

Government Bonds

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The greatest and most harmful scam of our nation's history is the creation of the government bond. Government bonds are the tools that are used to finance our growing and out of control government spending. While foreign and domestic investors do purchase these bonds; that investment does not provide near enough money to feed the machine, therefore, the largest purchasers of the government debt are banks. Where do the banks get all the money to purchase these bonds? They borrow money from the federal government. This is the appalling economic system that is driving this country into bankruptcy.

Government bonds were created as a win-win for investors and the government alike. Investors could purchase, risk free (and tax free), bonds backed by the federal government, and given a rate of return on their purchase. The bonds were even deemed patriotic, as it was a way to support your 'country'. Unfortunately, like everything in the economy, there is an opportunity cost with the purchasing of these bonds. If the government bond investment option did not exist, investors would have to look for other investments that would grow their money. Thus, money not invested in government bonds would be invested into private enterprises, and result in the creation of private capital. This capital is what is used to produce all of the goods and services available in our economy.

When a private business sells a bond, it has made a decision to borrow money with the expectation that it can put that money into capital now, which in turn will produce profits that will exceed the principle and interest on the debt in the future. Private debt is forced to be put to use, to produce and serve the economy, or it will be borrowing at a loss, and eventually bankrupt the business. It is easily determined what investments were put to good use and which were wasted or inefficient. If the investment created a profit, then it produced for the economy what consumers desired at a cost lower than what the consumers thought it was worth. If the investment was spent to produce goods that the consumer didn't desire, or produced goods inefficiently at a higher cost than the consumer valued them, then the investment would lose money. The want to see positive growth on their investments, leads investors to carefully scrutinize their investment options and put their investments into the most likely areas that will produce desired goods and services efficiently.

When the government sells a bond, it borrows money with no profit motive. The government has no intention of producing goods or services that could be sold to the public and pay the newly incurred debt, rather, the government spends the borrowed money at the direction of a political class. Whether the money is spent well, we will never know, as unlike the private enterprise, profit and loss is not calculated, the money is simply spent. A positive rate of return is paid to the investor, regardless of whether or not goods and services desired by the public were created efficiently. No scrutiny by the investor is required; a positive rate of return can be expected, even if their investment is squandered and wasted by the government.

The government has been selling bonds for a long time now, and all of that borrowing has led to an enormous debt. On top of that, the government continues the

practice of spending more money than it generates in tax revenues, therefore more bonds and more debt is required to pay for all of the spending and the growing interest payments. However, there are not enough individual investors, foreign and domestic combined, to finance the amount of bonds required to service the government's spending and borrowing obligations. Therefore, the Federal Reserve loans banks at a superficially low interest rate, and the banks turn around and buy government bonds at a higher interest rate. The government finances the debt, through the central banking system, by giving money to banks and then reborrowing the money. It is the biggest and most destructive ponzi scheme of all time. The government is funding its own debt through the enrichment of the banking system. Is there any wonder why the large investment banks had to be bailed out recently? If they had been allowed to go bankrupt, all of the government bonds on their balance sheets would have come to market, and the price of the bonds would have dropped substantially (thus having to raise interest rates to sell new bonds increasing the cost of the current debt). Also the means to deliver that financing would have been temporarily unavailable, and the government debt and spending would have lost its source of funding.

While this ponzi scheme will never be able to be carried out eternally, the only way to delay its inevitable crash is through the continued increase of the money supply. Unfortunately, by continuing to increase the money supply, the nation's currency is constantly becoming inflated and worth less and less which decreases the value of the bonds that the government needs to sell. This is the tight rope that the Federal Reserve is constantly walking. Inflation is necessary to keep the scheme alive, but too much inflation and the government cannot sell its bonds. Ironically, through inflation, it is all bond investors who see their 'risk free' investments, shrink and shrink due to this cockamamie scheme.

Sadly, too many people in power and banking benefit from this scheme. It provides an ever expanding source of funding to the government, and politicians are more than happy to disperse these funds to the benefit of the constituents that elect them. The bankers are more than happy to take a small percentage rate of return on an ever expanding amount of funds. However, the system puts the country at great risk and the risk continues to grow with every up tick of the national debt. The economy is further weakened as investment is siphoned away from private enterprises, and the government becomes a bigger and bigger consumer whether or not the goods and services it consumes benefit individuals. It is a scheme that must be exposed for what it is and come to an end. Step one is to balance the budget, and stop the selling of the government bonds. Step two is to put bigger restrictions 'on our government' to avoid the temptation from this scheme ever being reinstigated.