

TRANSITIONS

ARE YOU PAYING FOR THIS GOVERNMENT SPENDING?

Since March of last year, we have seen an unfathomable amount of spending in both the Trump and Biden Administrations. During this short time, there have been 3 separate Covid-19 relief spending bills that collectively total \$4.8 trillion. In the last bill, much of the spending will not be spent addressing Covid-19, and parts will not be spent until we are past the Pandemic.

Next, the White House plans to spend another \$2.3 trillion on climate change and an infrastructure program. This includes \$157 billion of traditional infrastructure work rebuilding roads, highways, bridges, airports, ports, and waterways. The remainder of the spending targets new definitions of infrastructure. Now we understand the White House will announce another \$1 trillion spending bill for social benefits.

These bills will total a staggering \$8.1 trillion in additional spending. How will we pay for all this spending? Having large companies pay more taxes will generate some revenue. Taxing the way wealth is created through higher capital gains taxes, inheritance taxes, and income taxes certainly are good political sound bites, but there are not enough affluent people around to come up with trillions in new taxes. Without broad tax increases for everyone, substantial borrowing seems inevitable. Thus far, the true cost of borrowing has continually been hidden by issuing short term bonds with low interest rates. However, these obligations really are long term, and should be paid for by issuing very long-term bonds issued during this period of low interest rates.

This new spending will likely trigger modest inflation, which is seen in higher bond yields. Since this spending began in March 2020, yields on the 10-year U.S. Treasury bond moved substantially higher, from 0.5% to near 1.5%. Higher interest rates, which is correlated to \$8,100,000,000,000 in additional spending, will impact all of us through



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the rising cost of debt service on the Government bonds issued to pay for this spending spree.

Although all of us bear the cost of higher Government debt, our concern should be on the next generation. When the higher cost of debt service appears in our Government budget, the politicians will either divert spending away from established social programs to pay for debt service, or they will increase taxes. The next generation will bear the brunt of higher taxes just as they enter their high earning years. All we are doing is passing the costs of debt service along to the next generation.

It is timely for all of us to contemplate whether the magnitude of \$8.1 trillion of government spending will really benefit our country over time. What if we were able to create similar benefits by spending less money? As we strive to make the United States a better place, clearly our next generations would benefit from demonstrating some fiscal responsibility. This may be the one time where writing to Congress may resonate, as the future depends on our voices.



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