Just Another Default, Not A Historic Default

While Obama and the legislators play games to determine who will win the political argument over the debt crisis, it is worth noting that neither the Democrats nor the Republicans have offered solutions that will *decrease* the national debt. They have merely offered differing versions of the pace at which it will *increase*. Obama will win the political argument because he has the media on his side and can count on it to portray any deal as the result of his brilliance and leadership.

Even a balanced budget amendment does absolutely nothing to decrease the national debt; it would only keep it from growing. Rather than vote to increase the debt limit Congress should instead vote to *decrease* it by a certain percentage or amount every year. That is the only way to reduce the national debt. No one in the nation's capital will do that, other than Congressman Ron Paul and Senator Rand Paul—but one vote in each house chamber is not enough to accomplish anything.

Although Obama and the legislators of both parties insist they will not allow the United States government to default on its debt obligations, it has arguably done so repeatedly over the decades. As an example, President Franklin D. Roosevelt's 1933 Executive Order 6102 ordered *all* U.S. citizens to sell their "excess gold" to the federal government—with "excess" meaning anything over $100 in value. They were paid $20.67 per ounce for the confiscated gold. *After* their gold was confiscated, the government arbitrarily set the price of gold at $35 per ounce—thereby robbing Americans of $14.33 per ounce. FDR, the favorite president of virtually all Democrats old enough to have heard of him, *forced* all citizens to turn over their gold and, after having collected it, essentially declared, "Now that I have your gold, I hereby decree that it shall be worth $35 per ounce!" Had that con game been perpetrated by an average citizen he would have landed in jail.

Anyone who had loaned the U.S. government money (via Savings Bonds, for example), would be paid back with dollars that were worth *less* when they were eventually redeemed. Buying $100 worth of bonds before 1933 was the rough equivalent of lending the U.S. government five ounces of gold ($100 divided by $20.67) After FDR's action those same bonds were suddenly worth less than three ounces of gold ($100 divided by $35).

Most consider the term "default" to mean not honoring one's debt, as in borrowing $100 and not paying any of it back. But if a government borrows money from its citizens and then later repays that loan with dollars that are worth less, it is not unreasonable to consider that a default as well—*especially when it was the government's actions that caused those dollars to be worth less*.

If one buys $10,000 worth of Treasury Bonds and in the future redeems them—after inflation has reduced the purchasing of $10,000 to $8,000—the government has in fact *cheated the lender out of $2,000*, doing so by recklessly printing money and reducing its value. The United States government has arguably defaulted on *all* of its debt payments since the creation of the Federal Reserve in 1913, because the dollars used to pay back borrowers have *always* been worth less than the dollars it borrowed.

Make no mistake, the debt ceiling *will* be raised, and the government will continue to borrow more than $1 trillion every year. In order to find borrowers for that debt, the interest rate will have to be increased. As a result, more money will flow from the private economy into Treasury bonds because investors consider the government—fiscal faults and all—a safer place to park their money than mortgage loans. After all, if a homeowner loses his job and runs out of money he cannot pay back his loan. But if the government runs out of money it will simply print more. Thus, as the government finds itself forced to pay a higher interest rate to finance its deficits, interest rates for consumers will also rise.

The problem with rising federal deficits is that there is only so much wealth in the world. Countries around the world have budget problems. In Europe, Portugal, Ireland, Italy, Greece, and Spain have unconscionable debt. The European Union is not about to bail out the Obama administration when it has its own fiscal problems. China can no longer be counted on to keep financing U.S. debt. It has been increasing its gold reserves because it does not trust the United States to straighten out its financial mess. Individual investors in the United States will no doubt continue to buy Treasury Bonds, but every dollar the government borrows from them is a dollar that is taken out of the private economy. If the Obama administration borrows $1.65 trillion to cover deficits, that is $1.65 trillion no longer available for lending to consumers and businesses. *That* is why credit "dries up"—the government has borrowed most of the money that was available to lend. If Obama borrows $20 billion to provide food stamps, that is $20 billion not available for mortgages, car loans, or business expansion. The answer to the question, "Why can't I borrow $100,000 to start a business and create jobs?" is, "Obama borrowed it first."

But it gets worse. Because the government will *not* be able to find enough borrowers to lend it $1.65 trillion this year and more than $1 trillion next year, it needs to get its hands on money somewhere. That "somewhere" is the Federal Reserve, which buys from the Treasury Department any bonds it could not sell. That means another round of "Qualitative Easing," or QE3. The dirty little secret is that the Federal Reserve actually has no money to buy those bonds. It simply makes bookkeeping entries, creating money out of thin air. Selling the bonds gives the government the money it needs to pay its bills, so it can start writing more checks to federal employees, government contractors, welfare recipients, retirees on Social Security, etc. Those checks are cashed and paid for with money printed by the government. The more "money" the Federal Reserve creates with the scheme, the more paper money enters the private economy. That is the definition of inflation: an increase in the money supply. Because there is more money chasing essentially the same amount of goods and services, prices go up. The more money created by the Federal Reserve, the more the prices increase. It cannot be avoided.

Rapid and continuing price increases, which most refer to as inflation, are not the fault of greedy businesses who simply want more money. They are the fault of the Federal Reserve having inflated the money supply—and the Federal Reserve inflates the money supply because the federal government wants to spend more than it can possibly collect in taxes. Obama cannot raise taxes by $1.65 trillion to cover his deficits because it would destroy the economy even more than he has damaged it already, and because Obama will not agree to massive spending cuts, he will have no choice but to resort to massive borrowing and massive inflation. There are no other options.

Keep all of this in mind after Obama proudly announces that a deal on the deficit has been reached—and keep your hand firmly on your wallet. Obama is unlikely to confiscate your gold as FDR did, at least not for a while. But he *will* get your money via the hidden tax of inflation. Don't expect the mainstream media to mention that as it praises Obama for "his steady hand and steely confidence as he stared down the Republicans to save the nation from fiscal disaster." He is not preventing a disaster. He is only delaying it—And making it worse.

Don Fredrick
July 16, 2011

Refer also to "Ten Economic Blunders From History" at
http://lewrockwell.com/orig11/chamberlain2.1.1.html