

## **Zanetti Monday Missive 2021.08.02**

*“I don't know if there are men on the moon, but if there are, they must be using the earth as their lunatic asylum.”* George Bernard Shaw

### ***Scenario 1---Sam.***

Meet Sam. Sam is a typical American--- with one exception. Sam really likes to spend money.

Sam earns \$10,000 each month. Like most Americans, he writes checks to pay his bills. But every month Sam overspends by an additional \$10,000.

You would think Sam would be overdrawn at the bank. But he is not.

The good news for Sam is this. He has a great relationship with his banker. Every year his banker says, ***“Sam, I know you are going to overspend, but I am willing to loan you \$10,000 every month so you can live the life you want to live. I do, however, insist on three things.***

***First, you'll pay me interest on the amount I loan.***

***Next, you will not exceed the \$10,000/per month extra I am loaning you.***

***And, finally, I can use your house, car, and other possessions as collateral---just in case you can't pay me back.***

Every year, Sam would think about these terms...and agree.

Then one year, disaster hit. Sam got sick. He was forced to quarantine. He couldn't earn the money he was used to. His medical bills soared. He asked his banker for emergency help.

Sam said he would only need help for a year. Then, he would be so strong, he would certainly pay his bills.

His banker agreed. But only for one year.

### ***Scenario 2—Uncle Sam.***

Meet Uncle Sam. Uncle Sam receives billions in tax revenues every month. He also writes checks every month to pay his bills. He pays his federal employees, the military, social security, Medicare, welfare subsidies, roads, bridges, and so on.

Uncle Sam's checkbook is called the ***Treasury General Account (TGA for short)***. Before 2008 (when the housing market crashed) the TGA checkbook would typically hold two weeks' worth of additional cash (cushion) to pay its bills. That totaled about \$4 billion.

Today, that two-week "cushion" stands at \$300 billion.

Let that sink in.

OK, let's move on.

The good news for Uncle Sam is this. Just like our Sam fellow in Scenario 1, Uncle Sam has bankers. For years, China was a banker. So was Saudi Arabia. Sometimes hedge funds and everyday Americans were the bankers.

Uncle Sam would pay interest on the loans. And the collateral for those bankers was the wealth of the nation and its taxpayers.

But over time, those bankers began to question America's resolve to pay back its loans. Thus, they slowed (or outright stopped) lending.

Today Uncle Sugar's primary banker is the Federal Reserve (the Fed). And fortunately for our government, the Fed can print money.

Still, there are limits.

During normal times, it worked like this. Congress, the Treasury, and the Fed would get together and agree on how much Uncle Sam could overspend each year. That annual limit was called the debt ceiling. And that limit used to be billions...then tens of billions....then hundreds of billions. Now it is trillions.

Then disaster hit. A "novel corona virus" spread and Uncle Sam decided to quarantine. His medical bills soared. Uncle Sam spent with abandon. Billion dollar "overdrafts" suddenly became trillion dollar "overdrafts".

The overdrafts were only supposed to go on for a year...until the crisis passed. Then, when all was back to normal, the debts would be repaid.

But now that year was up.

### ***Scenario 3—Real Life Today.***

It was a rough summer for the democrats in Congress and the Biden Administration. There was no resolution on the budget. And the debt ceiling was not raised. That was supposed to happen by August 1<sup>st</sup>.... yesterday.

Uh oh.

But all is not lost. There is still a "cushion" in the **Treasury General Account (TGA)** checkbook. That cushion should see us through until the end of August.

Then, come September, the Treasury can do what it has done before and “borrow” from the Federal Government’s pension funds. Yes, the government can borrow from social security, military retirement, and government employee retirement funds to keep the checks flowing.

And, by the way, if IBM or Amazon were to invade employee retirement plans to pay the company’s bills, those CEOs would find their hands zip tied behind their backs. And they would be pushed into the back seat of a squad car.

But I digress.

The cushion (plus the pension fund borrowing) should get us to October...maybe November.

Anyway, if you wonder why last week Treasury Secretary, Janet Yellin, was shouting from the rooftops that a budget deal needed to be struck, you now know why. Her checkbook is running down.

Therefore, what can you expect come September? The answer is more political grandstanding as politicians use the debt ceiling debate to try to push money to their desired projects.

There will be threats of government shutdowns. And the squawking on CNN and Fox will be epic. But it will all be theater. The debt ceiling will be raised by multiple trillions and the money will flow.

And no one will talk seriously about what this will do to our currency.

So please do not believe inflation is transitory. The checkbook won’t allow it.

Signed, Your The-Fine-To-Enter-Congress-Without-A-Mask-Is-  
\$500.-The-Fine-To-Cross-The-Border-Without-A-Mask-Is-\$0  
Financial Advisor,

Greg

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