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The Privatization of Government Debt

Posted by [Ryan](#) on November 8th 2010



Maybe it's time to start focusing on government assets...

I had an opportunity to meet a German exchange student yesterday who was visiting the States for the first time. Naturally I couldn't help myself and said the following:

“It sure is a good time to be travelling over here as we continually devalue our currency! Your purchasing power keeps getting better and better.”

He responded:

“Yeah, it is nice. The Fed just bought more Treasury bonds. In about 3 or 4 more weeks, things will get even better for me.”

Of course he is referring to [QE2](#), this time a \$600 billion bond spending spree by the Federal Reserve. Quantitative easing is the process of the government essentially loaning money to itself by creating new Treasury bills, selling them to the Fed, and the Fed printing up new currency to complete the transaction. As the European Union turns more toward austerity, and we keep attempting to spend and print our way to recovery, foreigners like the German exchange student will continue to enjoy favorable exchange rates to the dollar.

To further exacerbate the trend, some central banks around the world like Australia are hiking up rates.

With the policy tunnel vision we practice in the United States, few people in a position of power have even attempted to present an alternative to printing money. So I'll go ahead and propose one: privatize government debt.

For good reason, the country has focused on the amount of federal debt ad nauseum. We know that currently there is \$13.5 trillion of federal debt. This does not include unfunded liabilities of Social Security and Medicare and unfunded liabilities do not include government pension promises. There is a wide-ranging number of estimates for the amount of unfunded liabilities. Andrew wrote [one article](#) which offered a \$107 trillion estimate from the National Center for Policy Analysis. Maybe this

number is two times too large. Either way, it isn't pretty.

With all of the talk of government debt, funny that you never hear an appraisal of federal assets. The Cato Institute [offered](#) this assessment:

“At the end of fiscal year 2007, the federal government held \$1.2 trillion in buildings and equipment, \$277 billion in inventory, \$919 billion in land, and \$392 billion in mineral rights. The federal government owns about one-fourth of the land in the United States.”

The government spends billions each year to maintain excess facilities, while the GAO has found that “many assets are in an alarming state of deterioration.” The private sector would likely take better care of these assets. Between the sale proceeds, ongoing savings of foregoing maintenance, and the ability for the government to focus on and provide better management of a smaller portfolio, privatization is a winning strategy to help relieve federal debt. If assets do not provide value for public needs, why does the government need them on their balance sheet?

And don't forget failing enterprises like the Postal Service and Amtrak. Those could be sold off as well. Overall, I haven't seen one valuation of government assets that satisfies my curiosity. They tend to be incomplete and/or dated.

People get spooked by the word privatization, but not when their government devalues their money. Alone, the Fed has [siphoned \\$100 billion](#) from savers in interest income in the last 2 years by slashing short-term rates to zero. People don't even blink.

Privatizing our government debt by selling federal assets is a viable alternative to printing money. Here's how it would work:

Upon selling some of the federal government's assets, there would be a resulting collateralized debt, like a mortgage. These “mortgages” could be used as a trade asset with those holding Treasury bonds. Instead of buying bonds ex nihilo (out of nothing), the assets would create a new asset-backed security market while moving the fed's interest obligation into the private sector.

Wouldn't it stand to reason that a government entity could figure out the assets in excess of public need to liquidate? The sales could be financed by the Federal Reserve. The “mortgage” trades would create transaction revenues from the new asset-backed security markets for the economy and new property tax revenues as government property becomes private. You could sell off a reasonable amount of assets per year and apply proceeds and new tax revenues to the debt until it was contained. With ballooning national health care expenditures on the horizon and an increasingly less attractive bond market as we devalue our currency (and accumulate debt), this seems like an infinitely better solution to printing money. Hopefully this would also slow the government's quest to deficit spend.

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