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Segmenting and Restructuring Government Debt

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Proposal: Segment Recovery-Related Government Debt. The segmented portion of G-20 public debt will be amortized, with a fixed schedule, by temporary, ear-marked surcharges at the higher end of wealth- and income-related taxes. The segmented debt will be restructured to a near-0% long-term rate.[3]

Discussion:

- Restoring the moral credibility of government and other major institutions, and the sense of moral order, is fundamental to restoring confidence and a rapid return to economic health.

- The temporary surcharges, ear-marked and limited, might be opposed by a sub-set of 1% of the wealthiest population. However, earmarked surcharges should be politically viable and perhaps could have overwhelming public support. [The American tax code already adds a 3.8% "Net Investment Income Tax" for individual filers with adjusted gross income more than $200,000 or joint filers with more than $250,000 income. The capital gains tax rate also increases from about 15% to 20% for individual filers with more than $415,050 of taxable income and joint filers with more than $466,950 of taxable income.] [4]

- Without repayment of this segmented debt, governments and societies will be in much greater trouble than we imagine. As interest rates and carrying charges on cumulated debts rise, they will block much of the future that we want to create. There will be further pressure on safety nets and entitlements, including a forced roll-back of expected benefits that are part of the social and

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[2] This paper continues a series of ideas from the Rapid Learning Economics Project, showing how inclusive thinking in the policy sciences tradition might accelerate economic recovery. The historical context is that current interest rates are close to 0%. Thus a simple key to faster G-20 economic recovery (and to a more effective monetary policy) is packaging and marketing (including political marketing) – i.e., organize and frame attractive options for governments, corporations, and individuals to borrow from the trillions of dollars of available funds and create additional demand. (Merely waiting for corporations to borrow for added plant and equipment – a traditional pathway – has not been working as it did in the past.)

[3] The technical steps for segmenting and restructuring might require that a separate legal entity – a Recovery Repayment Trust – be created.

[4] Randi Spiegelman, "Taxes: What's New for 2016." Online at http://www.schwab.com/public/schwab/nn/articles/Taxes-Whats-New

political fabric in the US (and especially Europe). Politics will become even more zero-sum, distributional, and angry. Public services will erode and produce more frustration as agency budgets are pressured, but without reductions in workload.

- While special near-0% long-term interest via the Fed and other central banks (available in current, unique circumstances) may seem an almost magical solution, the actual cost of this restructuring will be to deprive commercial banks and financial markets of future income and profits at (eventual) higher interest rates. It's not a great loss.

- This proposal is close to the "printing money" danger line for governments. For integrity, it is essential to use loans, earmark taxes, and commit to repayment schedules.

- It will be necessary to run the numbers to see the revenue and repayment options.

- It is time for the world's governments and central banks to send deterrent messages about the cost of banking crises and cleanups, even if the imposed repayment costs are imperfectly allocated. IMF data show that from the late 1970s to 2003, there were 117 banking crises in 93 countries in which much or all of the banking capital was exhausted. Many financial institutions developed strategies for privatizing the gains (during the upside of the bubbles) then secured government bailouts during the crisis phase. In 27 of the cases, they dumped onto governments and taxpayers added national debt equal to 10% of GDP, often much more.[5] These are battles about power and social fabric that elected political leaders will understand.

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[5] Lloyd S. Etheredge, "A Rapid Learning System for G-20 Macroeconomics: From Greenspan to Shiller and Big Data." Unpublished, online at www.policyscience.net at I. A., p. 25. Drawn from a discussion by Martin Wolf.