Ponzi Scheme: US Treasury Forced to Issue One Trillion Dollars in New Debt in First 6 Weeks of FY2014

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Between Oct. 1, 2013, the first day of fiscal 2014, and Nov. 14—which was less than a month after Congress agreed to temporarily suspend the legal limit on the federal debt—the Treasury was forced to issue more than $1 trillion in new debt.

During that time, according to the Daily Treasury Statement, the Treasury issued $1,014,215,000,000 in new bills, notes, bonds and other securities.

The government needed this $1,014,215,000,000 to cover government obligations and expenses that exceeded the $255,080,000,000 it raked in through tax revenues during the same six-week period.

Where did that combined $1,014,215,000,000 in newly borrowed money and $255,080,000,000 in new tax revenues go?

The lion's share went to payoff maturing securities the Treasury had sold before and had now come due.

In total, according to the Daily Treasury Statement, the Treasury needed to redeem $879,734,000,000 in maturing debt during the first six weeks of the fiscal 2014.

After that, the government's biggest expenses were $98.853 billion in Social Security benefits, $77.704 billion in Medicare expenses, $35.304 billion to Defense Department vendors, $34.623 billion for Medicaid, $20.537 billion for the salaries for federal workers (who have now been compensated for the time they missed during the partial shutdown), $20.155 billion for the Department of Education, $13.060 billion for the Department of Agriculture's Food and Nutrition Service (which includes the food stamp program), $11.152 billion in Health and Human Services Department grants, $10.648 billion for Housing and Urban Development Department programs, and $9.172 billion to buy insurance for federal employees over and above the $20.537 billion they were paid in salaries.

The Treasury also had $67.234 billion cash on hand at the close of business on Nov. 14–but that was down $21.152 billion from $88.386 billion cash on hand the Treasury had when the fiscal year started Oct. 1.

So, in addition to the $1,014,215,000,000 in new borrowing the Treasury undertook in the first six week of fiscal 2014, it also drew down its cash by $21.152 billion.

When Treasury Secretary Jacob Lew appeared in the Senate Finance Committee on Oct. 10 and called for Congress to increase the legal limit on the federal debt, he lamented that people do not understand that the Treasury needs to constantly borrow new money to meet ongoing expenses and pay off the tremendous volume of old debt that must be redeemed.

"Every week we roll over approximately $100 billion in U.S. bills," Lew testified. "If U.S. bondholders decided that they wanted to be repaid rather than continuing to roll over their investments, we could unexpectedly dissipate our entire cash balance."

"There is no plan other than raising the debt limit that permits us to meet all of our obligations," Lew said later in that hearing.

"Let me start by saying what I think should be obvious: that if we don't have enough cash to pay all our bills, we will be failing to meet our obligations, and under any scenario we will be defaulting on obligations," said Lew.

"Let me remind everyone," he said, "principal on the debt is not something we pay out of our cash flow of revenues. Principal on the debt is something that is a function of the markets rolling over."

Lew's description of the way the government handles its now-$17-trillion-plus debt mirrors the Securities and Exchange Commission's definition of a Ponzi scheme.

"A Ponzi scheme is an investment fraud that involves the payment of purported returns to existing investors from funds contributed by new investors," says the Securities and Exchange Commission's definition.

"With little or no legitimate earnings, the schemes require a consistent flow of money from new investors to continue," said the SEC. "Ponzi schemes tend to collapse when it becomes difficult to recruit new investors or when a large number of investors ask to cash out."

To keep the government in cash during fiscal 2013, which ended on Sept. 30, the Treasury had to sell $8,323,949,000,000 in new debt. The government's single larget expense in fiscal 2013 was paying off $7,546,726,000,000 in debt that matured during the year.

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