

Subject: Zanetti Monday Missive
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To: patti@candothat.com;



Zanetti Monday Missive 2023.02.13 Death Spiral

**"Blessed are the young, for they shall inherit the national debt."
~ President Herbert Hoover**

Hello everyone,

I don't have imaginary friends. Thankfully. :>) However, I sometimes have imaginary conversations.

Today's missive is an insight into one of those conversations.

Back in the "olden days" (2017-2021), Bob Clark (KKOB radio) and I would do a weekly 3-4 minute segment about what was happening on Wall Street. I would then take the transcript and send it to all our clients.

I liked the back-and-forth format. It was “good radio.” Plus, it made for a quick read.

When I ran for governor, I had to come off the air. So, no more transcripts. But I still liked the format.

So, today’s missive is a pretend conversation with Bob. I believe it is a good way to explain how rising interest rates won’t necessarily have the effect on inflation the Federal Reserve wants.

So, here we go.

Pretend Bob: So, Greg, I saw that interest payments on the US Government’s debt hit \$850 billion last year. I know we throw the word trillions around a lot, but **\$850 billion** still seems like a big number.

Greg: It is. And based on its current trajectory, we’ll exceed **\$1 trillion** in **just interest payments** (!) in 2023.

Let’s put this in perspective. Uncle Sam is projected to take in \$4.7 trillion in revenues this year. Most of that comes from income and payroll taxes.

Next, the Federal Government is projected to spend around \$5.9 trillion...but usually they blow through the spending projections.

Still, let’s use their numbers. Income of \$4.7 trill.
Spending \$5.9 trill. Best case is---this year we will add

“only” another \$1.2 trillion to the national debt.

P-Bob: And we’re already near \$32 trillion. So, basically, every year we’re just running up a credit card balance.

Greg: Exactly. And like most credit cards, you must pay at least the interest each month.

And this is where the Fed’s rate hikes come into play.

Think of it this way. We all know someone who has gotten themselves into deep debt. They can’t pay back the principle. So, they just pay the interest each month.

The US is no different. We never pay down our debt. We just pay billions in interest payments.

P-Bob: And soon trillions...

I see where you are going with this. We’re not just adding to the debt, but the interest rate is rising, too. That’s new.

When interest rates were near zero, we could run up the debt and it didn’t change the monthly payments much.....because interest rates were so low. But now...

Greg: Right. Unintended consequences. The Fed is hiking rates to slow down the economy and thereby stop inflation. Check. But now the government must make higher interest payments. Plus, there is no way Uncle Sugar is going to cut Social Security, or Medicare, or

military spending, etc.

Thus, we'll spend more and borrow more.

P-Bob: Kind of like someone using one credit card to pay off another.

Greg: Sort of...and if you don't make fundamental changes it can quickly become a financial death spiral.

Rising debt at higher rates begets more debt.... which begets more interest payments....which begets more spending...and more debt.

P-Bob: But couldn't they just lower rates again?

Greg: They could. But then your currency drops in value. That means products from overseas get more expensive...which is inflation! So, then everyone screams at the Fed to hike rates to lower inflation.

P-Bob: Yuck. But I want to circle back to something. You said when the Fed raises rates, it's intended to slow the economy. But if the economy slows down, doesn't that mean tax revenues fall? Which would make the debt ever worse?

Greg: Bob, you should be advising the Fed. That's the conundrum. The Fed can't fight both battles. So, choose.

- Fight inflation and get a recession. Or...

- Let inflation rip and hear the howls about rising gas and egg prices.

P-Bob: So, there is no way out.

Greg: There is. The economy can become more productive. That means we must make more stuff and sell it to the world.

Translation: **the government must do what it is not built to do...it must give up power.** It must lift regulations. It must reduce taxes. It must reduce entitlements. Government must shrink, so the private economy can grow.

P-Bob: I don't see that happening. To me, the debt ceiling debate is just political theater. They'll spend. Both sides.

Greg: That's my view. Which is why we are advising our clients to ignore the day-to-day noise of the markets. Instead, focus on the big trend. More spending. More debt. More inflation.

It's not the end of the world. We have been through this before. But until we return to our senses, (which eventually we will) invest for inflation.

P-Bob: We're out of time. Thanks. Always enjoy it. How do people reach you?

Greg: My number is 505-250-3754. Or, go to our

website at zanettifinancial.com.

End of Pretend Transcript. :->)

Signed, Your The-Only-Secure-Document-In-Washington-DC-Seems-To-Be-Epstein's-Client-List Financial Advisor,

Greg

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