FRIDAY, JANUARY 12, 2024

Hello and welcome to the Dividend Cafe in a lot of ways. It's the first kind of normal Dividend Cafe of 2024. I do want to do my reminder that earlier in the week we released our special Dividend Cafe annual year ahead, year behind, what we call our white paper. It's available at dividendcafe.com. The video of me walking through it is available at our YouTube channel. The podcast has that audio there. I think if you want to go to the website, download the PDF. There's about 20 different charts and everything kind of walking you through what 2023 was and our perspectives going into 2024.

So as we're still early enough in the new year and I'm still trying to make sure that the labor that goes into that project is not in vain, I want to continue mentioning its availability. But we are moving on to this first normal Dividend Cafe. And as markets kind of peter around a little bit after the massively successful November-December that they enjoyed, I want to go to a little bit more sobering of a topic. Which is a longer term and more structural as opposed to the shorter term and more cyclical issues that a lot of people have talking about. That is government debt, particularly federal government debt. I could and probably should do a Dividend Cafe one of these days about state and local debt. We talk about our governmental debt only in the context of federal debt all the time and I'm about to do the same thing here today. When in reality, if you want to view it across the body politic, you have to actually include municipal debt as well to paint the full picture of how many future resources are already spoken for in terms of city, county, state and then federal obligations.

But to make things a little simpler and avoid, let's just say we'll hold that topic for a rainy day, the federal debt subject is not really new to people. I mean, almost anyone you talk to is aware that we've accumulated a large debt. I do think a lot of people are understandably, so I mean sympathetic here, are understandably numb to it because there's been a lot of talk about the national debt for a long time.

That was itself accompanied to a doom and gloom ism and an apocalyptic context that proved to be dramatically false.

The prophecies of those who believed this debt issue was going to basically cause the skies to fall have not been good. And it's a really big reason in my own worldview and in my own development as a thinker, as an adult, that I abhor the doom and gloom ism, perma pessimism and sort of sensationalistic context because of a lot of these people, because that false prophecy does desensitize. It does numb people to the reality of legitimate problems when they feel like they've been fooled over and over again.

I want to basically make clear that this is not contrary to popular belief, a partisan issue. This is not the Republicans want to cut taxes so much and they're creating a fiscal crisis by doing it, and this is not the Democrats want to spend so much and they're creating a fiscal crisis by doing it.

This is clearly a bipartisan problem on the spending side where I'm defining it not in terms of the absolute level of debt. And you say, well, why? Well, for one thing, I just sort of explained why we had national debt of a trillion dollars, a two trillion, a four trillion, and everyone said the world was going to end. And now we have national debt of 33 trillion. The world hasn't ended. And so it's very difficult to have any credibility. If you're talking as if the national debt was going to destroy the world and then it goes up 10 times more and it doesn't or 30 times more and it doesn't some point, you're like, what? The third, the next dollar does it. The next dollar, you know, it's because we've had a poor framework for understanding it, which is in the context of a fraction or a ratio, a relationship, the debt relative to the economy, the output of the economy.

That relationship is intuitively obvious to matter the most when we talk about real world things.

Now, I get why someone could say 33 trillion of debt is awful and it's and the numbers that are involved are just so staggering that they don't get into a ratio. They don't get into debt to GDP that they just deal with the absolute number. I get it. The numbers are just so fantastic and surreal that it's understandable.

But the analogy I used to just be kind of preposterous and it's sort of a reductio ad absurdum to make my point. Apple has one hundred and eleven billion dollars of debt and some loser kid in a basement that has nine thousand dollars of debt. I don't think very many people would say, oh, my gosh, Apple's in a lot of trouble. The loser kid is in a much better position. He only has nine thousand dollars of debt. When you compare the level of debt Apple has to the highest amount of financial resources of any company ever and the highest amount of corporate profitability of any company ever, then yes, they're one hundred eleven billion of debt looks sort of minuscule.

And benign relative to some non earning, non productive person who has nine thousand dollars of credit card debt who essentially could be bankrupted immediately.

So even though it kind of seems too obvious to compare Apple to some loser kid, the point being hundred eleven billion is not really the problem. And the same kind of thinking can be and should be applied here. It is a matter of our debt relative to the size of our economy and our economy's ability to produce new goods and services. Gross output is what matters because that's what affects quality of life. That's what affects the goods and services, the opportunities for jobs and profits and wages within an economic framework. And I think that we excessively spent in the first decade of this new millennium. And I think that there were a couple of bills that were passed at a federal level that cost an exorbitant amount of money. There were a couple wars fought, cost a lot of money.

And yes, there were some tax cuts that again, the bill spent no child left behind was an education bill. Medicare Part D was a prescription drug bill. Afghanistan War, Iraq War and then the 2001 tax cut, 2003 tax cut. You have six different things on the table and people could have liked all six of them, liked some of them, disliked some. That's the camp I'm in. But my point is what regardless if you hated all of it, loved all of it, the debt went higher and the debt to GDP really didn't that much. A little bit.

So I think in hindsight, that relationship was less problematic than the world we've been living in for now 15 years at the point of the global financial crisis. That's where the debt to GDP ratio skyrocket meaningfully higher. And that's where you had a tea party movement. There was a lot of deficit spending in Keynesian policy prescriptions diagnosed.

And there was a lot of pushback on it. They got a sequester that they shut down government. They did this and that. Deficits quick going higher, but they stayed, they stayed high. The national debt stayed high. We obviously weren't doing anything like balancing a budget or reducing debt. That's all laughable. That's where we implemented a higher form of what I then have parlayed in prior talks to the Japanification thesis, where we started utilizing fiscal and especially monetary stimulus to try to treat the people.

You know, I know I'm a patient, and I believe you get into that downward spiral of Japan vacation. But my point being that then as we got out of the post crisis years into the mid 2010's. Let's call it 20 15 16 17. This is why again, such a bipartisan thing, I think there was heavy deficit spending in the bombing years and then really heavy spending in the Trump years even before kovat and we added trillions of dollars more. more. Then you had the COVID moment, which really escalated it to another level. And now here we are in the Biden moment, and we're going to have basically a $2 trillion deficit for fiscal year 2023. And we ran well over a trillion dollar deficit in 2022. And you say, well, well, some of that stuff from COVID apart from 22 some of it was, there's still like eight year money and ten year money that was spent from some of the COVID bills from some of Biden's spending bills since there it's both prior and current administration that this is not blame game stuff. I just basically mentioned four presidents that have been in power since this new millennium. And there are two Republicans and two Democrats in that mix. And so this is a bipartisan issue. But I don't mention that to kind of tout my own bipartisan objective, you know, virtue. I mean, you can do that if you want. But my point is, that that's part of the problem, that there isn't anybody who's actually concerned about this, the the folks that scream about fiscal responsibility will only do so if the other party is in the White House. And that is the key issue, that when Democrats say there's tax cuts, we can't afford, they don't seem to care about affordability, when one of their own is in the White House spending recklessly. And when Republicans say we can't afford to do spending, they don't seem to care when the other party is in the White House when their own party is in the White House spending recklessly. So it takes two to tango with this. And I've been very conscious of that for a long, long time. But that adds to it isn't just a common political dysfunction, it adds to the problem, you're not going to get a bipartisan solution. And you say, Well, wait a second, maybe one day someone will come in, and we just have got to get more revenue, you're gonna have to tax hire.

This is where one of the most important charts I think I've ever put in Dividend Cafe is there at the Dividend Cafe.com this week. And that is showing that the top 1% of our country do generate 22% of the income. And you might say, Wow, that seems kind of unfair. I look at it like, wow, that's really productive, that 1% of people could generate 22% of income, they must be a really innovative, productive bunch, but maybe you're on the side of know they're lucky, they're silver spoon, or something you don't like about them, you know, the cronies or grip, you know, I get there's always class warfare and inequality arguments out there. That's not my point here. My point is the math, they pay 42% of taxes. So they generate 22% of the income, but they are paying 42% of the taxes. How much room do people think there is to go? The second bracket down of top earners also makes much more pays much more of the national tax as a percentage than they do receive national income as a percentage. The two brackets that are upside down that generate a lot more of the national income relative to the portion of national tax they pay. And again, just look at this chart for the kind of visual around this, our middle class, the 42 to 85K and then the 85K to 150K tax bracket, it's not even close, they're generating a significant amount of more of the national income as a percentage than they are paying as a total tax as a percentage. Now, does anyone think that politically, we're about to go say, hey, I'm ready to solve the deficit, and I know how to do it, we're going to raise taxes on the middle class. If so, Walter Mondale, good luck in your race, 49 to one. And also forget 49 to one, Walter Mondale is also 40 years ago now. Nobody is talking about raising taxes on the middle class, but that's the only brackets where there's even room to do that. And so we don't have a revenue solution here. Revenue is a percentage of the economy is dropping. But it isn't because they're collecting less taxes, they're collecting more taxes. It's just that expenses are growing quicker. The amount of government expenditures as a portion of the economy is growing in the denominator at a faster rate. So you say, why does this matter? I have money, I have a job. Maybe, maybe it doesn't matter for you. I'm not predicting an apocalyptic moment of the world a bang tomorrow.

This is actually, I think, an argument for this low, slow and no growth Japanification as a real slow torturous way of dealing with it, especially a multi generationally. But don't kid ourselves, even an anti doom and gloom or like me recognizes there's also intermittent shocks, exogeneous shocks to the system that will come in that then will be less prepared for. And so there'll be intermittent moments of crisis, but really, in a structural secular sense, there's downward pressure on growth, and that that suppressed economic vitality, that suppressed economic vibrancy as a painful part of dealing with this. Well, it is true that that might not mean this apocalypse and sky falling moment that so many like to write books about. But it may very well be leaving an opportunity set to our children and grandchildren that is significantly diminished what we've enjoyed. And I find that unacceptable. It may very well mean forfeiting geopolitical advantages and strategic leverage with our adversaries at a point where we may need it. It may mean less tools to deal with other future crises. It may mean lost government services that are of a good and important variety, let's say military defense, where because we have to increase the output, the outlays to keep up with commitments made for transfer payments, Social Security, Medicare, we owe that money. So the entire picture is not worthy of predicting, hey, if we don't do something by this day, this is going to happen. All sorts of people various you see this type of stuff out there with climate and with with the national debt and with foreign adversary issues, and right and left, it is, you know, there's something about shock and awe that is sensationalistic enough to lure people in. And they love to do so by attaching a particular prophecy to a particular date. I'm not doing either of those things.

I'm suggesting that there's structural impediment to forward growth that investors have to be aware of, have taken into account the need for greater fundamentals, cash flows and protections around the fact that there is an embedded instability, a fragility, and yes, downward growth that will be real to wages, jobs and profits. It already has been. This is no longer a guess. There's no longer a prediction. We're living in it. We've lived in it 15, 16 years at some point, as they say, I've seen enough. This is the world we're in. And we're not trying to figure out what to do about it. There isn't like, okay, well, we have this awful problem of 34, 33 trillion of debt. What do we do? All we're doing is adding 2 trillion a year to it. So that's why I say it's really bad. If I say, hey, this family has $100,000 of credit card debt, and they can only pay two grand a month to reduce it, they're going to have a real declining quality of life for years as they sort through it. That's bad. But it's way worse if I said this family's got $100,000 of credit card debt, and they're still adding two grand a month to it. That's where we are. So this isn't political. This isn't even policy prescriptive. It is a macro commentary about the state of affairs. So you can understand where we are and why some of the just easy solutions, let's go cut spending, let's go raise taxes, that's not going to do it. There has to be a truly mature understanding that we will not get out of this pain free. There has to be a commitment to growth, which is not at all remotely there. There has to be various acceptance of the political dynamic that in order to get something done, it's going to address a couple things that not everyone's going to like. You know, all that's on the table. I don't happen to for a living work in the public policy sphere. I have a lot of opinions there, but I don't have to write the pieces to what they need to do about it. I have to tell you guys the truth, which is that there's a macroeconomic impact around excessive government indebtedness, puts downward pressure on future growth, affects future quality of life, if not for yourself, for your children and grandchildren. Therefore, that impacts the way we want to invest money. That's what I have to do. That's what I'm doing. And that's what leads into this de-panification thesis. I'm going to leave it there. All of this negativity exists in the context of believing that there's pockets of cyclical economic growth and productivity boons.

So the CAPEX renaissance scenario is very, very plausible right now. It could come at a downside of too much of its deficit funded from government, Chancellor payments, CHIPS Act, industrial policy, corporate welfare. You may get an advantage in one hand and a disadvantage in another. I'm not favorable to that, but my point being there's other aspects organically within the economy, people may be really underestimating, where some of the advantages of a CAPEX renaissance and productivity boons could be. But it's cyclical. And in the larger structural context of this kind of government debt, we have to incorporate that into the way we invest money and think about the differences in go forward macroeconomics versus where things were in past decades. I'm going to leave it there.

Please reach out with questions anytime, questions@thebahnsengroup.com. And in the meantime, please go Cowboys beat the Packers. And thank you for listening. Thank you for watching. And thank you for reading the Dividend Cafe.
