

Ignore the Fire Alarms

Provided by: Tri Pillar Investments, LLC

It's illegal to yell fire in a crowded theater when there is no fire. It's called reckless endangerment. It should also be illegal to yell "default" during the current debate about the debt ceiling. America will not default on its debt. No way. No how. The Treasury secretary must pay the interest on U.S. debt. It's his number one job. And, he has more than enough revenue to do it — even if the debt ceiling is never raised again in our lifetimes.

Rather than a danger to the economy or to investors, the debt ceiling is the one thing that is forcing a debate on the size and scope of government. When government can use other people's money to buy votes, the only thing that can stop it is a limit on spending. And if the United States Senate will not pass Cut, Cap and Balance, then the House of Representatives is perfectly justified in using the debt ceiling to force spending cuts.

Just looking at the government's actions over the past few years, it appears that a strategy of "gorge the beast" is being employed. What's that, you ask? Well, it's "spend and borrow so much that the U.S. is forced to raise tax rates to pay for its swollen size."

What most people don't realize is that the U.S. has gorged so much (boosting spending from roughly 18% of GDP in 2000 to 24% of GDP today), that the only way to pay for it is to tax the middle class. The president keeps blaming "millionaires and billionaires," but the top 25% of income earners already pay 86% of total taxes. And even if we raised the 35% top tax rate to 100% (meaning we confiscate all income in that top tax bracket), the U.S. would only collect about \$365 billion. This would run the government for only about five weeks and would not solve our debt issues.

The money is in the middle. And the only way our politicians can get it is to follow Europe's lead and institute a national sales tax or Value-Added Tax (VAT). This is the elephant in the room that is never talked about. Those who are using the debt ceiling in an attempt to cut spending are actually saving the middle class from tax hikes — not the millionaires and billionaires.

Fear and politics are joined at the hip, because fear motivates. And politicians at all levels have used the economy to generate fear for a long time. But, since the Great Depression they have turned it into an art form. Using Keynesian theory, they have convinced many that government spending actually helps the economy. But if this were true — if it were that easy — there would not be one poor person in the entire world, Greece would not be bankrupt and Europe would be wealthier than the U.S.

The truth is that the bigger the government (as a share of GDP), the fewer jobs the economy creates. This is why every country in the history of the world that has tried to spend its way to prosperity or some kind of third-way, economic nirvana, has gone bankrupt or been forced by markets to massively cut back the size of government.

The Tea Party (which so many mainstream politicians love to hate) is trying to force the U.S. to change before it's too late — before the U.S. hits the financial wall. They appear to be American patriots in the true sense of the word. They are saying: "No more kicking the can down the road."

Late to the debate are the ratings agencies. They stayed mum when spending was going through the roof but now are threatening to lower the U.S.'s AAA bond rating. In other words, they don't like having a

debate over the size and scope of government spending. Their actions and words suggest that they like the status quo. Moody's even said it thought the U.S. should [get rid of the debt ceiling altogether](#).

But this would be crazy. Sure, it's possible to turn the ship of state around without it, but the debt ceiling itself is the only thing forcing adult behavior at the current juncture. If this debate shrinks the size of government, more people will find jobs, the economy will perform better and the stock market will rise.

The bottom line is that the U.S. is nowhere near default. In fact, it can still borrow for 10 years at 3% or less. So, ignore the fire alarms and rejoice that the debt ceiling exists. The U.S. is not going to default and the end-of-the-world arguments are simply an attempt to force a compromise that does not truly fix the financial problems the U.S. has created with its past bad behavior.