Social Security and the IOUs

This paper was written in response to a person, who posted on a bulletin web board, that we didn't have to worry about the Social Security bonds that have been issued against money that was supposed to be put into an untouchable account by our politicians, in Washington. The 'poster' believes the bonds are *as good as gold*. They're not.

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Rick,
I would disagree with this comment. There are IOU's in the trust fund that are backed by US Government bonds. Those bonds are backed by the 'full faith and credit' of the US Gov. Full faith and credit is the taxing power of the Government.

If we are hit with an economic crisis in that matches or comes close to a crisis such as 1929 era, then those IOU's are devalued. How much? No one knows but an educated guess would be 75%. (I've been trading bonds since 1984).

With the US currency worth 5.3 cents of it's original value, we would have no choice, in the next economic crisis, but to abandon the US Dollar. There will be calls for a devaluation of the currency, but I don't think that'll float with the new Euro being so new and so strong.

There's a lot of 'ifs' in that scenario. Maybe we don't have an economic crisis? What then? Will the IOU's still be worth what they are today or say close to today's value? Yes they would be. The caveat is that since the government borrowed our trust fund and lent it out, they must pay interest on that debt and that debt service is growing daily just like the national debt. They will have to continue to sell more bonds to pay for the debt service and the Ponzi scheme starts all over. Similar to what they are doing now with the national debt. On an aside, it amazes me that no one mentions that the 50 states are collectively in debt more than the feds. (About 8 trillion). And, those states are picking up the pace in borrowing. I know, I trade their debt.

One little fact that I can't put aside is that never in the history of mankind has there been a currency that has not been abandon when its original value hits about 1 cent. The US Dollar is projected to do just that about 2009.

It sure would get the government and the states off the hook with all those bonds. By abandoning the currency attempting to devalue it in any way it reduces it's debt owed very quickly. Most of the debt owed would disappear including our trust fund. Not to mention the economic havoc it would cause the seven biggest US banks. They own 96% if the 142 trillion debt outstanding in the world right now. Yikes.

The moral is, 'the easiest way for a government to reduce its debt is to devalue their currency. '

I'll leave you with this quote:

Rep. Mark Sanford

Foresight is something folks in Washington could use right about now. At the beginning of April, the Social Security trustees told Americans that the nation's retirement system would go bankrupt about 24 months later than we had expected. According to their calculations, the wolf will not be at the door until early next century.

In 1998, Social Security ran a $100 billion surplus. Washington spent $30 billion, and the remaining $70 billion paid down existing federal debt. Not a penny was used to pay for Social Security reform.

Take care,
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