STUDY PROJECT

SECURITY IMPLICATIONS OF THE NATIONAL DEBT OF THE UNITED STATES

BY

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30 June 1992

U.S. ARMY WAR COLLEGE, CARLISLE BARRACKS, PA 17013-5050

Unclassified

SECURITY CLASSIFICATION OF THIS PAGE

REPORT DOCUMENTATION PAGE

Form Approved OMB No. 0704-0188

1a. REPORT SECURITY CLASSIFICATION Unclassified	1b. RESTRICTIVE MARKINGS
2a. SECURITY CLASSIFICATION AUTHORITY	3. DISTRIBUTION/AVAILABILITY OF REPORT Approved for public release; distribution is unlimited.
2b. DECLASSIFICATION/DOWNGRADING SCHEDULE	
4. PERFORMING ORGANIZATION REPORT NUMBER(S)	5. MONITORING ORGANIZATION REPORT NUMBER(S)
6a. NAME OF PERFORMING ORGANIZATION U.S. Army War College 6b. OFFICE SYMBOL (If applicable) AWCA	7a. NAME OF MONITORING ORGANIZATION
6c. ADDRESS (City, State, and ZIP Code) Carlisle Barracks, PA 17013-5050	7b. ADDRESS (City, State, and ZIP Code)
8a. NAME OF FUNDING/SPONSORING ORGANIZATION 8b. OFFICE SYMBOL (If applicable)	9. PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER
8c. ADDRESS (City, State, and ZIP Code)	10. SOURCE OF FUNDING NUMBERS PROGRAM ELEMENT NO. / PROJECT NO. / TASK NO. / WORK UNIT ACCESSION NO.

11. TITLE (Include Security Classification)
Security Implications of the National Debt of the United States

12. PERSONAL AUTHOR(S)
KLANN, Eugene A., LTC

13a. TYPE OF REPORT	13b. TIME COVERED	14. DATE OF REPORT (Year, Month, Day)	15. PAGE COUNT
Study Project	FROM ____ TO ____	1992 June 30	76

16. SUPPLEMENTARY NOTATION

17. COSATI CODES			18. SUBJECT TERMS (Continue on reverse if necessary and identify by block number)
FIELD	GROUP	SUB-GROUP	

19. ABSTRACT (Continue on reverse if necessary and identify by block number)

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20. DISTRIBUTION/AVAILABILITY OF ABSTRACT ☐ UNCLASSIFIED/UNLIMITED ☒ SAME AS RPT ☐ DTIC USERS	21. ABSTRACT SECURITY CLASSIFICATION Unclassified	
22a. NAME OF RESPONSIBLE INDIVIDUAL HENRY L. VAN BREDERODE, LTC, AD	22b TELEPHONE (Include Area Code) 717/245-3044	22c. OFFICE SYMBOL AWCA

DD Form 1473, JUN 86 Previous editions are obsolete. SECURITY CLASSIFICATION OF THIS PAGE

Unclassified

UNCLASSIFIED

UNITED STATES ARMY WAR COLLEGE
FELLOWSHIP PROGRAM PAPER

SECURITY IMPLICATIONS OF THE NATIONAL DEBT OF THE UNITED STATES

AN INDIVIDUAL STUDY PROJECT

by

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30 June 1992

UNCLASSIFIED

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ABSTRACT

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TITLE: Security Implications of the National Debt of the United States

FORMAT: Individual Study Project

DATE: 30 June 1992 PAGES: 73 CLASSIFICATION: Unclassified

The interest on America's national public debt of $4 trillion or $4,000,000,000,000.00 increases at a rate of $12,000.00 each second. This paper outlines why the United States must curb its spending and reduce its public debt in order to retain its position of global leadership into the 21st Century. The paper examines the history of the debt, its causes and consequences, why past efforts at debt reduction have failed and what realistically can be done. All of these issues are discussed in the context of the debt's impact on national security, i.e., defense and foreign policy. Special emphasis is placed on how the debt and debt reduction will affect U.S. involvement in NATO and America's influence in Europe. This paper concludes that the four commonly discussed methods of debt reduction could only succeed in conjunction with strong presidential leadership and a moral renaissance in the United States. Barring this, the inevitable impact of the debt on national security will be continued economic stagnation, dramatic defense cuts and significantly reduced global influence.

The purpose of this paper is to examine the national security implications of the United States' federal public debt.

The theme of the paper is to explain why the federal public debt is potentially the most important and pressing national security issue facing the United States. This paper will outline the background and causes of the debt, the current and future consequences of the debt, what can and should be done about the debt, and conclusions regarding the debt. Each of these items will be discussed in light of their impact on national security.

To facilitate understanding of the debt problem and in the way of introduction, consider the following ten points:

1. The United States has the world's largest national debt: four trillion dollars or $4,000,000,000,000.00. This is also the largest national debt in world history.

2. The national debt of the United States is twice the combined debt of the over one hundred countries in the third world.

3. Interest payments on this debt are more than one billion dollars a day. This breaks down to forty-six million dollars every hour, $750,000.00 each minute and $12,500.00 each second. 1

4. Annual interest payments on the national debt cost more than any other government program to include defense or social security. These interest payments are twice the federal spending

on highways, schools, science, farms, and job programs. 2

5. Annual interest payments are now larger than the entire federal budget in each year before 1975. 3

6. Nearly twenty-five percent of all the annual personal income taxes paid in the United States are used to pay the interest charges on the national debt. This is all the federal income taxes collected west of the Mississippi River.

7. From 1980 to 1990 the Reagan and Bush administrations ran up more federal debt than was done in the previous two hundred years of our nation's history.

8. The annual interest on the national debt is nearly half as much as the entire federal budget in 1980, the year Ronald Reagan was elected President. 4 In 1980 the government's spending was $591 billion. Ten years later it had passed $1.1 trillion.

9. If the four trillion dollar national debt would be placed face to face in one hundred dollar bills, the money would extend from Washington D.C. to Las Vegas, Nevada, or from New York City to Boise, Idaho. 5

10. Considering the consistency and predictability of compound interest, it is projected the debt's annual interest payments will surpass national income at some point around the turn of the century. 6

To aid in the understanding of the topic four definitions must be given. First, the definition of the term national security used in this paper will be the same as found in JCS Pub 1: National Security - a collective term encompassing both defense and foreign relations of the United States. Specifically, the condition provided by: (a) a military or defense advantage over any foreign nation or group of nations, or (b) a favorable foreign relations position, or (c) a defense posture capable of successfully resisting hostile or destructive action from within or without, overt or covert. 7

Secondly, the definition of federal public debt is as follows: the money borrowed and thus owed by the federal government of the United States to either domestic or foreign financial lending institutions. Third, deficit spending means the government spends more than its income, thus having to borrow the rest. Fourth, entitlements refer to the government benefit checks Americans receive from social programs such as welfare, unemployment, social security, etc.

To effectively address the problem of the federal public debt and to fully understand its security implications, we must be familiar with the background and causes of the debt.

From the earliest days of our Republic there were strong and conflicting opinions about the national debt. Alexander Hamilton wrote in his now famous letter to Robert Morris on April 30, 1781, "A national debt if it is not excessive, will be to us a national blessing,". 8 Referring to Hamilton's letter, Andrew Jackson remarked in 1824, "I am one of those who do not believe that a national debt is a national blessing." 9 Thomas Jefferson was even stronger in his letter to William Plumer when he wrote, "I however place economy among the first and most important of republican virtues, and public debt as the greatest of all dangers to be feared." 10

The United States has always had a federal public debt. There was a major controversy in the 1st Congress whether the new U.S. government should assume the debts contracted by the various states during the Revolutionary War. The debts were assumed. These coupled with the other federal debts totaled under $100 million.

At the beginning of the Civil War the national debt was $65 million. In 1865 at the war's end, the debt had risen to $2.7 billion. By the turn of the century however the debt had been reduced by one half to $1.3 billion.

World War I significantly raised the national debt. In 1919 the debt figure was $25 billion but by 1929 the debt had been reduced to $16 billion.

In the years prior to the Great Depression of 1929 the federal public debt actually made a significant contribution to national security. The debt would increase during periods of war to support the costs of the conflict. Subsequently the debt would decrease in the years of peace that would follow. It therefore played a key role in the successful preservation and defense of the nation.

Up to 1929, the debt historically had been well under control. It had had no significant impact on the federal government and had not in any way hindered its operations. The global depression however, radically changed national and international monetary policy and with it the impact of the public debt.

At the beginning of the 1929 Depression, America's national debt was $16 billion. Today, $16 billion is the interest paid on the debt for a period of fifteen days. The seeds of this were sown by President Franklin Roosevelt's New Deal programs enacted to counter the hardships caused by the Depression.

The Great Depression which began in October of 1929 was global and in reality lasted until World War II. It was marked by high unemployment, declines in jobs and industrial production, and a general mood of despair among America's population. The United States had previously experienced five major depressions in the years 1837, 1893, 1904, 1907, and 1921, but the depression which began in 1929 was by far the longest and most severe.

Unemployment in the United States during this depression rose as high as forty percent. Twenty-five percent of all American farmers lost their farms, and from 1929 to 1932, five thousand banks failed and national income dropped from $80 billion to $40 billion. 11

Franklin D. Roosevelt decisively defeated the incumbent Herbert Hoover in the U.S. presidential election of depression year 1932. His mandate from the voters was to lead the country out of the depression. Roosevelt's plan to do this was called the New Deal.

The New Deal included a series of economic recovery programs and direct entitlement social programs that were intended to rejuvenate the economy utilizing government funds. This put into practice the economic theories of British economist John Maynard Keynes. Keynes, on internationalist, a socialist and a disciple of Alfred Marshall, strongly advocated the central government's direct intervention into the economy. He proposed regulatory intervention as well as the injection of large amounts of government money into the economy, thus "priming the pump." This injection of capital he theorized, would stimulate the economy by promoting growth, lowering unemployment and restoring confidence.

Roosevelt's administration embraced and implemented Keynes theories wholeheartedly. Numerous New Deal programs were legislated which injected billions of government dollars into areas such as social security, farm support, work relief and public works. These programs were crucial in reducing the suffering caused by the depression as well as moving the economy firmly on the road to recovery.

It could perhaps be said that the impact of John Maynard Keynes on contemporary American society has been greater than any other one person. The side effects of his economic theories which were implemented in the various New Deal programs are still being felt. The New Deal firmly established federal responsibility for the national economy and social welfare. It entrenched the heretofore abhorrent idea of a strong and powerful central government. It set the precedent for big spending programs, unbalanced federal budgets and high government debt as a normal way of doing business. It dramatically and forever changed American politics, the economy, and how the average U.S. citizen looks at the central government. The function of the federal government as the great provider was now permanently established. Americans were for the first time dependent on the redistribution of taxpayer funds. 12

Federal finance now became an instrument of policy more than just that of administering expenses. Government spending which at first was done as a means of relief now became the primary means to stimulate and stabilize the economy. By managing currency and credit, the government realized it could control inflation and deflation, curtail recessions and even prevent future depressions.

The Depression put the federal government in control of banking, commerce and business. The government had become the primary architect of the American economy. Businessmen and bankers applauded the idea of government control and regulation of the economy. They needed capital to operate and the central government would now be the provider. Politicians realized the tremendous vote potential in social entitlement programs. The average citizen also felt a new security knowing the federal government would provide social assistance in time of need. As a result of the New Deal, government spending raised the national debt dramatically for the first time ever during a period of peace. The $16 billion debt in 1929 rose to $43 billion by 1940.

Not everyone however was praising Roosevelt, the New Deal and Keynes' theories. In 1936, Representative Harold Knutson of Minnesota proposed the first constitutional amendment to balance the federal budget. Former President Herbert Hoover criticized the New Deal for being a subtle form of socialism, a kind of Robin Hood program of taking from the rich and giving to the poor. The Supreme Court declared a number of New Deal programs unconstitutional. Other groups such as the American Liberty League attacked the New Deal as a threat to states rights and free enterprise. Their platform predicted government entitlement programs would eventually undermine the recipients work ethic, initiative, pride, morality and sense of civic responsibility. 13

Former U.S. President Grover Cleveland become a hero to the New Deal opposition. While president, Cleveland had staunchly opposed transferring money from the federal government to private citizens. After refusing to give public funds to a needy New York City orphanage he was quoted as saying: "I will not be a party to stealing money from one group of citizens and giving it to another group of citizens no matter what the need or justification. Once the coffers of the federal government are open to the public, there will be the no closing them again. It is the responsibility of the citizens to support their government. It is not the responsibility of the government to support its citizens." 14

During the depression, national security was not affected by the federal debt that was accrued. In foreign policy the United States had maintained its position of isolationism. In addition, American defense spending remained very low despite the military activities of Japan, Italy and Germany.

The greatest impact of Roosevelt's New Deal programs was to be in the future. It has been said the New Deal dealt a death blow to the U.S. economy that has taken sixty years to surface. 15 It set the precedent and left a legacy of high government spending, unbalanced budgets, massive social entitlement programs and government control of the economy through fiscal policy. As we will see, the New Deal was the forerunner of subsequent government programs, attitudes and spending, which have resulted in today's four trillion dollar national debt.

War inevitably increases a countries national debt. America's forty-six month participation in World War II raised the federal public debt over five hundred percent to $260 billion. Historically, the national debt had decreased after a major war. However the New Deal entitlement programs such as Social Security, added to the national security demands of the Cold War, caused the debt to continue to rise. During the twenty years from 1945 to 1965 the debt increased by twenty-two percent or $55 billion. the national security issues which contributed to this debt increase included the maintenance of 300,000 troops in divided Europe, the Korean conflict, and foreign aid programs to include the Marshall Plan.

The next two dramatic increases in the national debt were inspired by two politicians who got their start in politics by being avid promoters of New Deal entitlement programs: Lyndon B. Johnson and Wilbur D. Mills. As president of the United States, Lyndon Johnson pushed for a social reform program he called The Great Society. This so-called "war on poverty" was supposed to eliminate poverty in the U.S. in twenty years. Through the Economic Opportunity Act of 1964, massive additions were made to federal entitlements. These included increases in Social Security, the creation of the open-ended Medicare health program and increased federal aid for education. Unfortunately, during the same period the country also become involved in the Vietnam War. President Johnson refused to curb spending on his social programs despite the large costs involved in funding the war. The results were predictable. From 1964 to 1972 the debt jumped $140 billion. 16

In 1972, Congressman Wilbur D. Mills of Arkansas decided to run for the presidency of the United States. He was the long time chairman of the most powerful committee in the U.S. House of Representatives: the House Ways and Means Committee. To promote his presidential aspirations and using his influential position in Congress, Mills championed both a twenty percent increase in Social Security and a mandatory cost of living increase for all federal entitlement programs. These COLAS are now considered a primary cause of runaway spending. 17 As a result of these increased social entitlements, the national debt rose almost $200 billion from 1972 to 1976.

The most dramatic peace time increase in the national debt occurred during the presidency of Ronald Reagan. When Reagan was inaugurated in 1981 the federal public debt stood at $998 billion. When he left office in 1989, it was $2.9 trillion or an increase of over 200 percent. Reagan's defense buildup has generally been credited with the tremendous increase in the federal debt. However, the open ended social entitlement programs such as Social Security and Medicare played an even greater role in increasing the debt. Using 1986 as a representative year, defense spending comprised twenty-eight percent of the federal budget while social entitlement programs comprised over forty-one percent. 18

During the four years of the Bush administration, the debt has increased over one trillion dollars. This was despite large cuts in the defense budget and having America's allies fund a large percentage of the Gulf War. Federal budget statistics indicate defense spending is now approximately twenty percent of the total budget. Mandatory social entitlement programs on the other hand account for about half of all federal spending and are also the areas which experience the most significant deficits. 19

This concludes the historical outline of the national debt. To know how the debt evolved is crucial in understanding its impact on nation of security. Furthermore, as with most domestic and international problems, to know their history is an essential step in finding their solution.

The theme of this paper is to explain why the federal public debt is potentially the most important national security issue facing the United States. A simple review of Economics 101 is in order to understand why economically this is the case. This is relevant because economics drives both defense and foreign policy, the two cornerstones of national security.

What is most desirable for a sovereign state is constant economic growth. Constant growth means prosperity, the creation of jobs, low unemployment, strong banks, high consumer consumption, an expanding economic base, high national morale and confidence, etc. However, a high national debt caused by constant deficit spending is a major factor in curbing or stagnating economic growth. Low or no economic growth results in unemployment, bank and business failures, low consumer consumption, weak markets, a stagnant industrial base, varying degrees of recession (with the possibility of depression), and a lowering of national morale and confidence.

Inevitably and predictably America's four trillion dollar national debt has caused the latter. Some economists further predict that America's current period of low economic growth and recession are semi-permanent (or will even worsen) until something is done about the national debt. Since this would have extraordinary implications on U.S. national security, i.e., defense and foreign policy, why are they saying this?

Economic growth is directly related to the money or capital that is available for investment. Investment capital comes from the domestic personal savings pool, which underwrites all forms of debt to include corporate debt, individual debt (for items such as home mortgages), and most significantly the national debt.

The problem is the personal savings pool is now shrinking. Americans save very little. In 1990, the last year for which figures have been published, the federal budget deficit alone used well over fifty percent of the net savings of all American private individuals and businesses. Since 1990 the deficit has soared, but not savings.

Alan C. Lerner, the director of Global Markets Economics Bankers Trust Company is convinced the United States no longer has a large enough pool of domestic savings to meet the financial needs of a healthy national economy in tandem with a ballooning national debt. 20 His research has led him to the following numbers. During the 1970's the deficit as a percentage of personal savings averaged 38 percent. It topped 117 percent in the 1980's, soared to 160 percent in 1991, and in 1992 is estimated to reach 225 percent. 21

Utilizing money from the savings pool to pay the debt reduces the amount of money available to be borrowed for business investment. Businesses now compete for the reduced amount of funds. This competition inevitably causes interest rates to rise which in turn discourages many investors from borrowing. Reduced investment caused by high interest rates and inadequate credit then further hinders normal economics growth.

The recession of the past months and the addition of $400 billion to the national debt in Fiscal Year 92, have dictated the use of Federal Reserve Board Monetary policy as almost the sole recovery tool. Because the large national debt has placed so many U.S. Treasury bonds outside of the Federal Reserve Board's control, these securities act as a countervailing force towards the Fed's monetary policy. 22 This has been painfully obvious in the disappointing results of the Federal Reserve Board's lowering of short term borrowing costs 21 times in the past 32 months. 23

Thus another effect of the large federal debt is its removal of much of the flexibility regarding how government has controlled the economy since the Great Depression. One of the Fed's commissioners stated that the controlling of the economy by utilizing the interest discount method is like using the meat cleaver approach to monetary policy when what is really needed is a scalpel. 24

Another result of having a high national debt is an increase in the inflation rate. Argentina, Brazil and Bolivia and post-World War I Germany are classic examples. As recent as January 1990, the annual inflation in Argentina was 5,600 percent. Brazil's inflation peaked at 5,000 percent and Bolivia's rose to 25,000 percent with bursts up to 50,000. 25

The USA's inflation rate from 1982 through 1991 was 3.9

percent. During 1991 consumer price inflation was only 3.1 percent, the second lowest rate since 1967. 26 Since America's national debt has continued to increase, why hasn't the inflation rate also increased like it did in the three Latin American countries? The explanation is simple. During the Reagan years there was an enormous flow of foreign money into the United States. This not only kept the inflation rate at bay but it also compensated for the small U.S. savings pool. The foreign money which purchased America's bonds and securities replaced the U.S. capital that had to be used in servicing the national debt.

The problem however is the foreign money flow into the U.S. is declining sharply. The triumph of market-oriented economic philosophies is accelerating the demand and competition for investment capital. Europe is investing heavily into the East and the CIS. Germany is being strained under the costs of unification. Japan is being stretched at home. Saudi Arabia is busy spending on defense upgrades and paying for the Gulf War. Latin American countries, who historically have sent their money north for safe keeping, are now beginning to keep it at home. 27

America's economic future does not look promising. Because it is a low saving - high borrowing country, it will be at a constant disadvantage in the world wide competition for funds, especially if and when the global economy picks up. The scarcity of foreign capital will ensure intermediate and long term interest rates in the United States will tend to be high. Also, the inflation rate will inevitably begin to rise. Both of these factors will continue to constrain economic growth.

What has become painfully clear about a large and growing national debt is that its primary result is a stagnating economy marked by slow growth and reoccurring recession. The second and third effects of the debt however appear to be equally as harmful, particularly because of their impact on national security.

The popular thinking in the United States credits defense spending, particularly defense spending during the Reagan years, as the cause of the large national debt. It is therefore commonly concluded that if you reduce the defense budget you will be reducing both the annual budget deficits and the overall national debt. However, as Secretary of Defense Richard Cheney routinely points out to Congressional committees: " The real culprit is not defense spending but the open-ended social entitlement programs. If you reduce the defense budget to zero the annual budget deficit will still be over $100 billion." 28

Regardless of the validity of Secretary Cheney's statement, defense will forever be the prime candidate for budget reductions. This will not change in a country that historically has had the tendency to be anti-military, pacifistic and isolationist. As the economic pressures of the national debt continue to grow, the defense budget will be targeted for more and more cuts. As a minimum this will result in a smaller force, fewer funds to operate and train, older equipment and reduced research and development. Unless unusually strong leadership and management skills are exhibited by the U.S. military hierarchy, these conditions will inevitably lead to reduced combat readiness and effectiveness.

The USA felt the reality of its debt-ridden, stagnant economy in a real and sobering way during the Gulf War when, for the first time ever, it had to ask its friends and allies to help pay for its war expenditures. This type of request was unprecedented in American history. The USA reasoned that all industrialized nations which utilize oil from the Mid-East had a responsibility to support the military effort by providing forces, funds, or both. Regardless of the basis for this reasoning, the irrefutable fact was America did not have the money to go it alone in the Gulf War.

Because of our allies economic condition they did pay for a large percentage of America's Gulf War costs. However, will they be able to do this in the future? Can America count on them to do this in the future? America's debt must be reduced and its surpluses built up so it will not be dependent on any other nation or groups of nations in similar future situations. America must have the financial flexibility to "go it alone" if need be. Furthermore, at what point will America's economy become so weak and its debt-plus-interest costs become so high that financially, it will be unable to respond to an international crisis situation? As time passes it becomes clearer and clearer the USA's position of world leadership and its ability to influence world events into the 21st century are both being jeopardized by our growing national debt.

Another example of the effect of America's debt can be seen in the conduct of its foreign policy. It was agreed by almost everyone that economic assistance should be given to the now independent states of the former Soviet Union. This was felt to be essential to promote capitalism, assist in the CIS' movement to a free market economy, improve their standard of living and finally to reduce potential suffering, political instability and further attempts at revolution. There was even talk about a second Marshall plan for both the CIS and East Europe.

However, America's economic slowdown caused primarily by the massive national debt, has severely restricted the amount of economic assistance which was either available or politically possible to offer. With the combination of the recession, a seven percent plus national unemployment rate, a 24 percent increase in welfare recipients since 1989, and 1992 being a presidential election year, Washington's leaders did not dare push the nation's already angry voters. Thus the $24 billion assistance package America pledged to the CIS was critized as being unusually small and not much more than tokenism. It is difficult to refute this when considering $24 billion is the interest the USA pays on its national debt in a twenty-three day period.

Another example of the negative impact of the national debt on foreign policy is the USA's almost insignificant monetary contribution to United Nations peacekeeping operations. In April, 1992, the U.S. Senate approved a total of $270 million for U.N. peacekeeping. This was critized as being extremely small considering the USA is the world's one and only superpower. It also appears to be inconsistent with President Bush's New World Order which has as a primary goal the promotion of world peace and stability. Since the U.S. pays over $12,000 interest each second on its national debt, $270 million is just over six hours of interest payments. Servicing the national debt not only takes precedent over New World Order peacekeeping but clearly reduces U.S. interest in peacekeeping as well.

Yet another effect of our large national debt is its slow erosion of international confidence in the will, capabilities and leadership of the United States. Again using the example of aid to the CIS, Western European countries and particularly Germany have been very critical of the small aid package the U.S. has approved for the CIS. They point out that over 90% of aid to the former Soviet Union has come from Western Europe and not from the world's one remaining superpower. In addition, America's social and economic problems, its movement to reduce forces in Europe and its apparent disinterest in the problems of Yugoslavia, have all given further momentum to European integration and a joint European defense and foreign policy.

Germany, which has since World War II faithfully responded to U.S. leadership, now appears to be placing a greater emphasis on its role as a European leader. Its agreement with France to form a combined Franco-German Corps outside of the NATO structure shocked Washington. This foreign policy move, which flew in the face of the United States, would have been unheard of five years ago. France, a strategic adversary of the U.S. since the DeGaulle years, now more openly than ever criticizes the U.S. about its social and economic problems. 29 Its efforts to reduce American influence in Europe have become more and more obvious. These changing attitudes in both Germany and France should cause the U.S. great concern. They can be attributed to a large degree to the economic problems caused by the growing U.S. national debt. It appears that confidence in America's political leadership is eroding in proportion to its growing economic problems.

Japan, another faithful ally for over four decades, has in the past months been extremely critical of America's economic policies, increasing social problems, general work ethic and large debt. Their movement to expand their trade markets to Southeast Asia, Eastern Europe and Africa, is a direct result of a lack of confidence in the economic future of the U.S. They clearly see the potential for economic disaster that is being created by the large U.S. national debt. Since their economy is critically integrated and dependent on the U.S. economy, this movement to expand to other markets is an open effort to avoid the future economic shockwave that will be caused by America's rising debt. Japan's stock market crash of the spring of 1992 and their current sluggish economy have also been blamed on the U.S. recession. A recession which in turn has been blamed on the large national debt.

Finally, the growing economic problems of the U.S. has caused a mood in America which demands more emphasis be placed on domestic issues and less on international and defense issues. This is not a move toward isolationism or even a Pat Buchanan "America First" approach. It is simply a pragmatic and realistic attitude that recognizes America has problems which must be dealt with if the U.S. is to preserve its prosperity and position of global leadership. Problems such as the national debt must be effectively resolved. Failure to do so will further alienate the American public against international and defense issues.

This brings up the next point for discussion. What exactly are the future implications of having a $4 trillion national debt? Where is this debt taking us economically? What will be its future impact on national security?

It is fair to conclude that no economy can sustain the debt-growth cycle indefinitely. As conservative economist Larry Burkett writes, "any government that allows its debt to grow without regard for the consequences is on a collision course with disaster." 30

What is certain is U.S. government economic strategies and policies in the 1970's and 1980's failed to take into account two vital factors: the deficits would raise inflation and the compounding interest on the national debt would create an even greater debt. Inflation hit the double digit mark during the Carter year's. President's Reagan and Bush were saved from high inflation only because of the large influx of foreign money which has purchased U.S. government bonds and securities. America has not however, been saved from the scourge of compounding debt interest.

In 1983 President Ronald Reagan commissioned Peter Grace to serve as chairman of a study to identify and suggest remedies for waste and abuse in the federal government. One of the key missions of this study was to make recommendations aimed at transforming the federal debt situation. The final report which was sent to the President in January, 1984, made 2,478 recommendations for federal cost savings. 31 Of special note were its projections of the federal debt up to the year 2,000 if actions were not taken to reduce government spending. This report, which was submitted in January, 1984, projected a federal debt in 1990 of $3.2 trillion, in 1995 of $6.2 trillion, and in the year 2,000 a debt of $13 trillion with an annual interest of $1.5 trillion. 32 Very few of the 2,478 cost savings recommendations were acted upon because of the deep government spending cuts required and also because 75% of these cuts required congressional action.

Even though few of its recommended government spending cuts were enacted, the relevance of the Grace Commission Report has been its accurate national debt projections. Since the Commission was a bi-partisan group made up of 161 top executives and 36 task forces from private business and other organizations, their debt projections for 1995 through the year 2,000 have a great deal of credibility.

Larry Burkett, who authored the 1991 best selling book, The Coming Economic Earthquake, suggests that the national debt could even reach $20 trillion by the year 2000. 33 At an interest rate of 10% a year, Americans would be paying $2 trillion a year in interest on such a debt. This would be over 200 percent of all personal income taxes projected for that year (at a 33 percent rate). 34 Since there is only an estimated $3 to $5 trillion available to fund America's additional debt to the year 2000, the country may be heading for serious trouble. 35

Since the mid-80's the U.S. government has exhausted the capital that could be raised from its domestic sources alone. It has since become dependent on foreign lenders for its credit. The significance of this situation is a cause for concern. In 1990 more than 14% of the U.S. government's annual income went to pay foreigner's interest on the growing debt. By 1995, that amount will grow to nearly 25%. 36

There are potentially three significant problems involved in being dependent upon foreign investors for credit. First, there is a finite amount of money available from all sources to include foreign sources. As was already pointed out, U.S. domestic sources which could loan to the federal government dried up in the 1980's. Once the limit of money available is reached from foreign investors, then a U.S. monetary crisis is not far off. Second, if foreign creditors ever decide the U.S. government is a bad loan risk, they could cut America off or even ask for exorbitant interest rates. Lastly, there is always the potential for monetary blackmail. Because of its runaway spending programs, the USA must borrow money from foreigners to meet its current financial responsibilities. Based on its projected future spending, and inevitable debt and interest increases, this fact will not change. It is not beyond the realm of possibility, as Senator Phil Gramm routinely points out, that at some future date a foreign government or group of governments would agree to loan the USA money only if America would first change a policy or would act (or not act) in a certain manner! 37 If America would not respond as requested no money would be lent, thereby throwing it into financial crisis. Since some of America's largest creditors are Middle-East Islamic nations opposed to Israel, this scenario is not as impossible as it may appear. Regardless of the improbability of monetary blackmail, the bottom line is the U.S. government's fiscal policies have placed the nation in a very dependent and potentially dangerous situation. For reasons of national security, if not common sense, it is a situation that must be remedied as soon as possible.

The reasonable question must be asked, "How is it possible for America's national debt to be projected to reach between $13 trillion and $20 trillion by the year 2000?" This is only eight years from today when the debt is $4 trillion. The answer is fourfold. First, it assumes no government spending cuts will be made. Second, it considers the magic of compound interest. Even today in 1992, the USA is already borrowing money to pay the interest on its past loans. Third, the annual inflation factor is figured into the year 2000 debt figure. Lastly, the year 2,000 debt figure could be as high as $20 trillion depending upon how many of the federal government's off-budget liabilities require funding. 38

Off-budget liabilities are unfunded obligations for which the federal government is liable. If and when these obligations become due the government will in all probability have to borrow the money to meet them. These off-budget liabilities include $16.5 trillion for Social Security, $1.8 trillion in Medicare, $1.0 trillion for civil service and military pensions, and $5.8 trillion in loan guarantees, loan insurance, deposit insurance and direct loans. 39

Thus adding the off-budget liability of $27 trillion to the current national debt of $4 trillion, the real national debt of the United States is over $31 trillion. That figure when compared to America's GNP of just over $6 trillion is a fact few government officials will acknowledge much less discuss.

If America's national debt is not gotten under control and reduced, what will be the result? Three outcomes of this debt are generally discussed, none of which are particularly encouraging. First, government income must be increased to meet the rising cost of the debt. This could be done by raising taxes as high as the American public would accept. Considering the public outcry about taxes being too high now, a tax increase is not considered to be a realistic option. Another possible but unlikely source of revenue for the government is the $1.5 trillion currently found in private IRA's and annuities. If the federal government becomes desperate enough it could conceivably absorb these for an I.O.U or equivalent benefits. 40

The second possible outcome is that the U.S. government would default on its debt. Besides being immoral, this would of course result in economic chaos not only in the USA but also internationally. As a minimum the U.S. dollar would become worthless, the credibility and influence of the U.S. would be reduced to zero, U.S. foreign trade would cease and all U.S. assets overseas would probably be seized or nationalized.

There is of course a third possible outcome of an uncontrolled national debt. That is the monetization of the debt. This simply means that when annual debt payments exceed national income, when no more money from any source is available to be borrowed, or when a major crisis occurs for which there are not enough available funds, the U.S. would simply print money to meet the fiscal crisis. This sounds like a simple solution but as every nation that has done it has found out, printing money causes hyper-inflation, economic collapse, depression and internal chaos. The most vivid example of monetizing a large national debt occurred in post-World

War I Germany. In December, 1921, one U.S. dollar equaled 8.9 German marks. Then Germany monetized its debt. The result was that in October, 1923, one U.S. dollar equaled 4.2 trillion marks. Another result of Germany's debt monetization was the rise of a leader by the name of Adolph Hitler.

Is the economic collapse of the United States of America unthinkable or impossible? Perhaps, but the same was said about the Soviet Union. The national security implications of such a worse case event would be enormous. The resulting chaos and lawlessness that occurred in Los Angeles in May, 1992, could be repeated on a national scale. The military would be given internal security missions not unlike the armed forces of many third world nationals. U.S. leadership overseas would all but disappear. America would be virtually helpless to influence international events for years to come. This of course is all conjecture and fiction. However, America's national debt is not fiction and it is growing at a current rate of $12,000 of interest each second.

Every issue has two sides. The so-called economic pessimists believe the USA's large national debt with its compounding interest will ultimately result in economic chaos. But what does the other side say? What are the contrary opinions? What do the economic optimists say about the future impact of America's $4 trillion public debt?

First, many U.S. economists argue that a large national debt is not at all bad but very good for the nation. They are following the traditional John Maynard Keynes school of economic thought which says put more government money into the economy to stimulate it. Only recently 100 U.S. economists, including six Nobel prize winners, made a public statement urging the federal government to borrow another $50 billion and use it to stimulate the economy, i.e., "prime the pump." 41

The fact that this would add to the already record breaking $400 billion FY92 deficit was to them a secondary issue. During this period of economic stagnation they felt that stimulating the economy is more important. This is Keynesian economic theory at its classic best. Some Keynesian economists even go as far as to say the annual deficits should be looked at as economic recovery packages! 42

Keynesian economists generally feel the USA should not try to lower the debt. If it does they argue, it will totally stifle economic growth and this will create even greater economic hardships. They further argue that increasing taxes in order to pay off the debt will take money away from both savings and consumption, which in either case will hurt the economy.

They strongly oppose placing further taxes on the rich. Keynesian's believe the prosperity of the rich causes them to invest, thus stimulating the economy. Placing a larger tax burden on them would reduce their desire and ability to invest. Their reluctance to invest would thus hurt the economy as it would result in no new factories, jobs, capital, etc.

Few American's articulate Keynes economic theory better than Dr. Paul Davidson, an economics professor at the University of Tennessee - Knoxville. He believes balancing the federal budget would absolutely kill the economic prosperity the nation has enjoyed through the 1980's. National prosperity he argues depends upon having a large debt. Debts he says can be stimulating. He teaches his university students that the mark of success of any family or business is the size of their debt. The more successful a person or organization is the more debt can be absorbed. He carries this rationale over into nation states. He, like most Keynesian economists, feels that neither tax increases nor government spending cuts are the answer to decreasing the national debt. The bottom line of his argument is economic growth is everything. Growth should therefore be stimulated by every means possible to include high government spending. The national debt is thus irrelevant. This is pure J.M. Keynes economics.

The second argument promoted by the economic optimists is that the economy can easily support a growing national debt. It contends that if an economy is vibrant and growing the debt may also increase and not cause any harm. This theory has been widely argued in the United States beginning during LBJ's War on Poverty. Proponents of it point out America's national debt today is small compared to the debt that existed after the 1930's depression or after World War II. The national debt after World War II was approximately 125% of the GNP. Today it is about 37%. The post-World War II debt situation however was and remains unique.

However valid this theory of economic growth supporting debt growth may have been in the past, many feel it is no larger relevant to America's current situation. First of all, the U.S. economy has not grown as rapidly or consistently as the government's social entitlement experts had glowingly predicted.

Secondly, over the past ten years, the national debt has increased at a much faster rate than the economy. Thus the economic theory that now appears to be in effect in the USA is the one that says a large national debt actually restricts economic growth and prosperity.

The third argument of the economic optimists is that both the national debt and the annual deficit figures are grossly exaggerated. The debt therefore, is not as dangerous to our economic future as the alarmists indicate. This is the opinion of Dr. Bernard D. Nossiter, a writer on economic affairs for the Washington Post and the New York Times. He argues that the government's FY92 deficit of $400 billion ignores the $100 billion surplus of Social Security and the harmless economic effect of the federal money used for the savings and loan bail out. 43

Furthermore, economists Larry Kudlow, Robert Eisner of Northwestern University and Michael Boskin of Standford University all argue that the deficit is no problem. They contend the federal accounting system is archaic. If it would be similar to business accounting, which uses the accrual accounting method and also measures more than just annual cash flow, they estimate the budget deficit for FY92 would not be between $360 and $400 billion but closer to $45 billion. 44

The ideas of these economists have apparently been heard. Congress has authorized the Commerce Department to devise a completely new set of financial rules for national income and product accounts. These will be very similar to what are currently used in business. 45

Nossiter, Kudlow, Eisner and Boskin may have a good argument explaining why the debt figures are exaggerated. However, none of them address the compounding interest on the debt which annually consumes almost one quarter of America's income. New accounting procedures will not change that fact.

The fourth argument of the economic optimists is that neither inflation nor interest rates have risen with the rising national debt as has constantly been predicted by the alarmist crowd. In 1991 inflation was only 3.1%, the lowest rate since 1986. Furthermore, despite an extreme shortage of national savings in the 1980's, interest rates have risen only slightly.

Low inflation and stable interest rates fly in the face of the central element of the accepted economic theory on budget deficits. In both Keynesian and classical economic thought a direct relationship is expected between the deficit and real interest rates. However this has not been the case in the USA's recent economic history.

The explanation for this phenomenon is simple. As was discussed earlier in this paper, funds from foreign investors have taken up the slack for the small savings pool of the United States. Because of this fact, U.S. inflation rates and interest rates have remained stable. However, if and when foreign investment monies stop flowing into the U.S., the validity of debt relationship to interest and inflation rates may take on a new meaning.

The fifth argument of the economic optimists is the seemingly harmless effect of the large national debts of many of our allies. The USA's net public debt in 1991 was 34.2% of its GDP. This compares favorably to other NATO countries whose public debt by percentage of GDP is much higher. For example in 1991 Canada's public debt was 46.3% of GDP, in the Netherlands it was 59.3%, in Greece it was 65.8% and in Italy it was 100.9%. 46

Italy is generally cited as the classic example of an economy that has a runaway national debt with no apparent ill effects. However, Italy enjoys some unique advantages which the United States does not. First, it has the highest savings rate in the Western world. It therefore does not have to borrow foreign money to pay any of its debts nor does it have a shortage of available investment capital for its corporate community. Also, because Italy borrows all of its money from internal domestic sources, the debt interest it pays stays within the country. Finally, its membership in the European Community has done much to stabilize both its currency and economy despite its high national debt. All of these are advantages the USA does not enjoy. Therefore, to compare the two countries national debts is not particularly relevant.

It must also be noted that Italy's economic activity slowed in 1991 for the third consecutive year, with GDP growth a mere one percent, the lowest since 1983. 47 Interest rates in Italy are high and their inflation is over six percent. Many economic observers attribute all of these factors to Italy's high national debt.

The economic optimists who claim the national debt doesn't matter or is exaggerated have some interesting arguments. However, they ignore the largest problem of the debt which is the compound interest that is accruing at a rate of $12,000 each second. This can not go on indefinitely and must be dealt with or future economic crisis is inevitable.

If the national public debt is such a big problem and also the most important national security issue facing the United States, then what if anything has been done about it? The answer to this question is simple. Very little of any substance has been done.

Recent efforts to reduce deficit spending and the national debt in general have failed. The Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act was passed in 1985. It required the federal government to live within its annual income. It was also supposed to balance the federal budget within six years and start repaying some of the existing public debt. However it, as well as its successor, the Gramm-Rudman Act of 1987, have failed miserably. First of all, there was no means of enforcement written into these laws. Second, the laws were written allowing overspending in case of a national emergency. Sixteen times since 1985 Congress has used the emergency clause to waive the Gramm-Rudman Acts and overspend. 48

Third and lastly, Congress and the president have simply found creative ways to circumvent these budget laws. 49 These include taking funds out of the Social Security Trust Fund and using them to help reduce the deficit, transferring budget overruns into the next fiscal year, and exempting such items as Medicare, Social Security, federal retirement and welfare from the balanced budget process. 50 In addition, the government routinely predicts more income than is actually received. The combination of these factors have made both Gramm-Rudman Acts irrelevant. The irony is the annual deficits have increased more dramatically since these acts became laws then when there were no balanced-budget laws.

In November 1990, President Bush signed the Omnibus Budget Reconciliation Act or Budget Act. It was a compromise budget plan to replace the two Gramm-Rudman laws. It was designed to reduce the deficit by limiting expansions of mandatory expenditure programs.

Like the two Gramm-Rudman laws, the Budget Act has already proven to be totally ineffective. The Budget Act also contains emergency spending loopholes. It exempts programs such as Social Security. In addition, both the income and the baseline estimates on which it was calculated were substantially off. Thus the annual federal deficit ballooned in 1991. 51

Because all previous legislative efforts to reduce deficit spending and in turn the national debt have failed, Congress is now debating the pros and cons of a balanced-budget amendment to the Constitution. When one looks at the details of this amendment it becomes obvious it too will fail. The proposed amendment has no means of enforcement written into it. It is expected that members of Congress, who swear an oath to the Constitution, will honor their pledge and ensure the balanced-budget amendment is complied with and the annual federal budget is balanced. It is felt that if congressmen flout their responsibilities and betray the public trust, then the ultimate enforcement mechanism will be the political process which will vote them out of office. 52 Unfortunately this reasoning is unrealistic as no public official in the U.S. has ever been voted out of office because of the national debt or annual budget deficits.

Furthermore, there is absolutely no reason why the President and Congress could not balance the budget and start reducing the national debt now using the existing legislative system. Leadership, courage and a determined will are what is needed but to date these have unfortunately all been lacking.

To be effective the balanced-budget amendment would need a strong enforcement clause. One such enforcement clause would be this: all senators in their second or more term and all representatives in their third or more term would automatically lose their seat if the annual federal budget was not balanced. Although rejected by Congressmen for obvious reasons, such an enforcement clause would guarantee a balanced annual budget and slow the growth of the national debt.

Legislation to reduce annual federal budget overruns and the runaway national debt have failed. But why have they really failed, and why has nothing more been done by the federal government to reduce the federal public debt? Valid or not there are generally ten reasons given why nothing has been effective in reducing the national debt.

First, no president has provided the leadership required to convince either Congress or the American public that it is vital to our nation to reduce spending, balance the federal budget, and start reducing the national debt. Ronald Reagan's answer to the national debt was that increased government revenues would solve the problem. George Bush has said very little about the national debt and supports the balanced-budget constitutional amendment as an effective method to halt deficit spending and the growing national debt. But clearly this is inadequate. Even if passed the constitutional amendment would not go into effect until 1997 and then with no enforcement clause.

Strong presidential leadership is required to convince Congress and the American people that if future generations are to enjoy economic opportunity and prosperity, then entitlement programs must be drastically reduced. This is the only way to reduce deficits and stop the runaway debt. This of course will not be an easy task. Many Americans believe government entitlement programs are just that, their entitlement. To reduce or take away these "entitlements" on behalf of future generations who are not yet voting will require presidential leadership of the highest order.

The second reason why little has been done to reduce the growing national debt is there is no real will in Congress to do so. Most Congressmen feel it is political suicide to advocate government spending cuts. With few exceptions the voters do not want the largest area of government spending reduced, i.e., entitlement programs. The "iron triangle of the unelected" - executive branch bureaucrats, Congressional committee staffers, and special interest group lobbyists - protect each program against cuts from any source and relentlessly push for more. 53 Representative Harris Fawell (R, Ill.) is further convinced any Congressman who advocates spending cuts is treated like a pariah by other Congressmen. After Fawell critized nonessential spending in a Gramm - Rudman "emergency" appropriations bill in 1990, funding for a project in his district was deleted. 54 Representative Clay Shaw (R., Fla) reports the same experience. 55

Thirdly, having a gridlocked government with a Republican president and a Democratic controlled Congress has also contributed to the lack of debt reduction. The Republicans during the Reagan years wanted high defense spending and no tax increases. The Democrats during the same period wanted to continue heavy spending on social entitlement programs. The compromise was that both received what they wanted. The cost however was the most dramatic rise in the national debt in the history of the nation. Having the President and the majority in Congress being members of the same political party would go a long way toward serious debt reduction.

Fourth, and as has already been discussed, the American people in general do not want spending cuts particularly if the cuts would impact on them. It has been estimated that 80 percent of America's population of 260 million receives some kind of government subsidy or entitlement. 56 Examples abound of the federal government taking the initiative to cut a program or entitlement and thereby creating such a public outcry the initiative was dropped. A classic example of this was legislation Congress passed a few years ago requiring wealthier retirees pay more for medical benefits. The powerful elderly lobby protested so strongly that Congress reconsidered and repealed the statute. 57

The American people enjoy the best of all worlds: generous social entitlement programs that are mostly paid for by borrowing and not taxes. It never seems to occur to them that someday a generation of Americans will have to pay for these social entitlements which will be handed down in the form of an enormous national debt.

The fifth reason why little has been done to reduce the national debt is the general public's lack of understanding of economics. It is next to impossible for the American voter who received little or no economic training, to apply pressure on his or her Congressman if they have no idea why the national debt is relevant or how it impacts on the nation's economy. Few Americans can explain if or why a large national debt contributes to economic stagnation.

Our education system, by almost all indications, has not only failed at effectively teaching the three R's, but also history, geography, moral philosophy, and foreign languages as well. Economics which is boring on its best day, is seldom taught in secondary schools, and poorly taught in general survey courses in college. Most Americans could not explain the difference of macro or micro economics or how the Federal Reserve System impacts on the economy.

In a 1990 Gallup Poll, ninety percent of the Americans polled responded that deficit reduction is important or somewhat important. When asked to explain in their own words why, the large majority were unable to justify their concern with logical reasons. This would seem to indicate their concern about deficit spending is based on media publicity and not on a clear understanding of the economics of the problem. 58

Sixth, few people really believe a large national debt will end American prosperity or end in economic disaster. Dr. Murray Weidenbaum, professor of economics at Washington University in St. Louis writes that in the 1980's, "the doom and gloom squad" said the large national debt will end in disaster. Since these dramatic overstatements did not come true, many people were turned off by negative economic predictions and now simply ignore them. 59

Americans, being eternal optimists, do not believe the predictions of the economic disaster prophets will come to pass. The extended recession, the large debt figure and the debt's compounding interest have created some concern. However, few feel there will be a day of reckoning!

Seventh, because the USA has been in varying states of economic recession since 1990, it is the general consensus in Washington that to cut government spending now to reduce the debt would put the economy in a real tailspin. The outcome of the tailspin would in all probability be a major depression.

Robert Reischauer, the director of the Congressional Budget Office warned in January, 1992, that the recession has made deficit reduction inadvisable. 60 Since many believe the large national debt will keep the nation's economy in habitual recession, Reischauer's warning may be repeated for some time to come.

Eighth, those who would protest the loudest about deficit government spending are now not present to do so. These of course are the future generations of Americans who will have to bear the burden of today's runaway government spending. Furthermore, contemporary politicians will no longer be in office to answer for their irresponsible fiscal policies to future generations of voters.

The American people and their elected government officials are taking away the potential prosperity from a generation or generations who today have no voice, no input and no vote. What would they say if they would be here today? The answer may be obvious but it is also seemingly irrelevant to today's politicians and government entitlement recipients.

The ninth reason why little has or is being done about the federal debt is a real concern about what the national response would be to a strong presidential or congressional effort at reducing this debt. Many economists are of the opinion an effort of this nature would cause a loss of confidence and a national panic. This could conceivably lead to a stock market crash and a deep recession or depression.

Few can deny the fact that the United States is actuarily broke. 61 Only confidence in the country, its economy, and its future prevents the economy from taking a nose dive today. If something shakes this fragile confidence it could trigger a run on the stock market or a dumping of dollars on the international money market. Either could cause an economic crisis. For this reason the President or major congressional leaders will never acknowledge the potentially disastrous consequences of the growing national debt.

The tenth and final reason why nothing has been done about the growing national debt has been the news media. For reasons which are not clear, the news media has showed little concern about the national debt problem. This is amazing considering Vice President Dan Quayle's comments about the morality of the T.V. character Murphy Brown made front page news for almost a week. The civil war in Yugoslavia has also made headlines in the U.S. for months. Yet few Americans feel the United States has any interests in this area or should get involved militarily. However, the runaway national debt which is a major cause of the current economic stagnation and threatens the future prosperity of the entire nation, seldom rates even a small back page article. If the news media was truly fulfilling the responsibility it has to a democratic society, e.g., keep the public informed, the national debt problem would be front page daily news.

If these then are the reasons why nothing concrete has been done to reduce either the debt or deficit spending, what realistically can and should be done? Certainly no problem, regardless of scope or complexity, is beyond resolution. However, when considering the size of the debt and why nothing has been effectively done to date, the problem appears to be among the greatest challenges ever faced by the United States.

What is painfully evident is current economic thinking will not provide a solution to the deficit problem. This becomes apparent when one hundred of the countries top economists suggest the current recession can be solved by the government borrowing yet another $50 billion to stimulate the economy. Compare this to non-Keynesian, conservative economists who believe the cause of America's current economic stagnation is the large national debt and no recovery can be expected until the debt is reduced.

The thinking of the 100 Keynesian economists is outdated and has been bypassed by events. Their suggestion to stimulate the economy with fifty billion government dollars can be compared to World War I generalship. These general's also had but one solution to every problem: commit more and more troops regardless of cost or circumstances. Just as weapons technology had surpassed their tactical thinking, so too has the size and complexity of national economies going into the 21st Century surpassed Keynesian economic thought. What is needed is revolutionary thinking which offers theories and solutions for current and future economic problems and not for those faced in 1929. America's mainstream economists are not a source for either debt reduction solutions or enlightened input to national security problems.

What is certain, the time to act on budget reduction is now. Each day that passes adds over a billion dollars of interest to the national debt. The more the debt interest compounds, the more difficult and painful it will be to solve the problem.

Top leaders from Argentina, Brazil and Bolivia have constantly pointed out the USA is on exactly the same course that caused hyperinflation and economic collapse in their countries: large deficits, a runaway national debt, a deterioration in the balance of payments and on erosion of confidence in the national currency. 62 They find it incredible the United States cannot see where it is heading, the security implications, and the very predictable result. 63

There are four potential solutions to the debt problem that have been widely discussed. It is argued that one of the four or a combination of the four, if aggressively implemented and supported could eliminate deficit spending and greatly reduce the national debt. These four solutions include: 1) increase government revenue, 2) improve government efficiency, 3) strengthen the national economy, and 4) reduce government spending.

It is in general agreement that if any one or all of the first three solutions listed are not prudently implemented, they could have a devastating effect on the economy and thereby do more harm than good. The reason for this thinking is again basic economics. The first effect of an increase in taxes or the reduction of government programs would be to take billions of dollars away from the economy. The effect of this would be to raise unemployment, reduce consumer spending, reduce investment, and potentially increase business failures. The third effect would be to cause or deepen a recession. For these exact reasons, and with all the talk of a peace dividend, the defense budget has not taken the drastic reduction's that were predicted. Congressional leaders realized the negative impact large defense cuts would have on the economy. 64

The first commonly discussed solution to debt reduction is to increase revenue which really means to raise taxes. Even though Americans pay one of the lowest percentage of taxes in the Western world, they still feel they are overtaxed. Therefore a tax increase is an extremely unpopular solution. The federal tax increase that would do the least harm to the economy and cause the smallest public outcry would be one in the area of non-essentials. This could include a sin tax, an entertainment tax and an increased luxury tax.

The sin tax would increase the federal tax on alcohol, tobacco, pornographic material and gambling. Gambling would include increased taxes on lottery tickets and winnings. The entertainment tax would include taxing movies, videos, cable television, hobbies, professional sports, rock concerts, etc. The final tax on non-essentials would be an increase of the luxury tax on jewelry, fur coats, collections, luxury cars, second and third cars, summer homes, vacation condos, recreational boats, etc.

All the revenue of these taxes would go toward the public debt. They would certainly not be popular taxes but they would be much less painful than raising income taxes or creating a new one percent debt reduction tax. These taxes could also be rescinded once the debt is reduced to a controllable level.

Because these taxes on non-essentials would not raise large amounts of revenue, their symbolic value would be greater than their revenue production. They would raise public awareness and undoubtedly cause strong voter pressure on Congress to get the federal budget balanced.

Finally, these taxes would have a positive effect on national security. Not only would they contribute to debt reduction but they would also cause many Americans to reevaluate their personal value system. This in the long term may have more of an impact on national security than the taxes themselves.

Other forms of taxation have been routinely suggested as means of reducing the national debt. These include a user-fee tax on gasoline and a national sales tax or value-added tax. However, because these taxes would have the same negative impact on consumer buying power and the economy as an increase in income taxes, they generally have been discarded as unpractical options.

The second widely discussed solution to the debt problem is that of improving government efficiency. The Grace Commission, which was made up of 161 private business executives and a staff of 36 separate task forces, concluded that one-third of all taxes are consumed by government waste and inefficiency. 65 This equates to over $330 billion annually. This is money that could be used on programs for which the government is now forced to borrow. It could also be used to begin paying off the debt.

Examples of government waste abound. With the largest national debt in the world, taxpayer money has been allocated for the following projects: $49 million for a rock-and-roll museum, $6 million to upgrade the U.S. Senate subway system, $500,000 to renovate Lawrence Welk's boyhood home, and $900 million to send American cows to Europe to participate in an "Export Enhancement program." 66

Probably more recommended solutions exist in this area than in all the others combined. One of the most discussed is the creation of the Office of Federal Management. This office would have government wide responsibility for establishing, modernizing and monitoring all federal management systems. 67 Other common solutions include a ten percent government personnel cut, extended hiring freezes, a more enlightened system to reward efficiency and a more severe system of punishing waste and inefficiency. Higher standards should be set for hiring, promoting and evaluating managers. The government contracting system needs to be constantly improved and enhanced. Finally, the most effective of all solutions would be continuous leadership and management education for all government civil servants.

The Department of Defense could take the lead in many of these areas, particularly in improving management training and their performance evaluation system. Public confidence in DOD's efficiency has never been particularly high. The disclosures in the 1980's of DOD buying hammers, screws, coffee pots, and toilet seats at costs of a thousand percent (or higher) above hardware store prices have not been forgotten. Increased efficiency in DOD would serve several purposes. It would set the example for other departments to follow, it would improve DOD's public image, it would aid at debt reduction, and through all of these, it would strengthen national security.

The third commonly proposed solution to the debt problem is to strengthen the national economy. This proposal reasons that if the economy is strengthened more tax revenue will be produced. This revenue in turn can be used toward debt reduction. This may be true in theory but it has never been true in reality.

Despite the myth that Ronald Reagan's tax cuts caused the large deficits, tax revenues rose from $517 billion in 1980 to $909 billion in 1988. This was an increase of 76%. 68 None of this increased revenue went to debt reduction but all was spent on various government programs. There is no reason to believe the same would not be done with tax revenues received from a strengthened economy.

The argument which says America must strengthen the economy to reduce the debt has a second fallacy. Many of the proposed economy strengthening programs are not only long term but involve the creation of high cost government programs which would in all probability increase the national debt. These programs would include the encouragement of technical research and development, the strengthening of America's manufacturing base, and the development of human resources by improving education and job skills training. 69

Other economic strengthening measures such as tax breaks, less government regulation, and incentives to encourage individual savings, are also seen as being mid to long term solutions. Some of these measures, such as the tax breaks, would have the immediate result of producing less revenue for the government, thus causing a further increase in government borrowing.

Since the economy is one of the foundations of national security, it is extremely important for it to be strong. A weak economy has a serious impact on both defense and foreign policy. However, a program to strengthen the economy by itself is inadequate for serious debt reduction. A program of this nature must be done in conjunction with the fourth and the best solution to debt reduction: the curbing of government spending.

As has already been discussed, social entitlement programs comprise just over 50% of the government's annual spending. Another 21% goes toward payment of debt interest and yet another 20% is for defense. Since debt interest can only be reduced by debt reduction, the only two areas in which government spending can really be cut are defense and social entitlements.

America's 963 social entitlement programs have turned into a scared cow when it comes to spending cuts. 70 Most politicians understand the deficits caused by these entitlement programs are damaging the economy and negatively affecting America's standard of living. However, the bi-partisan consensus in Congress is that it is a political impossibility to cut these programs. To be a strong supporter of cuts is considered political suicide. Even to talk about cutting Social Security or Medicare causes a public uproar. Thus the lack of courage and will to stand up to public disapproval has resulted in total inactivity in cutting social spending. It appears political self-interest reigns over the national interest. What the New Deal politicians learned about social spending remains true today. Social spending guarantees votes and therefore protects incumbency better than any other means. 71

Whereas social entitlements programs are the sacred cow of spending cuts, defense has been and is again today the whipping boy for budget reductions. The so-called end of the Cold War, the misread lessons of 47 years of peace in Western Europe, the overwhelming victory in the Gulf War and the mythical peace dividend, have only accelerated the political drive to reduce defense spending.

Unfortunately war is the lesson of history and nature of man. In recorded history there have been only 31 years of world peace. Since World War II there have been 150 wars in which over seventeen million people have died. 72

Future trends indicate there will actually be an increase in wars and not a decrease as is being predicted. Their causes will include the instability of the post cold-war world, a new wave of nationalism, traditional ethnic rivalries, migrations, weapons proliferation, religious fundamentalism, economic rivalry, and competition for natural resources(such as water and oil).

The drive to reduce defense spending and the increased potential for future wars simply means DOD must guarantee its forces are combat ready regardless of their size. It also does not mean there are areas in the defense budget which cannot be cut or deferred. Two prime examples are the nuclear testing program and the SDI/mini-star wars/earth wars programs.

Nuclear testing is a classic example of a program that has perpetuated a life of its own even though the international situation and America's national security provide no justification for its continued existence. The new SDI programs are still further examples of defense programs which bureaucrats and technocrats are attempting to save even though these programs have no real purpose for existence. In the hottest days of the Cold War there was no impenetrable shield against thousands of Soviet nuclear missiles pointed at the West. Why now, with the Cold War being over and with a $4 trillion national debt, should billions of U.S. dollars be spent on defense against accidental launchings or attacks by renegade nations or rogue commanders? Other means would be much more cost effective at preventing such events. Elimination of the entire SDI program should be a top priority in the reduction of defense spending.

Another area in which defense cuts could be made is in America's military participation in NATO. America must remain in NATO and fulfill its treaty obligations. However, times have changed dramatically since 1949 when NATO was created. The threat has been dramatically reduced, West Europe's economic prosperity allows them to provide more for their own defense, the European Defense Initiative(EDI) is gaining momentum, America's strategic deployment and reinforcement capability is combat tested and second to none, and the United States economy continues to stagnate with a $4 trillion national debt. Regardless of a U.S. State Department dominated by Atlanticists, these five reasons alone demand a significantly smaller U.S. troop strength in Europe then the 150,000 proposed by the current administration.

From a purely practical standpoint, the reasons to retain U.S. forces in Europe have nothing at all to do with the well-worn arguments regarding America's social, cultural, religious, historical and political ties with Europe. The pragmatic reasons to station U.S. military forces in Europe are four fold. First, to maintain a visible military commitment to our allies in Europe. Second, to improve interoperability and standardization with these allies. Third, to maintain a base force in Europe that could receive reinforcing U.S. units. Fourth and perhaps most important, is to have forward based military forces capable of protecting the interests of America and its allies in the North Africa-Middle East-Gulf region commonly referred to as the NAMEG arc.

Forces of European command could be reduced to a Joint T^sk Force tailored to 75,000 or less military personnel. Its primary mission would be in the NAMEG and thus it should be stationed in Southern Europe: Turkey, Italy, Greece and the Mediterranean. Increased cost savings and combat effectiveness could be realized by rotating air, sea, and ground units at six month intervals. The only sponsored U.S. dependents in Europe would be those of the various command headquarters and the receiving cadres of POMCUS units. The rationale that conventional size units like an Army Corps must remain in Europe with all its associated dependents, commissaries, DOD schools, medical facilities, etc. is constipated cold war thinking. The pressure will be increased to reduce defense spending because of the stagnated, debt-ridden economy. The oversized and outdated mission of U.S. forces in Europe make it an obvious target for major defense cuts. It is roughly estimated the implementation of the JTF-Europe proposed would reduce defense costs in Europe by over 50%. Its six-month operational rotation would make it a more combat ready force compared to the fixed garrison type environment that exists now. And finally its NAMEG mission orientation would be more in line with potential hot spots, U.S. economic interests, and 21st century realities.

The NAMEG arc will, if it not has already, replace Western Europe as the area most vital to U.S. national security. The NAMEG arc is the region running along the 30th parallel starting with Morocco in the west and ending with Afghanistan in the east. It includes the following countries: Morocco, Algeria, Libya, Egypt, Israel, Jordan, Saudia Arabia, Iraq, Kuwait, Iran and Afghanistan. Since the U.S. imports the bulk of its oil from this area, it is extremely dependent on the stability of the region. Any disturbance in the NAMEG which would interrupt the flow of oil would be a serious threat to America's national security. It has been suggested that another oil embargo could trigger a major crisis for America's debt ridden economy. 73

America must reorient its emphasis from Western Europe to the NAMEG arc. Consider the challenging problems that must be managed, monitored or potentially defused in the NAMEG. They include the uninterrupted flow of oil, Arab-Israeli tensions, Islamic militarism, terrorism, conventional and mass destruction weapons proliferation, renegade governments and organizations (Libya, Iraq, Iran, the PLO), severe water shortages, mass migrations from the NAMEG to Western Europe, and Turkey's ongoing disputes with its NAMEG neighbors. Also the recently discussed potential of Islamic volunteers from various NAMEG countries going to Yugoslavia to assist the local Muslims in the extended civil war, would certainly escalate the situation and may even force Western military intervention. These are challenges that must be addressed by the USA with or without the help of the European allies.

Furthermore the Pentagon's predictions on the future wars the U.S. must prepare for, should have placed more emphasis on the NAMEG region. Consider the potential of these five scenarios requiring some degree of U.S. involvement. First, the possibility of a war between Turkey and Iraq over Turkey's Ataturk Dam project on the Euphrates River. This project when completed will reduce the Euphrates River flow into Iraq by 50%. It is seen by Iraq as a real economic and agricultural threat. In addition, Turkey's competition with Iran for influence in the three CIS Islamic states has also caused an ongoing exchange of harsh political words. A resurgence of Saddam's stupidity or his attempts to biologically or chemically contaminate Saudi Arabia's oil fields may again require military action. An Islamic fundamentalist attempt to overthrow the current government of Saudi Arabia, either internally or externally inspired, could result in a request for U.S. military assistance. And finally, the possibility of Israel becoming engaged in a war in which it would require U.S. assistance beyond arms and material, can never be ruled out. Because of Israel's Jordan River irrigation projects, the volume of water flowing into the state of Jordan has been dramatically reduced. This has caused a water shortage of crisis proportions in Jordan. Many NAMEG observers feel the next war in the Middle-East will not be over oil but over water. 74

The discussion concerning the need for America to reorient its foreign policy toward the NAMEG arc and the potential war threats in that area are not a diversion from the topic of reduced government spending or debt reduction. On the contrary, the purpose of addressing these issues is to point out the real national security issues that must be dealt with despite the inevitability of future defense cuts. The final result must be a combat ready force whose mission and capabilities are focused toward the area most vital to U.S. national security interests. That is the NAMEG arc and not post cold war Europe.

This concludes the discussion of the four commonly discussed solutions for debt reduction. In review they included: increase government revenue, improve government efficiency, strengthen the national economy and reduce government spending. However, upon close analysis it becomes clear there are certain root causes of the debt which must be addressed before any of the four general solutions have an chance for success. The two root causes include America's moral and leadership crises.

The relationship between America's moral crisis and the solutions to reduce the national debt are not obvious on the surface. However, the following paragraphs will clarify the relationship and also explain why and how the moral crisis must be addressed prior to any successful efforts at debt reduction.

Few can deny there is a moral crisis in the United States. This so-called moral deficit was painfully evident to the entire world during the recent riots in Los Angeles. America's moral confusion is seen in its broad range of social problems. Consider the increases in violent crime, drug abuse, divorce, child and spouse abuse, pornography, poverty, homeless, racial divisions, overcrowded prisons, abortion, homosexuality, aids, and legal suits. In addition, the national work ethic is apparently deteriorating and America's education system is unable to effectively teach either basic subjects or simple vocational skills. Finally, America's churches have become irrelevant in providing either moral leadership or in impacting on the nation's social problems.

What has caused the moral crisis, how does it impact on debt reduction, and what can be done about it? The primary cause of the moral crisis stems from the fact there are no longer any nationally accepted standards of right and wrong. The traditional standards of morality on which America was founded and its laws based, such as the Bible, the Ten Commandments, and the Judeo - Christian ethic, have since been discarded or replaced. They have been discarded primarily through complacency, indifference, apathy or negligence. Millions of Americans have replaced them with Humanism, Secularism and Materialism. Even the natural laws of conscience have become increasingly silent because of the deadening effect of contemporary society.

There appears to be no nationally accepted standards of right or wrong, no creed or code of right behavior, and no absolutes which can be referred to regardless of time or circumstances. The absence of these values and principles of right and wrong conduct, have forced Americans to create their own code. This is often based on greed, self-interest and personal indulgence. It causes an approach to life and decision making which is often confused, disoriented, oblivious to the welfare of others, and at times even self-destructive.

A primary principle of the traditional definition of morality was that pursuit of ones ambition and self-interests was acceptable only if these interests did not injure, harm, or unjustly affect the well-being of others. Based on this definition, government spending to help the victims of the Great Depression was moral.

Even President Johnson's increased social spending in the Great Society received moral applause because it was to eliminate poverty. However, the changing moral climate in America in the

1960's and 1970's, coupled with the ever increasing national debt, had an amazing result. During the Reagan years the size and growth of the debt began to startle many. However, neither the majority of politicians nor the American public took action to curb spending. Both placed their self-interests above the national interest. Despite the obvious outcome of irresponsible social spending, politicians in an effort to protect their incumbency, did nothing to reduce this spending. In addition, the American public had in many cases become dependent on government handouts. It was easy money, taxes were seldom raised to meet entitlement increases, it gave many a sense of security (albeit false), and it allowed many to avoid personal responsibility since the government was now responsible for almost everything. The politician's and public's gratification took precedent over any consideration of the burden the debt would place on future generations.

As previously stated, a primary principle of traditional morality was that the pursuit of ones own interests was acceptable if it did not injure, harm or unjustly affect the well-being of others. America's moral crisis has caused this principle to be discarded. The self-interest of politicians and the Americans who received government entitlements has been placed above both the national interest and the best interests of America's future generations.

It is America's children and grandchildren who will have a reduced standard of living because of the national debt. Few have challenged the morality of having the nation's future generations pay for the welfare, unemployment, medicare, and Social Security of

Americans who received their benefit checks in the 1960's, 70's and 80's. Few have challenged the morality of having their descendants send billions of dollars of interest payments (on debts accrued before they were born) to international money lenders in the Middle East, Europe or Asia. Few have challenged the morality of politicians who allocate money the government does not have and will not have to pay back during their terms of service.

Furthermore, few have questioned the morality of someone who recognizes the injustice of the debt problem but because of self-interest, complacency or moral cowardice does nothing about it. Finally, what is the morality of burdening future generations with an impossible debt without considering what their input might be if they were present to speak for themselves?

These are injustices of the first order. They actually make a farce of democracy for future generations. The good intentions and morality of the New Deal and the Great Society have been replaced by a philosophy of "personal-interest above the general interest." This is the ultimate evidence and result of America's moral crisis. It has given the United States a $4 trillion debt, an uncomfortable economic future and a major national security challenge.

For these reasons it is believed America's moral crisis must be solved before any serious debt reduction can take place. Standards of right and wrong behavior must be reestablished, absolutes must be set, and personal interests must again become subordinate to the general interest. But how can a moral crisis of this magnitude be solved? This brings us to the second root cause of the debt: America's leadership crisis.

To solve America's problem of the national debt first and foremost there must be strong national leadership. The President of the United States must provide the leadership and the direction. He must be the guide and take the lead to show the way. Without his example, moral authority and total involvement, the debt problem will never be solved. The real crisis is whether or not this quality of leadership is available now or is capable of being produced in our media-scrutinized society. Are any of the candidates in the 1992 presidential campaign capable of rising to the leadership challenge of debt reduction?

The President is America's military commander-in-chief and the executor of its foreign policy. In these positions he must identify and react to national security threats. Since the large national debt is a security threat, he must be able to articulate clearly and convincingly why it is a threat, outline a program to reduce the debt, and finally provide the leadership and resolve to ensure this program is effectively implemented.

Debt reduction will be extremely controversial because it would involve deep cuts in social entitlements programs, a probable increase in taxes, reduced personal consumption, and even a temporary drop in the average Americans standard of living. To convince the American people and Congress of the need of this would require a courageous, charismatic leader with extraordinary communications skills. Politically a second term president would be in an ideal position to initiate a debt reduction program. A first term president who would place the good of the country above a second presidential term would also be a good candidate to begin debt reduction.

As the great presidents of the past have done, the President who would have the courage to tackle the problem of debt reduction must create a national vision, establish a national goal and give the country a sense of mission. A debt reduction program would require a psychological preparation of the people that would be done if the nation was going to war. To take an intangible idea and make it a reality is a mark of greatness. To establish and gain support for a program that may actually cause some to take a dip in their current lifestyle in order to secure a better future for their children and their grandchildren, would be no small task. It will be a task for great leadership in the tradition of Washington and Lincoln.

Major presidential programs of the past were given catchy names which assisted in transmitting the president's vision to the people. Examples of this includes FDR's New Deal, John Kennedy's New Frontier, and LBJ's Great Society. The debt reduction president would also have to develop a clever name for his reduction program such as the Great Economic Recovery Program, the Economic Renaissance, or the Comeback of America. This name could greatly enhance the image and popularity of the program.

Based on the extraordinary influence of his position, the President more than any other person or organization is able to affect the national morality crisis. Through enlightened and aggressive leadership he would be able to set the moral climate required to sell a debt reduction program to the nation.

As America's national leader, the President is able to influence moral attitudes by both real and intangible means. His intangible influence can be exerted through his character, personal example, conduct, conversation, public speeches and family life. Furthermore the extensive tangible resources available to him could all be mobilized for debt reduction.

Since he must approve or veto legislation proposed by Congress he could greatly influence the moral impact of the nation's laws. In addition, his intolerance of wrongdoing and response to moral violations in his own administration would go a long way to influencing an improved moral climate.

He could encourage Americans to vote, to get involved, to be community minded, to work hard, to be conscious of others rights, to accept responsibility for one's self and to be less dependent on government assistance. The President's moral encouragement would in no way violate the concept of separation of church and state. Morality, as referred to in this paper, has nothing to do with any church or organized religion. It is the principles of right and wrong as dictated by conscience, natural law, and the common sense of a rational person.

Numerous examples exist of strong national leaders affecting the moral attitudes of the country. While Prime Minister of the United Kingdom, Margaret Thatcher constantly stressed a strong work ethic and on the job efficiency. Her influence was so powerful and respected that today she is credited with having turned around the British attitude toward work. Brian Mulroney, the Prime Minister of Canada, has championed numerous social program cuts, cuts which have significantly reduced Canada's national debt. He did this primarily by stressing a return to individual responsibility and personal accountability. 75

Finally, the presidential leadership that would attempt to reduce the national debt and change the moral climate in the country cannot be weak willed, or an unbalanced, naive moralist. He must be an unusually strong individual, with clear ideas and the courage of a lion. His programs would undoubtedly be critized by everyone in a society that is convinced instant gratification, self-interest, and Gulf War results are the standard.

There are ten conclusions that can be drawn from this study of the public debt's impact on national security. First, the size of the nation's debt is so large and its implications so far-reaching it is in all probability the biggest challenge the United States has ever faced. No hand held calculator and few computers are even programmed to deal with numbers in the trillions. Who could even visualize $4 trillion? This sum equates to four million piles of money of one million dollars each! The debt crisis is of such proportion the President cannot even discuss its implications without facing a confidence crisis. What size debt will bring America to the point of no return; the point when repayment is no longer possible and economic disaster inevitable?

Second, economic thinking in the United States today dates from the Keynesian New Deal era and is therefore irrelevant. It provides no answers to the debt problem. New economic thinking is required to effectively deal with the size and complexity of today's integrated national economies and difficult problems such as national debt.

Third, America's recent recession and its current economic stagnation are both the result of the large national debt. The USA's low individual savings rate and its increasing interest payments will continue to stunt economic growth until the debt is reduced. Therefore recession and poor economic performance are the inevitable agenda items for the nation's economic future.

Fourth, the large national debt will result in strong and continued pressure to reduce the defense budget. These defense cuts will be unavoidable. Combat readiness will undoubtedly be affected. The Defense Department's military and civilian leadership will have a significant challenge in maintaining a combat capable force in a world that will see more and more of war.

Fifth, if the United States does nothing to reduce its national debt, the resultant economic stagnation will erode its global leadership position and also its ability to influence world events. A large debt would increase the national tendency toward isolation, reduce national will, and significantly affect America's allies confidence in U.S. determination and capability.

Sixth, a worsening debt situation could cause America to either disengage from world and regional organizations or assume a role of shared leadership or even followership.

Seventh, America's foreign policy and military focus must change from post cold war Western Europe to the NAMEG arc. The NAMEG has and will continue to have the highest crisis potential of any region in the world. Since its oil is critical to the U.S. economy, all efforts must be made to protect America's vital interests in this explosive area.

Eighth, U.S. debt reduction can only take place with a strong presidential leader who can transmit a vision to the people and impact on the nation's moral crisis. This moral crisis has been caused by the loss of absolute standards of right and wrong behavior. This confusion of values has resulted in America producing Congressional leaders and a general public who find it acceptable to harness an impossible debt situation on future generations. This was done in exchange for today's votes and today's government entitlement checks. Government spending on entitlements, which consumes 50% of our annual budget, must be curbed. Only a strong willed and courageous president, in the tradition of Washington and Lincoln, could influence the moral renaissance that would be required to curb entitlements and reduce the debt.

The ninth conclusion is also a prediction. Neither the strong leadership nor the moral renaissance required for effective debt reduction will become a reality. As has been the trend, nothing of any substance will be done to curb government spending or reduce the debt. Some event or crisis will occur that will trigger an economic crisis in the United States. This could be a war, an oil embargo, or some event that would shake the confidence in the dollar. Unfortunately it will then be too late, but at that point and not before, America and its leadership will address the national debt in earnest. The national security impact of this economic crisis will depend upon its length, scope and severity.

The tenth and final conclusion is a comment made by Dr. R. H.

Schuller. He observed, "Again and again, the impossible problem is solved when we see that the problem is only a tough decision waiting to be made." 76 Unfortunately for America, neither its political leadership or its people have had the will, the courage or the foresight to make the tough decision.

APPENDEX: SIMPLE INTEREST CHART FOR THE FEDERAL PUBLIC DEBT OF FOUR TRILLION DOLLARS

ANNUAL INTEREST RATE	ANNUAL INTEREST COSTS	DAILY INTEREST COSTS	HOURLY INTEREST COSTS	INTEREST COSTS PER MINUTE	INTEREST COSTS PER SECOND
10%	$400 BILL	$1.1 BILL	$46 MILL	$750,000	$12,500
9%	$360 BILL	$981 MILL	$40.5 MILL	$675,000	$11,250
8%	$320 BILL	$872 MILL	$36 MILL	$600,000	$10,000
7%	$280 BILL	$763 MILL	$31.5 MILL	$525,000	$8,750
5%	$200 BILL	$545 MILL	$27.5 MILL	$375,000	$6,250
4%	$160 BILL	$436 MILL	$18 MILL	$300,000	$5,000
1%	$40 BILL	$109 MILL	$4.5 MILL	$75,000	$1,250

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