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Debtor Nation at Red Alert

By [Joshua Holland](#), [AlterNet](#). Posted [June 28, 2005](#).

If Democrats can link our spiraling personal and public debt to Republican economic policies, they might be able to head off a looming economic disaster -- and make some gains at the polls.

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It is a dark wonder that one of the gravest threats to our economy, rising debt --and I mean tons of debt, mountains of debt at every level--is an issue so rarely discussed in polite company. Perhaps the



silence is due to the stigma attached; in a country where we're told boundless opportunities exist and unfettered "economic

freedom" is the name of the game, failure to keep your head above water is damning evidence of an individual's lack of worth.

But while there's shame attached to our private debt--over a third of Americans filing for bankruptcy have had to deal with the humiliation of having their electricity or telephone cut off--our elected officials in Washington shamelessly continue to pile up public debt of stunning proportions.

Most people fail to see that the sources of public and private debt are the same, or how the two are bound together by public policy. But if progressives can make those connections in the mind of the public, they'll have a real opportunity to show just how powerful and pragmatic *liberal* values really are.

Culture of Debt

Debt has replaced baseball as our national pastime; it's one of the few things we all share in common. From the poorest neighborhoods where "payday loans" and a host of other predatory lending schemes soak up usurious interest, to the wealthiest fifth of the population who, according to the Wall Street Journal, have the highest ratio of debt to disposable income, virtually all of us are in the hole to one extent or another.

In recent years, states have been issuing more bonds to make up for federal shortfalls, the federal deficit is projected to remain astronomically high for the next 10 years and consumer debt--and bankruptcies--have hit record highs. Tax code changes in the 1970s led corporations to pile on massive debt in the 1980s, a decade when junk bonds and debt-leveraged buy-outs dominated media stories.

Debt has become part of our culture, a product of a society bent on self-gratification now and future generations be damned. Like any cultural trend, we are constantly enticed to take part. From the

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endless pre-approved credit card offers that fill up our mailboxes to the home shopping shows' 'painless' lay-away plans, debt is easier and easier to incur. Wells Fargo advertised a credit card with an "easy-access" line of home equity credit as a way to help pay "for everyday expenses, like gas, groceries, clothes, etc," prompting a CNN reporter to observe that today, it is possible for Americans to "eat their homes."

According to PBS' "Now," personal bankruptcy filings increased 320 percent between 1980 and 2004. As I'm writing this, a baby born in America owes \$26,000 dollars worth of national debt. Students graduate today with an average of over \$20,000 in student loans and credit card debt, and those who borrowed to pay for a graduate degree come out of school with a median debt of almost \$46,000 dollars--up 72 percent since 1997 according to Brendan Koerner, a fellow at the New America Foundation.

Average Americans--who managed to save almost 9 percent of their after-tax income following World War II-- are running in place in terms of wages and staggering under an ever-increasing debt load. A report by the Center for American Progress showed that while their incomes had fallen for three years in a row through 2003, families encountered "sharply higher costs for education, energy, housing, and health care." Making matters worse, they faced rising costs for the debt that they had already piled up.

Part of the explosion of personal debt was fueled by mortgage refinancing as people cashed in on low interest rates. But as much as we hear about the real estate boom (President Bush often notes that more Americans own their homes than ever before), the percentage of equity we have in our homes is the lowest it's ever been.

On the public side, our mounting debt should be as alarming as a repossession notice tacked to the door. And there's a similar dynamic at work: one of the worst crimes government administrators can commit is failing to spend their agencies' entire allocated budgets.

Add to that a consensus that federal spending and perennial tax-cutting are keys to economic growth, with little regard to what kind of spending or which taxes are cut, and you get a perfect, self-reinforcing circle of bad fiscal policy.

Budget deficits combined with a growing trade deficit and sky-high energy prices create a very real danger of an economic disaster looming on the horizon. Paul Krugman's been warning of this potential "perfect storm" for some time, but he's dismissed by conservative apologists as an "alarmist" and his calls for reform have gotten little traction. In the past year, though, he's been joined by such fringe leftists as the IMF--which warned in a recent report that America's fiscal situation could lead to a global economic meltdown. It's time someone talked about it.

Tying Public and Private Debt

People see public and private debt as separate, unrelated issues. Yet they're connected in myriad ways

and influenced by tax, trade and dollar policies.

People understand their own personal debts. They have wants and needs that exceed their paychecks, so they take mortgages on homes, accept a monthly car payment and run up their credit cards. But they believe that public debt is an abstraction for bureaucrats in Washington to worry about, if they're aware of it at all.

The relationship between the two begins with the fact that Americans make up one twenty-fifth of the world's population, but our consumer spending accounts for a fifth of the global economy. We purchase many more goods and services from abroad than we sell. That private consumption has remained high even as most of our wages have stagnated--meaning that it is increasingly financed with debt.

In 2004, the trade deficit was over \$660 billion. A lot of that imbalance can be pegged to the high value of the dollar, which makes our goods cost a lot overseas and puts those "low prices" into our local Wal-Marts. But because we're deeply indebted to overseas central banks, we have little leverage to get other countries to revalue their currencies. So the cycle continues and we run up more debt.

According to Business Week, overseas central banks now hold about a third of Fannie Mae's and Freddie Mac's debt. Those are government-sponsored agencies that give many Americans the chance to become homeowners, so it counts as public debt. But it's also entirely possible that China owns your living room.

It's all related. High budget deficits put pressure on interest rates. Millions of working families took second and third mortgages in recent years --we essentially spent and refinanced our way out of the last recession, and now those rates are slowly creeping higher, in part due to the budget deficit. That means that Americans will feel more of a pinch in their pocketbooks as the cost of servicing their debts increases.

Good Politics?

Our debtor culture is an issue that doesn't fit on a bumper sticker or make for a pithy 30-second sound byte. What's more, on the consumer side you're talking about a tough, structural problem, with no easy fixes. Seventy percent of our economy is consumer-driven, and if folks started borrowing less and saving more, it would push us right into a recession.

While not easy to frame, debt is an issue worth articulating; it's a values issue for the left. While the media obsessed over "God, guns and gays" in the last election, a poll of 10,000 voters right after the vote provided a more nuanced picture of the views of "values voters." A third of those polled said the nation's most urgent moral problem was "greed and materialism" and 31 percent said it was "poverty and economic justice" (just 16 percent cited abortion, and 12 percent named same-sex marriage). Fiscal responsibility isn't about welfare-state liberalism or identity politics--it speaks to everyone who

knows how to balance a checkbook.

And when one contrasts the Republicans' obsessive tax-cutting and profligate public spending with their punitive approach to families struggling with the weight of growing personal debt, it's hard to imagine a starker example of conservative economic hypocrisy.

Consider the bankruptcy "reform" act, a gift to finance companies that flies in the face of economic logic. The law's boosters claim it's to keep people honest--they came up with the catchy tune: "people should pay if they can." The truth is that the law will make it harder for families who are facing tough times and *can't* pay to get back on their feet. According to the Center for American Progress, families with kids are three times as likely to file bankruptcy than those without children. More than 90 percent of those families were dealing with job loss, medical problems or a divorce.

Contrast that harsh approach to private debt with the libertine "borrow-and-spend" attitude of the party in power--a party that was once known for its budget hawks. The Bush administration has spent like a "bunch of drunken sailors," in the words of one disgruntled conservative, and it hasn't just been for "defense" as they claim. The Heritage Foundation estimates that the number of "pork" projects has exploded under Bush: from under 2,000 in 1998 to more than 9,300 in 2003. That year, legislators' pork added up to over \$23 billion dollars (or more than twice next year's expected cuts to Medicare).

And when it comes to revenue, the simple notion that "people should pay if they can" is anathema to the current administration. The president and his supporters claim that the Bush tax cuts--which account for 35 percent of the \$9 trillion-dollar budget turnaround since Bush took office--were needed to stimulate an economy in recession. They assure us we can "grow our way" out of the hole. Both claims are as dishonest as saying that the "vast majority" of the Bush tax cuts went to "people at the bottom end of the economic ladder."

While most economists agree that running deficits to get out of a recession is smart policy, the structure of the Bush tax cuts (long-term, mostly targeting the wealthy) failed "every test" of a good stimulus package, according to an analysis by the Economic Policy Institute. And [economists](#) have dismissed the Pollyanna-ish optimism of the "grow your way out" set as not being based on "credible assumptions."

But even if the argument held water, there's still the matter of what we could be spending our money on aside from debt service. The U.S. spent more than \$321 billion dollars last year to service its public debt. That's money that might have been spent on productive infrastructure, health care or education.

Part of Washington's addiction to debt comes from a successful, decades-long public campaign by the big-business right to detach taxes from the services, insurance and benefits they pay for. People don't like "big government" as an abstraction, but they do like the programs government provides. Having broken that link and pounded home the idea that taxes can always be cut (but never raised), regardless of the economic reality of the moment, the conservative movement bought itself an unintended

consequence in spiraling debt. Consider that before the Bush tax cuts, the U.S. had the fourth lowest total tax burden of the 30 developed countries in the OECD.

The progressive response should be a dedicated project to re-establish the connection. It should be a fundamental tenet of our economic arguments. The party line should be: 'You don't like paying taxes? Well neither do we. But we're industrious Americans who believe we should pay for what we want instead of leaving a tab that has to be picked up by our kids.'

"Paygo" rules, a commonsense policy that required legislators to say how they intended to pay for new expenditures and new tax cuts, was a crucial part of balancing the budget under Clinton. Since expiring in 2002, attempts to reinstate it have been defeated by Republicans on party-line votes.

You put these issues on a bumper sticker by talking to the public about things like Paygo. It's time that we heard more from the campaign trail about how a rising deficits represent a "baby tax," about the squeeze that debt loads are putting on the middle class and about the predatory schemes of lenders serving "subprime" (read poor, minority) borrowers. It's time someone talked about the fact that the administration rejects rules to keep government honest while it's working overtime to prevent families from getting out from under their private debt. It's a question of values, and it needs to be dragged out of the shadows and into the light of public discourse.

[Joshua Holland](#) is a fair-trade activist, a freelance writer and a regular contributor to [The Gadflyer](#) blog.

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Think Americans will listen this time?

Posted by: Sojourner on Jun 28, 2005 1:19 AM [[Report this comment](#)]

I must be missing something, because all that is what I heard Kerry and the rest of the Demos saying in the last campaign.

Will the fact that even Republican moderates are now upset at the fiscal recklessness in the Congress make a difference? (Domenici is reported to be willing to rebel.) I doubt it.

I expect the official Republican response again will be, it's just Chicken Little whose sky is falling all over again.

It is not the voters that will make a difference. Congress stopped listening to the voters a long time ago. (Remember the voters opposed to Clinton's impeachment? It was in the 60s percentages. Didn't matter.)

It is the members of Congress who need to be convinced. Forgive me, but I think they've heard all these arguments a million times already.

And voters will not change their minds until we hit the wall. Yes, it's coming. But not soon enough. How about some good advice for surviving a bankrupt government?

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[» RE: Think Americans will listen this time?](#) Posted by: Brandoc-D'Ha

Who benefits from the debt?

Posted by: acaryatid on Jun 28, 2005 4:35 AM [[Report this comment](#)]

In 1913 Congress passed The Federal Reserve Act which gave the right to create currency to the private bankers. They selected the operating name The Federal Reserve Corporation. Despite all the name implies, it is a private organization benefiting from interest charged to the Nation by lending their privately created Reserve Notes to the country. As the debt spirals skyward the revenue to the banks soars as well.

In 1963 President Kennedy signed an executive order returning the banking operations to the country. \$4 billion in "United States Notes" were printed to replace the private notes with a national currency. As article 1 of the Constitution states, Congress would regain the power to coin and regulate money and we would be a debt free nation.

President Kennedy's assassination followed and the new currency was destroyed. The banks remained in the hands of the members of the Russell Trust Corporation.

As a member of the Russell Trust, George Bush is doing a superior job of increasing revenues to the

banks by increasing the national debt. Once Americans recognise the RTC as the organized crime operation they are, the plundering of our resources and bankrupting of our economy will make sense as part of a successful business plan.

While many of us shake our heads at the clear insanity of much of what GW has done, his performance is second to none when measured by benefits returned to the RTC membership.

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Isn't anyone paying attention?

Posted by: dan10opa on Jun 28, 2005 4:42 AM [[Report this comment](#)]

Democrats won the past two presidential elections. It was the electronic voting machines that gave Republicans the results.

WHEN will this issue get some aritme?

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Khushite

Posted by: Khushite on Jun 28, 2005 5:18 AM [[Report this comment](#)]

Don't everyone already know, that the USA was overthrown by Coup d'tat years ago? Eisenhower warned the nation, but the people were only interested in selfishness and materialism...and we are paying under a classical fascism/corporate/prison complex.

Any Enemy Combatants (dissidents) out there? You bet there is, and Patriot II is awaiting you.

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