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Financial Chaos Winners

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Democrats and their friends stand to gain the most

There has been much discussion about whether the Democrats or Republicans gain a political advantage from the debt-ceiling-increase mess. An equally interesting and, perhaps, more important question is who has a vested interest in this financial chaos.

First, a few facts:

- It is estimated that between Aug. 3 and 31, the U.S. government will receive revenues of approximately \$172 billion and have expenses of \$307 billion, leaving a deficit for those days of about \$135 billion. The revenues will be sufficient to pay Social Security and interest on the debt, but not many of the other obligations.
- The 12.4 percent Social Security payroll tax paid by employers and employees goes to buy special-purpose government bonds that are held by the Social Security Trust Fund. As Social Security expert Thomas Saving wrote in the Wall Street Journal last week, "By law the Treasury is bound to redeem any bonds presented to it by the Social Security Administration. And when the Treasury does, total government debt subject to the debt limit falls by the amount of the redemption - thus freeing up the Treasury's ability to issue bonds equal in amount to the redeemed Trust Fund bonds." The Trust Fund holds about \$2.4 trillion in these bonds, so it would be many years before they are exhausted. The only way there would not be enough revenue to cover the Social Security checks is if President Obama decided to spend the money on something else.
- The U.S. government holds gold worth about \$400 billion at present market prices. The president has the legal authority to sell the gold plus

many other government assets. So even if Congress has not completed a debt-ceiling increase by Aug. 3, the administration could sell gold and other assets to cover any short-term revenue need before it received the legal authority to sell more bonds.

- In addition, Mercatus Institute research fellow Veronique de Rugy has identified an additional couple of trillion dollars of U.S. government physical and trust fund assets that could be legally sold to cover budget shortfalls.

In sum, there is no reason for the U.S. government to delay or default on any of its financial obligations for a number of months, given its alternatives. When the president and other administration officials claim that checks cannot go out in August, they are engaging in nothing more than false and irresponsible scare tactics - and counting on much of the media to not report the truth.

The president has had months to present a plan to avoid the debt-increase chaos - and yet he has presented nothing on paper - only vague outlines of a plan that cannot be scored. The Republicans have passed a debt-limit increase, only to see it die in the Senate. The Senate has yet to come back with an alternative, as would be normal order. If the Senate is unhappy with the House bill, it ought to modify it and then take it to a House-Senate conference committee to work out the differences. It is fairly obvious that the Democrats see more of an advantage in market disruptions than the Republicans.

It is well known that Mr. Obama and the Democrats get much of their campaign funds from the Wall Street crowd. Have you ever wondered why these rich folks give money to a president and party that claim to want to tax them more and verbally demean them? What do they get in return for their support? How much is it worth to know before others that the president will veto or sign a bill or that Treasury is planning on selling gold or some asset? People in the know can make huge amounts of money during periods of market gyrations. In the private sector, disclosing or operating on inside information is illegal, but the Securities and Exchange Commission exempts most people in government from much of the same behavior. People in government are rarely sent to jail - even for violations involving national security information.

You may be thinking that honorable people would not disclose or act on inside information about debt deals or measures Treasury might take. But look at the history of some of the president's biggest supporters - George Soros, for instance. Mr. Soros made a killing a couple of decades ago, betting against the British pound when he allegedly learned that the Germans and French had decided to no longer support the pound. His actions cost the British taxpayers dearly but made Mr. Soros a very rich man. He subsequently was convicted by a French court for insider trading. Everyone understands what the "Chicago way"

of doing business means - and look at the number of the president's supporters from Chicago.

During the 1990s, Ukraine also was in a position where it could not sell more debt and revenues were insufficient to cover obligations. The political leadership in Ukraine was in a position to reward its friends - through payments - and punish its enemies by not paying legal obligations, and that is precisely what it did. Washington is not as corrupt as Ukraine was, nor is it completely pure. If a certain amount of financial self-dealing by political insiders takes place during this politically engineered crisis - no surprise.

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