Re: Government Debt versus Private Debt

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I'm afraid that much of this is incomprehensible to me, whether due to my own ignorance and obtuseness, or due to the obfuscation of the writer I cannot say. However, a few points stand out to me as either requiring clarification or perhaps just wrong. In the interest of brevity, I'll clip the rest.

> Why the Government Borrows
>
> The public borrows from banks in order to acquire credit money to
> spend on investment or consumption. In contrast, the government
> borrows from the public only as needed to recapture its deficit
> spending, all of which is base money. It does so to enable the Fed to
> control the supply of reserves (base money) in the banking system, and
> thereby control the short term interest rate. The ultimate objective
> is to control the inflation rate over the long term.

Silly me. I thought, just like the rest of us, the government borrowed money when it needed/wanted to spend more than it had 'earned' (i.e. taxed).

> Treasury securities offer an interest−earning alternative to the money
> the government spends into circulation. .... There
> will always be willing buyers of Treasury securities because the
> Treasury can pay whatever interest rate the market demands. The Fed
> strongly influences the market rates on Treasury securities through
> its selection and control of the Fed funds rate.
....
> Government borrowing has no net effect on the amount of base money
> since its deficit spending matches its borrowing, on average.

Shouldn't that be deficit spending plus interest on money previously borrowed matches its borrowing?

> The interest rates on short term Treasury securities and on credit
> money are both a function of Fed monetary policy, and not a function
> of each other. The notion that the interest rate on one directly
> affects the other is to misunderstand the causal relation.

Even if it isn't a direct causal relationship, I find it difficult to believe that no causal relationship exists. Don't those who set the Fed fund rate base their decisions, at least in part, upon current interest rates of both Treasury securities and credit money? Surely they don't make such decisions without taking current rates into consideration! And if they do, that makes the interest rates on credit money and short term Treasury securities indirect functions of their own and each others' previous rates.

> *Government Debt as Perpetuities*
>
> *Unfortunately conventional wisdom overlooks the fact that the debt can*
> *be carried indefinitely at no financial risk to either the government*
> *or the private sector. Individuals can become bankrupt with too much*
> *borrowing, but the State can never become bankrupt if it borrows in*
> *the same currency it issues.*

> *Nearly everyone views government debt as a future tax liability of the*
> *private sector. This is true only in theory. The unique position of*
> *the State as issuer of the monetary base, enables it to roll over its*
> *debt continuously. By electing to do so, its securities become the*
> *functional equivalent of perpetuities, i.e. bonds that have no*
> *maturity and thus are never redeemed. De facto, there is no net tax*
> *liability on perpetuities.*

Governments can, indeed, go bankrupt. Or at least, they can choose not to repay loans. It's happened in other countries − usually accompanied by a 'changing of the guard' so to speak. No reason it can't happen here, although I dread the social upheaval that inevitably accompanies such things. Governments come and go; they don't exist in perpetuity. Thus neither does their debt. A defunct government is no more likely to repay its debt than a dead consumer is. I suppose, in a way, that supports your contention. De facto, there is no net tax liability on perpetuities.