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The United States' National Debt and the Necessity to Prepare for its Default

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The United States' National Debt and the Necessity to Prepare for its Default

DONALD D.A. SCHAEFER*

ABSTRACT

In many ways, the 2008 financial crisis seems like a distant memory—one that many would just as soon forget. Another financial crisis is coming that will make the 2008 crisis pale in comparison. The future financial crisis lies in the massive national debt that has now passed the \$22 trillion mark. The national debt continues to grow dramatically and, within the next few years, will surpass \$25 trillion. Its growth is fueled by the inability of members of Congress and the Executive to address Social Security, Medicare, defense spending, and taxes. The resulting crisis may portend the collapse of the largely unregulated derivative markets that, by some estimates, are between \$600 trillion and over \$1 quadrillion. The future of the United States lies in the members of Congress and the Executive's ability to be prepared to default on its debt under domestic and international law so that, when this event happens, the crisis can be mitigated.

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I. PREPARE FOR A STRATEGIC DEFAULT

The United States government must prepare to default on its national debt.¹ This paper will argue that the “sacred cows”—Social Security, Medicare, defense spending, and taxes—are off limits for politicians to address in a meaningful way. Without addressing these concerns, the national debt will continue to rise, eventually collapsing the financial markets as individuals and corporations stop buying this debt once a “saturation” point has been reached. Ultimately, the United States government will again need to start printing money under what has been termed “quantitative easing” (QE), whereby a government injects money into the economy through a process of buying its own bonds and other types of non-governmental bonds.² Once the bubble bursts, the United States will find itself in a financial crisis, but without the “buffer” that allowed it to survive the 2008 crisis through the purchase of bonds and the electronic printing of money under the guise of QE.

This Article will first examine the failure of the Executive Branch to deal with the national debt and the resulting consequences. In Part II, I will further elaborate on the significance of the debt, both the underlying danger and potential for refinancing. In Part III, I discuss the “saturation point”—the effect globally and a potential restructuring. Part IV then explains the contribution of the “sacred cows”—Medicare, Social Security, defense spending, and taxes—to the national debt. Finally, I examine the resulting domino effect in Part V, followed by the future in Part VI.

A. *Executive Failure to Deal with National Debt*

President Donald J. Trump inherited this decades-old financial situation associated with the national debt. How he addresses this coming crisis will define his legacy. Thus far, Trump has failed—like so many

1. National debt is defined here as the total of all outstanding United States treasuries.

2. Michael Ng & David Wessel, *The Hutchins Center Explains: The Fed's Balance Sheet*, BROOKINGS (Aug. 18, 2017), <https://perma.cc/425Q-ZHEF>.

before him—to address this future crisis. In 2017, Dale Hurd from CBN news pointed out, “Trump has begun the fight to deliver on one of his key campaign promises, to cut taxes by \$6 trillion and reform the tax code.”³ The *New York Times* agreed: “President Trump signed the most consequential tax legislation in three decades on Friday [December 22, 2017].”⁴ This bill is expected to add \$1.5 trillion to the national debt over the next twenty years.⁵ Further failing to address the future crisis, Trump recently signed an appropriations bill that includes “\$674 billion in defense funding for fiscal 2019, and marks the first time in a decade Congress has finalized the spending measure before the start of the new fiscal year.”⁶ Added to this was that the “Social Security Administration announced that the cost-of-living adjustment for 2019 will be 2.8 percent, which is in line with a recent estimate.”⁷ This process of failing to address Social Security and Medicare, cutting taxes, and raising defense spending, continues to grow the national debt.

B. Interest on the National Debt

With the current United States debt passing \$22 trillion in February of 2019,⁸ and the Office of Management and Budget (OMB) predicting that this obligation will be \$25 trillion in 2021 and \$29.9 trillion in 2028,⁹ the interest on the national debt could increase to more than \$2 trillion per year by 2021 if interest rates reach 8%.¹⁰ The United States Congressional

3. Dale Hurd, *Trump's \$6 Trillion Tax Cut: What It Means for You*, CBN NEWS (Sept. 28, 2017), <https://perma.cc/H26N-TY2W>.

4. Eileen Sullivan & Michael Tackett, *In Signing Sweeping Tax Bill, Trump Questions Whether He Is Getting Enough Credit*, N.Y. TIMES (Dec. 22, 2017), <https://perma.cc/E7A4-J2GB>.

5. Yaron Steinbuch, *Trump Signs \$1.5 Trillion Tax Overhaul into Law*, N.Y. POST (Dec. 22, 2017), <https://perma.cc/4PLR-FTA6>.

6. Leo Shane III, *Trump Signs Defense Spending Plan, with One More Swipe at Democrats*, MIL. TIMES (Sept. 28, 2018), <https://perma.cc/2FZ2-QGCZ>.

7. Lorie Konish, *Your Social Security Check Will Get a 2.8% Boost in 2019*, CNBC (Oct. 11, 2018), <https://perma.cc/YBU2-GUFZ>.

8. *The Debt to the Penny and who Holds It*, TREASURY DIRECT, <https://perma.cc/425E-6LNH> (last visited May 12, 2019).

9. OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, AN AMERICAN BUDGET: ANALYTICAL PERSPECTIVES 32 (2018), <https://perma.cc/VY93-JS7W>.

10. The OMB estimates that the interest rates on a ten-year Treasury bill will increase from 2.3% in 2017 to 3.7% in 2023 and will go no higher through 2028. *Id.* at 11. It appears reasonable given the risk assessment of such high debt levels that higher interest yields will be expected as the national debt rises dramatically, and more nations take the likelihood of a default into account. Therefore, an 8% interest rate on the ten-year Treasury note by 2021 is reasonable.

Budget Office (CBO) “estimates that in 2018 alone the government’s net interest costs will increase by \$53 billion, or 20 percent, to \$316 billion.”¹¹ Given the recent interest rate increases by the Federal Reserve and the limited demand by foreign buyers of the national debt through United States treasury securities,¹² interest rates will likely continue to rise, with the amount paid on the national debt continuing to rise in response.

Payments on interest to the national debt and other obligations may reach a point where the United States Treasury must electronically produce additional dollars under the name of QE.¹³ This may make other nations less likely to accept those dollars for oil and other goods.¹⁴ The driving question behind this Article asks whether the amount of money that the United States government can borrow—besides from itself through the process of QE—has been reached. In other words, have other countries and those within the United States reached a “saturation” point in regard to the amount that can be borrowed? If so, then can the United States

11. U.S. GOV’T ACCOUNTABILITY OFFICE, GAO-18-299SP, THE NATION’S FISCAL HEALTH: ACTION IS NEEDED TO ADDRESS THE FEDERAL GOVERNMENT’S FISCAL FUTURE 24 (2018).

12. See U.S. DEP’T OF THE TREASURY, MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES (2018), <https://perma.cc/WA5S-528G>. The data here clearly show that many nations around the world are either remaining at the level of U.S. treasuries that they have and/or are reducing the amount they hold.

13. See the following article for a better explanation of “quantitative easing”: Peter Dizikes, *Explained: Quantitative Easing*, MIT NEWS (Aug. 17, 2010), <https://perma.cc/9B4N-BQNC>.

14. A recent article by *Mercopress* stated:

The vast amount of US debt held abroad illustrates the dollar’s role as the world’s most reliable reserve currency. However this would change unfavourably for the US economy if the default finally breaks international confidence in the greenback. In such a scenario interest rates in the US would soar as investors abandoned Treasury notes and would force the Federal Reserve to hike rates to entice wary investors. This would cause the US economy to shrink, bringing recession, raising unemployment, pushing price hikes in goods and commodities. Furthermore[,] this would be followed by cuts in government services and at the same time driving up government costs for unemployment insurance and health care. Internationally a default of dollar denominated debt would have a devastating confidence impact on the dollar, reducing investments in dollars and the value of the US dollar relative [to] other currencies, driving up costs of imports, mainly oil, which represent half of the US imports. China[,] the largest holder of US debt[,] would be constrained from dumping its Treasury notes because it would diminish the value of its dollar accounts, but other currencies with substantial dollar investments will be tempted.

China, Japan, UK, Oil Countries and Brazil, Top Holders of US Treasury Bonds, MERCOPRESS (July 28, 2011 6:27 AM), <https://perma.cc/C9AX-P7UE>.

government expect other countries to have faith in the United States currency if more money is printed through the process of QE?

The United States government used what is known as QE1, QE2, and QE3 from 2009 through 2014.¹⁵ In 2017, it promised to start the process of getting rid of its \$4.5 trillion in bonds;¹⁶ yet the Federal Reserve will likely institute further periods of bond buying in future crises involving the United States economy. Should the process of further QEs fail in the next fiscal crisis, the implications of a default on the national debt, or of electronically producing vast amounts of currency to cover those obligations, will be dramatic. Those implications include significantly weakening the United States dollar as an international currency, leading to hyperinflation that would render the dollar virtually worthless as an international currency, while driving up prices dramatically within the United States.¹⁷

15. Michael Ng and David Wessel state:

The Federal Reserve's portfolio of Treasury and mortgage-backed securities has more than quadrupled over the past decade Until the global financial crisis, the Fed's balance sheet was growing gradually along with the rising amount of currency used in the economy and fluctuating only a bit as the Fed bought and sold short-term Treasury securities to keep short-term interest rates near its target. That changed in 2008 when the Fed cut short-term interest rates nearly to zero and recognized that wasn't enough to restore the U.S. economy to health, and it needed a way to lower longer-term interest rates and stimulate spending. It embarked on a monetary experiment now widely known as "quantitative easing" (QE): buying Treasury bonds and mortgage-backed and US agency securities in the open market The first round of quantitative easing, QE1, began in November 2008 and expanded in March 2009. In QE1, the Fed purchased a total of \$1.25 trillion in mortgage bonds, \$200 billion of debt issued by government-sponsored mortgage companies Fannie Mae and Freddie Mac, and \$300 billion of long-term Treasury securities. In QE2 which began in November 2010, the Fed bought another \$600 billion of long-term Treasury securities. The third and final round began in September 2012 with an open ended commitment to buy another \$40 billion per month of mortgage bonds until the economy recovered and in December expanded that with \$45 billion per month of Treasury bonds. By the time QE3 ended in October 2014, the Fed had added another \$1.7 trillion to its portfolio.

Ng & Wessel, *supra* note 2.

16. Jeff Cox, *Federal Reserve Wants to Start Unwinding the \$4.5 Trillion in Bonds on Its Balance Sheet This Year*, CNBC (Apr. 5, 2017 2:00 PM), <https://perma.cc/9PS8-UWL5>; see also Stephen Roach, *The Federal Reserve's Quantitative Easing Report Card is Mixed – Except for the Rich*, S. CHINA MORNING POST (July 31, 2018 3:01 PM), <https://perma.cc/LA7Z-GXZ5>.

17. This is where inflation grows at a very quick pace in a very short period of time. *Hyperinflation*, ENCYCLOPEDIA BRITANNICA ULTIMATE REFERENCE SUITE (Encyclopedia Britannica CD-ROM, 2008). Zimbabwe is a classic example. In 2008, inflation levels in Zimbabwe were running at 13.2 billion percent per month. Sebastien Berger, *Zimbabwe*

One query of this Article concerns what it would take to cause the massive trillion-dollar derivative market “bubble” to burst,¹⁸ thereby causing a financial crisis that would ensnare much of the world and bring the United States government to a financial crisis. The best option for the United States to survive such an event would be a structured default on its national debt under both domestic and international law. Those within Congress and the Trump administration must now start the process of getting ready to initiate this default—the future of the United States and much of the world depends on it.

II. SIGNIFICANCE OF THE NATIONAL DEBT

The national debt has continued to rise as a whole since the 1980s, from the Reagan administration through the current Trump administration.¹⁹ This debilitating scenario will likely continue for the foreseeable future. The struggle over the budget has often left a gaping hole that leads to a large deficit,²⁰ which neither party in Congress has been able to fill. The end result will have a devastating effect on the future of the United States. Nations around the world will take advantage of this event, and countless citizens living in the United States and around the world will suffer. Being prepared for this event, while not completely limiting its effects, will help to ensure that the United States recovers quickly and in a manner that will allow for its continuation as a sovereign nation.

Hyperinflation “Will Set World Record Within Six Weeks,” TELEGRAPH (Nov. 13, 2008 5:22 PM), <https://perma.cc/ZYX5-NMJ6>. A more recent example includes another country facing similar problems: “With the situation in the country deteriorating faster than expected, the IMF [International Monetary Fund] has unveiled a far more severe prognosis, saying that Venezuela’s hyperinflation is poised to reach an annualized rate of 1 million percent by year’s end.” Anthony Faiola, *Venezuela’s Inflation Rate May Hit 1,000,000 Percent. Yes, 1 Million*, WASH. POST (July 24, 2018), <https://perma.cc/9WM2-U27X>.

18. See Marion Dakers, *Warren Buffett Issues a Fresh Warning About Derivatives ‘Timebomb,’* TELEGRAPH (May 1, 2016 6:00 PM) (on file with *Campbell Law Review*).

19. See *infra* Figure 1. Even the short “surplus” toward the later end of the second term of Bill Clinton’s time in office was not really a surplus, because it failed to take into account the money “borrowed” from Social Security in the form of IOU’s.

20. “Deficit,” unless stated otherwise, refers to the “unified deficit.” See OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, A CITIZEN’S GUIDE TO THE FEDERAL BUDGET 10 (2002), <https://perma.cc/6Q3U-L8XH>. “Traditionally, the President’s budget has focused on the totals for the unified budget. The unified budget encompasses all of the budgetary activities of the Government, and the unified budget surplus or deficit is the measure that determines how much the Government has to borrow from the public (in the case of a deficit), or how much past borrowing can be repaid (in the case of a surplus).” *Id.*

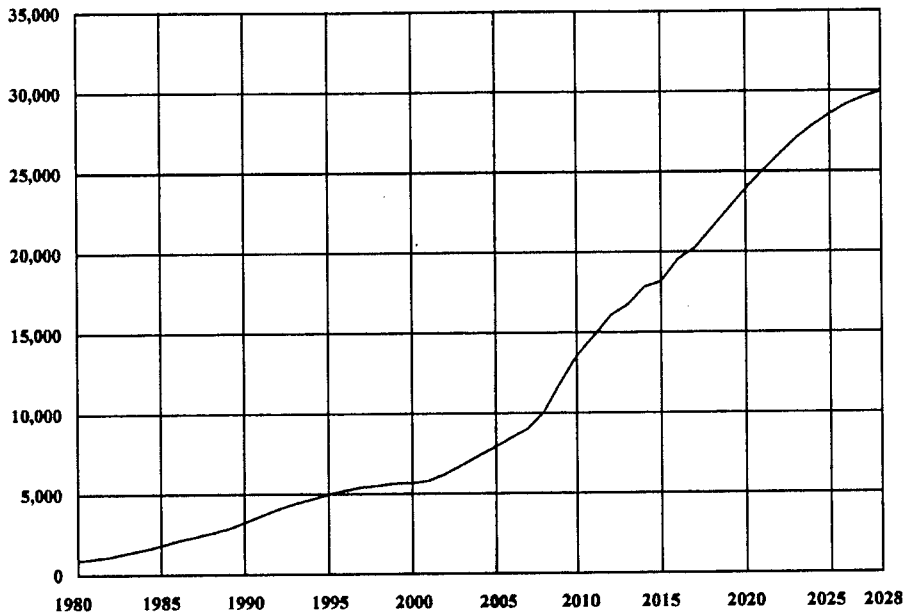


Figure 1: Historical record of the outstanding national debt of the United States and its future projections in billions of United States dollars.²¹

A. Underlying Danger

The national debt is a critical indicator in an analysis of the health of any nation,²² yet the major concern is not the debt per se, but the interest payments on that debt.²³ The magnitude of the ongoing United States budget deficit will likely have a dramatic impact on long-term interest rates.²⁴ Even as the national debt has increased substantially over several

21. See OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, AN AMERICAN BUDGET: ANALYTICAL PERSPECTIVES 32 (2019), <https://perma.cc/VY93-JS7W>; *Historical Debt Outstanding - Annual 2000 - 2018*, TREASURYDIRECT, <https://perma.cc/SSW8-8XLU> (last visited May 3, 2019); *Historical Debt Outstanding - Annual, 1950 - 1999*, TREASURYDIRECT, <https://perma.cc/GW5N-M9F3> (last visited May 3, 2019). Years 2018 through 2028 are estimates (assuming no additional tax cuts and/or increases to defense spending).

22. See *supra* Figure 1 (providing a historical overview).

23. See *infra* Figure 2 (relating to a historical analysis of the interest paid on the 10-year Treasury note).

24. See C. Fred Bergsten, *The Dollar and the Deficits: How Washington Can Prevent the Next Crisis*, 88 FOREIGN AFF. 20, 21–22 (2009) (arguing that budget deficits pose a

years and is predicted to continue to do so for the foreseeable future, few mainstream Americans, members of Congress, or even those comprising the Executive Branch, have paid any real attention to it. In order to address this very difficult and often ugly situation, substantive debates must first take place. These are unlikely to take place any time soon because to do so would mean addressing the federal budget and ways to get it under control, and Republicans, who were once deficit hawks, have now turned a blind eye to the national debt.²⁵



Figure 2: Interest on the 10-year Treasury note—both historical data and future projections.²⁶

The low interest rates attached to the debt cause few politicians to address the issue.²⁷ However, that could change if the United States faces potential negative ratings on its debt due to the necessity of a national debt crisis forcing it to once again use QE. The first real example of negative ratings came on August 5, 2011, from *Standard and Poor's* downgrade of

major risk to the United States' economy); see also Cynthia Saltzman, *Federal Budget Deficits: It's Not If, But When, They Matter*, 59 J. FIN. SERV. PROFS. 22 (2005).

25. See Shawn Tully, *How Debt Could Blow up the Trump Economy*, FORTUNE (Mar. 15, 2018), <https://perma.cc/QJA4-A7Q2>.

26. See *Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity*, BD. OF GOVERNORS OF THE FED. RES. SYS., <https://perma.cc/5RTM-CMHQ>; OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, AN AMERICAN BUDGET: ANALYTICAL PERSPECTIVES 11 (2018), <https://perma.cc/VY93-JS7W>. Projections on the 10-year Treasury note are from 2018 to 2028.

27. See Gary E. Clayton, *The Federal Deficit and the National Debt: Why They Matter More Than We Think*, 40 BUS. ECON. 29, 29–30 (2005) (noting low interest rates); see also *supra* Figure 2.

the United States from AAA to AA-plus.²⁸ Each new step down the rating level will cost the government an even greater percentage of its budget as more interest must be paid on the national debt.²⁹ A major accident awaits as interest rates grow, forcing the real cost of government spending to double or even triple.³⁰ The more debt the United States assumes, the higher the demand from lenders for increased interest rates to finance that debt as a result of the increased risk, among other factors.³¹

B. Rumors of Refinancing

Trump has stated that the United States government could refinance its national debt.³² According to Trump, “With the United States government there are times on occasion you can buy back debt at a discount, meaning the interest rate goes up and you buy back debt at a discount.”³³ This buyback, however, has come under criticism with Richard Rubin stating, “With the government now running large annual deficits, such a buyback would require issuing new debt to purchase the old debt. Because that new debt would be issued at higher interest rates, it isn’t clear that type of buyback would save money in the long run.”³⁴ These interest rates comprise the core problem facing any new president, perhaps more so than the debt itself. At some point, the Trump administration will need to address the mounting debt situation in ways that, for now, can only be imagined.

The amount that all recent administrations have spent solely on the interest to borrow money for the United States government is significantly smaller than the historical norm.³⁵ Take, for example, the market yield on the ten-year United States Treasury note. As Figure 2 shows, interest rates have gone from around 4% starting in the 1960s, peaking at around 14% in

28. Walter Brandimarte & Daniel Bases, *United States Loses Prized AAA Credit Rating from S&P*, REUTERS (Aug. 5, 2011 8:13 PM), <https://perma.cc/96HQ-DS5J>.

29. See Amanda Cox et al., *Charting the American Debt Crisis*, N.Y. TIMES (July 26, 2011), <https://perma.cc/CP46-UBX7>.

30. See Clayton, *supra* note 27.

31. Andrew Solocha & Thomas Bundt, *International Crowding Out: The U.S. Debt and Foreign Interest Rates*, 29 Q.J. BUS. & ECON. 28, 45 (1990); Scott T. Fullwiler, *Interest Rates and Fiscal Sustainability 3* (Ctr. for Full Emp’t and Price Stability, Working Paper No. 53, 2006).

32. Louis Jacobson, *A Closer Look at Donald Trump’s Comments About Refinancing U.S. Debt*, POLITIFACT (May 16, 2016 10:20 AM), <https://perma.cc/TU53-6GBR>.

33. Richard Rubin, *Donald Trump Amplifies His Stances on Tax Cuts, U.S.’s Debt*, WALL ST. J. (May 9, 2016 10:45 PM) (on file with *Campbell Law Review*).

34. *Id.*

35. See *supra* Figure 2.

1982, and hovering around 3% in 2018. The OMB estimates that from 2016 to 2028, the same Treasury note will carry an interest rate of no higher than 3.7%.³⁶ However, should that increase to just 8% (as one might expect given a risk-benefit analysis of a truly large national debt and further downgrades in the rating of that debt), then the yearly amount paid on \$25 trillion in debt subject to statutory limitations issued by the Treasury Department in 2021 on interest alone could reach \$2 trillion—a value that would (for all practical purposes) bankrupt the United States government and its people.³⁷ In addition to the Treasury note’s tenuous future, a recent policy change at the Federal Reserve in regard to interest rates has “removed language in its statement that had characterised its policy as ‘accommodative.’” Still, Fed Chairman Jerome Powell said at a press conference that the Fed did not have a precise estimate of where accommodation ends.³⁸ Therefore, even without the hypothetical rate hikes on the Treasury note, additional rate hikes seem likely.

Jeffrey Gundlach, chief executive officer of DoubleLine Capital, stated recently, “My 6 percent by 2021 call is perfectly on track. No reason at all to change it. A move soon to higher yields would be signaled by the 30-year closing two days in a row over 3.25 percent.”³⁹ According to Jennifer Ablan, “Gundlach likened debt-financed U.S. budget deficits to Miracle-Gro plant food and remarked that the benefits of the ballooning deficit, stemming from tax cuts, were not permanent. . . . Gundlach said, ‘The deficit is insane. A truly strong economy produces a fiscal surplus.’”⁴⁰ Six percent interest on \$25 trillion would yield \$1.5 trillion in interest payments for a given year. Perhaps Trump is correct in calling the Federal Reserve his “biggest threat” due to its raising of interest rates.⁴¹ Trump went on to state, “It’s independent, so I don’t speak to [Federal Reserve chair Jerome Powell] but I’m not happy with what he’s doing”⁴² Yet, as history has shown, presidents in the past have seen

36. OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, AN AMERICAN BUDGET: ANALYTICAL PERSPECTIVES 11 (2018), <https://perma.cc/VY93-JS7W>

37. *See id.* at 32.

38. Akin Oyedele, *Fed Raises Interest Rates and Signals Its ‘Accommodative’ Era Is Over*, BUS. INSIDER (Sept. 27, 2018 4:00 AM), <https://perma.cc/LC89-HT69>.

39. Jennifer Ablan, *DoubleLine’s Gundlach Warns U.S. Treasury Yields Headed Higher*, REUTERS (Sept. 19, 2018 3:13 PM), <https://perma.cc/YK9G-8MAQ>.

40. *Id.*

41. *Trump Calls Federal Reserve ‘My Biggest Threat,’* BBC NEWS (Oct. 16, 2018), <https://perma.cc/9MVJ-64HV>.

42. *Id.*

much higher interest rates.⁴³ Therefore, one may assume that the projections by the OMB for the years 2018 through 2028 are unrealistic.

Interest rates are likely to rise dramatically as the risk analysis of the national debt is recognized and the reality is accepted that the United States government could potentially *never* be positioned with an ability to pay off its debt without the electronic production of additional currency through QE.⁴⁴ Clayton has argued that interest rates will go up noticeably with increased deficit spending.⁴⁵ The possible future downgrades of the United States' national debt from *Standard and Poor's*, along with the likelihood of further downgrades by other agencies, will mean that the interest paid on that debt will rise dramatically over the coming years, foreshadowing the reality that a balanced budget may *never* be possible.

The reality is that a saturation point, in regard to the amount of money that both international and domestic owners of United States debt are willing to purchase, may soon be reached. The United States government will likely pay far more in interest on that debt than anticipated. As these rates make paying off the debt owed all but impossible, a series of events may cause a collapse in the house of cards that is the multi-trillion dollar derivative market and what entrepreneur Warren Buffett has called a "potential time bomb."⁴⁶ Without dramatic action by members of Congress and the Trump administration, the United States will soon cross a point of no return. Therefore, as remains the key argument in this Article, the United States government must prepare to default on its national debt under domestic and international law.

III. THE POINT OF NO RETURN

Several reports have suggested that the United States government has already reached the point of no return in an inevitable financial collapse due to the ever-increasing national debt.⁴⁷ While members of both parties and the Executive agree about the need to address the budget deficits,⁴⁸ it appears that the continuous bickering and back-and-forth debates will allow

43. See *supra* Figure 2.

44. See Dizikes, *supra* note 13.

45. Clayton, *supra* note 27.

46. Dakers, *supra* note 18; Emily Flitter, *Decade After Crisis, a \$600 Trillion Market Remains Murky to Regulators*, N.Y. TIMES (July 22, 2018), <https://perma.cc/6NV3-HYLJ>.

47. See, e.g., Edward Chancellor, *Reflections on the Sovereign Debt Crisis*, GMO WHITE PAPER (July 2010), <https://perma.cc/CGK8-YHD9>.

48. See Kevin Breuninger & Jacob Pramuk, *Trump Says Each Cabinet Secretary Should Slash 5% of Their Budgets After He Pledges to Cut Spending*, CNBC (Oct. 17, 2018 11:08 AM), <https://perma.cc/3DUA-M6BJ>.

the high deficits to go on and the national debt to rise dramatically.⁴⁹ At this rate, the United States will eventually no longer be able to pay the interest on its debt and will reach a saturation point.⁵⁰ No longer being able to borrow money from other nations or from domestic corporations, the value of the dollar will drop significantly as the United States government will be forced to pay for its budget deficits through adding large sums of currency to the system electronically, likely in the form of QE. Without the electronic printing of additional dollars, the likelihood of a default on the national debt appears high.⁵¹

A. Global Concerns

The United States dollar has weakened in the past and will likely do so again in the near future.⁵² Even strong supporters of the dollar, such as China, are slowly reaching the limit of their willingness to support the United States bond market.⁵³ However, a future scenario exists where reaching the saturation point will render the dollar “broken” as the international currency of choice.⁵⁴ This will forever alter the position of the United States within the world arena, serving as a likely opportunity for the rise of China as the dominant world power. For instance, China has

49. See Jeff Cox, *The Trump Administration Is Headed for a Gigantic Debt Headache*, CNBC (Aug. 2, 2018 2:40 PM), <https://perma.cc/PZA2-NPTK>; see also Elizabeth Schulze, *Does U.S. Debt Matter?*, CNBC (July 26, 2018 7:53 AM), <https://perma.cc/4U6B-N2T4>.

50. “The Federal Reserve’s portfolio of Treasury and mortgage-backed securities has more than quadrupled over the past decade. In June [of 2017], the Fed announced a plan for beginning to shrink the balance sheet Currently, the balance sheet stands at over \$4.5 trillion, much larger than its pre-crisis peak of around \$925 billion.” Ng & Wessel, *supra* note 2.

51. For an article addressing the difficult issue of what to do when a nation defaults on its national debt, see generally Michael Waibel, *Opening Pandora’s Box: Sovereign Bonds in International Arbitration*, 101 AM. J. INT’L L. 711 (2007).

52. See Peter Behr, *The Troubled Dollar: Will the World’s “Anchor” Currency be Replaced?*, 2 CQ GLOBAL RESEARCHER, Oct. 2008, at 1.

53. To review recent changes in the buying of United States treasuries from countries (including China), see U.S. DEP’T OF THE TREASURY, MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES (2018), <https://perma.cc/WA5S-528G>.

54. This author defines “broken currency” as a nearly complete loss of faith in that currency—by both domestic and, more importantly, international trading partners. The role of the United States dollar as the international currency of choice and the impact of its possible decline has been reviewed in various scholarly articles. See, e.g., Alan S. Blinder, *The Role of the Dollar as an International Currency*, 22 E. ECON. J. 127 (1996); Faustino Cobarrubia Gómez & George Leddy, *Obama’s Anticrisis Policy: A Remedy, or the Death of the Dollar?*, 38 LATIN AM. PERSPS. 122 (2011); Jamie Morgan, *How Should We Conceive the Continued Resilience of the U.S. Dollar as a Reserve Currency?*, 41 REV. RADICAL POL. ECON. 43 (2009).

been pushing the Chinese renminbi (RMB) as both an international currency and as an alternative to the United States dollar.⁵⁵ This change may occur sooner given the recent trade wars between these two nations. As a recent article points out:

If this trade fight does escalate, then more tariffs could be slapped on more goods. But China could fire back in a far more significant way: selling a large chunk of the \$1.17 trillion of U.S. treasury bonds it holds.

....

If China did decide to sell off those bonds in a fit of rage aimed at President Donald Trump, then it could cause major havoc on international markets, said Jeff Mills, co-chief investment strategist at PNC Financial Services Group. "It's certainly something they could do," he said.

....

China holds about 20 percent of U.S. debt held by foreign countries, which is a lot, but it only accounts for about 5 percent of outstanding debt overall. Other holders include other countries—Japan owns about \$1 trillion in treasuries—the U.S. government, corporations and investors. However, if China does decide to dump treasuries, it could make others panic and sell as well, says Vincent Reinhart chief economist and macro strategist at BNY Mellon.⁵⁶

It may be only a matter of time before the pressure builds on the Chinese leadership to limit its holdings of the dollar and United States treasuries. The recent fears of a trade war with China,⁵⁷ the current downturn in the Chinese economy,⁵⁸ and the growing anger directed at the United States government⁵⁹ provide China a clear path to limit the buying of United States treasuries despite the growing need for such buyers as the United States debt continues to skyrocket.⁶⁰

China also must address an increased risk stability crisis within its borders as more of its own banks come under stress due to the rising debt

55. Edoardo Campanella, *China's Dangerous Dollar Addiction*, FOREIGN POL'Y (Oct. 18, 2018 4:02 PM), <https://perma.cc/7QGG-S593>.

56. Bryan Borzykowski, *China's \$1.2 Trillion Weapon That Could Be Used in a Trade War with the US*, CNBC (Apr. 5, 2018 11:06 AM), <https://perma.cc/N59U-PRVJ>.

57. See Mark Landler, *Trump Has Put the U.S. and China on the Cusp of a New Cold War*, N.Y. TIMES (Sept. 19, 2018), <https://perma.cc/3MJJ-JPUQ>.

58. See Alexandra Stevenson, *China's Growth Hits Slowest Pace in a Decade*, N.Y. TIMES (Oct. 18, 2018), <https://perma.cc/SQ4S-P68Y>.

59. See *Chinese Anger at US Sanctions for Russian Weapons Purchases*, BBC (Sept. 21, 2018), <https://perma.cc/39AZ-PZCP>.

60. See *supra* Figure 1.

and other factors affecting them.⁶¹ As the International Monetary Fund (IMF) pointed out recently in regard to China:

The credit-to-GDP ratio is now about 25 percent above the long-term trend, very high by international standards and consistent with a high probability of financial distress. As a result, corporate debt has reached 165 percent of GDP, and household debt—while still low—has risen by 15 percentage points of GDP over the past five years and is increasingly linked to asset-price speculation. The buildup of credit in traditional sectors has gone hand-in-hand with a slowdown of productivity growth and pressures on asset quality.⁶²

This increasing debt will only cause the leadership of China to put more money internally into its banking structure versus spending it on United States treasuries. China's internal financial problems will likely increase the chances that some reduction of United States Treasuries will occur. Other geopolitical issues, such as the rising tensions in the South China Sea, will also make China more likely to decrease or halt buying Treasuries.⁶³

In addition, growing global resentment of the United States will potentially cause other nations to limit their purchases of United States Treasuries once major buyers like China start to limit their purchases.⁶⁴ This process may have already begun.⁶⁵ As Daniel Kruger and Ira Iosebashvili from The Wall Street Journal point out, "Overseas investors, traders and central bankers are buying fewer Treasur[ies], a potential turning point for a \$15 trillion market at the center of global finance and economics."⁶⁶ This process signals a potential turning point that may lead to the next global financial crisis.

61. See IMF, *People's Republic of China*, Financial System Stability Assessment (Dec. 2017).

62. *Id.* at 7.

63. Hannah Beech, *China's Sea Control Is a Done Deal, 'Short of War with the U.S.'* N.Y. TIMES (Sept. 20, 2018), <https://perma.cc/V8PF-VVYZ>.

64. Dorothy Manevich & Hanyu Chwe, *Globally, More People See U.S. Power and Influence as a Major Threat*, PEW RES. CTR. (Aug. 1, 2017), <https://perma.cc/TC8V-Z88N>. See U.S. DEP'T OF THE TREASURY, MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES (2018), <https://perma.cc/WA5S-528G>, to see the recent trends of foreign holders of United States treasuries and, more importantly, the leveling-off of buying (and selling) from those holders.

65. See Manevich & Chwe, *supra* note 64.

66. Daniel Kruger & Ira Iosebashvili, *Foreign Buying of U.S. Treasuries Softens, Unsettling Financial Markets*, WALL ST. J. (Oct. 23, 2018 4:42 PM) (on file with *Campbell Law Review*).

B. Restructuring

The fear here, much like what occurred in the 2008 financial crisis, emanates from what Buffett describes as the “fog of panic.”⁶⁷ It is this contagion in the financial market that was all too prevalent leading up to the 2008 crisis. The bursting of the financial “bubble” allowed this fear to spread.⁶⁸ As both Evaldas Račickas and Asta Vasiliauskaitė point out, “In the context of financial market liberalization, globalization and internalization, the subsequences caused by financial risk and financial crises contagion become more visible and more severe.”⁶⁹ It is this contagion that led to what occurred in part in 2008, not only in the United States but in countries around the world;⁷⁰ yet, Buffett argues that another financial crisis will take place.⁷¹ Because the amount of derivatives that banks hold is still an unknown, the contagion factor will only exacerbate the problem in the next financial collapse.⁷² This contagion and the fear that will spread in the next financial crisis may cause the collapse in the \$600 trillion plus derivative market and ultimately lead to the downfall of the United States economy.

The national debt, specifically the interest due on that debt, will likely start the process that could lead to a collapse of the United States economy, due in part to the bursting of the derivative “bubble.” Trump has said that he would consider renegotiating the United States debt. David Harrison from *The Wall Street Journal* states:

[T]he presumptive GOP presidential nominee [Trump] sought to clarify comments he made last week to CNBC, when he raised the possibility of

67. Warren E. Buffett, *Pretty Good for Government Work*, N.Y. TIMES (Nov. 16, 2010) (on file with *Campbell Law Review*); *Warren Buffett Explains the 2008 Financial Crisis*, WALL ST. J. (Sept. 6, 2018), <https://perma.cc/6YFP-N3JU> (video).

68. For some comparative information on how the public feels about the current and future economy, see Bruce Stokes, *A Decade After the Financial Crisis, Economic Confidence Rebounds in Many Countries*, PEW RES. CTR. (Sept. 18, 2018), <https://perma.cc/RRD7-WRLK>. Here, Stokes states, “More positive public feelings about the current economy have not erased concern about the future, however. In 18 of the 27 nations surveyed, including 80% of the French, 76% of the Japanese and 72% of the Spanish, half or more of the public believes that when children today in their country grow up they will be worse off financially than their parents.” *Id.* at 4.

69. Evaldas Račickas & Asta Vasiliauskaitė, *Analysis of Financial Crisis Contagion Indicators*, 8 SCI. & STUD. ACCT. & FIN: PROBS. & PERSPS. 197, 197 (2012).

70. See Cheng Yan et al., *On Cross-Border Bank Credit and the U.S. Financial Crisis Transmission to Equity Markets*, 69 J. INT’L MONEY & FIN. 108 (2016) (examining post-crisis legislation and its shortcomings).

71. Warren Buffett *Explains the 2008 Financial Crisis*, *supra* note 67.

72. See Robert Litan, *America’s Brewing Debt Crisis: What Dodd-Frank Didn’t Fix*, 95 FOREIGN AFF. 111 (2016).

“long-term renegotiations.” Those comments led many observers to speculate he was advocating some kind of strategic default. “This is the United States government,” he said Monday. “The bonds are absolutely sacred.”⁷³

If renegotiation of the debt occurs, some truly tragic consequences will result. As Jacobson states:

Renegotiation (sometimes called “restructuring”) would occur if a country had already defaulted on its debts, or was about to default, and then negotiated with its creditors so they would accept a percentage of the amount they were owed, rather than the full amount.

Going this route would be considered a disaster for the U.S. economy, and ultimately for the international economy that depends on a strong United States.

For one thing, no one wants the United States to get into an economic situation desperate enough to require renegotiation.

Then there’s the reality that U.S. securities have long been considered default-proof. The bedrock assumption has allowed the United States to borrow at lower interest rates, which in turn carries an economic benefit. Making U.S. securities more risky would result in higher interest rates for most other types of borrowing, harming the national economy.

Finally, the current system has secured the United States’ position as the world’s safest harbor for global money. Renegotiating would blow all that up.⁷⁴

Yet, the United States may reach a point in the near future where default is a necessity. As the United States Government Accountability Office (GAO) pointed out recently:

The Statements of Long-Term Fiscal Projections included in the *2017 Financial Report* show that, absent policy changes, the federal government continues to face an unsustainable long-term fiscal path. For the 2017 projections, debt-to-GDP at the end of the 75-year projection period was higher than debt-to-GDP at the end of the 75-year projection in the 2016 and 2015 projections. Since these projections do not include the effects of legislation enacted after the end of fiscal year 2017 on the long-term budget outlook, the projected growth of the deficit and debt held by the public as a share of GDP will likely be accelerated once the Tax Cuts and Jobs Act and other recent legislation are taken into account. Over the long term, the imbalance between spending and revenue that is built into current law and policy is projected to lead to continued growth of the deficit and debt held

73. David Harrison, *Donald Trump Says He Wouldn't Seek to Renegotiate U.S. Debt*, WALL ST. J. (May 9, 2016 7:07 PM) (on file with *Campbell Law Review*).

74. Jacobson, *supra* note 32.

by the public as a share of GDP. This situation—in which debt grows faster than GDP—means the current federal fiscal path is unsustainable.⁷⁵

The rationale behind the lack of clear, concrete, and rapid action on the part of Congress and the Trump administration raises a pivotal question as to whether either party has the ability to address the upcoming financial crisis before it is too late. The answer may lie within the notion of financial and political considerations serving as a collective barrier to hard action.

IV. THE SACRED COWS

The reality of the debt crisis of the United States government spurs a grim conclusion. Little room for doubt exists with regard to the impending economic catastrophe, and the likelihood of any serious attempt to avert such a scenario is limited at best. The only avenue is significant change to the United States' "sacred cows"—areas so sensitive to the United States public that, for all practical purposes, they remain off limits to any significant change.⁷⁶ These areas include Medicare, Social Security, defense spending, and taxes (more specifically, increases in taxes). In addition, Congress, Trump, and the courts are failing to seriously address the sacred cows in a way that could help balance the federal budget and therefore avert such a catastrophe. Without structural change to all of these areas within the near future, a financial collapse of the United States government appears ever more likely. Given the recent success of the Democrats to secure control of the House of Representatives in the 2018 midterm elections, the possibility of gridlock, and therefore inaction, appears still more likely.

A. *Social Security and Medicare*

Any member of Congress attempting to reduce spending significantly on either Social Security or Medicare will be taking on the most powerful voting group in this nation—the aged.⁷⁷ According to Kraft and Furlong,

75. U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-18-299SP, *THE NATION'S FISCAL HEALTH: ACTION IS NEEDED TO ADDRESS THE FEDERAL GOVERNMENT'S FISCAL FUTURE* 11–12 (2018).

76. It is the opinion of the writer of this Article that all of the "sacred cows" should be addressed in order to deal with the impending financial crisis. See also Diane Lim Rogers, *No More Sacred Cows, Congress: Put Everything on the Budget-Cuts Table*, CHRISTIAN SCI. MONITOR (Jan. 5, 2011), <https://perma.cc/U3G2-W7MR>.

77. MICHAEL E. KRAFT & SCOTT R. FURLONG, *PUBLIC POLICY: POLITICS, ANALYSIS, AND ALTERNATIVES* 276 (3d ed. 2010).

“Politicians foolish enough to touch the issue of Social Security reform will likely find themselves voted out of office—in other words, ‘fired’.”⁷⁸ Retirees are protected by the AARP, a powerful political-action organization formally known as the American Association of Retired Persons.⁷⁹ The organization is more than 40 million members strong.⁸⁰ Both of these institutions, however, need to be faithfully and painstakingly addressed through both cuts and increases in revenue input in such a way that severe reductions are not allocated due to a sudden and dramatic change in the United States financial status. As Rudolph Penner states:

The U.S. national debt is on a trajectory to reach 185 percent of gross domestic product by 2035 unless there is a drastic change in federal fiscal policy. The main drivers of this situation are Social Security and health care programs, whose growth is amplified by an aging population and increasing medical costs, a dysfunctional Congress and an unwillingness to tackle the increasing burden of Social Security and the medical programs . . . Reluctance to come to grips to the U.S. federal debt problem has increased the risks of a sovereign debt crisis Given the obstacles to a major overhaul of fiscal policy, it is difficult to see how it will be avoided.⁸¹

A recent GAO report stated that the issue of an aging population, increased per capita funding of Medicare and Medicaid, and overall federal spending on healthcare were major contributors to the looming financial crisis.⁸² This report states, “Increased health care spending for Medicare and Medicaid will continue to place a strain on the federal budget in the near and the long term.”⁸³ It goes on to state, “Health care spending is a key programmatic and policy driver of the long-term outlook on the spending side of the budget.”⁸⁴ It is therefore critical to the future of the United States that healthcare—specifically Medicare and Medicaid—be addressed by both members of Congress and the Executive. Yet, recent changes signify a political atmosphere of complicity. In 2019, a 2.8% cost of living adjustment will take place with few (if any) politicians in

78. *Id.*

79. *Key Dates in AARP History*, AARP, <https://perma.cc/43K7-WZ7M> (last visited May 3, 2019).

80. KRAFT & FURLONG, *supra* note 77.

81. Rudolph G. Penner, *Will It Take a Crisis to Fix Fiscal Policy?*, 46 BUS. ECON. 62, 62 (2011).

82. U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-18-299SP, *THE NATION'S FISCAL HEALTH: ACTION IS NEEDED TO ADDRESS THE FEDERAL GOVERNMENT'S FISCAL FUTURE 18–25* (2018).

83. *Id.* at 22.

84. *Id.* at 23.

Congress or the Executive against continued benefits for the elderly.⁸⁵ It remains to be seen what the Trump administration will do regarding Social Security, Medicare, and Medicaid benefits given the recent advances in numbers and control by the Democrats of the House of Representatives in Congress.⁸⁶

Of particular interest is the reality that Social Security and Medicare recipients are, for the most part, still very active people with free time and represent a massive collective voting group.⁸⁷ Consequently, no politician is likely to push any substantive cuts to either Social Security or Medicare for fear of losing the next election. In addition, with the strong support by Democrats for Social Security and Medicare benefits,⁸⁸ it is unlikely that cuts to these programs will occur in the near future.

B. Defense spending

Defense spending has more than doubled since 2001, with the current 2019 defense bill that Trump recently signed into law at \$717 billion.⁸⁹ One causal factor is the military-industrial complex that President Dwight D. Eisenhower warned would become ingrained in American culture.⁹⁰ The reality of Eisenhower's warning clearly has come to fruition since the tragic events of September 11, 2001. The Republican Party has made national defense a key issue.⁹¹ Trump, for his part, has welcomed increases in defense spending, and has been responsible for one of the most aggressive increases since the Reagan era.⁹²

While signing a recent defense bill, Trump said, "The National Defense Authorization Act is the most significant investment in our

85. See Konish, *supra* note 7.

86. See Nancy J. Altman & Eric R. Kingson, *The Clear and Present Threat to Social Security and Medicare*, 60 CHALLENGE 245, 256–61 (2017).

87. Dena Bunis, *The Immense Power of the Older Voter*, AARP (Apr. 30, 2018), <https://perma.cc/AQJ4-3FS3>.

88. See Erica Werner et al., *As Midterms Near, Democrats Accuse GOP of Plotting to Cut Medicare, Social Security*, WASH. POST (Oct. 17, 2018), <https://perma.cc/AS5Z-RHJG>.

89. Amanda Macias, *Trump Gives \$717 Billion Defense Bill a Green Light. Here's What the Pentagon Is Poised to Get*, CNBC (Aug. 13, 2018 4:34 PM), <https://perma.cc/S544-4J7C>.

90. *Eisenhower Warns of the "Military-Industrial Complex,"* HIST. (Nov. 13, 2009), <https://perma.cc/3WEE-48LT>; see also THE MILITARY-INDUSTRIAL COMPLEX AND AMERICAN SOCIETY (Sterling Michael Pavelec ed., 2010).

91. John R. Petrocik et al., *Issue Ownership and Presidential Campaigning, 1952-2000*, 118 POL. SCI. Q. 599, 606 (2003).

92. See Travis Sharp, *President Trump's 2019 Defense Budget: Where Does It Really Rank, Historically?*, MODERN WAR INST. (Apr. 27, 2018), <https://perma.cc/A5GS-U3LR>.

military and our war fighters in modern history. We are going to strengthen our military like never ever before and that's what we did."⁹³ Phil Stewart reporting for Reuters notes, "The U.S. Air Force is predicting it will need to grow sharply over the next decade or so, boosting the number of operational squadrons by nearly a quarter to stay ahead of increasingly muscular militaries in China and Russia, officials said."⁹⁴ In all likelihood, the National Defense Authorization Act and other requests for more defense funding will be granted by Congress and signed into law by Trump.

The current struggle between members of Congress and Trump involves how to address the growing budget deficit. Recently, Trump has announced his desire to address the growing budget deficit that reached \$779 billion in his second year in office.⁹⁵ He promised that he was "going to ask every Cabinet secretary to cut 5 percent for next year."⁹⁶ Fred Lucas has noted, "Congress approved an increase in the military budget to \$716 billion for fiscal 2019, but there will be a cut, Trump said, 'probably' to \$700 billion, for fiscal 2020."⁹⁷ Yet, this plan has been met with skepticism. Defense spending has taken a priority throughout much of Congress, and any cuts to it, even by Trump, have come under sharp criticism. As Travis Tritten from the Washington Examiner states:

Members of the Senate Armed Services Committee on Tuesday rallied against \$33 billion in defense budget cuts ordered by President Trump for the coming year.

The decrease in planned spending could force hard choices between either modernizing the nuclear arsenal or continuing to rebuild conventional forces to deal with growing threats from Russia and China, senators warned.

The growing opposition to the president's announcement last month that he wants to slash planned spending from \$733 billion to \$700 billion budget came as a blue-ribbon panel delivered a report to the Armed Services committee Tuesday that found U.S. defense is in crisis and could be at risk of losing a major war.⁹⁸

93. Macias, *supra* note 89.

94. Phil Stewart, *U.S. Air Force Seeks Sharp Growth to Stay Ahead of China, Russia*, REUTERS (Sept. 17, 2018 10:43 AM), <https://perma.cc/MNX5-6UJK>.

95. Jeff Stein, *Deficit Balloons to \$779 Billion in Trump's Second Year*, WASH. POST (Oct. 15, 2018), <https://perma.cc/8RTJ-ZAT5>.

96. Fred Lucas, *Trump's Plan to Cut Budget by 5% Meets with Skepticism*, DAILY SIGNAL (Oct. 17, 2018), <https://perma.cc/UW24-3SLT>.

97. *Id.*

98. Travis J. Tritten, *Senators Stake Out Opposition to Trump's Defense Cuts*, WASH. EXAMINER (Nov. 27, 2018 12:18 PM), <https://perma.cc/75GM-KFQ9>.

The reality is that neither Democrats nor Republicans will cut defense spending because of the strong support of the American public behind the United States military presence, the strength of the military-industrial complex, and the reality that the Republican Party simply will not allow such cuts. Therefore, as with Social Security and Medicare, the defense budget will continue to increase over the next decade.

C. Taxes

If Social Security, Medicare, and the defense budgets indeed continue to rise, significant tax cuts are not the solution according to members of both parties in Congress and the Trump administration. The major tax cuts of the Reagan and George W. Bush administrations were allowed, regardless of their dramatic effect on budget deficits and the national debt.⁹⁹ To date, most Republicans—including Trump—have argued for massive tax cuts. Recently, the president has argued for \$6 trillion in tax cuts through reforming the tax code,¹⁰⁰ signed into law tax cuts that will add \$1.5 trillion to the national debt over the next ten years,¹⁰¹ and argued for additional tax cuts.¹⁰²

With the unlikelihood of major tax increases, along with the rising budget allocations for Social Security, Medicare, and defense spending, the national debt will continue on its path to unsustainable levels of growth. The debt is forecasted to reach an unprecedented level of \$25 trillion by 2021 and nearly \$30 trillion by 2028 at current rates of growth.¹⁰³ Accordingly:

CBO has noted that large and growing amounts of federal debt held by the public over the coming decades would have negative long-term consequences for the economy and would constrain future budget policy. In particular, the projected amounts of debt would

- reduce national saving and income in the long term;
- increase the government's interest costs, putting more pressure on the rest of the budget;
- limit lawmakers' ability to respond to unforeseen events;

99. KRAFT & FURLONG, *supra* note 77, at 208–10.

100. Hurd, *supra* note 3.

101. Steinbuch, *supra* note 5.

102. Jane C. Timm, *Fact Check: Trump's Tax Cut Pitch to Midterm Voters: Is it What He Claims?*, NBC (Nov. 1, 2018 11:27 AM), <https://perma.cc/94KG-7LDJ>.

103. OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, AN AMERICAN BUDGET: ANALYTICAL PERSPECTIVES 32 (2018), <https://perma.cc/VY93-JS7W>.

- and increase the likelihood of a financial crisis.¹⁰⁴

V. A CATASTROPHIC DOMINO EFFECT

Many who debate the future of the United States government's budget and its sacred cows assume that the national debt will be allowed to rise because some individuals, institutions, and other places (e.g., sovereign banks) will always continue to lend it increasing amounts of money every year.¹⁰⁵ Realistically, however, both domestic and international funding of the national debt appears to have come close to its end,¹⁰⁶ and has therefore reached a "saturation" point whereby nations, corporation, and individuals will no longer add United States national debt to their portfolios and may soon start to get rid of that debt. Should nations simply start to sell their United States dollars and United States debt quickly through the use of today's technology,¹⁰⁷ the United States faces the possibility of a catastrophic domino effect: an event whereby the sudden selling of dollars and United States debt starts the sell-off of shares in stock markets, which in turn directly affects the liquidity of the banking infrastructure.¹⁰⁸

The true and unknown domino here is the \$600 trillion¹⁰⁹ to over \$1 quadrillion¹¹⁰ derivatives market—a market whose total value remains unknown due to the secretive nature of the banks and other financial institutions who insure them—that totals more than twenty times the globe's GDP.¹¹¹ Yet, the current United States government at the legislative and executive levels is abandoning the very rules that were

104. U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-18-299SP, *THE NATION'S FISCAL HEALTH: ACTION IS NEEDED TO ADDRESS THE FEDERAL GOVERNMENT'S FISCAL FUTURE* 27 (2018).

105. See, e.g., Nicole Goodkind, *U.S. Debt Is Growing and Foreigners Are Buying Less: Here's Why That Could Be Disastrous for the Economy*, NEWSWEEK (May 2, 2018 4:55 PM), <https://perma.cc/D6CR-5LCJ>.

106. See, e.g., U.S. DEP'T OF THE TREASURY, *MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES* (2018), <https://perma.cc/WA5S-528G> (describing the leveling off of buying by international holders or even the selling off of U.S. debt).

107. The 2007–2008 financial collapse was due in part to the use of modern technology. See Wayne Hope, *Crisis of Temporalities: Global Capitalism After the 2007–08 Financial Collapse*, 20 *TIME & SOC'Y* 94 (2011).

108. Hans J. Blommestein, *Risk Management After the Great Crash*, 28 *J. FIN. TRANSFORMATION* 131, 134 (2010).

109. John Carney & David Reilly, *Bank Regulators Roar at \$700-Trillion Market*, WALL ST. J. (Aug. 6, 2014 5:40 PM) (on file with *Campbell Law Review*).

110. See Stephen Lendman, *Global Derivatives: \$1.5 Quadrillion Time Bomb*, GLOBAL RES. (Aug. 24, 2015), <https://perma.cc/9A5A-5EY4>.

111. Randy Martin, *Specters of Finance: Limits of Knowledge and the Politics of Crisis*, 34 *J. COMM. INQUIRY* 356, 359 (2010).

supposed to stop another 2008-like financial crisis from occurring. Paul Volcker, the former Federal Reserve chairman from August 1979 to August 1987, worries about the economy and the government. According to Andrew Sorkin at the *New York Times*, “The Volcker Rule, which was part of the Dodd-Frank regulatory legislation [designed to address the risk-taking that banks have taken following the 2008 crisis], is being chipped away at by Republicans, which doesn’t sit well with [Volcker].”¹¹² With all of the money in Washington, no politicians appear willing to go against the special interest groups that allowed the crisis in the first place.¹¹³ Sorkin would later note, “Today, Mr. Volcker is already starting to worry about the next financial crisis.”¹¹⁴ This further supports this Article’s stance that it is not a question of if, but when the next financial crisis will occur.

When such experts begin to worry, members of Congress and the executive must consider what preparations need to be in place so that the next major financial crisis does not catch the United States government off guard. If there is a sudden fall in the price of the United States dollar coupled with the massive selling off of United States stocks and debt, then the global derivatives market will likely collapse—bringing on a financial crisis in the United States not seen since the Great Depression.¹¹⁵ What is needed is a plan to address this situation in advance in order for the United States (and for that matter, the world) to be in a better position to come through on the other end.

VI. THE FUTURE

The United States debt crisis will continue in part due to recent United States Supreme Court decisions concerning special interest groups and money paid during elections to influence whether a politician is elected or reelected to office. Perhaps few other United States Supreme Court decisions ensure that the status quo remains concerning the sacred cows

112. Andrew Ross Sorkin, *Paul Volcker, at 91, Sees ‘a Hell of a Mess in Every Direction,’* N.Y. TIMES (Oct. 23, 2018), <https://perma.cc/FGY9-X8WU>.

113. *Id.*

114. *Id.*

115. The derivatives market remains largely unregulated, and may well be the last domino to fall before the anticipated catastrophic domino effect occurs. See Robert E. Marks, *The Dominoes Fall: A Timeline of the Squeeze and Crash* . . . , 33 AUSTL J. MGMT., Dec. 2008, at i–xv (questioning the derivatives market); see also Gregory G. Brunk, *Why Do Societies Collapse? A Theory Based on Self-Organized Criticality*, 14 J. THEORETICAL POL. 195 (2002) (exploring why some societies collapse in detail).

than *Citizens United v. Federal Election Commission*.¹¹⁶ *Citizens United* essentially constitutionalized political funding of special interest organizations, reduced the power of individual voters, and created a government of politicians whose campaigns are built on the funds of large organizations.¹¹⁷ Politicians all along the political spectrum fear the financial consequences of addressing the sacred cows in a meaningful way because Super Political Action Committees (Super PACs), many of which are not required to report their donors, have the resources to force out politicians going against the status quo.¹¹⁸ PACs do this through the process of the primary, where a Super PAC will introduce a member from their own party to run against a disfavored politician.¹¹⁹ Another way is for Super PACs to fund someone from a different party to run against the politician. This process of a politician being voted out is an issue not only for the individual member but also for each party given the closeness of many races. For this reason, most members will not challenge the status quo—and therefore not take on the sacred cows.

Without any real action on the budget—due in part to these PACs—the United States government will continue to see its national debt rise. It is a process that will allow the United States government eventually to become financially insolvent as the annual interest on its national debt becomes too large to ever be paid in any given year. The consequences of this default will be the eventual collapse of the derivative market that Buffett has warned about. The United States government, through the assistance of Congress and the Executive, could benefit much of the world and itself through the preparation of addressing the coming financial crisis.

CONCLUSION

The greatest threat to the United States national security is not China, North Korea, Iran, or Al-Qaeda. The single greatest threat is the unsustainable rise in the national debt (specifically the interest on this

116. *Citizens United v. Fed. Election Comm'n*, 558 U.S. 310 (2010).

117. *Id.*

118. See, e.g., Zachary Schmitz, *The Impact of Citizens United v. Federal Election Commission on National Elections in the United States*, 6 LOGOS: J. UNDERGRADUATE RES. 33 (2013); Bradley A. Smith, *Super PACS and the Role of "Coordination" in Campaign Finance Law*, 49 WILLAMETTE L. REV. 603 (2013); see also Kevin R. Huguélet, *Death by a Thousand Cuts: How the Supreme Court Has Effectively Killed Campaign Finance Regulation by Its Limited Recognition of Compelling State Interests*, 70 U. MIAMI L. REV. 348, 352 (2015); Jason Harrow, *Super PACs Driving the Midterms Unsurprisingly*, HILL (Oct. 16, 2018 11:30 AM), <https://perma.cc/CW2L-8J36>.

119. Maggie Severns, *'Oh That's Cool — Do That!': Super PACs Use New Trick to Hide Donors*, POLITICO (Aug. 17, 2018 5:06 AM), <https://perma.cc/DC7F-8KMZ>.

debt), which will reach \$25 trillion by 2021 at the latest. The ethical responsibilities surrounding this debt and the responsibilities of those involved to address it will be a key issue for this nation's survival.¹²⁰ The interest payments on that debt could reach approximately \$2 trillion annually if interest rates reach 8%.¹²¹ Therefore, members of Congress and the Trump administration ought to tackle the national debt crisis aggressively. Despite this fact, neither entity will take serious action to reduce spending associated with the sacred cows of the United States—Social Security, Medicare, defense spending, and taxes. Yet, as the crisis becomes ever clearer, members of Congress, administrative agencies within the government, and the executive must be willing to make changes to benefits associated with Medicare, Social Security, and defense spending and, in the process, decide how best to cut each of these. Added to this reality is the necessity to raise taxes. In short, this means finding a way to live within the budget provided. Without such action, the debilitating status quo will continue, encouraging other nations, such as China, Japan, and the Russian Federation (among others) to leave the United States debt market as it becomes apparent that the United States government is no longer able to cover the annual interest on that debt and concurrently develop a balanced budget.

While current economic prospects appear strong, the reality is that in the near future a looming crisis may be forthcoming—one that the United States government should be prepared to overcome. The Trump administration will likely push for another round of QE—or the electronic printing of money—not in order to ease the monetary policy and make interest rates cheaper, but in order to make up the difference between the total incoming funding to the federal government and the amount that is actually available to pay the many bills that will be piling up in Congress. Another round of QE would bring the saturation point closer whereby the borrowing level will finally be reached (outside of another round of QE) from both domestic and international lenders.

However, this crisis can only continue for so long before a financial collapse occurs under what has been described as a catastrophic domino effect caused in part by the rise in payments to the national debt that will lead to the collapse of the derivative market. It is this collapse of the derivative market that is a true unknown. The best option is to be prepared for a structured default on United States debt under both domestic and

120. See generally Christian Barry, *Sovereign Debt, Human Rights, and Policy Conditionality*, 19 J. POL. PHIL. 282 (2011).

121. See OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, AN AMERICAN BUDGET: ANALYTICAL PERSPECTIVES 32 (2018), <https://perma.cc/VY93-JS7W>.

international law so that such an event will be mitigated.¹²² Preparations for crises are critical for the survival of this nation. Members of both parties and the Executive should come together as they have done before with other events to help save this truly great nation that they have come to love and respect—the United States of America—through the preparation for the coming financial crisis.¹²³

122. See generally David Zaring, *The Legal Response to the Next Financial Crisis*, 24 GEO. MASON L. REV. 533 (2017).

123. Keenan Mayo, *An Illustrated History of Washington Bipartisanship*, VANITY FAIR (Aug. 9, 2010 3:50 PM), <https://perma.cc/N5WK-6DKP>.