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We have gotten ourselves into an economic mess and extricating ourselves will not be easy. I keep thinking that this task is made more difficult by two things; one old, one new. The old thing is the fact that few people have any real grasp of economics and the new thing is that regardless of their grasp very many people have access to the ability to spout views regardless of any thought process. As an example, let's consider the fact that very much of the money we borrow to run our federal government comes from foreign countries.

Over and over I hear people on major news networks raising the cry that at sometime in the near future China, or Japan, or Middle-Eastern oil producers are going to stop "investing" in U.S. debt and then we are going to have a major meltdown. Actually, this is not a new cry. Back in the early days of the Reagan Administration I would brief the USAA Mutual Fund Board quarterly on the state of the U.S. economy. And believe it or not, that time was almost as scary as now.

Ronald Reagan had inherited a legacy from Lyndon Johnson and Richard Nixon. LBJ was reluctant to pay for the Vietnam War. (Kind of rings a bell.) He was trying to run the Great Society as we fought that War much of which was financed off budget. Nixon then had to come to grips with the fact that OPEC realized, in 1973, that the bulk of the world's oil was theirs and they could set its price. Up until then they had allowed major oil companies to dictate pricing to them. In 1973 their thought process changed and on one day they quadrupled the price of their oil. The world gasped and their price stuck. There was no alternative. Inflation and interest rates took off. By the time Mr. Reagan came into office interests rates were in the high teens and inflation was in double digits. What did Mr. Reagan do? Rather than trying to curb spending, he embarked on a huge effort to grow our military capabilities. The effect, which I briefed to our Fund Board, was a soaring national debt. Then came the cry, what if Japan, from whom we were importing autos and electronics, and OPEC stopped buying our treasury securities? The supposed answer was that we would be unable to fund our federal expenditures and we would dive into depression.

What the doomsayers failed to understand then, as they do now, was that our dollars would not disappear. The Japanese economy was being driven by sales of those autos and electronics and OPEC's economies were dependent on selling oil. The dollars we sent them would not go away. They resided in their banks and every bank in the world is going to strive every day to earn interest on every asset they have. To do otherwise is suicidal for their business. And the easiest way to earn interest was, and is, to buy our treasury securities.

Some Board members asked then, what if they sell their dollars for another currency? My answer was twofold. They would probably take a loss and then whoever they sold to would in turn buy our treasury securities. And the weakening dollar would harm their market for the goods and commodities upon which their economies were based. So, such an action was not in their best interest.

China is today keenly aware of the importance of the U.S. economy to its economy, and its banks now face the same situation. The best thing that can happen to the economies of China and Japan and OPEC is for the U.S. to pull itself out of our current malaise. And a move to stop buying our debt would be a very, very bad thing for them, their banks and their economy. They and we need to use our heads to solve this problem which is something that inextricably links them and us.