



## **Title: Judging Fiscal Policy (Episode 009)**

**0:00:18 Andy:** Hello, Andy Tanner here, Welcome to The Cash Flow Academy Show, welcome, welcome, welcome and I congratulate you for tuning in and investing little time in cash flow education, that's what we do here. The goal is to make it fun, to keep this stuff as simple as it possibly can and have topics that have real meaning to you that will affect your life.

In our last show, we talked a little bit about something called monetary policy which is really, in The United States, the Federal Reserve, in Europe, it's the European Central Bank, in Japan, it's the Central Bank of Japan and so forth. And those are guys that control currency, money, monetary, right? Makes sense? Money, monetary, monetary policy, money policy, currency, policy.

And another part of that that's very much related is something called fiscal policy, you've heard of the fiscal year, right? Or fiscal responsibility. And really fiscal policy happens a lot of levels, it can happen in your home level, are you fiscally responsible? In other words, it's how you're managing the money, it's not so much the creation of it but how you're managing it and how you're dealing with wealth and debt and expenses. And this happens nation, it happens on the national scale, I call that sovereign fiscal policy, it can happen at corporate fiscal policy which is what we do with stocks and each of us have a personal fiscal policy, how do you run the balance sheet and income statement of your household, that's your fiscal policy. And that's where the word politics comes from, it's just the rules you live by, what are your policies, what are you going to do.

And it's important to know all 3 because the most important one I think above all is personal, what do you care what the fiscal policy of your country does as long as your household is in order? I mean, if the US debt gets out of control, well that's the government's problem, that's not your problem unless it starts to affect you, unless it starts to creep in to you. And as an investor, you're certainly gonna care about corporate fiscal policies, go to Hewlett Packard and look at their balance sheet and income statement, are they solvent? Are they fiscally responsible with what they do? That's why they have to report that stuff to SCC as we can see it.

So what was interesting is to look back at fiscal policy and that's the topic of course of this particular show is The Cash Flow Academy is about financial wellbeing, it fits well we hope within the Rich Dad mission of helping the, elevating the financial wellbeing of humanity with opportunities for education, to learn vocabulary, learn jargon, to learn these things. And in the show we did on monetary policy, I said it's conspicuously absent from school and at least in my country and I believe in many others and I think fiscal policy as well is not something most people have a handle on. A lot of people don't know the difference for example between a debt



and a deficit and the difference between a deficit, a debt and a promise or a liability, an on balance sheet liability, an off balance sheet liability, this is all jargon that people might scratch their head on or people might think they understand but don't understand and so on and so forth.

So we're gonna speak a little bit about fiscal policy, why do we care or how does this affect me, what do I care about this as an investor and this is a big, big deal. As I look at on to the horizon of the financial ocean so to speak, sometimes I'll see beautiful sunsets and sunrises, sometimes I'll see beautiful calm waters, other times I'll see storm clouds and I see a lot right now. And one of those storm clouds that I see often at distance that is going to affect my decision making, your decision making and the quality of our life is the, no matter what country you live in, is the financial wellbeing or the fiscal irresponsibility of The United States and here's why. When you're big and you're powerful, with great power comes great responsibility and The United States is a very powerful economic engine. They can generate a lot of cash, they can generate a lot of value for goods and services around the world, their markets are the largest, it's the largest economy in the world and when they fail, there are shockwaves or when they get sick or when they crash, when they struggle, there are shockwaves that are felt to all of my neighbors around the world wherever you might be, whatever country you live in, it's unavoidable, the world is too small for a big part of it not to impact to the parts of it and this goes for Japan, this goes for the European Union, this goes for China and all of major economies around the world, it's a big deal.

So if you look at a country like Greece, Greece has policies and the policies are basically you got to figure out this, how much income are you gonna take on from the people of your country and how much are you gonna spend, how much income are you gonna bring in, how much are you gonna spend? So for example, let's say you wanna spend some money on education, that money has to come from somewhere and it comes from taxes. So the way I've taught my 2 sons and they love to give speeches on this and whenever I travel on a mass to give a speaking engagement, I tend to bring my family with me and make it a family educational affair and I'll bring my boys up on stage and they give about a 5 minute speech each. And my 7 year old, he was doing this since he was 5, my 7 year old speaks on fiscal policy and my 9 year old speaks on monetary policy and so I'll bring my son up on stage, I'll say, what do you wanna talk about? He'll say fiscal policy. I'll go, boil it down in a nutshell what it is? He goes taxes and spending, it's taxes and spending, that's the rules, that's the policy. Are you gonna raise taxes, who are you gonna raise taxes on, are you gonna lower taxes and get breaks, who are gonna give tax breaks to? There's lots of political fire, you're gonna make it easy for the rich and tax the poor, oh no, you're gonna broaden the base and all these different language we hear, we're gonna tax everybody more to broaden the base, no, we're gonna tax the most wealthy, well, there's not enough of this, fight goes on and the debate goes on. It's not a political podcast, it's an



economic one, it's a cash flow one so whatever they decide, it's fine with me, whatever they decide but I wanna know what those policies are because if I don't know the rules of the taxes like Tom Wheelwright does, I'm gonna be in trouble, if don't have an advisor like Tom Wheelwright, I'm gonna be in trouble coz I might be paying more taxes than I needed to do.

Spending is a big deal, they got to figure out what, and spending is a tough thing because you can get votes with spending, right? Hey, vote for me, I'll give you this and that and the other. And one of the hard things is it's easy to spend other peoples' money and it's easy to make promises as a politician and it's very, very easy to go in to debt when it's not your money and when you don't have to earn it, you can simply tax people out of it, you don't have to earn any of that money, you just declare it.

So Greece is instructive and Greece had a fiscal policy of spending a lot of money and also making a lot of promises and it's the promises that concern me the most, these promises are big, big deal and I really would like to speak about this in terms of fiscal policy. How much money have we promised to spend? A promise made is a debt unpaid, a promise made is a debt unpaid, let me say that one more time, a promise made is a debt unpaid. Even if you haven't borrowed, you have a debt. Perhaps my son wants to go to college, he says, dad, I wanna go to college, the goodness in my heart to get nominated for being dad of the year, I say, well son, if you get the grades to get in then I'll pay for your college, I feel that should be a human right and so everyone deserves a college education son and because you deserve this, because you're such a wonderful bright light, no son should ever be denied the greatest opportunities, none of us should ever be denied, we shall all be equal so I'm gonna pay for your college son, I'm gonna pay for yours and your brother's so it's fair and you don't have to worry about college, I promise I'll pay for it. A promise made now is a debt unpaid, I owe my son 500,000 dollars on average because by the time he gets to college age, that's about what it's gonna cost. So if I have to make it for both of them, now I've just gone in to debt a million dollars not because I borrowed a million dollars but a promise made is a debt unpaid.

Well if you look at Greece, they've made a lot of promises over the years and when it comes time to keep those promises, people tend to say I want you to pay up. When my son gets college age and he shows me those good grades, he says, dad, college tuition, housing, books, the whole thing is about a 500 grand, pay up Bob, you made a promise. I say, I didn't borrow the money from you, I don't owe you anything, he says, oh yes, promise made is a debt unpaid.

And so when you don't have the money to send your kids to college, what do you do? You rob Peter to pay Paul, that's called a Ponzi scheme by the way. Ponzi scheme, made famous by Mr. Ponzi, is when you borrow money or make new promises to raise money to fulfill your old



promises that you can't and it creates a vicious cycle and that's really what a Ponzi scheme is about, it's when you say, look, I made this promise, I can't keep it so I'll make new promises, newer obligations to raise money to pay for my old obligations. And so I'll go to the bank and I'll make a new obligation, I'll borrow. Now I'm borrowing money, now I am going in to debt, right? And I'm going in to what we call unbalance sheet debt, debt that the creditors can see money that I do owe because of borrowing to deal with the promises, the debts that I've made from myself by promising.

So you can borrow yourself in to debt and you can promise yourself in to debt and what Greece did is they promised themselves in to debt and to keep those promises, they're having to borrow themselves in to debt to take care of those promises. Well, the promise when you borrow money, there's a schedule to pay that off too so what do you do? You raise taxes, you get bail outs from the European Union, you restructure terms, you become a really a poor global citizen and saying, hey, it's not fair, you guys are loan sharks and you wanna charge us all these interests and we need to renegotiate at lower rates so we can survive or we won't give anything and it just turns in to a mess. And Greece, you haven't heard the end of it, it kinda comes and goes, they'll renegotiate something then they'll, look, they're not gonna make it, okay? They're just not. They don't have the culture, they don't have the politics, they might be in my opinion to what's called a point of no return because their GDP is so low unless they just create some incredible entrepreneurial spirit over there to create more value for the world other than, what they call them? Giro sandwiches? Is it hero or giro? No offense my friends in Greece, you got great tourism but you can only put so many people on the buses over there to tour the ruins.

So what are they gonna do, are they gonna develop more technology or agriculture, what are they gonna do to get value to the world to build their GDP, why? The gross domestic products is what you produce, it's the things you sell and that's where taxes come from, you make some money, the government takes a chunk, right? You give some value, you make some money, the government takes a chunk. And the government, they don't have a large enough GDP for the government to sufficiently tax them to make it so I think they're doomed, I think they're kicking the can down the road, I think they're kicking it up a hill is what they're doing, it's gonna, they're not kicking the can down the road, they're rolling a snowball up the hill, the more they borrow, the more they got to pay back and it gets bigger and bigger as they roll the snowball up the hill and pretty soon just the weight and the gravity will roll back over. Well, that's Greece, they're too big to fail.

Well the US is too big to bail and if you get on the internet, there's something called the US debt clock and the US debt clock keeps track of the deficit and the budget and the taxation and the liabilities and the promises and it's astounding. I don't have it in front of me at this moment



but I'd imagine we're bringing in maybe 3 trillion dollars in taxes or so and counting and they're gonna keep raising taxes and they're gonna raise taxes on the rich and the poor and the middle class and everybody, they got to broaden the base because there's not enough rich people. The politicians can out-promise and spend rich peoples' money faster than even rich people can make it and so yeah, you should tax the rich, we're gonna have to but you're gonna have to tax everyone else too, it's just too big for the upper 1% to take care of. So anyway, that's that. So they're gonna tax us.

The other thing on there is to spending. So for bringing in let's say 3 trillion a year, we're probably spending 3.6 and counting so you got about 600 billion dollar deficit each year, shortfall. Now, it's not a debt, that's a deficit, it's different. Deficits deal with the income statement, right? Income and expenses. Debts deal with the balance sheet, the assets and liabilities. And so they have a massive deficit. Now, this deficit hit its high around the first year, either last year of president Bush and the first year of Obama or somewhere around in there and it was like the 1.6 trillion dollars and they had put together a congress in the US to put together a fiscal emergency package and it was like a time bomb, they put a time on it so look, we're kinda agree to something, this will go in to effect and they call it the fiscal cliff. And so they had to cut a bunch of spending, they had to raise a bunch of taxes which they did and it dropped the deficit, I mean, it raised a trillion dollars, it dropped the deficit down to about 600 billion, got down to about 450 billion at slope point. And so the deficit was shrinking on the debt clock and then it hit a bomb and now the deficit is expanding, in other words, the policies, the fiscal policies of spending and taxation now specially particularly the spending is growing again very, very quickly and we're on track to be back at to these new levels of taxation and even newer levels of spending, we're gonna be back at over that trillion dollar deficit soon. And this is a ways off, it's gonna take a ways to happen to see, this is how you see the future, look out in to the storm clouds and you see the future, you see them rolling in and this is gonna be a big one. The fiscal irresponsibility of the United States is big one.

One of my favorite guys that talks on this is man names David Walker, he was the former controller general of The United States, that's the guy who runs, he runs the GAO, the Government Accountability Office, he's the guy that puts up the numbers and says here's where our money is. And he's a wonderful speaker, he quit his job in frustration, he's not political, he struggles with both parties in the US. And the sad thing is is I don't know how much people in Spain, they got their own problems at 20 plus percent in employment, Italy's in a mess, Ireland's trying to pullout out of their mess, Greece is in a mess, Russia. I don't know if China, I don't know if people are really paying attention to US numbers, the average citizen over there are because I'll tell you, I look at my good friends in Canada, I love going up there but I got to tell you, if I was in Canada, I would be much, much more interested in maybe the US balance sheet than maybe even my own because it's so big and it can wipe me out just by contagion,





by association, by being a neighbor, it can really have ripple effects. So that's one of the storm clouds I see.

How does that affect me? Well, I look at my children, they're gonna, I'm raising my children to be prepared to pay for promises that they didn't vote for and by the way, that's called taxation without representation. When you go in to debt, generational debt, when you go in to debt, a promise made is a debt unpaid and when you promise people the future without them voting for those promises, they are now gonna be taxed without being represented and once they do turn 18, they will inherit policies and taxes that they were not represented for. So I'm a big fan of balance budget and monuments but it's not gonna happen, it's just too easy to spend the money that you don't have and it's too easy to raise taxes. And the people in, then we get in to deep, deep thinking, we have what's called Keynesian economics to fix this and Austrian economics, we won't talk about Mises and all that stuff right now, that's a little deep for this podcast.

But fiscal policy is not too deep and it's a way to see the future and it's a way to see a systemic risk on our markets and on our currency and on our way of life that is bigger. These numbers aren't unprecedented, there's nothing we can look back to in US history that can prepare us for the type of numbers we're about to encounter. So you get on to [debtclock.org](http://debtclock.org) and you watch that thing spin away and you watch those numbers flash across the screen at an unbelievable rate. And the biggest problem we have in the US, fiscal, is this, a promise made is a debt unpaid. We have promised social security and people, yes, they've paid in to it but it is somewhat of a Ponzi scheme and that it isn't like you paying money and then they could take good care of it and then they give it back to you after its grown like an investment. I feel that it's bankrupt, I feel that we're using the younger generation to pay back and more of the older generation, that may be true, that may not be true but that's the feeling I have about it.

But either way, beyond that, the big one is healthcare that we've promised, you promised the universal coverage and big coverage and it's tough, it's a hard thing politically because it's healthcare human right or not, it's a tough thing to say. My compassion inside of me says: what child should be denied medicine, what elderly person should be denied procedures, that's the compassion part of me. The pragmatic realist in me says: well, in a perfect world, no one would die and there'd be no sickness, there will be no nothing but the face of the matter is there is a cost to it and if there's a cost to it, someone has to pay for it and when it comes to paying for things, you can't make promises you can't keep even at the parallel of our lives and that's unfortunate. Someone who's had cancer and knows what those treatments cost, I have a lot of benevolence for that so I don't know what the answers to those questions are and that's not what this podcast is really for to decide those things, that's for you guys as voters to decide. What our job is to is to take whatever it is you do decide and say how am I gonna position



myself financial so I don't get wiped out because a lot of people are going to be in my opinion, it's a huge bubble. When people say, Andy, do you think there's gonna be a crash in the market? I say, eventually, that's not a hard thing to predict, markets crash all the time. If you ask me what could cause it, well, there could be a lot of things that I haven't even thought of that could cause it but I'll tell you, this one will cause one if it doesn't change, I mean, this will not be something, if we don't change it, it's not gonna be blind, it's not like we're being blindsided, the numbers are there, we can see it coming and so it's worth our attention.

What does it mean to you? Higher taxes. What does it mean to you? More difficult economy. What does it mean to you? Likely more bonds being generated as we raise money and borrow money from ourselves to pay these debts. It means the rich will get richer, it means monetary policies gonna become more important, these are the things that means to you.

You and I live in, there was a Secretary of Agriculture way back when and Secretary Benson, he said: every generation I suppose looks at the time in which it lives is exceptional. The truth is, we do live in exceptional times. And I would echo that, I really believe that as well that you and I live in unprecedented, uncharted, unparalleled times of debt, of spending and of massive, massive promises. Promise made is a debt unpaid and we have many, many, many of those to the tune of a hundred trillion dollars where your GDP is about 15 trillion, it's just very difficult. So you start the Ponzi scheme, you have to borrow and make new promise to fulfill your old ones. It's Greece all over again just on massive, massive scale.

So what do you do about it? Well, you don't fight city hall, you jujitsu it. If I, in jujitsu which I study a little bit, if I have a bigger stronger opponent, if I fight his energy, I would lose so I go with the flow, I go with his energy and I learn how to use his energy to my benefit and that's the way you do this, you learn how to short markets, you learn how to cash flow markets, you learn how to use things like time to your benefit and that's what you do, you should get educated.

And that's why we do what we do at The Cash Flow Academy, that's why my partners and I and my team, that's why we've pledged to assist the Rich Dad Organization and other organizations around the country, I really don't care who it is, it doesn't have to be a Rich Dad Organization, it can be anyone who wants to increase the financial wellbeing of humanity and help us prepare for these unparalleled times.

So what's my advice to you? Well, I don't give financial advice but I will give education advice, learn more about fiscal policy, learn what these numbers are, learn how to do a fundamental analysis on The United States and Greece and Spain and Portugal and Italy and Greece and Ireland and Japan. Learn how China works if we could trust their numbers. Learn how fiscal



policy works, learn it on your household level, learn it on your corporate level and learn it on the sovereign level because it does matter.

Well, I hope these ideas help you think more about fiscal policy and what's coming down the road, how important it is. I hope you've got a better, clearer vision or maybe even been reminded sometimes that debt is out of sight and out of mind, it's growing, the deficit is growing and I hope it's been beneficial to you. Until next time, always keep learning, always keep learning, always find your mentors, spend time in podcasts like this and others and be safe. Always keep learning and we'll see you next time.

**END**