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U.S. should sell assets like gold to get out of debt, conservative economists say

By Joel Achenbach, Published: May 15

With the United States poised to slam into its debt limit Monday, conservative economists are eyeballing all that gold in Fort Knox. There's about 147 million ounces of gold parked in the legendary vault. Gold is selling at nearly $1,500 an ounce. That's many billions of dollars in bullion.

"It's just sort of sitting there," said Ron Utt, a senior fellow at the Heritage Foundation. "Given the high price it is now, and the tremendous debt problem we now have, by all means, sell at the peak."

But that's cockamamie, declares the Obama administration. Mary J. Miller, Treasury's assistant secretary for financial markets, said the U.S. should sell assets in an orderly, "well-telegraphed" manner, not in a "fire sale" atmosphere with a debt limit deadline accelerating the process.

"It would be bad for the taxpayers. It would be bad for the markets," Miller said.

Another senior administration official, not authorized to speak for attribution, described the situation more bluntly: "Selling off the gold is just one level of crazy away from selling Mount Rushmore."

The United States may have run up a huge debt, but it is not a poor country by any stretch of the imagination. The federal government owns roughly 650 million acres of land, close to a third of the nation's total land mass. Plus a million buildings. Plus electrical utilities like the Tennessee Valley Authority. And an interstate highway system.

Economists of a conservative or libertarian bent have long argued that the federal government needs to get out of certain businesses, unload unneeded assets, and privatize such functions as passenger rail service and air traffic control. No one advocates selling Yellowstone, but why, some economists ask, should the federal government be in the electricity business?

Economist Kevin Hassett of the American Enterprise Institute said the federal government should consider the sale of interstate highways. Motorists would have to pay tolls to the private owners, he said, but the roads would likely be in better shape. Federal, state and local governments could raise hundreds of billions of dollars through highway privatization, he said.

"Many of the world's roads were originally built as toll roads, so it would hardly be revolutionary to return to that model," Hassett said. "If it can work for the River Styx, why not the Beltway?"

The Heritage Foundation on Tuesday released a plan for balancing the budget that did not include tax increases, but did include a proposal to sell $260 billion in federal assets over 15 years. The plan does not specify the assets. It refers to "partial sales of federal properties, real estate, mineral rights, the electromagnetic spectrum, and energy-generation facilities."

"We're not going to say we're going to sell off the Smithsonian and the Capitol. We would not propose that anyway. There's no specific building that we would point to," said Alison Fraser, head of the Economic Policy Studies department at Heritage.

The Heritage group chose not to mention the Fort Knox gold when it included asset sales in the budget plan. Fraser said the group didn't want to be "sidetracked" into a debate with the hardy band of folks who think the country should return to the gold standard. "We just opted not to go there," she said.

The administration recently did a rough calculation of the nation's gold reserves, including the stash at Kentucky's Fort Knox (technically, it's in the fortress-like United States Bullion Depository) and concluded that it was worth about $370 billion.

Although the country does not use the gold for anything, Treasury officials believe that selling it could create the impression of desperation, and thereby rattle the markets. Inert though it may be, the mountain of hidden gold may serve an indefinable psychological function.

Selling it during a budget crunch would seem a sure bet to incite derision. The satirical newspaper The Onion recently ran a story in which President Obama vowed to balance the budget through spending cuts, tax increases and a daring midnight heist of Fort Knox. ("I've got the blueprints and I think I found a way out through a drainage pipe.")

A sudden gold sale would also postpone only briefly — two or three months, perhaps — the deadline for raising the debt limit.

"It's merely a procrastination technique. It would throw markets into turmoil, and you'd have to accept fire-sale prices," said the senior administration official.

But some economists want to liberate the bullion.

"Why not?" asks Chris Edwards, director of tax policy studies at the libertarian Cato Institute. "I think it shows that the government is getting serious about reforming itself."

The debt limit, or debt ceiling, is set by Congress as the maximum debt the federal government can carry. Congress last raised the limit in February 2010, to just under $14.3 trillion (which includes money the Treasury owes to government trust funds, such as Social Security). The Treasury Department projects that the limit will be reached Monday, but that "extraordinary measures" that involve the shifting of money among different accounts can keep the government flush until Aug. 2.

The Obama administration has said that it needs to borrow an average of $125 billion a month to keep paying its bills and meeting its obligations under current law. Although the raising of the debt limit has historically been viewed as a noxious necessity — to fail to do so would raise the specter of the government defaulting — Republicans in Congress have insisted that any increase this time be tied to long-term spending cuts.

But even approaching the debt-limit deadline can spook investors, Treasury officials say, and if investors become worried about the U.S. ability to pay off its debts, they'll demand higher interest rates before buying Treasury notes.

Fraser of Heritage fired back: "What's going to spook the markets is not doing anything about the budget trajectory we're on."

The Obama administration is not opposed, in principle, to asset sales. The Treasury department is steadily unloading the mortage-backed securities it acquired in the 2008 economic meltdown. The administration also has a program known as the Civilian Property Realignment Act that would sell some assets. But these asset sales aren't connected to the debt-limit debate, and aren't framed as a way of significant source of revenue for easing budget deficits.

One prominent economist, the Urban Institute's Eugene Steuerle, said that selling assets doesn't really help the government's balance sheet in a strict sense.

"In a normal accounting system, if you sell an asset, it doesn't add to your income," Steuerle said.

The ultimate government asset is the ability to tax a large, wealthy population. Households and non-profit institutions in the U.S. collectively were worth about $57 trillion at the end of 2010, according to Steuerle. And that doesn't count the intangible assets — education, the rule of law, an entrepreneurial culture.

"The biggest asset we have by far is our human capital – our abilities," Steuerle said.