

Is the USA Too Big to Fail?

By Alan Caruba

Lately I have been playing with the question, is the United States of America too big to fail?

Greece's bonds are now rated as "junk." It will have to be bailed out with billions from the nations of the European Union, but Portugal is not far behind and so are Italy and Spain. Iceland went belly-up months ago. Meanwhile, the sovereign debt of the United Kingdom, plus the assets of its five largest banks, exceeds 500% of its gross domestic product (GDP)!

According to Forbes, in the United States the total federal debt, including debt held by government agencies like the Social Security fund has ballooned by 50% since 2006 to \$12.3 trillion. The U.S. government debt-to-GDP ratio is 84%. A tipping point into default is generally believed to be 90%.

Can the whole financial system be gamed? Well, yes. On September 15, 2008 there was a suspicious, coordinated withdrawal of \$550 billion from American banks just before the end of the 2008 election campaigns. It forced the Federal Reserve to shut down the drain of funds leaving the nation.

Within days the then-Secretary of Treasury, Henry Paulson was asking Congress to cut him a blank check for billions in order to stave off the collapse of major financial institutions. Subsequently, one of them, Lehman Brothers, was allowed to fail while a forced marriage between Bank of America and Merrill Lynch ensued to keep the latter from failing.

Troubled asset or TARP funds were dispensed and repaid. It's hard not to make a profit when the Federal Reserve is lending you billions at zero interest rates.

It is now official White House policy to berate Wall Street and threaten it with a ruinous expansion of regulation. Others considered enemies of the state by the Obama administration include insurance and pharmaceutical companies, along with producers of oil and coal.

The whole world of central banking is deliberately murky to the outsider. I have no idea how it works except that their first imperative is to remain solvent so that the sovereign entity they serve remains solvent as well.

That is not easy in an era when most nations have socialist regimes requiring very high taxes with which to redistribute their nation's wealth. This is further complicated if the nation's population is aging as is the case throughout Europe. America is aging too as the Baby Boomer generation begins to reach 65.

In point of fact, Social Security, the oldest Ponzi scheme in town, is now taking in less money than it is paying out.

Ironically, an element of this aging is the fact that America has had a remarkable healthcare system that has contributed to expanding average life expectancy to 78 among men and over 80 among women. That will change if Obamacare is allowed to make the rules. Old people will become expendable.

The other Ponzi scheme is Medicare and Medicaid. They are expected to go broke in about eight years or so. All of the billions collected from income taxes every year now go to Social Security, Medicare/Medicaid, and to defense spending. To pay all other government expenses, the money must be borrowed.

When you “reform” Medicare as the Obama administration and the Democrats in Congress just did and it turns out that it is going to cost billions more than the former system, you have to wonder about the depths of stupidity involved?

A child born today arrives with a debt of \$30,000. To secure a college education, the average expense is around \$100,000. Life in America is going to be ruinously expensive, including for the 40% of Americans who pay no income taxes.

Beyond the borrowing and spending is another factor that is being ignored or undermined. The nation requires a dependable supply of electricity to keep EVERYTHING going. When the electricity stops, the nation will stop. It will be unable to function. Computers, the banks, the trains, the airlines, the supermarkets, gas station pumps, television, heating and cooling systems, elevators....EVERYTHING.

This is hardly the time to be lavishing billions in federal subsidies on dubious “clean energy” systems such as wind and solar, but that is exactly what the Obama administration is doing.

The reality is that coal-fired, natural gas and nuclear energy generates 88% of the electricity we use. We need more, not less, as our population increases.

At what point do Americans begin to ask why the Obama administration:

Has imposed a very expensive overhaul of the nation’s health system,

Is opposing the development of traditional sources of electrical power and for transportation,

And is attempting to impose the biggest tax on energy use (Cap-and-Trade) in the nation’s history.

Perhaps the worst idea is a VAT (value added) tax that will affect every purchase of, well, everything.

At what point will the economy of the United States of America simply fail under this very unpleasant set of conditions? The answer in part is when other nations decide not to buy our treasury notes.

The United States has gone from the greatest economy the world has ever seen to being a creditor nation whose currency is in danger of being devalued.

I don’t like thinking about such things. No one does, but someone must.

Caruba blogs daily at <http://factsnotfantasy.blogspot.com>. An author, business and science writer, he is the founder of The National Anxiety Center.