

How to Solve the Deficit and Debt Problems in One Easy Lesson

In 1980, our total national debt, accumulated by **ALL** “tax and spend” Democrats and **ALL** “borrow and squander” Republicans in 200 years, stood at something like \$ 0.7 Trillion. Today, only a dozen years later, total debt stands at more than \$ 4 Trillion and it is increasing at the rate of another \$ Trillion every three years or so. Even if President Clinton achieves what he is trying to do, the debt will climb to \$ 5 to 6 Trillion before the deficit is eliminated. And there is another Trillion, hidden in our shift from biggest creditor to biggest debtor. And there may be yet another Trillion, if the rumored commercial bank and insurance scandals materialize. What a nightmare!

There is no way to give an analogy to our situation in the realm of personal finance, but let’s try anyway. Suppose that your salary is \$ 60,000 and you live in a \$ 200,000 house, on which you owe \$ 10,500. One fine day, you find that your pay has been cut to \$ 50,000. So, to cheer yourself up, you double what you have been spending on your favorite hobby, to \$ 1,000 per month, and you start making monthly trips to the bank to increase your mortgage by \$ 1,000 — to keep the bill collectors at bay. After some years, your salary is only \$ 48,000, but you now owe \$ 60,000 and you are still going to the bank every month to borrow another \$ 1,000. You haven’t been able to maintain your house properly, so it is now worth only \$ 120,000. Your banker is getting nervous and thinking of foreclosing. What are your options? Wouldn’t it be absurd to speak of “solving” this problem by trying to stop borrowing \$1,000 more every month, within 4 or 5 years? Realistically, your only options are to declare bankruptcy or sell the house.

What happened to all the Trillions, that Reagan and Bush borrowed and squandered? This money still exists in the form of T-Notes. Guys like you and me now owe it and those who have the T-Notes now own it. Thus, the practical result of Reagan-Bush economic policy was to effect the by-far greatest transfer of wealth in history. This is what Reagan set out to do, according to his first Budget Director Robert Stockman, but he also hoped that the resulting debt would end social programs forever. Nice fellow. Great Good Fortune was supposed to “trickle down” to you and me, but it didn’t.

The experiment failed, so why don’t we just undo it? The deficit is just the amount by which taxes were reduced in 1981 and 1986, so that can be fixed by just restoring 1980 tax schedule. The debt can also be fixed, by just transferring the \$ 3 or 4 Trillion, from those who received it back to those from whom it was taken (stolen??). All we have to do is cancel the T-Notes.

“You can’t do that,” everybody will scream, “T-Notes are a contractual obligation that cannot be abrogated”. Well, our Social Security Pensions are also a contractual obligation that cannot be abrogated. But that hasn’t stopped politicians from calling them “entitlements” and “putting them on the table”. And these same politicians speak of “fairly shared sacrifice”. Cancelling the T-Notes **IS** fairly shared sacrifice: T-Notes also figure in the pension funds of ordinary people.