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MONETARY POLICY · PUBLIC DEBT

The Sacrifice

How the debt gets paid with your money

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None

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None

In an interview published on 1 October 2026, the president said that "certain levels of inflation will also pay off that debt very rapidly". Federal debt now exceeds $40 trillion. This report sets out the mechanism economists call financial repression, why it is not working at present, who bears the cost if it is made to work, and what it would mean for the dollar's place in the world.

$40tn

US federal debt, passed in mid-August 2026

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SUMMARY OF FINDINGS

Five findings

1. **The admission.** The president told TIME that inflation will "pay off that debt very rapidly", and that the debt can also be paid "through other means" he declined to name. He made a similar argument in 2016.
2. **The mechanism.** Holding interest rates below inflation transfers wealth from savers to the government. A 2011 study by the Bank for International Settlements found that negative real rates liquidated debt worth 2 to 3 per cent of GDP a year in America and Britain between the late 1940s and the 1970s.
3. **The obstacle.** The mechanism needs borrowing costs below inflation. In October 2026 the 10-year Treasury yield was 5.24 per cent and consumer prices were rising 3.35 per cent a year, a gap of about 1.9 percentage points in the wrong direction. Federal interest payments now exceed $1.2 trillion a year.
4. **The incidence.** The cost falls on people who hold wages and cash. The top 1 per cent of households held 32.5 per cent of America's net worth in the second quarter of 2026. The bottom 50 per cent held 2.3 per cent. The Prehn Hours of Work Index stood at 341 in August 2026, against 100 in 2000.
5. **The dollar.** The dollar's share of the world's allocated foreign exchange reserves has fallen from about 71 per cent in 2000 to about 57 per cent in the first quarter of 2026. Deliberately negative real rates would add to the pressure on that status.

The evidence has limits.

Whether the administration intends to pursue financial repression is a matter of inference from public statements. The president did not say which "other means" he had in mind. This report describes what has been said, what the data show, and what the historical record suggests would follow.

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SECTION 1

The president said it on the record

Trump Says Inflation Could Pay Down the Debt 'Very Rapidly'



By Nick Timiraos, Chief Economics Correspondent



President Trump and Fed Chairman Kevin Warsh on the day of Warsh's swearing-in ceremony. EVELYN HOCKSTEIN/REUTERS

President Trump said "certain levels of inflation" could help pay down the national debt "very rapidly" in an interview with Time magazine where he also said the Federal Reserve's interest-rate policy is hurting the economy more than inflation is.

Trump accused the Fed's rate-setting committee of acting out of spite toward him, twice accusing officials of "Trump derangement syndrome," while sparing his pick, Chairman Kevin Warsh, from blame for last month's interest-rate increase.

The Wall Street Journal reported the interview under the headline "Trump Says Inflation Could Pay Down the Debt 'Very Rapidly'".

THE QUOTATION

TIME told the president that the national debt had grown by about $11 trillion over his five years in office. He replied: "Certain levels of inflation will also pay off that debt very rapidly. Very rapidly." He then said: "I don't want to tell you what those means are, but you can pay off the debt through other means."

WHAT HE DID NOT SAY

He did not say what level of inflation he had in mind, or whether he wants the Federal Reserve to tolerate more of it.

THE RATE CONTEXT

On 16 September 2026 the Federal Reserve raised its policy rate by a quarter of a point, to a range of 3.75 to 4 per cent. It was the first rise since July 2023. The president has called for rates of 1 per cent "or less".

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SECTION 2

The same idea, ten years apart

Date	Speaker	Statement
April 2016	Donald Trump, to the Washington Post	He could eliminate what was then a $19 trillion debt "over a period of eight years"
May 2016	Donald Trump, on CNN	"You never have to default because you print the money, I hate to tell you, OK?"
June 2025	Scott Bessent, Treasury Secretary, on CBS	"Everything has been alarmist" on inflation
August 2026	Scott Bessent, on CNBC, the day after the $40 trillion milestone	"Nothing magic" about the number; "we can grow our way out of that"
October 2026	Donald Trump, to TIME	"Certain levels of inflation will also pay off that debt very rapidly"

$19tn

federal debt when the 2016 claim was made

$40tn+

federal debt in August 2026

$11tn

increase over five years, as put to the president by TIME

Two senior officials describe the debt as something growth will absorb. Neither proposes the spending cuts or tax rises that would reduce it directly. That leaves the denominator of the debt-to-income ratio, and the value of the unit in which the debt is written.

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SECTION 3

Financial repression

Hold interest rates below inflation → **The gap moves money from savers to the Treasury** → **The debt shrinks in real terms**

> Financial repression is the practice of keeping the interest rate a government pays on its debt below the rate of inflation. The difference is a transfer from the holders of the debt to the issuer. It is not announced, it is not legislated as a tax, and it compounds year after year.

A WORKED EXAMPLE

The real return is minus 5 per cent. On $20,000 held in an account, the balance grows on paper but loses about $1,000 of purchasing power in the first year, and roughly a quarter of its real value over five years.

THE HISTORICAL RECORD

"The Liquidation of Government Debt" (Reinhart and Sbrancia, 2011) estimates that negative real rates reduced the debt of the United States and the United Kingdom by 2 to 3 per cent of GDP a year in the decades after the Second World War. The paper finds that repression is most successful "when accompanied by a steady dose of inflation".

THE CONDITIONS THEN

The post-war episode relied on interest-rate caps, captive domestic buyers of government debt and capital controls. Whether comparable conditions exist today is doubtful.

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SECTION 4

Why this tool, and not another

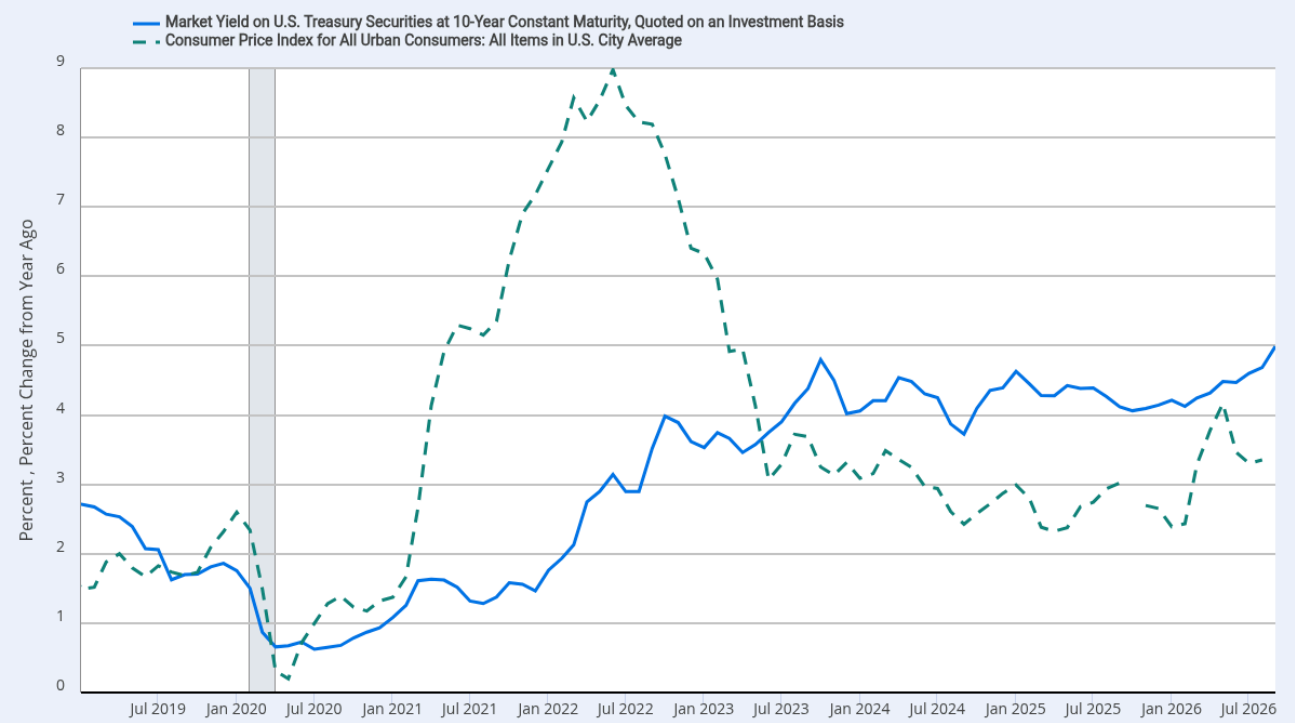
Option	What it requires	Obstacle
Raise taxes	Enough revenue to pay the debt down	Politically unattainable at this scale
Cut spending	Enough savings to pay the debt down	Cuts fall on programmes that voters use
Default	Open refusal to pay	Would damage the financial system and every pension that holds Treasuries
Reduce the real value of the debt	Inflation above the interest rate paid	Borrowing costs must stay below inflation

With over $40 trillion outstanding, the first three options are each difficult to deliver. The fourth does not require a vote. That is a reason the president's reference to "other means" deserves attention.

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SECTION 5

The catch: the yield is above inflation



10-year Treasury constant maturity yield (solid) and consumer price index, change from a year ago (dashed), monthly, 2019 to 2026. Source: Federal Reserve Bank of St. Louis (FRED), series DGS10 and CPIAUCSL.

5.24%
10-year Treasury yield, 1 October 2026

3.35%
consumer prices, 12 months to August 2026

1.9
percentage points of positive real yield

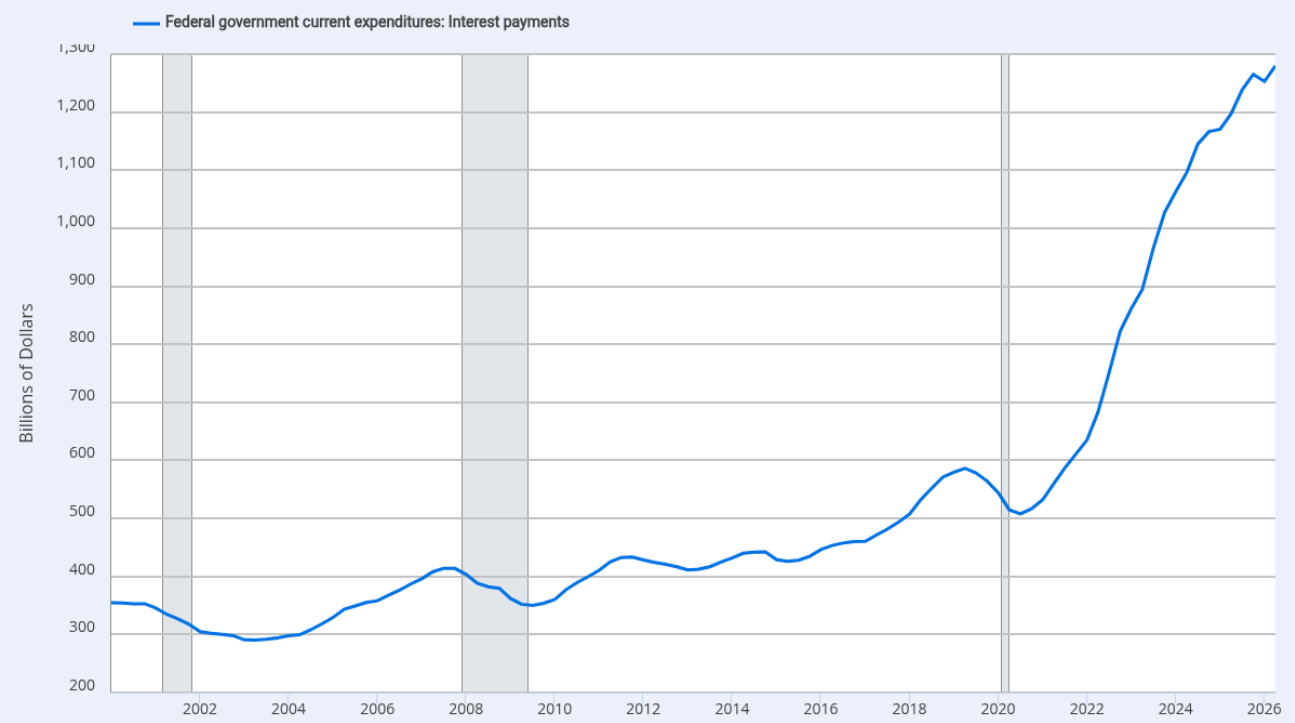
THE READING

Repression needs a negative real yield. The real yield on 10-year debt is positive by nearly two points. The 10-year yield touched 5.34 per cent on the day the interview was published, its highest since 2002.

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SECTION 6

Interest above $1 trillion a year



Federal government current expenditures: interest payments, billions of dollars at an annual rate, quarterly, 2000 to 2026. Source: US Bureau of Economic Analysis via Federal Reserve Bank of St. Louis (FRED), series A091RC1Q027SBEA.

THE ROLLOVER

Debt borrowed when rates were 1 to 2 per cent is refinanced as it matures. At 4 to 5 per cent, each extra percentage point on tens of trillions of dollars adds hundreds of billions of dollars a year in interest.

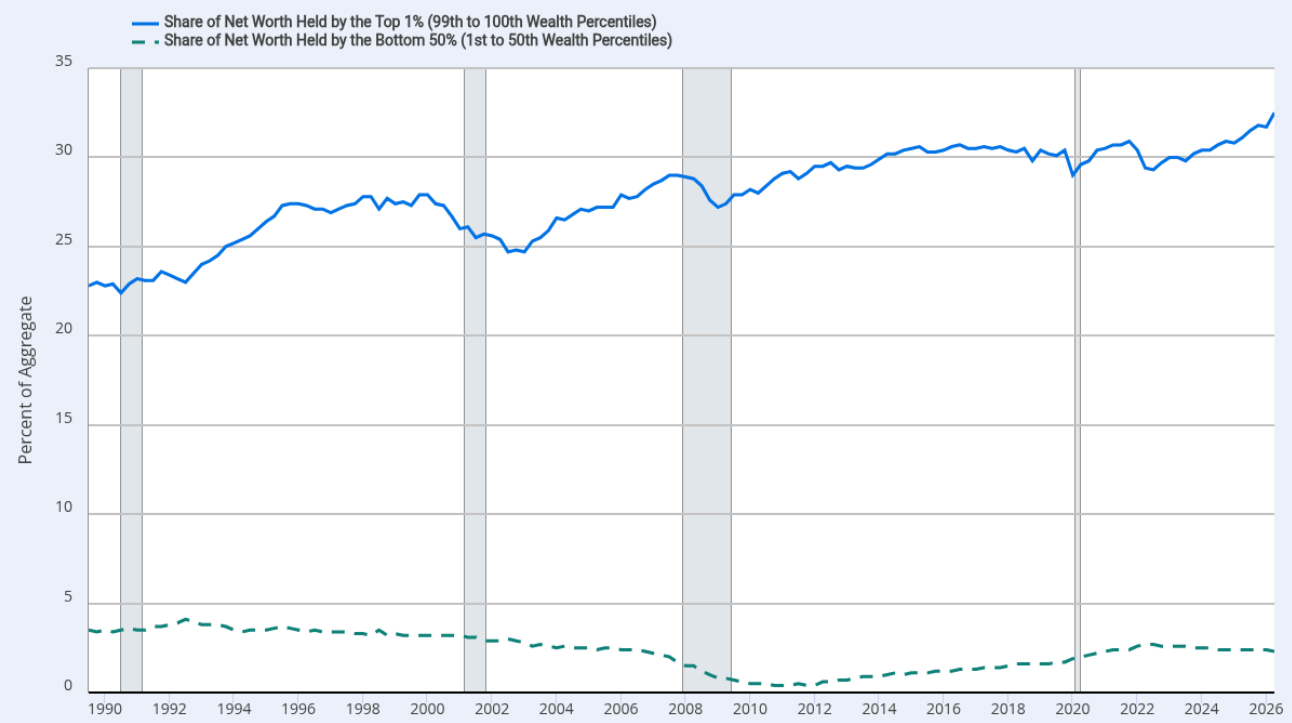
THE DEADLINE

Left alone, the interest bill rises as cheap debt matures. For repression to work, borrowing costs would have to be forced below inflation and held there. That would take a Federal Reserve willing to cut into rising prices, which is the position behind the president's call for rates of 1 per cent "or less".

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SECTION 7

The K-shaped economy



Share of net worth held by the top 1 per cent (solid) and the bottom 50 per cent (dashed) of US households, quarterly, 1989 to 2026. Source: Federal Reserve Distributional Financial Accounts via Federal Reserve Bank of St. Louis (FRED), series WFRBST01134 and WFRBSB50215.

32.5%

of net worth held by the top 1%, Q2 2026 (22.8% in Q3 1989)

2.3%

of net worth held by the bottom 50%, Q2 2026 (3.5% in Q3 1989)

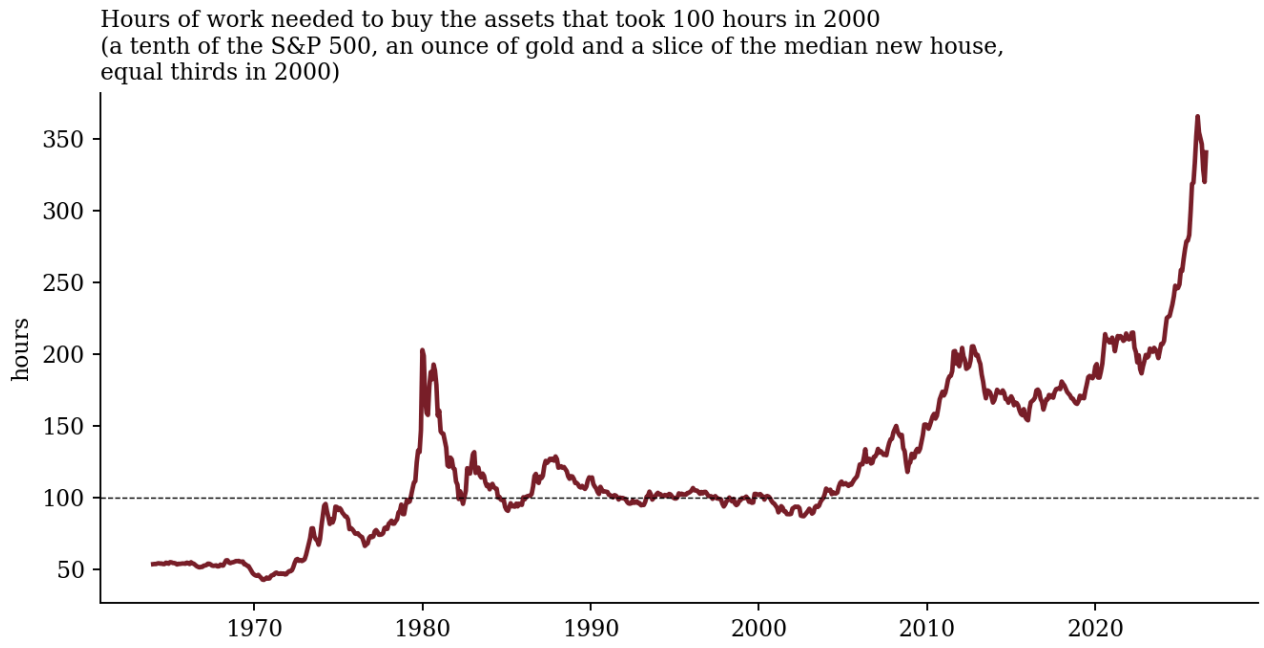
THE CHANNEL

When the dollar loses value, the price of shares, property and gold tends to rise. Households that own them gain. Households that hold wages and cash fall behind, because their pay and savings buy less each year.

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SECTION 8

341 hours, against 100 in 2000



The Prehn Hours of Work Index, 1964 to 2026. The year 2000 equals 100. Source: The Prehn Institute, Prehn Hours of Work Index, August 2026 release.

341

index, August 2026 (2000 = 100)

137

hours of work per ounce of gold, against 20 in 2000

6.3

years of income to buy a house, against 6.0 in 2000

WHAT THE INDEX MEASURES

It asks how many hours an average American worker must work to buy stocks, gold and a house. The index was up 20.3 per cent over twelve months to August 2026, and reached a record 366.1 in February 2026.

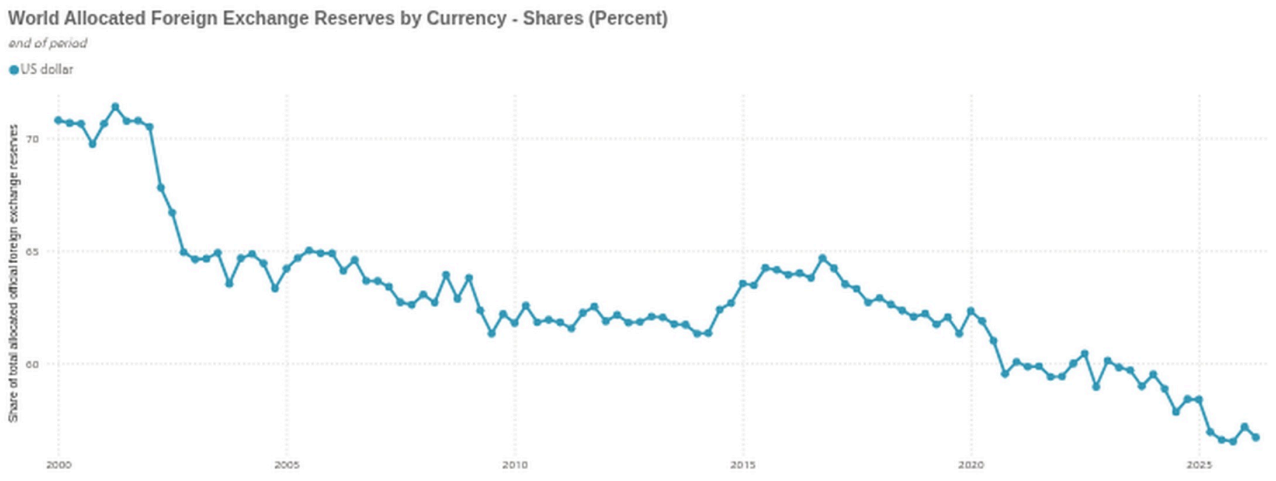
READING THE HOUSE FIGURE

At 6.3 years the house measure is close to its 2000 level of 6.0 years, and below its April 2022 peak of 8.0 years. The large rises are in stocks and gold, the assets that rise when the dollar is made smaller.

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SECTION 9

Sacrificing the dollar



US dollar share of world allocated foreign exchange reserves, per cent, 2000 to 2026. Source: International Monetary Fund, Currency Composition of Official Foreign Exchange Reserves (COFER).

THE COST OF NEGATIVE REAL RATES

A government that pays less than inflation to hold its debt gives foreign investors a reason to hold less of it. A weaker dollar is the price of a lighter debt.

THE RESERVE RECORD

The dollar accounted for about 57 per cent of allocated reserves in the first quarter of 2026. The euro accounted for about 20 per cent and the renminbi about 2 per cent. There has been no collapse. The movement is gradual, which is how a policy of this kind would be expected to look.

THE WARNING

Simon White of Bloomberg argued in April 2025 that a weaker dollar and higher inflation are consistent with a falling debt burden, as in Britain's post-war "beautiful deleveraging". He warned that erratic policy could damage trust in the dollar system, spark capital flight and add to the debt instead.

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CONCLUSION

Debase the denominator

Public statements from the president and the Treasury Secretary describe a debt to be shrunk by growth and inflation, not by cuts or taxes. History shows that the method works only when rates are held below inflation. Today they are not. The path the administration would need to follow is therefore to bring borrowing costs down, accept a weaker dollar, and let the cost fall on households that hold cash and wages.

Question	Evidence
Has the president said inflation will reduce the debt?	Yes, in a TIME interview published on 1 October 2026
Is the mechanism working now?	No. The 10-year yield is about 1.9 points above inflation
Who bears the cost if it is made to work?	Holders of wages and cash; the bottom 50 per cent hold 2.3 per cent of net worth
What is at risk?	The dollar's share of world reserves, now about 57 per cent

This report does not forecast interest rates, inflation or the exchange rate. Policy intent is inferred from public statements. Monetary and fiscal events can change the picture quickly.

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