

# Porky the Bailout Bill

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By Michael Pento

Buried in the bailout bill signed into law on Friday was a plethora of tax incentives and increases in government intrusion into our privacy. Following in the spirit of the Patriot Act, this new law now allows the IRS to run undercover operations where they can pose as accountants and offer illicit advice to entrap clients. Additionally, it provides in total over \$100 billion in tax exemptions for makers of wooden arrowheads, owners of stock car racetracks, Virgin Island rum runners and others.

Of course, lost in all this nonsense is one forgotten word: DEBT. This administration's unprecedented, eight-year spending spree has culminated with passage of this \$810 billion bailout package. George W. Bush's tenure--which featured massive increases in government spending--has led to the national debt ceiling being raised seven (7) times! In fact, the limit on the nation's debt has now been authorized to reach \$11.315 trillion.

Under Mr. Bush, the debt has increased by \$5.7 trillion or 75%, to reach a record of over \$10 trillion. Currently, about ten cents on every tax dollar goes to paying just the interest on the debt, and that number is projected to skyrocket. According to the Congressional Budget Office (CBO), interest on the debt alone will grow to 12.4% of our entire GDP by 2050. With annual deficits ballooning to nearly \$½ trillion, that estimate might actually be much too optimistic! Even more frightening is the estimate that by the same year, the nation's total debt will reach 246% of GDP. Putting things into perspective: that number is now only about 40%.

One can only wonder why the government would pass a bill that would dramatically increase the annual deficits against our nation's backdrop of ever-increasing obligations. Whom do they think will pay for it all? The U.S. consumer doesn't have the savings. Surely the Japanese and Chinese who currently own about 42% of foreign Treasury holdings will probably not; we simply cannot count on the continuation of foreigners to fund our spending.

As I have been warning investors for years, the increasing need for the Department of Treasury to greatly expand its debt issuance will bring about two pernicious consequences. The first one is a falling price accompanied by sharply rising yields. The second is a falling US dollar--which may not be empirically observed today on the foreign exchange market but will become blatantly obvious when compared to hard assets. This process feeds on itself as foreign selling begets falling

prices which begets further selling. Treasury yields will ultimately soar in the above scenario, even if the Fed is the primary purchaser of the debt.

Of course, politicians and market pundits will claim that deficits don't matter and there is nothing to worry about. Remember, these are the same people who claimed that the current crisis was only a subprime problem and was well contained. Astute investors should prepare now for the coming economic cycle which will be characterized by much higher Treasury yields, runaway inflation, higher taxes and a significant increase in unemployment.

As can be plainly seen already, the "bailout" bill was nothing of the sort.