



Written by [Thomas R. Eddlem](#) on February 7, 2009

## T-Bills Gone Wild: A Crash in Progress?

Higher discounts at auction mean it is becoming more expensive for the U.S. government to float a fixed amount of debt, which means shouldering taxpayers with a higher interest burden and an even larger budget deficit. The U.S. government is expected to float \$69.25 billion in debt *next week alone*, and the pace is expected to increase over the next year. "It would be unprecedented to see every treasury security sold each month," UBS strategist William O'Donnell [told London's Financial Times](#). Yet that's precisely what Wall Street bond buyers expect this year, with three, 10 and 30-year notes being sold next week.



O'Donnell says an expected \$1.9 trillion U.S. federal budget deficit will force significant capital into the bond markets. "We expect \$1,900 billion in net borrowing for this financial year and this is the only way the Treasury can get there."

That \$1.9 trillion in new debt is more than 13 percent of the *entire* U.S. Gross Domestic Product, which is why MF Global Inc.'s Andrew Brenner [told Bloomberg News](#) "Anything that puts the economy back on an even keel will pressure the bond market." The more dollars drawn to treasury debt mechanisms, the more dollars that are sucked away from the private sector that could create an economic recovery. Thus, the deficit is likely to choke off any economic recovery on the horizon.

But it may also work in the opposite way. The federal government may try to float more debt than the market can absorb, with the result that the U.S. government would run out of money. That would force the Fed to inflate the currency even more, creating a major economic crisis. With the federal government trying to suck up one-eighth of the total dollar value of all final goods and services produced by the entire country, that saturation level may be reached this year.

All this assumes foreign investors like the Chinese government don't cut back their investment in U.S. Treasury securities — as they've [hinted they might](#). Worse still, Chinese and Japanese investors could dump their debt on the market and manufacture complete financial chaos for the United States.

Once upon a time people argued that a national debt doesn't matter because we owe the debt to ourselves. Not any more. Most treasury securities are now [held by foreigners](#). And with major foreign financial papers like the [Financial Times](#) reporting that the Congress has placed U.S. finances in a vice grip, those foreigners now have very good reasons to be more hesitant to invest in U.S. treasury securities.

No one would blame foreign investors for dumping U.S. Treasury notes, since the United States has legitimately become a bad financial risk. Both President Obama and the majority of Congress have campaigned lustfully for ever-increasing deficit policies. Neither has even proposed a balanced budget — now or at any time in the future — meaning that Washington plans to continue to spend money it



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doesn't have without end. When private citizens do this, they eventually have their credit cards shut off and face bankruptcy.

It now looks entirely possible that Washington will only face reality when the world has shut off the national credit card. The "full faith and credit of the United States government" is already meaning less and less in the private sector. And unless there is a tectonic shift in attitude in Washington, that trend will continue to spiral toward national economic disaster.



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