

Hello Everyone,

***“We must not let our rulers load us with perpetual debt.”*** Thomas Jefferson

Where will the US Government get the \$3.86 trillion it expects in 2021? Below are government estimates:

- **Income taxes**            **\$1.93 trillion**   **50% of total**
- **Payroll taxes**           **\$1.38 trillion**   **36% of total**
- **Corporate taxes**        **\$286 billion**    **7% of total**
- **Other**                      **\$264 billion**    **7% of total**

So, what? You may ask.

If you ever wonder why the Fed seems terrified at the prospect of rising interest rates, imagine this. What if we had to pay 6% interest on the \$30 trillion of debt we now owe?

- **\$30 trillion X .06 = \$1.8 trillion.**

So, yes. If interest rates returned to “normal”, almost every dime of income tax revenue would be needed *just to pay the interest (!)* on the debt. That doesn’t leave much left for Social Security, Medicare, welfare programs, the military, roads, bridges, etc.

Thus, we print. And prices rise.

Today’s missive links China, the Suez, and inflation. I hope it broadens your perspective on how price increases can manifest.

Signed, Your If-We-Made-More-Products-Domestically-The-Suez-Fiasco-Would-Not-Have Mattered-So-Much Financial Advisor,

Greg

## **KKOB 2021.04.05 China and the Great Inflation**

**Brandon:** So, Greg, over the past few months you have been laser- focused on inflation. So, you obviously think it’s a big deal. Otherwise, I don’t think you’d spend so much time on it.

**Greg:** You’re right. I’m trying to drill this point home, because sea-changes like this roll around only about once in a generation. And I believe we are there. Brandon, you likely won’t remember

this, but the last great bout of American inflation was in the 1970's.

Back then, prices ripped higher ---seemingly by the day. Many people thought America was finished. Japan was going to rule the world. After all, they were buying Hawaii, Pebble Beach, and Rockefeller Center.

Well, we all know what happened. President Reagan and Fed Chair, Paul Volker, tamed inflation. Economically, America was reborn. And since then, we have had an awful lot of deflation.

For example, Brandon do you remember when flat screen TVs were \$5000? Now they're (what?) \$300 at Wal-Mart? Or, think about clothes, computers & cell phones. Prices on those things have either fallen (or remained stable) for years.

**Brandon:** Well sure. But wasn't most of that driven by China making stuff and sending it over here? I mean, when you can pay people a few dollars a day, it's no wonder prices fall.

**Greg:** Right. But things are changing. Wages have been rising in China for a while now. Their people want the cool stuff we have. The problem is...this is coming just as natural resource prices are pushing higher.

Just listen to this recent quote from the **Bangkok Post**. *"Rising raw-materials costs and unrelenting supply-chain constraints are prompting many Chinese exporters to increase prices for the goods they sell abroad."*

Brandon let's break that sentence down.

First, the issue of raw material costs. Globally, prices for chemicals, metals, lumber, and rare earth minerals are soaring.

And if you are a manufacturer, who needs those things to make your product, you typically hike prices to cover the costs.

And if you are wondering why those costs are rising----it's partly because everyone (!) is printing money like crazy. The Asians and Europeans are no better than we are. Trillions are flying off the digital-printing presses everywhere.

Thus, companies that make "things that can't be printed" are basically saying, *"If you governments are going to devalue your currencies, we want more of that funny money in exchange for our real products."*

Brandon, one Chinese businessman put it like this, *"I've never seen anything like this. I've never seen shipping costs like this before----while steel and aluminum prices (are shooting) through the roof."*

**Brandon:** So, the guy mentioned shipping costs, too. I'll bet the Suez Canal mess didn't help keep prices in check either.

**Greg:** Great point. And, while the Suez is now cleared, the fact is--even before that fiasco---shipping costs had risen 90% since June.

What Suez did show, however, was there are a few strategic choke points in world trade. Block the Suez Canal, the Panama Canal, and the Straits of Hormuz, (where the oil moves) and world trade goes to stall speed pretty fast.

And Brandon, let's not forget Covid. Covid led to all kinds of breaks in the world's supply chains. First businesses were open, then closed, then open again. People worked. Then went on assistance. Then got offered work again. But then many

remained on assistance. No wonder the gears are grinding in world trade.

**Brandon:** And supply shortages mean we have to pay more for what supplies are left. So, the inflation thing you keep talking about is really coming at us from multiple directions. Not just the printing of dollars.

**Greg:** Exactly. And Brandon, the result is----- we haven't seen prices moving up like this in 40+ years. And I don't see this trend reversing anytime soon.... even if we go back to so-called normal. Which I doubt anyway.

So, we must adjust our thinking. Not just about investing, but how we are going to prioritize our spending, our tax policies, our business practices, etc., etc., etc.

**Brandon:** Sounds to me like I should buy my new patio furniture before prices go up. How do people reach you?

**Greg:** I wouldn't discourage that. My number is 250-3754. Or go to my website at [zanttifinancial.com](http://zanttifinancial.com).

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