



## Default Lies Not in Our Stars but in Ourselves

With the European economy in shambles from a seemingly intractable sovereign debt crisis and the United States technically out of money to fund its own bloated government, talk of sovereign default is in the air. Greece, the beneficiary of the first of three EU/IMF bailouts, is again on the ropes, insisting that it will not be able to meet its June obligations of more than \$13 billion in interest payments. The hard-pressed Greek populace, meanwhile, is balking at the range of financial austerities being urged upon them by their government's creditors, and Greece's political class is caught in the middle. The financial world is expecting Greece to default eventually, and other EU debtors like Ireland, Portugal, and even Spain to follow suit.



Here in the United States, the national debt is around 100 percent of our GDP. There appears to be little political appetite for making serious cuts in the size of the government, yet a significant bloc of Congressmen is vowing to prevent raising the debt ceiling unless cuts are legislated. Meanwhile, the punditry in Washington is insisting that default in any form is not an option; America has never defaulted, goes the official narrative, and isn't about to start. Should America default, we are told, the consequences would be catastrophic — for the rest of the world as well as for us.

Default, broadly defined, is failure to honor the terms of a debt contract. In moral if not in technical legal terms, any unilateral altering of the terms of repayment on the part of a debtor is a species of default. Nations rarely if ever go into open, total default; they instead resort to various time-dishonored tricks to rewrite the rules of indebtedness in their own favor. The most subtle, and withal widespread of these, is inflation — that is, indebted nations simply print their way out of debt. The United States, like every major financial power in the post-gold standard world, has steadily debased the value of the dollar, making service of our vertiginous national debt far easier in the short run than if the monies had to be raised exclusively from direct taxation. Because the dollar has been the world's reserve currency for several decades, we have enjoyed more political leverage in the debt shell game than other countries. The U.S. Federal Reserve and Treasury Department have created trillions in new money by issuing an almost limitless stream of government debt to a global market eager for the supposed security of the U.S. government's guarantee to repay with interest.

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But since the great financial collapse of 2008-2009, the Federal Reserve has abandoned all pretext of restraint, opening the money spigots far wider than ever before, devising entirely new ways of pumping dollars into the world money supply.

But signs are growing that the rest of the world is beginning to see the writing on the wall, namely, that



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even the almighty U.S. dollar will succumb eventually to the rules of economics and go the way of the German mark of the 1920s, and the Zimbabwe dollar and Argentine peso of a more modern era. Global enthusiasm for U.S. “treasuries” is starting to ebb, as investors tumble to the likelihood that the real value of their investment will melt away in the heat of hyperinflation.

In point of fact, there is no numinous certainty about American guarantees of good faith. After the Revolutionary War, the paper Continental dollar was inflated almost out of existence. At the onset of the Great Depression, the United States, along with the rest of the Western world, reneged on its pledge to redeem dollars for gold when it abandoned the gold standard that had endured for millennia. The United States wrought great havoc in world markets in 1971 when President Nixon unilaterally repudiated the U.S. commitment to redeem in gold dollars held by foreign investors. All of these episodes constituted serious breaches of faith tantamount to default, and all of them had dire economic consequences both nationally and internationally.



This time around, the United States is reduced to three options, only one of which is morally admissible: drastically reducing the size of government and paying off our debts responsibly. The other two are outright repudiation of all or a part of our debt — by unilaterally extending the terms of repayment, for example — or attempting to print our way out of trouble.

Across the pond, small countries with far less economic clout, like Greece, Ireland, and Portugal, will probably choose the course of outright default, inflicting ruin and misery on their citizens and triggering a cascade of insolvency among European banks with heavy exposure to worthless government debt.

Much of this may come to pass over the next few months, as Greece and the United States both face financial zero hours this summer. Regardless of the timing of the coming meltdown, the United States is faced with a stark choice: Restore fiscal sanity by returning to the discipline of the gold standard and reducing the size and cost of government to constitutionally legitimate limits, or follow the socialist nations of Europe into the economic abyss.



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