A Modest Proposal

By Editor Test *Tue, Aug 2, 2011*

Americans used to help their government by buying government bonds. I think we can solve our current debt problem by tearing up our government bonds!

As the debate over the debt ceiling raged last week, I thought of a simple way to solve our nation's financial problems. With one grand gesture, we could cut the national debt in half and remove a huge burden from our children and grandchildren.

I'm talking about debt forgiveness. Everyone who holds Treasury securities of any kind should simply rip them up or burn them. In World Wars I and II, Americans helped their country out of a fiscal jam by *buying* government bonds. Now we can help our country and progeny out of a tough spot by *tearing up* our government bonds.

To be sure, debt forgiveness will require sacrifice. The individuals, corporations, local governments, banks, insurance companies, pension funds and mutual funds that hold $3.6 trillion in U.S. Treasury debt might feel some pain.

But, frankly, is that debt worth the space that it takes up on government servers? The returns are negligible, if not negative. And redeeming it for dollars—i.e., monetizing the debt—could only lead to Weimar-style inflation. Better just to torch those obligations.

The Social Security Trust Fund and other U.S. agency trust fund should also forgive the $4.6 trillion in Treasury securities they hold. That's just more worthless paper. I say, shred it and be done with it. Our children will thank us.

China, Japan, Saudi Arabia and the U.K. may be slow to forgive and forget their $4 trillion in Treasury securities. But did they ever really think that those bills and bonds would ever be worth their face value? Please.

Of course, some people claim that every dollar of Treasury debt is also a dollar of savings. Warren Mosler, whose thoughts appear in a Guest Column in today's issue of RIJ, believes that the country's financial assets and its liabilities are simply two sides of a single balance sheet. Read the column and decide for yourself.

It occurs to me that, even after we've disposed of our government bonds, we still won't have completed the job of relieving our children and grandchildren of financial baggage. We'll still be asking them to buy the more than $15 trillion in stocks that we currently hold. How realistic is that?

Which leads me to the obvious conclusion that we should write off *all* of our paper. Let's face it, stocks and bonds are nothing but a big unfunded liability. Am I right or am I right? Let's send all of it to the recycling center, so that our grandchildren can inherit a country that's the world's biggest creditor—as it was 4o

years ago this month, when Richard Nixon severed the last thread of the gold standard.

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