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Fed up with the Fed and the Debt

- Carol Roth

In this informative newsletter, Carol covers the latest monetary policy challenges for the Fed; how the Biden administration and Congress are making the Fed's job harder; why the debt ceiling is a sideshow in the financial circus; projections from the government's own sources of their unsustainable fiscal path; how to hedge for what's ahead; and more.

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The debt ceiling drama may seem important today, but it pales in comparison to what is ahead

As the Federal Reserve raised their target rate another 25 basis points (a quarter of a percent) at their most recent meeting, accounting for the eighth raise in 11 months and bringing the overall Fed funds rate to 4.5-4.75%, the highest level since October 2007, a lot of emotions and questions have emerged.

The first is utter frustration. When I started out as an investment banker, we didn't hang on every word from or action taken by the Federal Reserve, we focused on company fundamentals. Now, instead of letting the economy move in normal cycles with market forces dictating shifts and changes, we have to worry about a central planner coming in and "playing God" with the economy.

As is no surprise when it comes to central planning, not only has the Fed been wrong (or, perhaps, not forthcoming) with their projections and actions, but they have been rigging the financial markets to favor Wall Street at the expense of Main Street.

Now, they sit amidst conflicting economic data and a reality that monetary policy has a substantial lag to take effect in the economy. They have messed things up at every turn-- they overdid their stimulus, they were too slow to raise rates, and there's no track record or other reason to believe that they will get it right when it comes to pausing their tightening policy.

The havoc wreaked upon the economy by this entity, which is unlikely to learn any lessons, calls for stability in your portfolio with long-term stores of value like gold and other precious metals to counteract their chaos.

Additionally, the Fed's efforts are not receiving any cooperation from the entity that their policy has helped the most: the US government.

Easy money policies that artificially suppressed interest rates for the greater part of the last decade-and-a-half allowed for the government to spend recklessly and finance such spending at a low cost.

Now that the Fed is looking to cool demand, the government could kick in and ease up on spending to help bring down inflation. Yet the Biden administration and Congress keep adding to the spending. More on that below.

The government could also help the Fed and the economy in general on the fiscal policy side. As I have mentioned many times before, the issues impacting inflation are truly supply side-oriented. Monetary policy can maybe affect demand, but it can't create supply. The Fed doesn't print oil, labor, housing, commodities or food the way it prints dollars.

But, fiscal policy changes could ease up the pressure in all of these areas. Robust traditional energy policy could lower energy costs, which would reverberate throughout the economy. Revising a number of policies that are keeping people out of the labor force could reverse that trend. There are myriad policy fixes to help supply constraints, but, again, President Biden and the current Congress refuse to act.

Speaking of Congress, not only are they not helping supply and not stopping spending, but they are arguing about related-yet-ancillary issues like the debt ceiling.

The Debt Ceiling—A Ceiling That's Made of Straw

I like to refer to Congress as a place where they perform political theater and legally launder money. The debt ceiling debate has a bit of both.

Congress revisits the debt ceiling a lot. They revisit it much so that it is not really a ceiling, more of a straw roof. Per the Congressional Research Service, the debt limit has been "modified" by Congress more than 100 times since the end of World War II.

Still, it's pretty clear that the US isn't going to default on its debt payments in the short-term. The federal government has assets that it could sell or lease if they were in a true financial bind short-term. Which means the issue isn't how we are going to finance government overspending today, but the government overspending in and of itself.

Americans should be requiring that financing is attached to any congressional spending bill and that the spending is paid for without incurring debt (aka a balanced budget, or, if we are really dreaming, a surplus so we can pay down some debt).

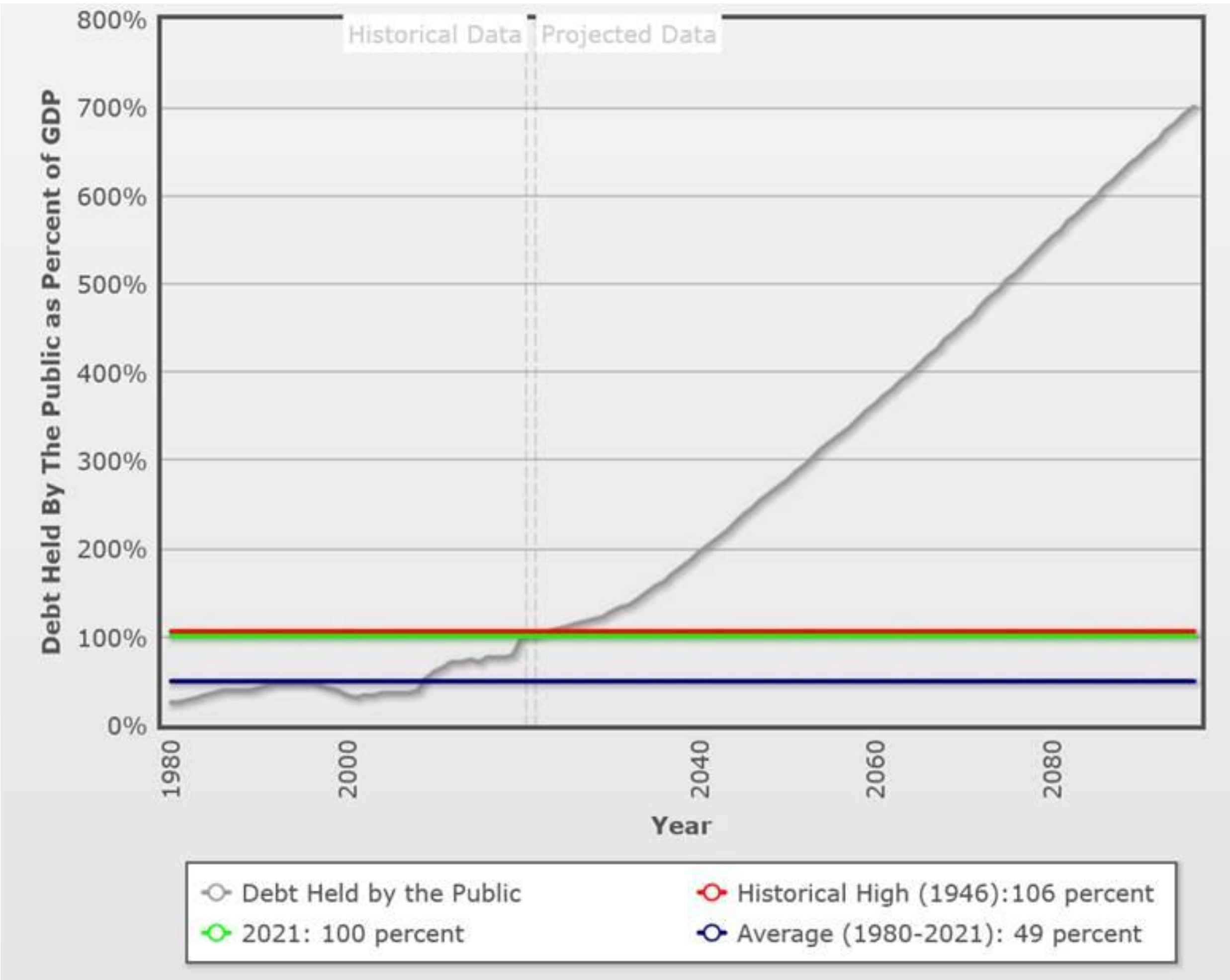
The debt ceiling becomes the sideshow that detracts from the main ring of the circus, which is spending.

Take a look at this chart showing revenue collection (primarily taxes) versus spending of the US government, and the related yearly deficits over the past ten years, excerpted from the White House Historical Tables (Table 1.1; *2022 actuals from the CBO).

(in millions of dollars)			
	Total		
Year	**Receipts**	**Outlays**	**Surplus or Deficit (-)**
2013	2,775,106	3,454,881	-679,775
2014	3,021,491	3,506,284	-484,793
2015	3,249,890	3,691,850	-441,960
2016	3,267,965	3,852,615	-584,650
2017	3,316,184	3,981,630	-665,446
2018	3,329,907	4,109,045	-779,138
2019	3,463,364	4,446,956	-983,592
2020	3,421,164	6,553,603	-3,132,439
2021	4,047,112	6,822,449	-2,775,337
2022*	4,896,000	6,272,000	-1,376,000

Setting aside for these purposes the outlier years of 2020 and 2021 that included the “emergency” COVID spending, if the government collected the same level of revenue it did in 2022, but rolled spending back to just 2019 levels, we would have almost a $450 billion surplus to pay down debt. Instead, the government keeps upping its spending, meaning more deficits that need to be financed and thus more debt on the books that needs to be paid for.

The path is unsustainable. If you look at the projections that come out of the US Treasury, they are insane. The “Fiscal Year 2021 Financial Report of U.S. Government” has the following “Historical and Current Policy Projections for Debt Held by the Public 1980-2096” chart (Chart 7) showing public debt as a percent of GDP. Even they label it “an unsustainable fiscal path.”



On top of that, the CBO projects net interest payments over the next 30 years, based on current projections, will total more than $60 trillion, almost 3 times our current GDP! To put that further into context, per the US Treasury, net interest payments on the debt were $352 billion in FY 2021 and $475 billion in FY 2022.

Take all this and layer on the more than $100 trillion in estimated liabilities and “promises” that the government has made, and we are in quite the financial pickle.

There is no way to make these numbers work on this path. But, if they continue to march down the path, either there is a long-term debt default and a global financial reset, or dollars are debased significantly to inflate their nominal value and kill your purchasing power. Or perhaps both.

Those outcomes aren't good for your wealth, which is why you need more of your wealth in a form factor that you control physically, and that is separate from the damage being done by the government and the Federal Reserve.

Gold and other precious metals, with their worldwide acceptance and recent stockpiling by central banks, could be a foundation of a global financial reset. Under any circumstance, gold and other precious metals act as a potential counterbalance to the forces of wealth destruction being undertaken by the Federal Reserve and the government, that per above, don't look like they are stopping any time soon.

If you haven't had an opportunity to hedge your own portfolio, or haven't hedged enough, consider giving my friends at Goldline a call to help you (they are the only place from which I personally get my precious metals). And don't wait on this; hedges should be continually evaluated and adjusted on an ongoing basis, dependent on your current portfolio, your risk tolerance, your objectives and of course, the changing economic environment.

Today's debt ceiling may not be a concern, but with the Federal Reserve and government shirking their duty to safeguard the US's financial situation, there are real concerns for your own wealth long-term. Make sure you take action and control of what you can.