

Weekend Reading

# Make America More Indebted

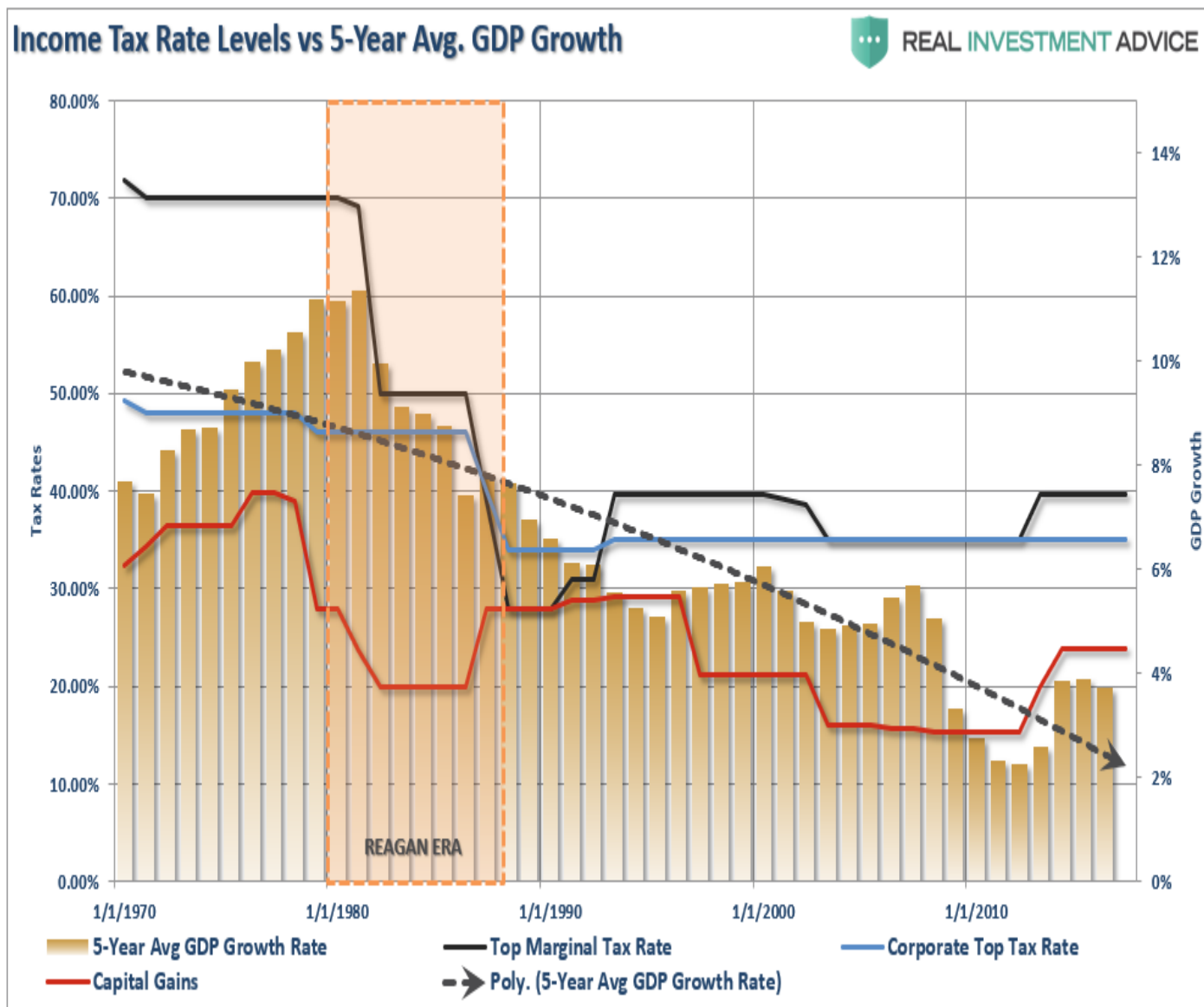
#MAMI



I have spilled a lot of digital ink over the last few years on the trajectory of debt, spending and the impact of fiscal irresponsibility. Most of it has fallen on "deaf ears" particularly in the rush to pass "tax reform" without underlying fiscal restraints. [To wit:](#)

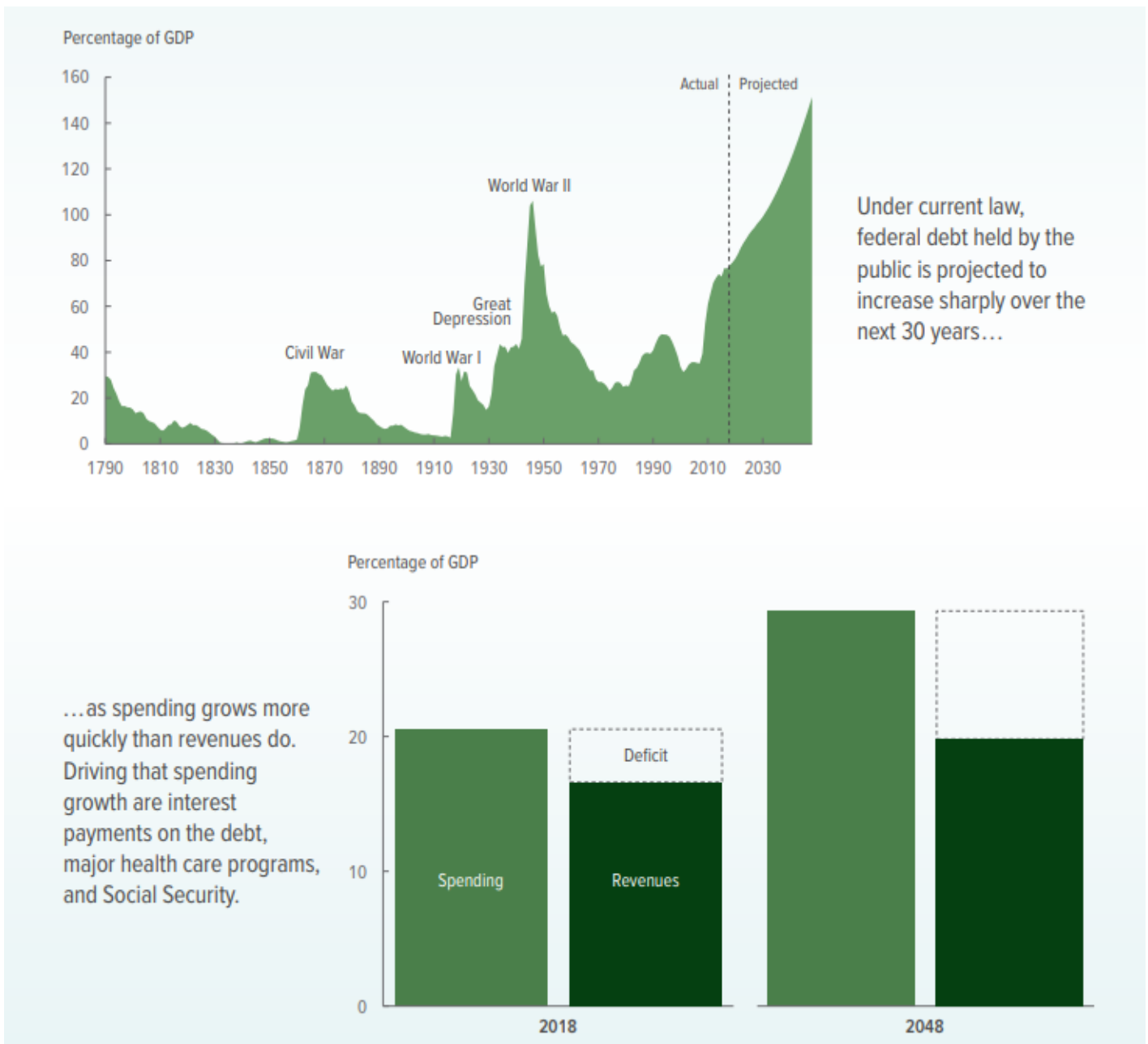
*"The recently approved budget was an anathema to any fiscally conservative policy. As the Committee for a Responsible Federal Budget stated: 'Republicans in Congress laid out two visions in two budgets for our fiscal future, **and today, they choose the path of gimmicks, debt, and absolutely zero fiscal restraint over the one of responsibility and balance. Passing fiscally irresponsible budgets just for the sake of passing ?tax cuts,? is, well, irresponsible.** Once again, elected leaders have not listened to, or learned, what their constituents are asking for which is simply adherence to the Constitution and fiscal restraint.' I then followed this up this past Monday with [?3 Myths Of Tax Cuts?](#) stating: **'Tax cuts do not pay for themselves; they can create growth,***

**but in the amount of tenths of percentage points, not whole percentage points. And they certainly cannot fill in trillions in lost revenue.** Relying on growth projections that no independent forecaster says will happen isn't the way to do tax reform. **As the chart below shows there is ZERO evidence that tax cuts lead to stronger sustained rates of economic growth.** The chart compares the highest tax rate levels to 5-year average GDP growth. Since Reagan passed tax reform, average economic growth rates have only gone in one direction."



The reason for the history lesson is the CBO (Congressional Budget Office) has just released a new report confirming exactly what we have been saying for the last two years.

"In CBO's projections, the federal budget deficit, relative to the size of the economy, grows substantially over the next several years, stabilizes for a few years, and then grows again over the rest of the 30-year period, leading to federal debt held by the public that would approach 100 percent of gross domestic product (GDP) by the end of the next decade and 152 percent by 2048. Moreover, if lawmakers changed current laws to maintain certain policies now in place preventing a significant increase in individual income taxes in 2026, for example, the result would be even larger increases in debt. The federal government's net interest costs are projected to climb sharply as interest rates rise from their currently low levels and as debt accumulates. Such spending would about equal spending for Social Security, currently the largest federal program, by the end of the projection period."



My friends at the Committee for a Responsible Federal Budget [summed up the issues well](#).

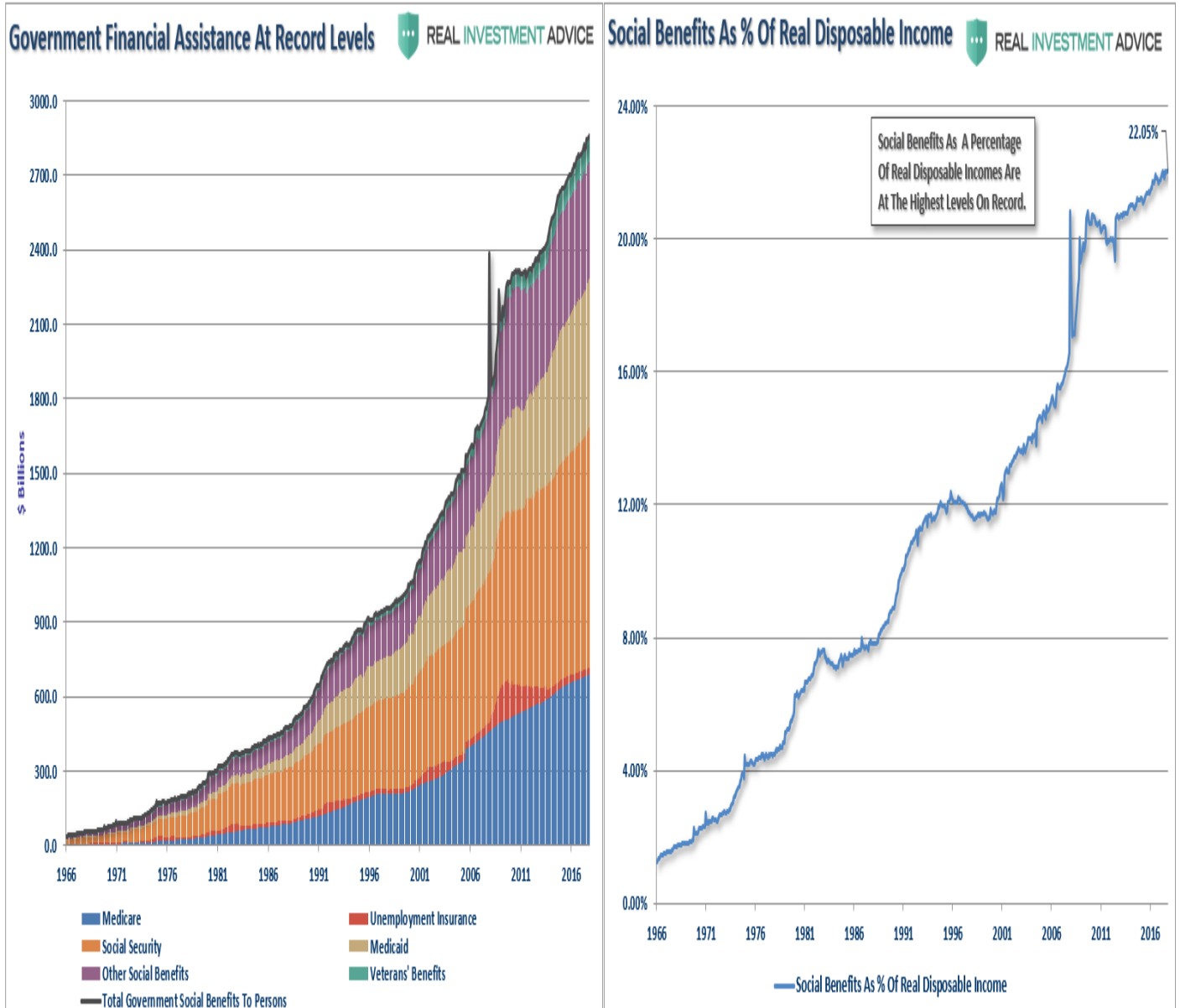
- **Debt Is Rising Unsustainably.**
- **Spending Is Growing Faster Than Revenue.**
- **Recent Legislation Will Substantially Worsen the Long-Term Outlook if Extended.**
- **High And Rising Debt Will Have Adverse and Potentially Dangerous Consequences**  
(Will lead to another financial crisis.)
- **Major Trust Funds Are Headed Toward Insolvency.**
- **Fixing the Debt Will Get Harder the Longer Policymakers Wait.**

While the CRFB suggests that lawmakers need to work together to address this bleak fiscal picture now so problems do not compound any further, there is little hope that such will actually be the case given the deep partisanship currently running the country. As I have stated before, choices will have to be made either by choice or force. The CRFB agrees with my assessment.

*"CBO continues to remind us what we've known for a while and seem to be ignoring: the federal budget is on an unsustainable course, particularly over the long term. **If policymakers make the tough decisions now ? rather than wait until there's a crisis point for action ? the solutions will be fairer and less painful.**"*

I am not hopeful. With government dependency at record levels as a percentage of disposable

incomes (22.05%), the outlook for the economy will continue to become less bright as Government transfer payments only offset a small fraction of the increase in pre-tax inequality.



These payments fail to bridge the gap for the bottom 50% because they go mostly to the middle class and the elderly. With wage growth virtually stagnant over the last 20-years, the average American is still living well beyond their means which explains the continued rise in debt levels. **The reality is that economic growth will remain mired at lower levels as savings continue to be diverted from productive investment into debt service.** The *structural shift* is quite apparent as burdensome debt levels prohibit the productive investment necessary to fuel higher rates of production, employment, wage growth, and consumption. **Many will look back at this point in the future and wonder why governments failed to use such artificially low-interest rates and excessive liquidity to support the deleveraging process, fund productive investments, refinance government debts, and restructure unfunded social welfare systems.** Instead, those in charge continue to *"Make America More Indebted."* **As individuals, we must realize we can only depend on ourselves for our financial security and work to ensure our own fiscal solvency.** As my father used to preach:

*"Hope for the best, prepare for the worst, and remember the best rescue is a self-rescue."*

Be hopeful. Just don't be dependent. Just something to think about as you catch up on your weekend reading list.

---

## Economy & Fed

- U.S. Should Roll Out The "Red Carpet" [by Caroline Baum via MarketWatch](#)
  - If Trade War Is Good, Why Are Companies Planning Layoffs? [by Ben Popken via NBC News](#)
  - Will Baby Boomers Leave Us Busted? [by Judd Gregg via The Hill](#)
  - **The Next Recession Is Set To Start** [by Adam Taggart via Peak Prosperity](#)
  - The Truth About Socialism [by Lawrence McQuillan via FEE](#)
  - Free Government Money For All [by Simon Constable via Forbes](#)
  - Everyone Loses In A Trade War [by Robert Samuelson via RCM](#)
  - Fed Rosengren: Time To Prepare For The Next Recession [by Tyler Durden via ZeroHedge](#)
  - Supreme Court Unleashes A Tax Nightmare [by Grover Norquist via USA Today](#)
  - Trade War Chess [by Richard Berman via The Washington Times](#)
  - 60-Hours Of GOP Dysfunction On Spending [by Brian Riedl via Manhattan Institute](#)
  - The Real Cost Of A Trade War [by Mukhisa Kituyi via Project Syndicate](#)
  - The Cost Of Providing Health Care To Illegals [by David Catron via The American Spectator](#)
  - The New Tax Form Is More Complicated Than Ever [by Jim Tankersley via NYT](#)
- 

## Markets

- **BofA: The \$800 Billion Cliff** [by Tyler Durden via ZeroHedge](#)
  - Machines Warn Of Significant Downside Risk [by Shawn Langlois via MarketWatch](#)
  - This Dow Level Could Be Triggering A Buy Signal [by Mark Hulbert via MarketWatch](#)
  - Asset Prices Are Divorced From Economic Reality [by Macromon via Global Macro Monitor](#)
  - 3-Charts: Why Emerging Market Stocks Are Getting Crushed [by Mark DeCambre via MarketWatch](#)
  - Bulls Toeing The Trendline [by Dana Lyons via The Lyons Share](#)
  - Implicit Dangers Of Passive Investing [by Derek Bergen via Value Expectations](#)
  - The Dramatic Expansion Of Corporate Bonds [by Timothy Taylor via Conversable Economist](#)
  - Yield Curve Sends A Recession Warning [by Matt Phillips via NYT](#)
  - All That Repatriated Cash Went To Buybacks, And Then Some [by Dr. Ed Yardeni via Yardeni.com](#)
  - Perspective On Value [by Jeff Troutner via Equis Partners](#)
  - Mark It On Your Calendar [by Kevin Muir via The Macro Tourist](#)
  - The Next Bear Market Will Spark A Retirement Crisis [by Howard Gold via MarketWatch](#)
- 

## Most Read On RIA

- The Myth Of Buy And Hold Investing - Part IV [by L. Roberts, M. Lebowitz & J. Coumarios](#)
- The Beer Bet [by Lance Roberts](#)
- The Titanic May Be Soon Hitting The Ice [by Doug Kass](#)
- Everyone's Got A Plan [by Lance Roberts](#)

- **Are Stock Multiples Moving Targets?** [by John Coumarios](#)
  - **The Psychological Side Of Retirement** [by Danny Ratliff, CFP](#)
- 

## Research•/ Interesting•Reads

- **Risks Pile Up Quietly In Corporate Bond Market** [by Wolf Richter via Wolf Street](#)
  - **15-Million Retirees Face Declining Standard Of Living** by Patrick Hill via The Progressive Ensign
  - **Forget Saving More, Work Longer** [by Jessica Dickler via CNBC](#)
  - **I Delivered Packages For Amazon, It Was A Nightmare** [by Alana Semuels via The Atlantic](#)
  - **When Buffett Retires, Break Up Berkshire Hathaway** [by Tim Mullaney via MarketWatch](#)
  - **There Will Be Another Financial Crisis** [by Doug Lynn via The Toll Online.com](#)
  - **Inequality In America: 40-Million In Poverty** [by Tyler Durden via ZeroHedge](#)
  - **A New Global Debt Crisis Has Begun** [by James Rickards via Daily Reckoning](#)
  - **Buy High/Sell Low With Index Funds** [by Rob Arnott via Research Affiliates](#)
  - **Don't Rush To Take Social Security** [by Dan Caplinger via Motley Fool](#)
  - **Retiring With Debt?** [by Susan Tompor via USA Today](#)
  - **Do You Have Enough To Retire** [by Christine Benz via MorningStar](#)
  - **It Ain't What You Don't Know That Gets You In Trouble** [by Cliff Asness via AQR Capital Mgmt](#)
- 

***? Wall Street is a street with a river at one end and a graveyard at the other." - Fred Schwed, Jr.***

Questions, comments, suggestions ? please [email me](#).