$10.1-trillion national debt? Let's cut taxes!

Even when trying to save the economy, Congress can't resist its pork addiction.

By David Lazarus, Consumer Confidential

Even before the current financial crisis, a federal budget deficit of nearly $500 billion was projected for next year. Now an additional $700 billion has been committed to bailing out Wall Street, not to mention as much as $200 billion for mortgage giants Fannie Mae and Freddie Mac.

So what do our friends in Washington do? They cut taxes to the tune of about $110 billion for everyone from companies that make wooden arrows for kids to Caribbean rum distillers.

"The national debt is like a fat guy in a small boat," said Robert E. Wright, an economics professor at New York University and author of "One Nation Under Debt: Hamilton, Jefferson and the History of What We Owe."

"The more debt you load on, the closer to the water line you get. Pretty soon, it takes only a small wave to sink you."

Thanks to the bailout bill approved by the House and Senate last week, the nation's borrowing limit has been raised to $11.3 trillion from $10.6 trillion. As of Friday, the national debt stood at $10.1 trillion -- about $33,500 owed by every man, woman and child.

To put some perspective on how out of control our borrowing has become, it took the country about 200 years to run up its first trillion dollars in debt. Then President Reagan took office in 1981 and the national debt started to soar, quadrupling to $4 trillion by the time the first President Bush exited the White House.

Under President Clinton, the national debt grew to $5.7 trillion, and has since nearly doubled on Bush Jr.'s watch.

Put another way, the country's debt load represented just a third of gross domestic product when Reagan arrived in Washington. By the time Bush gallops back to Texas in January, our debt will represent about 70% of the overall economy.

"The termites are already in the woodwork," said Andrew Yarrow, vice president of the think tank Public Agenda and author of "Forgive Us Our Debts: The Intergenerational Dangers of Fiscal Irresponsibility."

"The sky isn't falling yet," he said. "But the growth of debt is eroding our economic well-being."

About a quarter of our debt is owed to foreign countries, with Japan and China topping the list at $593 billion and $519 billion, respectively, according to the latest U.S. Treasury figures.

Other creditors include Russia, Venezuela, Indonesia, Iran, Iraq, Saudi Arabia, the United Arab Emirates, Libya and Nigeria.

With our borrowing at such an extreme level, the tax cuts accompanying the bailout package appear all the more reckless.

Many people may look at tax credits for alternative energy and commuting by bicycle as an investment in energy independence. But a tax credit for American Samoan businesses? A tax credit for employing people from Indian reservations? A tax credit for racetrack owners? A tax credit for shooting movies in the United States? These were all included in the bill.

About half the $110 billion in tax cuts will go toward shielding millions of middle-class families from the alternative minimum tax, a levy intended for rich people but now reaching lower on the economic food chain because it's
not adjusted for inflation.

Congress has been "patching" the AMT for years but has been reluctant to do away with the dysfunctional tax. Why? Because getting rid of it would increase the government's projected budget shortfall by about $1 trillion over the next decade, and nobody wants to think about what that would do to the nation's books.

Michael Hudson, an economics professor at the University of Missouri and president of the Institute for the Study of Long-Term Economic Trends, said the government's commitment to big spending and low taxes has placed us on the road to ruin.

"No government in history has operated this way," he said. "Every government that's tried this has gone bankrupt."

We aren't there yet -- not even close. But the trend is clear, and the fix will grow increasingly expensive with each passing year. Imagine if you kept running up your credit card bill with no plan for paying it down.

At some point, you'd be in a heap of trouble.

President Herbert Hoover famously quipped about 80 years ago: "Blessed are the young, for they shall inherit the national debt."

It wasn't funny then. It's downright scary now.