Peter Schiff: The Dollar Is Monopoly Money Supported By A Ponzi Scheme

Description

USA: The national debt quietly pushed past $30 trillion on Jan. 31. But that is only the tip of the debt iceberg. The American taxpayer is on the hook for a lot more than that. In his podcast, Peter Schiff said US government borrowing and spending has turned the dollar into monopoly money propped up by a massive Ponzi Scheme.

On top of the federal government's $30 trillion of debt, you have to add state and local government debt totaling about another $3.2 trillion. That brings the total debt to GDP ratio in the US to 142 percent. Peter called this a "shockingly high number."

> **Especially when the GDP is a bunch of fluff like ours.** So much of our GDP is service sector. I think only 10%, if that, is from manufacturing. So, we have a very small portion of our GDP related to producing real wealth."

But that still doesn’t reveal the entire debt story. To really understand the country’s financial health, you also have to include unfunded liabilities. These are payments the government has promised to make in the future, including Social Security and Medicare. That adds another $160 trillion in liabilities to Uncle Sam’s balance sheet.

If you take the unfunded liabilities and add them to the funded debt, you’re at nearly $200 trillion.

As Peter said, this is completely unplayable.

> It’s not going to be paid. And so what’s going to happen? Well, it’s going to be defaulted, either honestly or dishonestly.”

The honest way to default is to admit you’re broke and simply not pay.

> **Of course, it’s not going to do that. No one in Washington is willing to be honest with creditors. So, the other way is through inflation. And that’s what’s going to happen. We are going to inflate the debt away.”**

That creates a whole new set of problems. Peter said the realization the US government is simply going to keep inflating will cause a run on the US dollar and US Treasuries.

A lot of people, including proponents of MMT, believe that we don’t really have to worry about credit quality. The US government will never default. Since the US borrows in its own currency, it can print virtually as much money as it needs to. Creditors won’t really be concerned, no matter how much debt the US government runs up.

> But they will be concerned because they realize that we can’t repay the debt honestly through taxation because there’s just not enough money available from the taxpayer. When you’ve got the federal government, and the state and local governments, all looking for the same taxpayer, and that guy is broke, how are you going to repay this debt? You can’t. It’s going to be repudiated through inflation.”

Peter said there’s a big difference between getting repaid honestly out of taxation and getting paid dishonestly through inflation.

> And if you think it’s going to be the latter, then you want to get out of Dodge.”

Imagine a simple society with one taxpayer, a creditor and the government. The government borrows $100 from the creditor. Now the taxpayer is on the hook for $100. If the government goes ahead and taxes the taxpayer, the creditor gets $100 and everybody is happy. (Except perhaps the taxpayer who is out $100.) Now, the government could decide it doesn’t want to tax the taxpayer. The government needs his vote. So instead, the government prints $100 out of thin air and hands it to the lender. In that case, the taxpayer has $100 and so does the creditor.

But now there’s another problem. The amount of goods and services in the economy hasn’t changed. Prices will double because the government has doubled the money supply.

> Now the taxpayer, when he goes to spend his $100, well, he only gets $50 worth of stuff. So, he’s taken a loss. He doesn’t lose as much as if the government had taken his entire $100 and given it to the creditor. But he lost half his money, even though the government took nothing. But now the creditor, when he gets paid $100, he didn’t really get his money back. Because now prices have doubled. He can only buy $50 worth of stuff. Now, he got more money than he would have gotten had the government just defaulted and given him nothing. But because the government didn’t do that, they inflated — he still gets something. But he’s lost half of his purchasing power. That is a real loss. And that loss is going to be factored into the willingness of US creditors to continue to hold US Treasuries.”

Peter said he’s always gotten a big kick out of people who say we don’t have to pay the massive government debt back and claim the government can just keep borrowing indefinitely.

> How can that be? If we don’t have to repay it, it’s really not debt. We’re really not borrowing if we don’t have to pay it back. And the thing is — if it’s true that we can borrow money and never pay it back, what kind of idiot is loaning us the money if we’re never going to pay it back? Because the important part about making a loan is getting paid back. That’s what it really boils down to. … The key is to get your money back.”

So, who is going to continue to loan the US money if we tell them right off the bat, “You’re never getting paid back.”?

Apparently, the plan is to pay the current lenders back by borrowing money from new people.

> In other words, the reason we can keep on doing this is because it’s a giant Ponzi scheme. But again, **if it’s a giant Ponzi scheme, why do people willingly participate? It’s because they don’t realize it’s a Ponzi scheme.** They think they’re going to get paid back. **When they realize they’re going to be paid back in monopoly money, they’re not going to want to lend.** In fact, they’re not going to want to hold on to these Treasuries and the only buyer is going to be the Federal Reserve. And that’s when the printing press is going to overdrive and the dollar is going to fall through the floor.”

In this podcast, Peter also says the stock market is rotating, not crashing, weak economic data will make it harder for the Fed to tighten, the Fed may start blaming rising oil prices on a slowing economy, and 6 more weeks of winter is nothing compared to the crypto winter ahead.

by Tyler Durden

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1. Dollar
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