Debt Normalization

by Woody Stanford

Part I

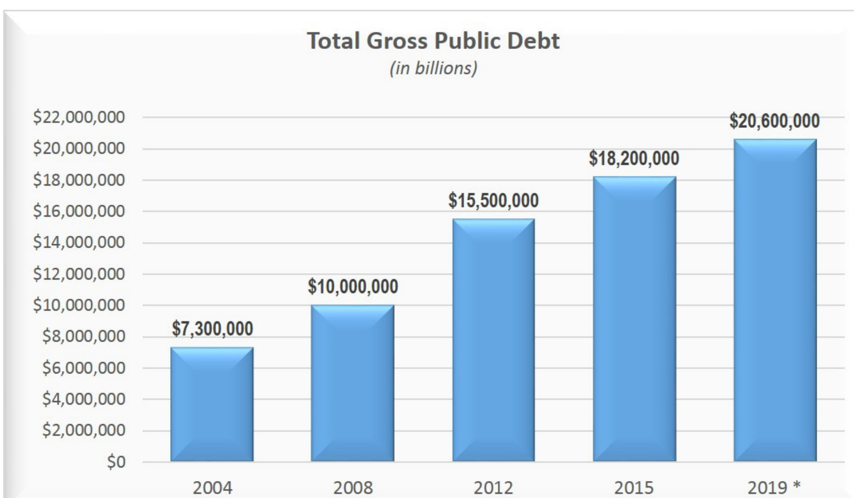
Abstract

The Great Recession is making paupers out of all of us; what is the cure? There is some evidence to indicate that a lot of our problem might be due to national debt. Doubling over the Presidency of Barak Obama, it currently stands at about $20 Trillion Dollars. What is this level (and other countries' levels) doing to the unrestricted flow of currencies globally? Would we be better off if there was some way of reducing it?

Introduction

One of the big problems our country has is the government practice of paying on the interest alone instead of vigorously attacking the principle. Known as financially suicidal for the private individual, this seems to be business as usual for the US Government (and other governments around the world.

Here is a graph showing our current situation:



source: Bloomberg

As you can see the situation isn't just one endemic to America but also to the other nations of the world. What is this doing to us?

How Money Works

Money, thought to be well understood by today's economists, is fundamentally difficult to figure out how it generates more. I think this is the prevailing wisdom.

However one thing we know about it is that it matters how many times it changes hands, and how fast. For example, we take a situation where an individual, corperation or country has money. At a national level, it is printed and usually backed with the promise of worth by the issuing country. It is then distributed to the citizens.

What we wanted to focus on was the transfer of funds from entity to entity globally. Here we have a picture of money changing hands:

If you take a $1 bill, it is just 1 dollar right? Actually, no. In the picture above, it is, but look at this sequence of pictures:

As that $1 bill changes hands, that $1 has performed the duty of $5. Let's say it bought a chocolate bar, then the store owner paid the vendor that dollar, then the vendor paid an employee with that dollar, and finally that employee gave that bill as part of his groceries, and the supermarket deposited it.

Money is a mysterious thing...fundamentally how it works. Many of us are left thinking that we will never really know for absolute sure how it works.

There isn't much of a reason right now why we should be in a recession. Back in the 70's we knew that it had something to do with oil, inflation and maybe political concerns. Not so cut and dried here in 2017. There is no major war raging, no droughts or natural disasters that can account for it, except for maybe debt.

Debt as Principle

We all have debt, we know what it does to our personal situation. It tends to slow our spending. We agonize whether to get that new thing, or to pay back some of the money. But the common thread is that too much debt has a distinct effect on our financial well-being.

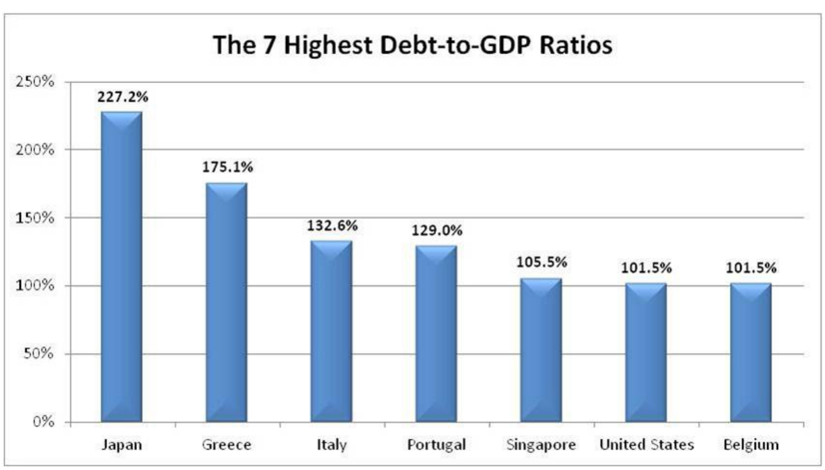
Let us say the following that instead of that $1 changing hands 5 times, that (over the same amount of time) that it only changes hands twice:

I should make sense that your "economy" is slower, less healthy. The cure? Reduce debt so money can flow freely and faster.

The Source of Excessive Debt on a National and Global Scale

Where is this debt problem that I am talking about? Its not just bad consumer credit (ie. Credit Card and other forms of personal debt) but also, National Debt.



Source: forbes.com

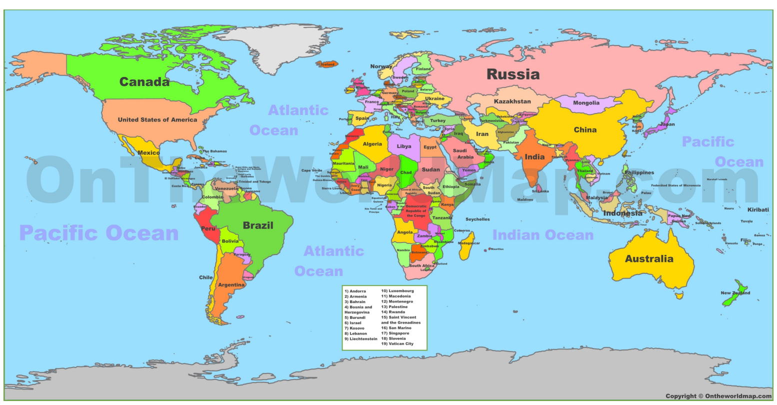
Where national debt can come from (and there are forms of it that are business/corporate as well) is from government spending. We pay taxes for that which is distributed fairly back to us in the form of Defense spending, Medicare, Social Security, and the whole gamut of other social services that we consider indispensable to civilized, modern life.

The level of debt that we are currently at is at an all-time high, historically speaking, at about $20 Trillion dollars (approximately $60,000 for each man, woman and child in America...not each wage earner...every man, woman, and child).

Family of four, guess what, you "owe" about a quarter-million dollars. Oh, so that's why it feels like I have an elephant on my back trying to make ends meet. I don't think it helps, let's put it that way.

How do we solve this problem?

The point of this article is to present a solution called **Debt Normalization**. Instead of just talking and complaining about the problem, here is a fair, and balanced way that we could *instantly* reduce our debt levels from country-to-country.



The first idea we looked at conceptually was *debt neutralization*, in other words just have all countries agree to set their national debts to $0 on a certain date. Other than the enormous political challenges involved, we realized that this would be incredibly destructive to the functioning of the global economy.

Like it or not, debt is a critical aspect of any modern economy. Without it, the economy would grind quickly to a halt as no one would own anything to anybody. That the rate of that $1 bill changing hands over time would be zero (its speed of transfer). It would be a disaster of biblical proportions if we were to do this.

So, we instead looked at Debt Normalization. The two versions we looked at where the following:

1) Global Debt Reduction to “Sustainable Levels”: this would eliminate debt between world economies down to the limit where net income would balance service of debt.

And

2) Global Debt Reduction to “Below Sustainable Levels”: this would eliminate debt between national economies below the limit where net income would balance service of debt.

Number 1 is less painful but upon analysis we realized that, though it would improve the global economy over time, that it would position us right where we were at when we entered this quagmire in the first place. *There wouldn't be an incentive to try the various efficacious strategies that our more-responsible political leaders have advocated to eventually get us out of debt all together.*

Number 2 is interesting because it preserves a major portion of national debts (critical to surviving the process financially as well as propelling the engines of the economy) but doing so at a level that allows payment on the principle of the debt, something that should resonate as a good idea by those familiar with personal debt.

End of Part I

(Expecting two parts. We apologize for having to split this in two parts like this but we still have to variefy our facts and assumptions based on 2016 data. Currently 2017 but only a 2016 complete fiscal year data available at the time of writing.

Unverified: currently looking mathematically at 66.6% global debt reduction. Figures and rational will be fully explained in Part II. ETA: 2 weeks.)
