DIVIDENDCAFE | PODCAST TRANSCRIPTION

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Hello, and welcome to this week's Dividend Cafe. I am your host, David Bahnsen, and we are going to dive into one of our favorite subjects this week—one of the most depressing, one of the most difficult, one of the most painful issues to talk about, and yet I think one of the most important—and that is the national debt.

Now, let me start off by saying I allude all the time to the fact that Dividend Cafe is a weekly commentary I've been doing since September of 2008, where I am trying to avoid, as much as possible, the temptation to focus merely on what happened that particular week. But a lot of times, the weekly headlines are what we need to cover because of the significance of what has happened and the ability to use a current event to reiterate a longer-term principle.

So while we may talk about the Iran war, for example, it isn't so much a Dividend Cafe about the war itself and what happened on a particular Thursday or what may happen next Tuesday. It's about using current events to make broader points for investors—evergreen principles that apply over a longer period of time, and how we are to think about economic news, geopolitical realities, and investment positioning.

The national debt is generally a long-term subject that I want to be writing about all the time because it carries decades of relevance and ramifications, yet it is not always in the headlines. It doesn't have the short-term excitement of an inflation report or geopolitical conflict or a market crash or AI disruption. But lately, the short-term news cycle has actually aligned with this longer-term concern because of the recent milestone that total public debt has now exceeded 100% of GDP.

That has led to more discussion and more headlines around the issue, and it provides a useful opportunity to revisit the broader subject.

Let's first clarify a few things mathematically. When I say we've crossed this Rubicon of debt exceeding 100% of GDP, I'm referring to total federal public debt. Right now, we're sitting at $31.27 trillion. That is the amount of Treasury debt outstanding—the money the U.S. government owes to others.

There are other numbers you may hear. There is state and local debt, roughly another $6 trillion, but that is not federal debt. There is also what people refer to as the $38 or $39 trillion national debt number, which includes intergovernmental debt—the money the government owes to itself, primarily through Social Security and Medicare trust funds.

For apples-to-apples comparison, the best measure is the public federal debt, the actual Treasury obligations owed to outside holders. That is the number now slightly larger than U.S. GDP itself.

Now, who owns this debt? Roughly 30% is owned by foreign investors and foreign central banks. About 15% is owned by our own Federal Reserve, largely as a byproduct of quantitative easing. And a little over half is owned domestically by savers, mutual funds, banks, pensions, and insurance companies.

The important point is that Treasury debt functions as the global risk-free rate because there is overwhelming confidence that the United States will pay it back. That confidence allows the government to continue borrowing, and it allows Treasury bonds to serve as the foundational benchmark of global finance.

The reason people lend to the U.S. government is not just because of military power or tax collection authority. Fundamentally, it is because of confidence in the underlying economy—the productivity, dynamism, diversity, and resilience of the U.S. economy itself.

Treasury debt is only as good as the economy from which repayment can ultimately be extracted. And historically, that economy has been extraordinarily robust relative to the rest of the world.

Now, when I say debt has exceeded 100% of GDP, what that means is that if 100% of all economic output in the country for an entire year went solely to paying off the debt, we still would not fully pay it off—and everyone would starve in the process.

And remember, that does not even include the massive unfunded liabilities around Medicare and Social Security, which are measured in the tens of trillions more.

Now, I don’t join the sensationalistic doom-and-gloom narratives because it’s important to distinguish between categories of obligations. Medicare, Social Security, state debt, local debt—all have different funding mechanisms and policy levers. The Treasury debt itself is what matters for understanding the risk-free rate and federal solvency.

So then the question becomes: how are we going to pay this down?

And the answer is—we are not. That’s not even the current conversation. The conversation in Washington is whether we add another $2 trillion to the debt this year or “only” $1.5 trillion.

We are running deficits around 6% of GDP while the economy is growing around 2%. We are growing debt faster than we are growing the economy.

And if nothing worsens, projections take us toward roughly $50 trillion of debt by 2040.

So what caused this? What caused these deficits?

Let me first acknowledge my own worldview. I am a Reaganite conservative. I generally favor free markets, lower taxes, smaller government, and less regulation because I believe those things best promote human flourishing. But I want to speak as mathematically as possible here, not ideologically.

Military spending did not cause this. Military spending is currently about 13% of federal outlays—lower than at almost any point in modern American history.

Fraud, waste, and abuse are real and offensive, but they are not mathematically large enough to explain this problem.

Likewise, tax revenue as a percentage of GDP has not collapsed. Historically, federal revenues have hovered around 17–18% of GDP, and they remain roughly there now.

What has changed is spending. Government spending has risen from roughly 17–18% of GDP historically to around 23% today.

That is the story.

The primary driver is entitlement spending—Social Security, Medicare, healthcare, and mandatory expenditures.

Now, what do we do about it?

There is no solution without economic growth. Growth is absolutely necessary. But unlike fifteen years ago, I no longer believe growth alone is sufficient.

There will have to be trade-offs. There will have to be pain. There will have to be some combination of entitlement reform, spending restraint, or taxation changes. We are simply deciding how long we wish to delay confronting that reality.

Now, what does all of this mean for investors?

The common concern is that as debt grows, investors will demand dramatically higher interest rates to compensate for risk. And perhaps that is true. But there is another possibility.

If private investors become less willing buyers, central banks themselves may become the dominant buyers—as we have already seen through quantitative easing in the United States, Japan, and Europe.

In other words, the very concerns people have about debt could lead to financial repression and lower rates rather than higher ones.

But regardless, the conclusion remains the same: we need economic growth.

And when we talk about growth, I do not believe deep speculation is the answer. I believe growth should be accessed through coherent businesses, abundant cash flows, durable business models, sensible valuations, and repeatable economics.

That, my friends, is what we refer to as dividend growth investing.

Now, I want to be clear. Dividend growth equities are not the new risk-free rate. Risk-free is risk-free. But in a world where risk is necessary to generate return, and in a country with debt exceeding 100% of GDP, I'm not sure you're going to find a better tradeoff between risk and reward than a disciplined dividend growth approach.

This is the world in which we find ourselves. This is the world we are trying to navigate. And to that end, we will work.

Thank you for listening. Thank you for reading. Thank you for watching The Dividend Cafe