
Inflation, Debt, Debt, Interest Rates, Taxes: They Can't All Be Low

By Kerry Pechter *Wed, Oct 20, 2021*

If you read the papers, watch the news, or scroll through sites, you'd get the impression that all four horsemen of the financial apocalypse will attack us at once. That's unlikely.



My “foreign car” mechanic used to tell me, when I asked how long it would take to repair my Fiat: “You can have it fast, cheap or good. Pick two.” He liked using that phrase, as if it embodied some eternal truth.

It did, in a way. Right now, many Americans worry about the possibility of higher interest rates, higher inflation, higher taxes and higher federal debt. I would bet you the price of a 30-weight oil change that we’re not going to get all four.

If we have higher interest rates and/or higher taxes, we probably won’t have high inflation. Allowing rates to rise would quell inflation. Taxing the wealthy would also be anti-inflationary, assuming they didn’t find a way to avoid it.

(How can you tell if you are wealthy enough to afford higher taxes? If a \$1,000 car repair bill doesn’t spoil your afternoon, you’re wealthy.)

We can indulge in low taxes and low interest rates, but we will only increase the national debt by doing so. The least painful solution is to raise taxes. There’s no easy way to do it. We can restore higher marginal rates, raise the limit on salary subject to payroll taxes, and find an acceptable way to tax extreme wealth.

Personally, I would love to see a 3% 10-year Treasury in a more balanced equity/fixed income world. But a rate hike would put people out of work, and there are few things worse for the poorest 75% of America than layoffs. And, of course, higher rates would cause an instant mark-down in the value of assets. In 2018, when 10-year T rates touched 3% for the first time in years, Wall Street threw a tantrum, the Fed stopped tightening.

Raising taxes, on the other hand, won’t kill anybody. It won’t cause unemployment. It won’t reduce the value of existing assets. It won’t even impair the banks’ ability to lend, since government spending replaces what taxes remove from bank reserves.

I don't like taxes any more than anyone else. Four times a year, I write large checks to the federal government. That's one of the less pleasurable aspects of self-employment. But I've made my peace with the tax man. After a deep dive into economic history, I now understand that taxes are the cost of money.

Taxes, inflation, debt, interest rates. Like my mechanic said, Take your pick. They can't all be low.

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