



## **Zanetti Monday Missive 2023.06.05**

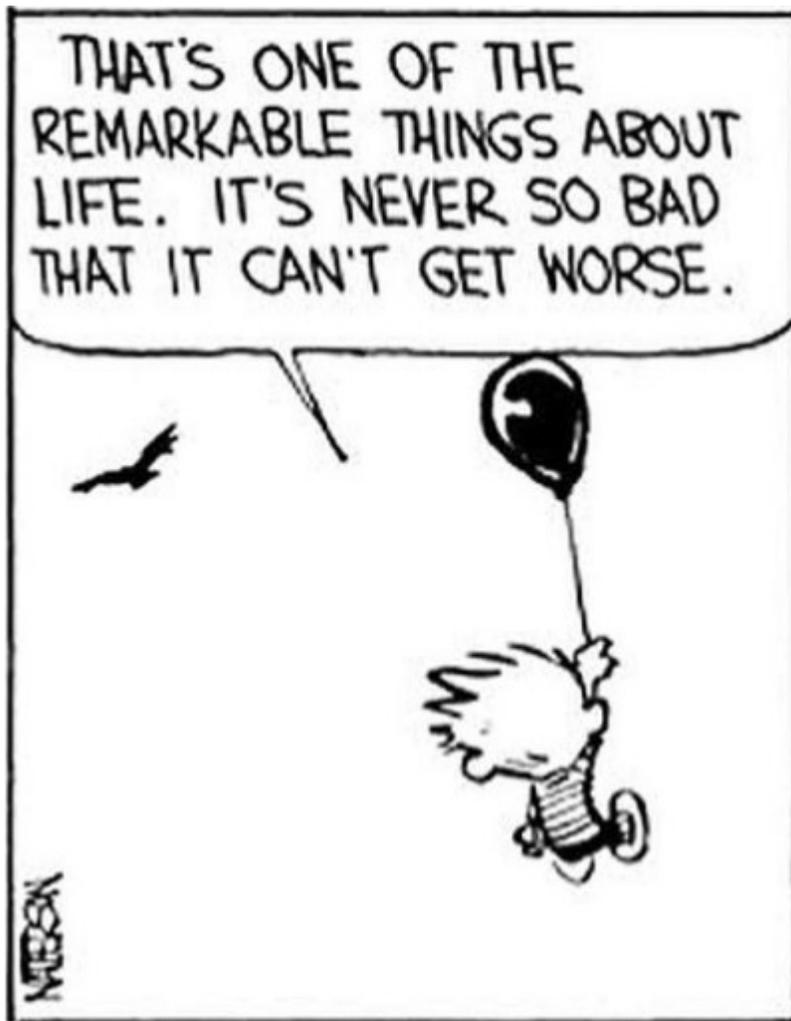
### **The U.S. Debt Crisis Is Over And We Can All Relax**

**“A national debt, if it is not excessive, will be to us a national blessing.”**

**~ Alexander Hamilton**

**“That’s one of the remarkable things about life. It’s never so bad that it can’t get any worse.”**

**~ Calvin and Hobbes**



Happy Monday Everyone!

Well, we can start with some good news!

The U.S. Debt Crisis has been averted – our leaders in Washington DC have saved the day!

If you remember last week, the big question on everybody's mind was would the U.S. default on our debt or would Congress raise the debt ceiling?

Things were a bit touch and go. President Biden wanted to raise the debt limit with no strings attached. Congress

negotiated to cut costs before they would agree to vote in favor of raising the debt limit.

Enough of those cost cutting measures were agreed upon by Biden that Representative Kevin McCarthy was able to get enough “yes” votes from the Republicans to pass the bill.

Like Greg wrote last week, the debt limit must increase – and it was the right thing for Washington to do (in the short term): to not default on their debt. But let’s look at what this now means for the U.S.

First, let’s recognize that this issue was just kicked down the road to 2025 (after the next election – so all the politicians can now sleep a little better at night 😊). Washington will have to vote on the debt ceiling again in 2025.

But now where are we.

Well, I have nothing against debt. I see debt as a tool. But one thing I’ve always tried to teach folks is that **debt must be respected**.

Like any tool, if you don’t respect it, you might come to regret ever using it. Think about using a chainsaw without treating it with respect and you get the picture.

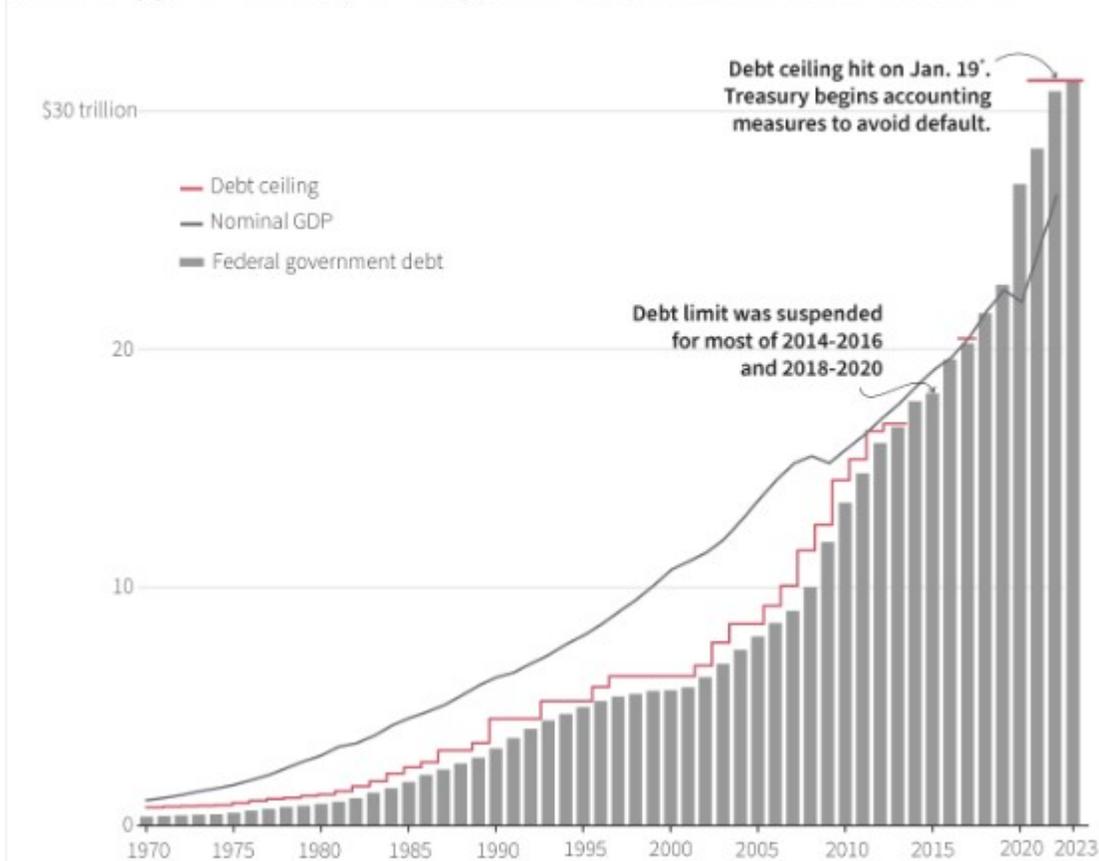


Well, as arguably the biggest tool our nation has, I don't think our elected officials respect our debt. Why do I say this?

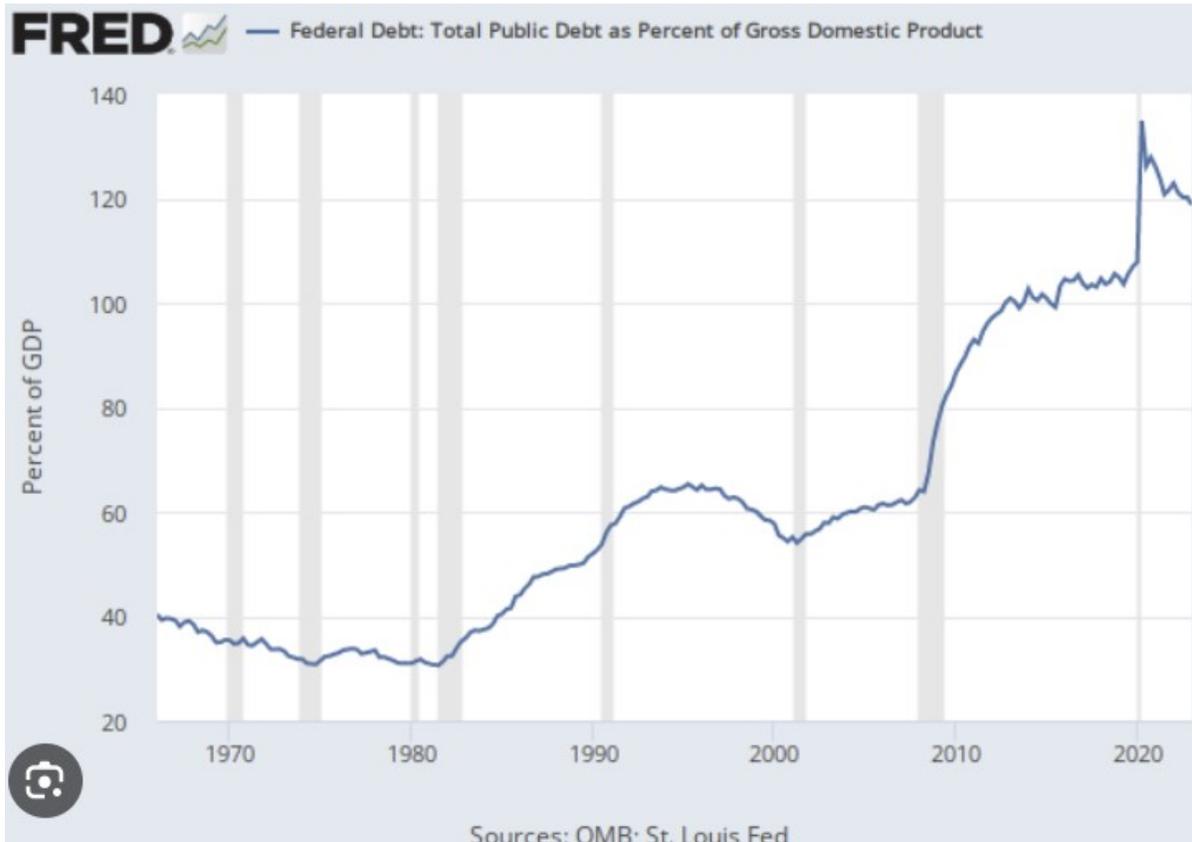
As you can see in the next picture, our debt limit has been growing at faster and faster rates every year.

## U.S. hits debt ceiling; extraordinary measures kick in

Outstanding government debt, nominal gross domestic product and federal limit to borrow



So, it's really the rate of growth of our national debt that worries me. But let's put it in perspective. Let's compare the US debt with the US GDP (Gross Domestic Product).



As you can see, our debt has grown to very high levels. In fact we are above 120% of our GDP. *(As a side note, the chart looks like the ratio has shrunk a bit in the past 2 years, but that's only because our GDP has gone up at a higher than usual rate – and I believe that can be accounted for by the same inflation we've seen everywhere else.)*

If our GDP declines, as it must in a recession, that ratio will go up even more – unless, of course, the debt level falls (which I don't expect).

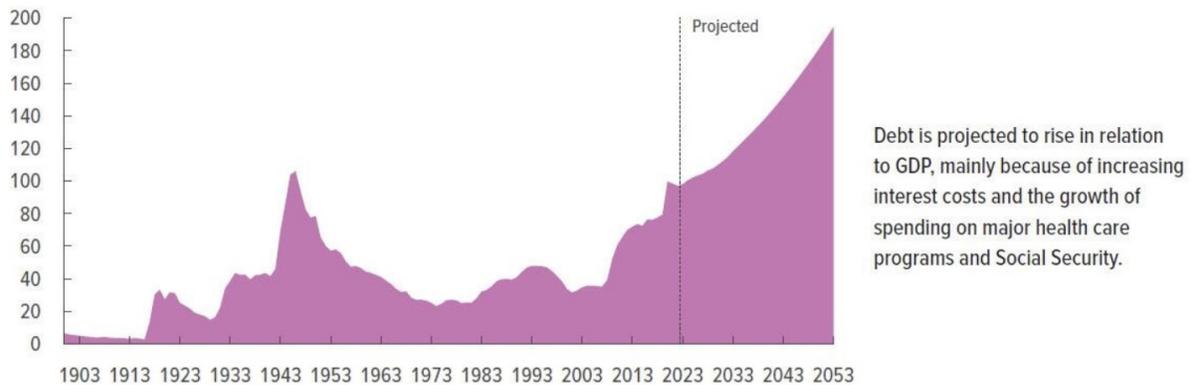
That's another thing that worries me, look back at that chart and look where our debt limit was during the 1970's Stagflation era – It was between 30% to 40% – our country had a lot more flexibility with our debt being used as a tool.

Then look again at the Great Recession that started in 2008, the ratio was barely above 60%. The US still had a lot of

flexibility with our debt to help pull us out of a recession.

Can we go further into debt than our current ratio? Well, yes. And they will. But at what cost? The interest alone (especially at these new higher rates) will be enough to consume the US tax revenue. In fact, it is expected to grow to almost 200% of GDP in the next 25 years.

**Federal Debt Held by the Public, 1900 to 2053**  
Percentage of Gross Domestic Product



And that's what worries me about the U.S. Debt and the future of our currency. How long will the world want to hold U.S. dollars as their "safe haven" versus more historically trusted safe havens like gold and silver – or even a different currency?

On your own measure, if you remember to **respect debt**, you'll be in better financial shape than our government.

Signed, Your Does-Artificial-Intelligence-Dream-Of-Electric-Sheep? Financial Advisor,

Walt

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