

Here’s Something to “Fitch” About

What would you do if you won the Mega Millions? It’s now up to a record \$1.55 billion! We would start a not-for-profit to educate people not to play the lottery. Why? Your odds of winning are 1 in 302.6 million...you are 70 times more likely to die in a shark attack than win this lottery.

But it’s even worse than that because only 50% of the proceeds of ticket sales go into the prize pool. Half of your “investment” is gone the second you buy a ticket. The other half is gone when they do the drawing, unless lightning strikes, which is unfair to lightning because you are more likely to get hit by real lightning. In other words, it’s a total waste of money.

But people still play, and dream. We think about this because government sponsors this crazy lottery at the same time it shirks its own fiduciary responsibilities. Things have become so bad that last week, Fitch (a bond rating firm) downgraded US Treasury debt from AAA to AA+.

Fitch said they downgraded the US because of massive deficits, “fiscal deterioration” and “erosion of governance.” Obviously, this downgrade, like the one by Standard & Poor’s in 2011 created political heat. We hope it creates action.

Following the June 2, 2023 vote to suspend the debt ceiling for two years, the Treasury borrowed \$1.1 trillion in just two months, pushing total debt from \$31.5 trillion to \$32.6 trillion.

Why has it borrowed so much? Because tax revenue is falling rapidly at the same time spending is soaring. During the first nine months of Fiscal Year 2023 (through June) revenue is down 11.0% versus the same period in FY2022, while spending is up 10.5%. The deficit through June is \$1.39 trillion, already above the 2022 full year deficit of \$1.37 trillion. With July, August and September still to come, we expect the deficit in FY2023 will be about \$1.8 trillion. It’d be much higher than \$2 trillion, but it will be held down artificially because the Supreme Court struck down President Biden’s illegal college loan relief plan.

Apparently, government has no desire to act responsibly. During COVID, lockdowns – which we argued fiercely against – were forced on businesses and workers, and compensating them for the economic damage that ensued was necessary. But

what many don’t realize is that the money we borrowed from future generations and then used to pay workers was taxed. The government artificially increased its revenue by taxing the very money it borrowed and handed out. That’s why revenues are collapsing right now, the taxable handouts are over.

On the other side of the ledger, once government starts spending more, it rarely gives up the higher budgets. Emergency spending becomes permanent spending. It did so after the 2008/09 financial panic and it seems to be happening again today. So, while the White House claimed victory in bringing the deficit down last year, this year it is moving in reverse.

The Federal Government is spending 25% of GDP, and never in history (no matter what tax rates existed) has the budget been balanced when spending is above 19.5% of GDP. Why? Because the bigger the government gets, the harder it is to grow, which reduces tax receipts. With spending so high, budget deficits have become permanent. And this will only get worse as entitlements for seniors (Social Security and Medicare) eat more and more of our GDP in the years ahead.

Which brings us to an important point. Like playing the lottery, politicians know our fiscal path is unsustainable, but still spend. And voters support them anyway. Yes, you paid into entitlement programs, but your taxes were used to pay the prior generation of retirees.

Meanwhile, these programs distort our decisions. Why carefully save resources for retirement when the government has promised to take care of us? People spend more and save less; they take flyers on the lottery. Economic growth is reduced from what it could be, and living standards grow more slowly. It’s a vicious circle and the Fitch ratings cut is appropriate.

Both parties are responsible. And to fix it, both parties need to be involved. We can “Fitch” about “governance” all we want, but the politicians who use every tool they can to reduce spending are at least trying to fix things. Someone may get lucky and win the lottery, but fixing our budget fiasco will take more than luck. Nothing should be off the table. It’s time to cut spending, before it’s too late.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-7 / 2:00 pm	Consumer Credit – Jun	\$13.1 Bil	\$15.0 Bil		\$7.2 Bil
8-8 / 7:30 am	Int’l Trade Balance – Jun	-\$65.0 Bil	-\$65.7 Bil		-\$69.0 Bil
8-10 / 7:30 am	Initial Claims – Aug 5	230K	228K		227K
7:30 am	CPI – Jul	+0.2%	+0.3%		+0.2%
7:30 am	“Core” CPI – Jul	+0.2%	+0.4%		+0.2%
8-11 / 7:30 am	PPI – Jul	+0.2%	+0.1%		+0.1%
7:30 am	“Core” PPI – Jul	+0.2%	+0.1%		+0.1%
9:00 am	U. Mich Consumer Sentiment- Aug	71.3	72.0		71.6