

# Re: National Debt

---

*Source:* <http://sci.tech-archive.net/Archive/sci.econ/2007-05/msg00139.html>

---

- *From:* "The Trucker" <[mikcob@xxxxxxxxxxx](mailto:mikcob@xxxxxxxxxxx)>
  - *Date:* Thu, 10 May 2007 11:14:35 -0700
- 

"Lantern" <[lantern01@xxxxxxxxxxx](mailto:lantern01@xxxxxxxxxxx)> wrote in message  
<news:1178814910.835545.175130@xx>

On May 9, 6:12 pm, "Dan in Philly" <[d...@xxxxxxx](mailto:d...@xxxxxxx)> wrote:

"Steve Campbell" <[SteveCampb...@xxxxxxxxxxx](mailto:SteveCampb...@xxxxxxxxxxx)> wrote in message ...

The Fed needs some national debt to conduct open market operations with bonds that are its primary tool for regulating the economy with the money supply and, thereby, controlling inflation. Some criticism of a very large national debt follows:

1. ...
2. ...
3. ...
4. ...

These responses might have been a little too clear & logical for many sci.econ participants.

5. The compulsory sale of bonds by the Fed to finance the debt reduces the money supply and increases the value of the dollar against foreign currencies.

That's why the Fed is a net \*buyer\* of bonds. The \*Treasury\* sells bonds to finance the debt.

Dan in Philly

## Re: National Debt

What about the notion that if you can carry the debt, the debt is no problem.

For years I have been trying to explain this stuff in a way that even the minimally aware can understand it. Perhaps the best way to look at it is to (in your mind) coalesce the Fed and the Treasury into a single harmonious group. That is the reality anyway. These two institutions work hand in hand to do the job of government finance and monetary control.

Money (dollars in bank accounts of the Treasury) is CREATED when the government spends money into existence. The Treasury accounts in the central bank (spelled Fed) are NEVER overdrawn or insufficient.

The problem then becomes the control of all this money that has been created and thrown into the helicopter blades of government to come to rest we know not where. If the money is allowed to slosh around in the economy for too long then the amount of actual dollars will grow too large and the value of the dollars will erode. That is why we have taxes and the sales of various types of "interest" bearing mattresses called government bonds. What else will the rich people who already have all the money they could ever use do with this extra money but to put it into bonds?

That is what keeps dollars scarce and keeps them worth something; this sale of bonds and this taxation. If interest rates on the bonds are very low and there is inadequate tax revenue then the amount of real live spendable money increases and the currency is devalued. That is what has been happening since 2000. And if short term rates are kept low and government borrows on the short term (lots of 6 month bonds) then both money and bonds continue to lose value. Over time this SHOULD attend to trade imbalances.

The time of reckoning is put off by the current bond holders. If they refuse to buy more bonds at low interest rates then the value of the bonds they already own at low interest rates will deteriorate even more than that value has currently deteriorated. You must always remember that the only thing you can get for a bond is money. And if the value of the money has eroded then so too has the value of the bond.

I keep using the word "value" and it is time to address what it means. Value is measured in one's control of labor and natural resources. Money buys both land and resources. As these prices rise we are actually witnessing the decline of the value of the dollar. The apparent stock market rise is also a part of that.

—  
"I know no safe depository of the ultimate powers  
of society but the people themselves; and  
if we think them not enlightened enough to  
exercise their control with a wholesome  
discretion, the remedy is not to take it from  
them, but to inform their discretion by  
education." – Thomas Jefferson  
<http://GreaterVoice.org>