Trump Suggests National Debt "Deal"; Media Calls It "Fanciful" and "Dangerous"

A snippet from Donald Trump's conversation with CNBC on Thursday raised the ire of numerous media commentators, who called Trump's plan "unprecedented" (CNBC), "fanciful" and a "threat" (*New York Times*), and "tantamount to a debt default" (Yahoo Finance). Others called his remarks "reckless," while Tony Fratto, a former Treasury official in the George W. Bush administration, said, "This isn't a serious idea — it's an insane idea."

What sparked the ire? The initial impetus was when Trump said, "[The U.S. Treasury is] paying a very low interest rate. What happens if that interest goes up two, three, four points? We don't have a country. I mean, if you look at the numbers, they're staggering."

Indeed they are. The U.S. Debt Clock shows the national debt closing in on $20 trillion, while the economy is slumping along, with a GDP at just over $18 trillion. Put another way, it would take 106 percent of the country's entire economic output in a year to retire the national debt.

What Trump said next, however, set the media's chins to wagging: "If the economy crashed, you could make a deal."

{modulepos inner_text_ad}

Translation: If the economy can't pay off the national debt during good times, how will it manage it during a recession? That would be a perfect time, implies Trump, to offer those holding U.S. treasuries to accept less than their face value immediately rather than wait until they mature when the question is even more in doubt. It would naturally result in a lower national debt.

The responses from establishment types were predictable: unheard of, silly, he's disconnected from reality, he doesn't know what he's talking about, etc. Lou Crandall, chief economist at Wrightson ICAP, a money market observer, said no investor would think of taking less than what's been promised: "No one on the other side would [even] pick up the phone if the Secretary of the U.S. Treasury tried to make the call. Why should they? They have a contract" requiring payment in full. Even making the offer would rattle the world money markets, said the *Times'* Benjamin Applebaum, who then noted what happened in 1979 when the government temporarily delayed making a mere $120 million interest payment: Interest rates on U.S. debt jumped more than half of a percent, costing taxpayers roughly $12 billion. When the threat of a government shutdown occurred in 2011, interest rates jumped again, this time costing taxpayers an estimated $19 billion.

Matthew Yglesias, writing at CNBC, said Trump's mere suggestion that the United States might default on its promises "revealed a dangerous ignorance about the operation of the national monetary system and the global economic order" and provided "a brilliant case study in the profound risks of attempting to apply the logic of a private business enterprise to the task of running the United States of America." According to Yglesias, "Applying this idea to the United States would destroy the economy.... The interest rate charged on state and local government debt, on corporate debt and on home loans will spike…. Business investment will collapse, state and local finances will be crushed, and shockwaves will emanate to a whole range of foreign countries that borrow dollars."

Yglesias is a 35-year-old blogger who "attended" Harvard University, where he studied philosophy, not economics. For a brief period he worked for the Center for American Progress, where he wrote for its blog, ThinkProgress. In other words, he doesn't have professional credentials to support his opinion, but that apparently didn't matter to CNBC.

One who does sport real-world experience that extends far beyond expressing establishment opinions from a cubicle is Peter Schiff, the CEO and chief global strategist of Euro Pacific Capital, Inc., a broker-dealer with offices across the country, and host of *The Peter Schiff Show* on Internet radio. Following Trump's interview, Schiff explained on CNBC's *Futures Now*:

> Trump just admitted … that America has too much debt to afford a rate hike, and that he wants our creditors to accept less than 100 cents on their Treasuries.
>
> In other words, Trump knows a U.S. government default is inevitable.

So, apparently, does the credit rating agency Standard & Poor's, which downgraded U.S. sovereign debt in 2011 to below the AAA rating it has enjoyed for decades. At the time the *Wall Street Journal* explained:

> S&P removed, for the first time, the triple-A rating the U.S. has held for 70 years, saying [that] the budget deal recently brokered in Washington didn't do enough to address the gloomy outlook for America's finances.

It downgraded long-term U.S. debt to AA+, a score that ranks below more than a dozen governments, including Liechtenstein's, and on a par with Belgium and New Zealand.

S&P also put the new grade on "negative outlook" meaning the United States has little chance of regaining the top rating in the near future.

In June 2014, S&P affirmed the downgrade but raised the near-term outlook from "negative" to "stable," as a result of some temporary shrinkage in budget deficits. A year later (June 2015), S&P reported no change in its rating of U.S. sovereign debt "because a high level of government debt … persists" and that while the country's debt burden has temporarily stabilized, "it will likely rise toward the end of the decade" if the government doesn't do something.

Just two weeks ago S&P weighed in on the United States' and the world's economy, saying that since their last report, "The prevailing sentiment today is that credit conditions are generally less favorable for all regions," including the United States.

Boston University Professor Laurence Kotlikoff has complained before congressional committees and in numerous articles that even the $20 trillion national debt officially reported is far less than the actual amount promised. By his calculations, which compare the present value of future revenues to the present value of future promises, the real national debt exceeds $200 trillion.

At present, debt service soaks up more than $200 billion annually, but is estimated to approach one trillion dollars a year within three years.

By definition, any failure to meet the legal obligations of the conditions of a loan is a default. That means that the federal government has been systematically defaulting on its promises for years. When it degrades the value of its Federal Reserve notes through inflation, that is a de facto default. When the Social Security Administration pushes back the retirement age before a beneficiary can receive promised benefits, that is a default.

What happened on Thursday at CNBC is that Donald Trump directed the conversation to talk about the elephant in the room, and the media and Wall Street didn't want to be reminded of it.

The implications are clear: The United States is on the same path as Brazil, Argentina, Puerto Rico, Greece, Chicago, and Detroit. There, taxpayers are already paying the price of broken promises made by insolvent governments run by Keynesian economists and socialists who think they can continue their profligate spending without repercussions. Kudos to Trump for being willing to talk about it.

A graduate of an Ivy League school and a former investment advisor, Bob is a regular contributor to The New American *magazine and blogs frequently at LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.*