Written by **Steven J. DuBord** on November 13, 2009

Record Federal Deficit of $176 Billion in October

The federal deficit for October reached a record-setting level for that month: $176 billion. The Treasury Department made the announcement on November 13, saying the shortfall occurred as income of $135 billion was exceeded by $311 billion in spending.

This inauspicious beginning to the 2010 fiscal year comes on the heels of fiscal year 2009 ending with a historic $1.4 trillion deficit. This massive year-end deficit equaled 10 percent of U.S. GDP, and this was the highest deficit-to-GDP ratio since the end of World War II in 1945.

As President Barack Obama prepares to embark on a weeklong trip to Asia, there is concern that China, Japan, Singapore, and South Korea could reduce their treasury holdings. These four countries own 47 percent of America's foreign-held debt, with China and Japan possessing the most.

So far, figures for the month of August indicate that China has decreased its holdings from $800 billion to $797 billion, but Japan has increased its holdings from $724.5 billion to $731 billion. Nonetheless, the fact that the United States owes more than $1.5 trillion to these two nations alone should concern Americans.

Treasury Secretary Timothy Geithner recently tried to portray this fiscal mess in a positive light. In a CNBC interview of Geithner at the APEC summit in Singapore, the Treasury Secretary insisted that things will get better as the U.S. economy improves.

"As growth recovers and as the temporary support for the economy we had to put in place to solve the crisis, as that winds down then we'll be able to start to put our fiscal position on a path to a more sustainable position," Geithner stated. "That's important for the United States, important for global financial stability. Recovery is not going to be strong enough unless people are confident in that. And I think you can see — again if you look at broad behavior over the last several months you see a lot of confidence in basic fundamental stability of the U.S. financial system and a lot of confidence in the quality of our financial stewardship."

Geithner claimed that as bank-bailout money is repaid, the funds could be used to pay off the federal debt. "We are likely to have to borrow substantially less than we initially anticipated to help repair the damage to our financial system," he said. "You've seen capital start to come back to the government. Banks are repaying with interest. We're likely to see significant repayments ahead. That's gonna allow us to devote greater resources to debt reduction."

It's a pity that Geithner doesn't see, or won't admit, that the federal government didn't have to spend the United States into debt supposedly to save the American banking system. The free market would have determined which banks needed new leadership or weren't worth saving. Instead, big banking was shielded by the government from the consequences it deserved to suffer, and big government was able to excuse a massive growth of its regulatory powers over the nation's financial sector.

Even if the banks repay their bailout money with interest, they will forever pay the price of greater federal control over their operations. The interest paid by the banks must also be weighed against the interest the United States is now paying its debtors, such as China and Japan. If the bailout money had never been spent in the first place, the U.S. debt would never have skyrocketed to today's record levels.

Seeing that those at the Treasury Department ought to be America's brightest financial minds, the fact they refuse to change from their course of trying to spend the United States out of debt gives one cause to wonder what their true motives are.