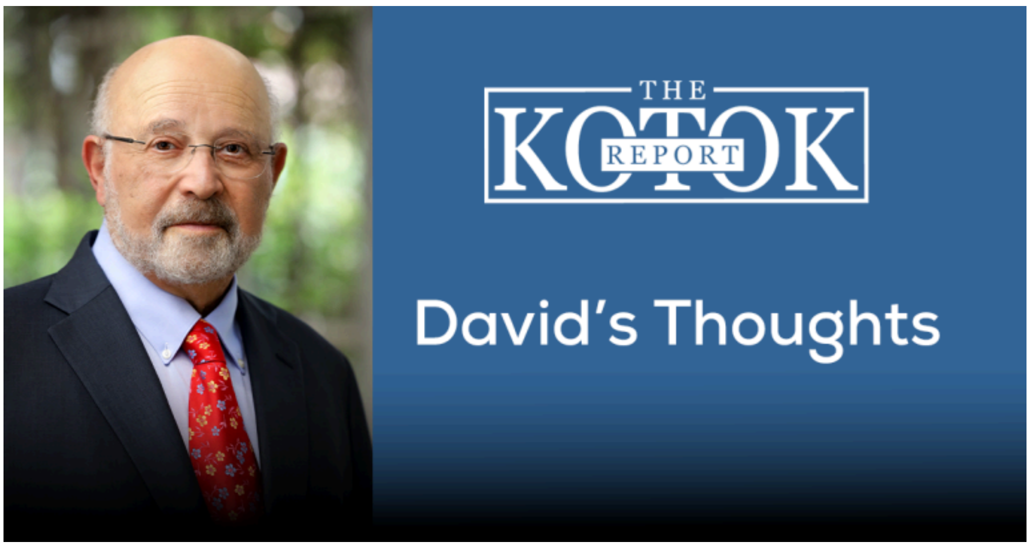
More On Debt & Deficits

May 5, 2024(Https://Kotokreport.Com/2024/05/05/) •
David R. Kotok(Https://Kotokreport.Com/Author/Christopher/) • Reading Time: 7 Minutes



First a short Sarasota restaurant review. Enough folks liked the prior one, so here's another one. I lunched alone at Arts & Central, 611 Central Ave. in Sarasota. On a gorgeous spring day, I walked up with no reservation and asked hostess Kaylee for a table outside and in the shade. There seemed to be only one and it was a 4-top. Kaylee was welcoming and pleasant. She smiled and said, "Let me clear it and you can sit here." The economist in me is loath to take up a 4-top in a busy restaurant when I am solo. I didn't see a "community table." Kaylee seated me. Then I noticed a 2-seat high-top on the Central Ave. side, and it had partial shade. With the direction of the sun, I thought it would be comfortable enough. I asked, and Kaylee moved me there. The 4-top was soon filled by others (note the plural). Kaylee thanked me for my moving without having to be asked. So did Nico, the server, who has been in Sarasota for a while and is someone I recognized from previous encounters in other places over the years. Nico is pleasant, efficiently attentive, and a very professional waiter. I often ask the server if they concur before placing my order; some will candidly tell you not to. That is worthy of an extra gratuity (IMO). Nico suggested the Burrata Caprese Roll and the fries (which turned out to be superbly done at this restaurant). So, I ordered and then enjoyed a Fat Point Brewery "Keewaydin Island Ale," which was on draft that day (it is brewed in Sarasota). The check was $33. Nico deserved and received a generous gratuity. Dan Henson, Jr. opened the place a few months ago. Zak is one of the managers, with whom I have spoken several times. Tell him David sent you.

Let's get to more Debt, Deficits and Lame Ducks. For newer readers, the links to the original four-part series are at the end of this commentary.

Bruce Mehlman replied to Harry M. about his question involving inflation adjustments on debt. Bruce wrote:

Hey Harry (and David)! Thanks for subscribing and for reaching out! So, I thought about "adjusting for inflation." BUT if we said the $5.8T in debt through Q3 2001 (the first 42 Presidents' debt) should be rendered in 2024 dollars, along with all the debt since, the total would be well above the actual amount of debt ($37T). Saying we had $60T national "debt adjusted for inflation" would surely be less accurate than the actual amount. What I did do is to account for and compound annually the interest on the debt, thus putting on the "first 42" presidents' shoulders the burden they dropped on the next four, rather than pretending their debt was paid off and all existing debt is the most recent guys'. That's likely true as a matter of specific paper (bonds) but seemed unfair. Rather than "adjusting for inflation," what a lot of analysts seem to do with deficits is to report them as a "share of GDP"… that is far more useful to understand the degree to which they were spending beyond their means / burdening the nation, and what the really smart debt analysts do. But for my chart, I was keeping it simpler, just tracking actual dollars… We have $37T debt (as of end 2025)… on whose watch did it come? As always with these things, a bunch of smart economists slice and dice the data to tell a lot of stories and/or make points… mostly beyond my Excel skills!

Jack sent this:

David, as I understand – I think? – your position, debt (all debt combined regardless of federal debt) is not worrisome because TOTAL US population debt has been basically static? If so, you are saying that if the ratio remains static, we will grow our way out of it and federal debt/deficits will not be the drag on growth that many have predicted? Was reading Lance Roberts today and his primary concern is that debt/deficit (federal) will be deflationary because of growth drag. Steve Blumenthal (CMG Wealth) thinks debt/deficit is inflationary because fed/gov't will choose least painful way out and that is inflation. (Tax hikes are perceived to hurt more – politicians, at least – so hidden tax of inflation is better.)

Kotok reply:

Jack, the United States first tried raw monetary printing after the American Revolution. The Continental dollar was hyperinflated. Remember the phrase "not worth a continental." It was about the US dollar and not about a Lincoln-branded automobile. The second monetary attempt was after the adoption of the US Constitution. The war of 1812 was financed. Fortunately, America won. And then the country paid down debt into the mid-1830s. Since then, debt and GDP have been in a 2-century rising trend. The Civil War debt accumulation added to national clarity. Confederacy debt was abandoned – the Union victors did not absorb it. WW1 and WW2 were financed, in large part, with federal debt. Remember Liberty bonds? War bonds? In cases of war, the American central bank (Federal Reserve) assisted as you would expect from a patriotic agency of the United States. Debt after WW2 was over 100% of GDP. In each of these debt-expansion cases, there was public political debate about too much debt. There were forecasts of doom. But history shows that the United States operates under a defined Rule of Law. And that Rule of Law allows for peaceful adjudication of disputes in reliable courts. That allows commerce and business expansion. So, the results are economic growth. Productivity growth. And an incoming population of immigrants who want to better themselves and are willing to work to do so. If we adhere to that standard, the US economy can grow its way out of today's debt burden, IMO. And over time the interest rates and the burden of paying interest on the debt equalize. That's my opinion. The biggest risk to the US economy is coming from a threat to the Rule of Law by certain politicians, both Democrats and Republicans.

Ben Stevens of AMG funds emailed this link to the March 2024 Renaissance Market Update: https://engage.amg.com/i/ER___RD
(https://engage.amg.com/i/ER___RDoEUy6DNKZ8eEfopat2iaN9OBr0gajgD7LHIjfNRcw___tunWjPLUSSIGNH8PpsPFQyO7rTY0d1mJo5UAqqQI2xsX7efK

Kotok comment: I recommend following the link and spending a few minutes there. But for the impatient, I offer this excerpt below.

> "It is worth noting that government debt as a percent of household net worth did not change, holding steady at 24%. To many, this is likely a startling statistic. Worth mentioning, first, the denominator grew by 26%. Secondly, the numerator is inflation adjusted. Federal government borrowing grew dramatically during these five years. Yet, in one small benefit of inflation, the value of the previously borrowed debt went down in inflation-adjusted terms. Inflation effectively reduced the value of government debt outstanding as of December 31, 2018, by $4.75 trillion over the subsequent five years on a constant dollar basis."

Lindsey wrote:

I found the table that lists concerns versus Party ID interesting. I have no party affiliation, but I have real doubts that Congress will make any real headway on sound governance anytime soon. I look at this in terms of thermodynamic. To overcome the chaos in congress (high Entropy), will take a lot on effort (Entropy) to reduce chaos to a level that congress arrives at stable conditions. I really don't see there is enough good will (Free Energy) in congress to overcome the chaos. It seems that over the past two decades or more a major issue occurs which causes enough of a disruption/disturbance that congress tries to work together. Yet it is only short term. Not sure if the U.S. is at the beginning of the end, however I don't know what the end really means. Yet life for the average American will not feel stable moving forward. Tough times ahead no matter what happens in November.

Ed argued about the trust funds:

Problem is very unfortunate because it drives bad decisions, like what the RSC wants to do with SS and Medicare and Trump will follow along, if elected, in order not to see the deficit balloon on his watch…. By the way, it's not only the OASI trust fund that is running out of money. It's also Medicare Part A and the highway trust fund, among others.

Jim wrote:

I have followed your series on the national debt with interest (no pun intended)….However, it is Congress, and not the President, that authorizes spending. Obviously, the President can have an agenda, and holds veto power, but isn't Congress the source of the enormous growth in debt?

Kotok answers:

Jim, I agree. Look at the list of congressional miscreants in both parties. Part 4 names the names.

Harry wrote:

David and Bruce, I share your concern over the debt.

One comment re Bruce's chart. It would be more insightful if the $ of debt increase for each president was adjusted for some combination of:

1. The difference in CPI. I suspect the % due to the "20th Century Four" would be cut by a factor of 3 or 4. Still huge, but a more objective perspective. Interestingly, the CPI increase has been about 18X since 1980 but 30X since 1913. In between there was a lot of deflation.
2. The annual GDP, perhaps in constant $, if the CPI adjustment is also made.

(See Bruce's answer above.)

"Tip" Parker wrote:

Consider the possibility that the government's debt is not what it seems. As a first step, answer these four questions: 1. How can the government add more dollars to the economy that may lead to inflation when it runs deficits if it just borrows dollars from the economy and pays them back? 2. Would that not be like raising the level of water in a bucket by dipping some out and pouring it back without adding more? 3. Does not the fact that government deficits may be inflationary show that they add more dollars to the economy than the government takes out with taxes and seems to borrow by selling securities? 4. And if the government does add more dollars to the economy when it runs deficits, does it actually borrow them at all? For me, those questions show that the whole mantra about the government's deficits and debt is too deeply flawed to be taken seriously.

I will be happy to reconsider if you or anyone can show why that line reasoning is flawed.

Dr. Frank sent this:

A couple of those bar graph lines make me wonder if the R's in the poll were mostly older and with larger bank accounts than the D's. For example, worry about the cost of health care is a lot lower in people on Medicare. If D's interviewed were younger, their worries might be more substantive. In like fashion, if you are old and will die before the effects of global warming wipe out life on earth, you are less worried about it. Maybe. So, the age ranges of people answering the questionnaire would be interesting.

Deficits & Lame Ducks Series

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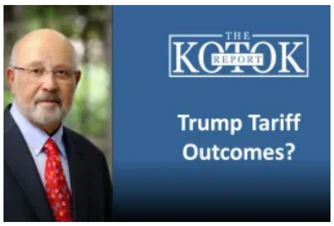
Tariffs — Damn The Torpedoes! (Https://Kotokreport.Com/Tariffs-Damn-The-Torpedoes/)

On April 4, Jack Farley and I discussed the Trump 2.0 tariffs in depth, and I held nothing back.



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Trump Tariff Outcome? (Https://Kotokreport.Com/Trump-Tariff-Outcome/)

Does the Trump bear market bring the S&P 500 Index down to 4000? Does it result in a drop of S&P earnings (2025–2026) down to the $200–$220 range?

(https://kotokreport.com/dt-2-0-tariffs/)

DT 2.0 Tariffs (Https://Kotokreport.Com/Dt-2-0-Tariffs/)

I asked expert David Blond why Trump and Co. selected a bizarre and discredited approach to create its trade deficit formula.

« Previous   Next » (Https://Kotokreport.Com/More-On-Debt-Deficits/2/)

David would love to hear from you. Please Feel free to reach out and send an email.

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david@kotokreport.com

(https://x.com/DavidKotokGIC)

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