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Hello and welcome to this week's Dividend Cafe recording from my hotel in Louisville, Kentucky. I am getting ready to suit up and go speak a couple times at a conference today and in the meantime have actually put a lot into this week's Dividend Cafe. I'm excited to talk to you about it. Lemme give a little context of what we're gonna do today. Over the years, I've had quite a few people ask me, you write so much about economic growth, about concerns with the national debt or concern with government spending, what would you do to solve our pending debt crisis and I've always shared various policy views. I've appreciated various elements of the conversation, but the context of what would you do is a little different when you limit yourself to the possible. The things I would do are not possible politically possible. The realities of a democratic form of government mean that there are various things that need to be done and will be done that are painful and people do not like pain.

And I do not like appeasing people. And so therefore, I don't generally get into the conversation because the political side, the reality side of this is not what I do and not what I ever will do, not what I have any ability, giftedness, or desire to do. Conceptually there is, I think, a benefit in thinking through ideals around policy or at least objectives that drive certain outcomes and this is where I think today is gonna go a little bit, is I've, over the years, had a fictitious place. I think I've had this if I remember correctly, I'm pretty sure I made the term up 30 years ago. Literally in my young twenties a place called Dave-Land that was just meant to be a metaphor.

For a fake place where in Dave-Land you can do this or you would not have that. Or the kind of a catchall for this idealized society by which I got what I wanted, and it's tongue in cheek, but you get the idea. Look, doing a Dividend Cafe around growth and spending and debt policies in Dave-Land is not super helpful and from investment standpoint because it is not the real world and our investing planning is around the real world.

But I do think that it will be fun to today to think through at least this component. Not the specifics of what can and can't be done, but why The notion of what is in front of US centers around a two-sided coin that is debt and the debt divided by. Economic growth. This framework is to me a very important one for investors and economically profound to help us realize that like when we last week, I talked about the things with this quote unquote big, beautiful bill.

The things I wish they were doing differently. The things I still wonder if on the margin the Senate may adjust a bit, but it deals with, our concern about having a large national debt and my larger concern from a vantage point of economic opportunity. That a growing portion of our economy being filled by covering the debt, being filled by government expenditures or federal outlays, that represents downward pressure on economic growth.

This is a kind of obsession of mine because it gets to the very heart of what I believe about economics. Economics being the allocation of scarce resources that you know, over thousands of years and now trillions of transactions of complexity and volume and optionality. We are in a situation where allocation of scarcity becomes increasingly suboptimal when forced to buy to deal with the reality of higher government spending as a percentage of the economy. So this is my focus today, but when I'm gonna critique things like that and people reach out and say what would you do? I guess now I'm gonna have a different cafe to say here's a couple thoughts I'll throw out there.

I could change my mind on some of this stuff. Somebody could write me this week with a thoughtful note explaining why this is off or this is off, or turn this knob here or why didn't you think of this as well? Or you're crazy on this one. I'm not married to any of it, but I think all of it is conceptually useful but not politically useful.

And if it is politically useful, it's an accident 'cause I'm giving no thought at all to the art of the possible, which of course is ultimately what politics has to be. So all that to say the level of government debt is not the primary issue. The percentage of government spending in the economy is, this is something I talk about all the time on a debt level.

We all acknowledge that our degenerate friend with 10,000 of credit card debt is in a worse position than Apple with billions of dollars of debt for obvious reasons. The same applies to sovereign nations. And our capacity as a country to have debt is different than the denominate, the ratio between the debt and the government spending, which is increasingly grown.

What I mean by increasingly grown, look at after, way up in World War II, it came way down after World War II, and then we get to a post-war analysis. And throughout the 1950s, government spending was about 17% of GDP. It was about 18% all through the 1960s. So for 20 post-war years, it stayed right in that 17, 18 range in the seventies, eighties, and nineties, it lingered right around 21%, and so it did go higher.

But the reason I bring up three decades at once is because the seventies were very weak in terms of economic growth. The eighties GDP grew substantially. So you had great economic growth, but government spending, it also ramped up as we defeated, the Soviets ramped up defense spending to win the Cold War.

The 1990s, you had robust economic growth. It also stayed at 21%, but that's when it's a little deceiving because it started the decade at 22% because of a recession, and it ended the decade at only 18% because throughout the course of that decade, we had balanced the budget. And as a matter of fact, federal outlays towards defense spending had come way down and the aftermath of the One Cold War.

And the 90s as an average at 21 is a little deceiving 'cause it was actually a little higher at beginning and then lower by the end. But then where all of this changes is in the last 25 years, happens to be the 25 years I've been professionally managing money. In the 2000s, the ratio stayed around 20%, but government spending increased a great deal.

But then the financial crisis at the end of the decade weighed heavily on the denominator, the GDP side, as GDP contracted. Then we treated it with a big increase in the numerator government debt as a Keynesian policy response. You ended up seeing debt to GDP change and really never go back. In fact, only worsen since then in the 2000 tens.

Annual deficits were routinely higher than we'd ever seen. That got us to an average of about 23% of GDP. Keep in mind, we had been at 17% of GDP in the 1950s and then, that was all before COVID. Then of course we know there was a governmental spending surge post COVID, and that now has largely been embedded in the cost structure of the economy.

So when we talk about $37 trillion national debt, 29 trillion of which is owed to somebody, the, to the public what we call bond holders. This ratio matters in terms of quality of life and the economic growth, the productivity we're gonna have as a society. Okay? It's a very big deal.

And what I would say to you is that the, any notion that is trying to address this without being sensitive to revenue. To growth is gonna get it wrong. Any treatment that is not looking to the spending side, the debt side is gonna get it wrong. This is a both and equation and so some of these things I'm addressing today are looking at both sides.

So I've done enough introduction. You get why it's severe, you get why it matters, and you get why this is not all that particularly practical when divorced from politics. What, when I talk about how bad it is, I think that you have to understand that a pre COVID mentality Here in 2019, we ran a $984 billion deficit, and because now everything has a billion, trillion, 1.8, 1.8, $1.7 trillion.

Level the, it was unfathomable to us before COVID absolutely unfathomable. To run a trillion dollar deficit. Now we do it every single year well above the trillion dollar mark and just act like it doesn't matter and 3 trillion in 2020 2 trillion in 21 as a result of the immediate CO economic impact, and then COVID fiscal response.

I can be critical of almost all of that, which I am. But if it just theoretically stopped right there, it wouldn't be the same thing. Now that it is I, that would not make me agree with it, by the way, but I'm willing to pretend The issue is that it didn't stop there. It re formulated a general baseline of tolerance for this level of deficit, an embedded cost structure, where now like 2022, we ran a $1.4 trillion deficit, and that's our fiscally responsible year.

So why did I bring up 2019 and 984 billion? Because we were in a very good economy. We had just come over our, after our excuse me, come off of our best real economic growth numbers since the financial crisis, 3% in 2018, and we had not only a healthy economy, so no Keynesian justification for such large deficits, but we were in, not in any wartime situation, and yet we were then at that point still running the largest deficits imaginable.

Then a crisis hit. So everything went to the code red, but if we had been near equilibrium before it, there would've been a lot of bandwidth for policymakers. We took a very bad situation and had to build on top of that. Right now we have this unfathomable situation of nearly $2 trillion deficits on top of 36, 30 7 trillion in debt.

And we are not even thinking about what the next bad thing may be. That's the issue, the bad thing. And that's why I believe getting our fiscal house in order is so important and doing it in 2010 would've been hard, but it was totally doable. I. Doing it in the first decade of the year wouldn't have even been that hard.

But now there is absolutely no way it can be done without significant pain. And this is why my exercise is mostly worthless because people don't like pain. And so we'll wait, and then you do what you have to do instead of getting in front of it so the pain will be worse as opposed to, taking some pain, but mitigating by, by being proactive and preemptive.

Okay, let's get into this. Number one, what would we do in Dave-Land? Here is the most vanilla thing I'm probably gonna say today is yes, we would indeed pass a balanced budget amendment. Now the notion that Congress should not spend more than it brings in is pretty simple. And a lot of households have a kind of policy that way.

A lot of companies do and you might have a bad year, you might have a emergency or a layoff. We could have a war. We could have a recession. There is any number of ways to write balance budget legislation that allows for those emergency contingencies, but to not have it. I think we're far past the point where it makes any sense.

We balanced the budget in 1969. We had a surplus from 1998, 2001, and then that's it, 65 years. We're basically running a deficit in 61 outta 65 years. And at the end of the nineties, it was a byproduct of a decade of great fiscal restraint, bipartisan support on welfare reform, and there was in governmental cost reduction.

And then of course a huge growing tax base behind the growing tax revenue of that moment. A lot of those things are idiosyncratic, but they happen. Then now we've gone 25 years in a row of deficits and in fact, growing deficits and in fact growing deficits as a percentage of GDP. So not having the legislation means it's never ever going to happen.

So it just simply has to happen. A balanced budget amendment, those who say this could force Congress to raise taxes, have it backwards, in my opinion. And some of these are my supply side friends who make that argument. So tax increases are not popular, and therefore, if that's what the voter what Congress was faced with to avoid that unpopularity from voters, that the, there's another option, and it's on the bottom part of the p and l.

You can always cut spending. So I think a balanced budget amendment that forces it to happen produces sometimes if you need something to happen, you have to force it to happen. This isn't rocket science number two. I would, I. Set a ratio that if debt to GDP goes above, I put in a hundred percent, I'd actually be very comfortable doing it, 90%.

Then all elected members of Congress salaries go down to $36,000 Senate Congress. It's 535 people to what would essentially be like a minimum wage. And all staffers become voluntary. They're welcome to hire, volunteer, like interns, staff type folks, but they don't get to get paid. Now that second one, you think, oh, that sounds punitive.

It's punitive to the electeds 'cause they can't even function without their staffs. You've never even seen people that require the use of their staff and aides more than our elected people. I know some things and I'm just gonna tell you that's the one that would get to them. There's plenty that going from their 200, $250,000 salary to 36 would be existential.

But of course there's a lot of very wealthy members of Congress as well. My point is that to attach this to a ratio. Allow, see with the balanced budget, they can play games, they can tell their budget, it's gonna generate certain revenue or tell the budget expenses are gonna stay at a certain level that it doesn't.

But then this debt to GDP ratio isn't budgetary or forward looking. It is forced discipline and I think it's a very good way to go about doing this. So yes, a real life skin in the game. Fiscal impact to Congress if debt to GDP exceeds limits. Number three, this is just to very quickly go through this.

There is absolutely no seriousness ever from anyone about anything budget related. If it doesn't, I. Discuss entitlements, transfer payments, social security, Medicare, Medicaid, et cetera. This is the essence of mandatory spending that puts such a constraint around what can be done and has grown debt to where it is.

And my concern here is not whether or not we should have the social safety net we have. We have it. And how are we gonna pay for it? 'cause we're not paying for it and it grows and grows. So I'm not looking to hurt anybody. I'm looking to help people. Social security reform. I would change the age of eligibility for anyone currently 50 to 59, move it to 68.

Don't touch it for anyone right now. Receiving benefits are already in their sixties, moving it up to 68 for people in their fifties and moving it to 70 for anyone under 50. Saves a gazillion dollars and more appropriately addresses the reality. Of mortality that has changed so substantially. Number two, I'd eliminate any cost of living adjustment for anyone with income over $150,000.

Simple means testing of the cola of the increase saves a gazillion dollars. And number three. Allowing a one-time buyout of social security benefit at a significant discount to the net present value of their guaranteed stream of benefits. So you take what the stream of benefits would be, which is a liability to the government.

And then you discount that back to net present value, and then you severely discount it again from there, which is where the huge savings to government is. And you make it voluntary. People do not have to take it. You only make it available. It's basically offering someone a bol of stew instead of birthright.

And a many would take it burden a hand instead of two in a bush, except for the numbers are punitive to take it and it, and so you go, why? Why would you force punitive on people? I wouldn't force it. It would be voluntary, but many would take it. The government would then, or the taxpayers rather, would be alleviated of a massive burden.

And you would be doing this with folks whose retirement cash flow is not dependent on it. And so it could save trillions of dollars of liabilities. So that is Dave-Land number three, social security reform. Number four, Medicaid reform. I don't want to get into a lot of the weeds here. We've been talking about this in the media for over a month.

Not very intelligently actually. But all I'm saying at a high level is philosophical. Let's restore, medicated the intent of the program, which is a social safety net for destitute, for those at the poverty level in our society. I would make it far more state. I. Focused where there is a federal liability there's significant cost savings by simply tightening up eligibility work requirements, genuine poverty eligibility, and then from there, moving the funding mechanism more to states and outside the feds.

Medicaid reform is a game changer. This is done right. We could save seven or $800 billion over the next 10 years if this is done right. Number five is probably the most radical of them. It's not gonna happen, but it's it's probably the most sensible is converting Medicare to be essentially a premium support plan.

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The cost of Medicare going to provide the premium dollars to people from which they can buy. Health insurance then enabling them to customize what they're buying to their own needs. Right now, the no skin in the game nature of it has no cost controls. It, it massively mis allocates resources. The incentives are way off.

There's no competition of voucher like program would provide the need that was intended in the social safety net of Medicare. But produce an incredible choice dynamic that would push downward pressure on cost saving about half a trillion dollars in four or five years. Again it's too sensible to think it would ever happen.

Number six, this is one of my favorites. A tax cut that is a tax increase. For those right now, you pay short term you pay ordinary income for any capital gain of one. When you hold the asset one year less over a year, it's long term and you're paying, I'm just gonna call it 20%. There's a cer a surtax from Obamacare that's 3.8%.

So it's actually 23.8. If you're over $250,000 of income. The 20% is for people over, let's just call it 500,000 of income. It's a little different, single and married. And then if it's below that level of income, you pay 15%. So more or less, most people, higher assets and income and whatnot are paying 23.8% For long-term capital gain, I would propose an eight and I could go as high as 10%.

Super long term capital gain, any asset hold held 10 years or longer. The, you say that's just gonna be a reduction of revenue. No, this is a massive increase of revenue because by the time an asset is held for 10 years, statistically it's virtually never sold because people get, have such huge capital gains.

The tax hit is so large, they don't want to take it and. They know that at some point in the future, if they're 80 years old, it could be in the near future if it's fi, if they're 50 years old, it may be longer ways, but there's a step up at cost basis. So for the vast majority of capital gain assets held over 10 years, the revenue to treasury is zero because people are holding it to death.

Therefore not reinvesting, not deploying into new assets, not pursuing new productive innovation, holding stagnant assets to avoid a major tax hit, and then denying treasury any revenue. Because a step up at base at death, I would propose an eight to 10% tax for a super long-term rate of 10%. That would increase revenue treasury substantially and more importantly, unlock growth.

Unlock capital formation. As people then move out of stale assets into more dynamic, I. Number seven, a rules-based Fed. I talk about this all the time, so I won't beat the dead horse right now. Just simply promoting something that is far more incentivizing of proper capital allocation. Having an interventionist Fed is distorted decision making and ultimately created very poor resource allocation.

I wanna incentivize productive investment and productive capital spending more than financial engineering. Ergo, a rules based Fed number eight, growth by deregulation. You just philosophically I could talk about this all day. I think we all intuitively know why deregulation sounds like a good thing, but putting a little more meat on the bone, I would go to a two for one program where any new regulation has to be accompanied by two regulatory cuts.

So if you want one new regulation, you gotta get rid of two. And then number two, I would have the. Feds create an incentive system for states. 'cause so much of the unhealthy regulation on societies with states whereby if the states put various deregulatory programs in place that limit the burden put on their citizens, they benefit from such.

The budget cuts that come from slashing cronyism are massive. All I mean by this is I want the government 100%, not 50%, not 70%, 100% out of the business of picking winners and losers, no special treatment in the tax code. This guarantees you, it makes everybody mad because I'm not saying I wanna cut benefits to clean energy, and so then fossil fuel people get happy.

I'm not saying I wanna cut benefits to fossil, so clean energy people get happy. I'm saying I wanna cut it all. No subsidies, no special carve outs. This raises revenue for government. More importantly, eliminates favoritism in the tax code, and then I would do a 15% corporate tax rate, but with all expenses treated equally.

Last but not least, energy independence. It's environmental, it's geopolitical, and it's pro-growth because I do believe that we become a global seller. The energy assets of our country, it represents at least a 10 year economic growth story, may not have 40 or 50 years of growth in front of it. It has 10 years of growth in front of it that we underestimate how severe this could be, how massively impactful this could be for job creation and high paying.

Jobs at that. So there's a recap available at these points@divoncafe.com. A little bit more elaboration of all of 'em. Dave-Land is not taking new people at this time, but I will tell you that the need to grow the economy and cut the size of spending is the great economic burden of our times. To that end, we work.

Thank you for listening. Thank you for watching, and thank you for reading. At the Dividend Cafe.