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EDITOR'S NOTE

The U.S. financial mess continues: a bailout here, a bailout there, and pretty soon you're talking about real money. On October 3, 2008, Congress passed the Treasury Department's $700 billion Troubled Asset Relief Program. The major thrust of the multifaceted legislation was to get financial institutions lending again and heal the heart of the financial crisis. The U.S. economy runs on credit, and when credit is impeded, our economy can quickly get into severe trouble.

However, the bailout did not end there. According to Bloomberg News, the federal government has committed $7.7 trillion to shore up the U.S. financial system, an absolutely unbelievable figure equal to half the value of everything produced in the U.S. last year or $24,000 for every man, woman, and child in the nation. The commitment breaks down as follows: Federal Reserve, $4.75 trillion; Federal Deposit Insurance Corporation, $1.55 trillion; Treasury Department, $947 billion; Federal Housing Administration, $300 billion; and $200 billion for Fannie Mae and Freddie Mac not assigned to an agency. Bloomberg News reports financial institutions have already tapped over $3 trillion of the $7.7 trillion.

The Treasury Department and Federal Reserve have been unwilling to fully disclose the names of the banks borrowing, how much they are borrowing, and what collateral (asset to secure the loan) has been pledged. This is unnerving because, after all, it is the American people's money in the final analysis.

Where is all this money to come from? Borrowed money. Borrowed from whom? From home or abroad. China is one of our top foreign lenders. If China and other foreign government lenders decided to stop lending and start cashing in their Treasury bills, the federal government would have to resort to domestic lenders. Unfortunately, based on supply and demand, this would drive up interest rates. With the U.S. government borrowing heavily, demand for credit would rise, causing interest rates to rise, hurting U.S. consumers, making it more difficult for them to get credit to buy cars, homes, etc. Rising interest rates could slow down any economic recovery, adding further to the already mushrooming national debt.

Economic bailouts and stimulus packages are fine if they accomplish what they are supposed to. Initially, they increase national debt because they are financed by borrowing money. Deficit spending in the short run in the hope of long-term recovery, however, is not without risks, especially at the magnitude we are now considering. If deficit spending doesn't turn the economy around, the bigger national debt will make things even worse.

Our national debt is already over $10 trillion, not including more than $50 trillion in obligations for things like Social Security for baby boomers, soon to draw benefits. How much national debt is too much? No one really knows. The most important factor seems to be the debt/income ratio: national debt to Gross Domestic Product. When GDP grows faster than debt, we can usually make it. But in a recession, GDP growth diminishes and makes servicing (paying interest on) the debt all the more burdensome.

All of this is a scary picture. It is going to take some good judgment and sacrifice to deal with it, and perhaps a dose of good luck.

—Horace Johns, executive editor