Investors in U.S. Debt at Tipping Point?

When Terence Jeffrey, writing for CNSNews.com, noted that true federal spending for the fiscal year 2010 wasn't $3.7 trillion after all, but closer to $11 trillion, he discovered an old accountant's trick to make things look worse (or better) than they are: either double count, or don't count at all.

In the process of sorting out the accountant's trick, however, Jeffrey uncovered an unnerving fact: maturities on the U.S. debt are shortening. Translation: investors buying U.S. debt aren't willing to take long-term gambles on the country's future. Jeffrey notes:

> Of the $7.2 trillion in loans [that] the government paid off in fiscal 2010, $6.2 trillion were short-term bills that had matured in one year or less.
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> Of the $8.60 trillion in new loans [that] the government took out in fiscal 2010, about $6 trillion were in Treasury bills that will come due in fiscal 2011 — that is, before September 30 of this year…

In other words, three quarters of the new debt sold this year must be redeemed by the Treasury in six months! As Jeffrey exclaimed, "Our federal government is an exhausted man desperately treading water in a deep sea of debt."

Erskine Bowles, former chief of staff to President Bill Clinton and co-chairman of President Obama's fiscal responsibility commission, using slightly less colorful language than Jeffery, told the Senate Budget Committee essentially the same thing:

> It may be two years, you know, maybe a little less, maybe a little more. But if [the] bankers over there in Asia begin to believe that we're not going to be solid on our debt, that we're not going to be able to meet our obligations, just stop and think for a minute what happens if they just stop buying our debt.

The insiders Bank for International Settlements (BIS) was even more specific:

> Foreign investors in U.S. dollar assets have seen big losses measured in dollars, and still bigger ones measured in their own currencies. While unlikely, indeed highly improbable for public sector investors, *a sudden rush for the exits cannot be ruled out completely*. (emphasis added)

And why wouldn't such investors be nervous? Watching grownups pontificate and prevaricate and fiddle over insignificant so-called "cuts" in government spending, investors are hedging their bets by buying only short-term paper, just in case.

Just in case, indeed. Laurence Vance, writing for The Future of Freedom Foundation, reminded his readers that deficits aren't an Obama invention: "During the eight years of Bush's reign (which included a Republican majority in both houses of Congress for over four years), the national debt practically doubled, increasing from $5.7 trillion at the time of Bush's first inauguration in 2001 to $10.6 trillion on the last day of Bush's second term. " This is the same Republican party that noted in its 2008 party platform that

> Republicans will uphold and defend our party's core principles: Constrain the federal government to its legitimate constitutional functions…*Spend only what is necessary,* and tax only to raise revenue for essential government functions. (emphasis added)

With hypocrisy parading around as fiscal conservatism, investors in U.S. debt have every right to be nervous. At present, China holds $1.2 trillion of U.S. debt, while Japan has $882 billion. China has already backed off from making substantial new investments in U.S. debt, while Japan is in no position to be buying additional U.S. debt in light of its current need to raise funds to repair the damage wrought by the recent earthquake and resultant tsunami.

And so, where does the U.S. Treasury go when it can't find buyers? Why, to the lender of last resort: The Federal Reserve. As noted by The Economic Collapse blog:

> the Federal Reserve is not part of the federal government. In fact, the Federal Reserve is about as 'federal' as Federal Express is. The Federal Reserve is a private bank owned and operated by a very powerful group of elite international bankers…and when the US government needs to borrow more money, they go over to the Federal Reserve…

In 2009, as reported by CNBC, nearly 80 percent of all Treasury securities issued were bought by the Fed. And where does the Fed get the funds to buy this U.S. debt? Through the power of the printing press, although in today's world paper has been replaced by digits.

How do we know this? Fed Chairman Ben Bernanke appeared before the joint Economic Committee on Capitol Hill in April, 2010 and was asked point-blank by Rep. Ron Paul: "Well, where do you get the money? You created this money. So you did monetize debt, and that went into the banking system?" Bernanke nodded his head in the affirmative.

Austrian economists have been predicting, and are now seeing, the only net possible result: price inflation across the globe. Put another way, the Fed transfers wealth from people who have it to those who don't — namely, the deficit-ridden U.S. government.

Investors bold enough to buy U.S. government debt hope to be able to sidestep any sudden collapse by holding only short-term paper. And that's why what is going on in Washington under the banner of deficit reduction must be viewed as a distraction from the real issue: determined, deliberate debasing of the U.S. currency and further weakening of the U.S. economy.