300 billion a year from 2002 to 2006, the real current deficit was actually more than 50 per cent larger. The government simply “steals” about \$160-\$200 billion from the Social Security Trust Fund every year, under the table. In 2007, the real deficit was \$449 billion according to the OMB. However, the “official” deficit widely reported was only \$257 billion, because it is government policy to add the “borrowed” Social Security Trust Fund surplus (\$192 billion in 2007) *to revenues* before calculating the “official” deficit. The ultimate objective of the cartel is to pillage social security because that’s where the money is, in the TRILLIONS!

The greatest danger therefore, comes from the debt to Social Security. Let me try to simplify all this for you so that there is no misunderstanding.

Let us say that you set aside money for a medical procedure that is necessary to save your life. You borrow that money for a down payment on a house because, since the value of houses always increases, when the time comes to have your procedure, you can sell the house, have the procedure and have some extra money on the side in the event of a complication. Makes sense, right! Wrong! You just gambled with your life and in today’s world with the housing situation the way it is, you are going to die! It would be worse still, if you did that for someone else. Let us say that someone else entrusted you with the money that they needed at a later time because of a life threatening situation. Let us say that you lost that money. If they don’t have the money to make up for it, they are going to die and you will essentially be guilty of murder! When money is entrusted to you, you become a fiduciary.

Such is our government with regard to the Social Security Trust Fund and they play a much more insidious game. They take our money out of the fund (creating a debt obligation to us) and invest it in themselves by creating (out of thin air) a Treasury bill that they sell (a debt obligation to the buyer) that they will have to pay off. Now, the money they got from the buyer could be used to pay off their debt to us but no, they use it to finance the war in Afghanistan. So now we have a twofold question - Where do they get the money to pay off the buyer of the T-bill and where do they get the money to repay you? Short of creating yet additional debt, there is only one source and that is from us of course. Are you starting to catch the aroma? That is not the smell of jasmine that is wafting past your nostrils about now.

Since this chapter is about the National Debt, let us now look at the accounting side of this mish mash. The money they took from the Social Security Trust Fund is a debt to us and must be

repaid. The T-bill they created and sold because of that debt is another debt obligation that must be paid back. They created two debts from our money and yet, they only show one of them as part of the National Debt because they consider *our* money to be *their* asset. Even the banks consider that kind of money to be the liability that it is.

Folks, the debt to social security comes due when the Baby Boomers retire. Funds will need to be found in order to pay them. Not only could taxes be raised, which would slow the economy, but more and more of the government's spending will need to be devoted to pay this mandatory cost. This would provide even less stimulation, and would further slow the economy.

What absolutely must be understood, what cannot be glossed over is that this problem is one hundred percent the government's fault or more precisely the fault of our representatives in all three branches. They invaded We the People's trust funds in full defiance of their fiduciary responsibilities. They did this in such a way as to facilitate their pernicious spending without regard to consequence and they must make this up to We the People in some way, manner, shape or form. They must do this without hurting us by reducing benefits that should *not* have had to be reduced and/or requiring additional taxes (i.e. double taxation).

Before it can come to that, they will have to pay the price. Gone will be their pension. Slashed will be their salary. Gone will be their healthcare plan, they can join ours. Gone will be their perks. And last but not least, all who served and voted for the taking of money from We the People's trust funds must make reparations to those funds. I would suggest an amount equivalent to 67% of their personal net worth.

There will be no immunity. There will be no negotiation. There will be no accounting gimmicks. There will be no hiding of their wealth overseas, nor in trust funds, nor any other supposedly sacrosanct vehicles and any organization, corporation or whatever who tries to help them hide their funds shall be considered one of them and be treated the same way with one exception; financial organizations will be put out of business and all assets, foreign and domestic will be confiscated. Any country that takes exception to this will be considered an enemy of We the People and dealt with accordingly. Aside from everything else our government and our representatives have done to hurt us and which is spelled out elsewhere in this Manifesto, this raiding of our trust funds is particularly egregious and We the People are beyond disgusted and "*we mean business.*" We have been poked in the eye for the last time and we are putting an end to this bullshit once and for all. If this reaction offends their sensibilities in general or pisses them off because of the impending demise of their "cash cow" then, should they choose to exercise martial law, so be it. Welcome to the Second American Revolution.

How to Fix a Financial Crisis

It's a slow day in a little East Texas town. The sun is beating down, and the streets are deserted. Times are tough, everybody is in debt, and everybody lives on credit. On this particular day a rich tourist from back east is driving through town.

He stops at the motel and lays a \$100 bill on the desk. He says he wants to inspect the rooms upstairs in order to pick one to spend the night.

As soon as the man walks upstairs, the owner grabs the bill and runs next door to pay his debt to the butcher.

The butcher takes the \$100 and runs down the street to retire his debt to the pig farmer.

The pig farmer takes the \$100 and heads off to pay his bill at the supplier of feed and fuel.

The guy at the Farmer's Co-op takes the \$100 and runs to pay his debt to the local prostitute, who has also been facing hard times and has had to offer her "services" on credit.

The hooker rushes to the hotel and pays off her room bill with the hotel owner.

The hotel proprietor then places the \$100 back on the counter so the rich traveler will not suspect anything.

At that moment, the traveler comes down the stairs, picks up the \$100 bill, states that the rooms are not satisfactory, pockets the money and leaves town.

No one produced anything. No one earned anything. However, the whole town is now out of debt and looks to the future with a lot more optimism.

And that folks is how the Government of the United States conducts business in today's world.

What To Do

Folks, a bit of sarcastic humor never hurt. This is how our debt laden economy has been working for far too long. And who is in full control of our debt laden economy? The Federal Reserve of course. The same Federal Reserve that owns 50% of our national debt and controls our economy at the behest of the banking cartel. Does the Fed really work in the best interests of We the People? Abolish the Fed, one way or another, and 50% of the national debt goes away like magic (see the chapter on the Final Solution and Exhibit X - Monetary Reform Act).

To put the brakes on the profligate spending of the government we must:

1. Put an end to our fiat currency (see the chapter on Fiat Currency).
2. Repeal the 16th Amendment and eliminate the personal income tax (see the chapter on The 16th Amendment).
3. Rein in the Military-Industrial Complex (discussed in the chapter on the Federal Reserve Banking System).

The profligate spending of our government without regard to real economic production and the negative impact on the lives of We the People is what is really behind the creation of our national debt. Our disgraceful representatives further disgraced themselves during the attempt to rein in the national debt during June, July and August of 2011.

Everything you heard was related to supply-side thinking. Entitlements, social security and Medicare, were the ogres. The only finger they pointed at themselves concerned pork-barrel legislation, an absolute irrelevancy to the problem at hand. Did any of them once mention any of the three items listed above?

Let us begin starting with the next chapter, Chapter 8 - Fiat Currency.