
Chris Salcedo, Co-Host: Let's get you out to America's Radio News line. Standing by is Addison Wiggin, renowned economist, the executive publisher of Agora Financial and the author of *The New Empire of Debt: The Rise and Fall of an Epic Financial Bubble*.

Addison, welcome to America's Radio News.

Addison Wiggin, Agora Financial: Glad to be here. Nice to talk to you, Chris.

Salcedo: I want to talk to you about this report here, and how it ties in with our immense debt. There's a report out now saying that China is already saying the United States is defaulting on our massive debt - - already. This is according to Guan Jianzhong, president of the Dagong Global Credit Rating Co. Ltd., saying that we're already defaulting because of our terrible economic policies here in the United States. And as we're talking to you right now, our federal debt is due to eclipse our GDP for the first time since World War II. This is a bad situation, is it not?

Wiggin: It's a bad situation because China lends us more money than anybody else on the planet. Japan, India and South Korea are right behind them. But China has sort of taken the lead in the discussion of, or the critique of, U.S. policy because they hold some \$2.3 trillion in reserve and they own another trillion in U.S. Treasury bonds.

They have been aggressively, over the past 20 years, buying U.S. debt and accumulating dollars in the trading balance between the two countries. And it has been a benefit to them because that has been, historically, the store of value for central bankers around the world and governments looking to maintain a balance of their wealth.

But following the economic policy of the U.S., [Treasury Secretary Tim] Geithner and the Treasury, and even the Federal Reserve, the hubris with which they make the decisions, they're expecting the dollar to remain the reserve currency of the world and for U.S. Treasuries to be the flight to safety trade for as far as the eye can see. And now we're seeing China, and even India and South Korea, raising the alarm, saying, "Look, we are holding this debt. We expect it to be paid back. We expect it to be worth something in the future, and we don't think the path that the U.S. is on is a very sound one, and you better do something about it."

Lori Lundin, Co-Host: Let's talk about our debt here at home. We've got two political parties that are pointing fingers at one another, blaming each other. We've got the current administration basically saying they walked into a mess and that's it's really not their fault. Then we've got the Republicans saying that this president and this administration has made things worse.

How did we get into this mess? Is it true that these Bush tax cuts and the two wars and the Medicare prescription drug benefit contributed greatly to our deficit? Or are there other reasons that we're not talking about?

Wiggin: We spent 2½ years making the movie *I.O.U.S.A.*, which was a documentary film following David Walker, the former comptroller general of the country, around the country as he tried to convince people that the fiscal path that the U.S. was on was already unsustainable even before the election year in 2008. We started filming in 2005, and we actually premiered the film in 2008. So many of the problems that have reached a fever pitch now existed prior to the current administration.

We premiered that film on Aug. 22, 2008. So Obama wasn't president yet. But six weeks later, Lehman Brothers declared bankruptcy, and we went into overdrive in the bailout period, and kicking in the stimulus payments to state and local governments. And while we were already on a disastrous fiscal course, people weren't talking about it. And our film was seen as kind of gloom and doom, "We don't want to talk about that."

But as the new administration came in, they claimed they had inherited a mess. But they went into overdrive, spending four or five times the amount of the previous administration. So the problems existed, they just got exacerbated and made terribly worse over the past couple of years. Neither party is capable of admitting any kind of fault and/or proposing solutions that will even address the underlying causes.

Salcedo: Yes, at least at this point they haven't.

Addison Wiggin is our guest right now. He's a renowned economist, the executive publisher of Agora Financial, the author of the book *The New Empire of Debt: The Rise and Fall of an Epic Financial Bubble*.

And Addison, there's this phrase being thrown out, I wanted to run it by you -- and I talked to a various amount of our economists about this -- about how tax cuts actually add to the deficit.

Now, me, just being a really simple guy, I always understood that you have to spend the money to add to the deficit. That taxes are a mechanism by which we, the American people, tell these 535 senators and congressmen how much money they can spend, and if they choose to go over it, that's a spending problem, that is not a taxation problem. Am I reading that correctly?

Wiggin: Yes, absolutely. Another way that it gets phrased that's very curious is that they borrowed money to pay for the tax cuts, which doesn't make any sense either. The premise of those statements is somehow it's the government's money first and that we didn't cough it up in order to balance the budget.

Salcedo: Right. They went ahead and spent, and it's up to us to make up the shortfall for whatever program.

[CROSSTALK]

Wiggin: ...most people don't agree with.

Lundin: But isn't it true too that the Bush tax cuts during the Bush administration accounted for a big shift in our debt and the anticipated revenue that was wiped out, about \$6.3 trillion?

Wiggin: Yes, what happened was the financial markets in 2001 and 2002 got crushed because of the dot-com bubble, and then we saw that again in 2006 and 2007. Expected revenues from rising house prices never materialized, because the housing market fell apart.

The country is addicted to these asset bubbles. And politicians, while making their budgets -- it happens at all levels, at state, local, federal and with all the agencies -- they kind of plan the spending based on anticipated revenues from these rising asset bubbles. But when the asset bubbles fall apart, when the housing bubble crashes, and when the stock market goes down, those revenues never materialize, but the spending continues.

Salcedo: And that's the whole point, that it's impossible for tax cuts to add to the deficit. You must spend to add to the deficit.

Addison Wiggin, we appreciate your perspective. A renowned economist, the executive publisher of Agora Financial, the author of *The New Empire of Debt: The Rise and Fall of an Epic Financial Bubble*.

Sir, I always appreciate your perspectives. Come back soon here to *America's Radio News*.

Wiggin: Yes, absolutely. Thank you.