Top Economist Todd Buchholz and Former Treasury Official James Carter Say White House Bond Blunder Makes Gen Z Anxious

LOS ANGELES, UNITED STATES, May 2, 2024 /EINPresswire.com/ -- As a controversial new book by psychologist Jonathan Haidt laments "The Anxious Generation," Todd Buchholz, a leading economist, best-selling author, and top keynote speaker, and James Carter, former deputy undersecretary of labor and deputy assistant secretary for economic policy point out that young people have plenty of reason to be jittery. While Haidt fingers social media as the culprit, Buchholz and Carter state that Gen Z must also worry about the irresponsible debt levels that Baby Boomers and Generations X and Y are hoisting onto their narrow shoulders.

Todd Buchholz

Debt as a proportion of GDP (Gross Domestic Product) is rapidly shooting past the record levels of World War II, and this year, interest on the debt will eat up 13.5 percent of the federal budget, 2.6 times as much as in 2021. According to Buchholz and Carter, young people don't think they'll ever afford a house, yet they'll be asked to pay for their grandparents' profligacy. No wonder CNBC reports that one-quarter of Gen Z say they need a therapist to deal with tax-filing anxiety, and the number of sleep-deprived high schoolers has climbed 13 percent.

When interest rates were puny a dozen years ago, Buchholz began urging the U.S. Treasury to lock in bargain borrowing terms by issuing superlong 50- and 100-year bonds. This would help ensure that today's spending would not cripple tomorrow's generations. Instead, the Treasury mostly borrowed short-term, with the average duration of bonds at just five years. As a result, it is rolling over maturing debt at a steeper cost, explain the two experts.

In March 2021, when Treasury notes yielded about 1.50, Treasury Secretary Janet Yellen made it clear the Biden administration was not interested in locking in those terms for generations to come: "Treasury has been looking at this question and has no current plans to do that." Did the

Department give a careful "look" or a scoffing glance? Buchholz asks. Since the time of that statement, rates have tripled. Seasoned hedge fund manager Stan Drunkenmiller called this the "biggest blunder" in Treasury history. The ghost of Alexander Hamilton is grimacing.


James Carter

We all know the damage that short-term borrowing can inflict, remark the two former federal officials. Today, many commercial real estate companies suffer because they mimicked the Treasury playbook and face higher rates of $2 trillion in refinancing. Buchholz argues that, of course, these landlords can walk away from their empty office buildings and mail the keys back to the lending bank, as did the owners of San Francisco's largest hotel, the 1,900-room Union Square Hilton. However, the federal government is not like a landlord who can duck statutory and moral obligations, which include sending Social Security checks to senior citizens and providing military personnel with healthcare and with weapons that fire when launched. This means taxpayers will have to mop up the red ink spilled by the federal government, adds Carter.

While the U.S. ignored pleas to lock in borrowing rates, several other countries read our memos. In recent years, no fewer than fourteen countries, including Austria, Belgium, and Ireland, have issued super-long bonds.

Moreover, dozens of private companies and universities, including Disney, Norfolk Southern, Coca-Cola, IBM, Ford, Federal Express, Yale, the University of Pennsylvania, Ohio State, and the University of Southern California, have also grasped the option.

Treasury's missed opportunity looks even more glaring when one considers that over the past twenty years, the yield curve has inverted several times (including today), meaning that the U.S. could have borrowed at lower rates on superlong debt than on short-term bills. Buchholz elucidates that locking in those rates would have created some level of certainty while dampening the amplitude of future financial disaster scenarios.

So, is all this red ink under the bridge? Is it too late to take advantage of superlong bonds? Buchholz says, no, they are still valuable instruments that the Treasury should deploy. We recommend that the Treasury funding algorithm be embedded with a trigger to issue such bonds whenever the yield curve inverts. If the Department wishes to override this mechanism, the Secretary should face a burden of proof to show that it would not be in the interest of future generations.

Buchholz and Carter explain that historical studies show over the past 200 years — since roughly the time of Hamilton — real (inflation-adjusted) interest rates have averaged about 1.55 percent. Today, they hover around 2 percent. The Treasury should unleash superlong bonds in force whenever real yields drop below the historical average.

Of course, the underlying budget problem is too much spending. Buchholz and Carter recall Ronald Reagan's once-joking comment that the government was like a baby, with a big appetite at one end and no sense of responsibility at the other. They point out that a sense of responsibility hasn't matured in the half-century since Reagan's quip. "Future generations, whether anxious or not, don't have much voting power, so we need to build mechanisms to give them a voice. The U.S. Constitution provides for life, liberty, and the pursuit of happiness. A good night's sleep would help," concludes Buchholz.

Todd G. Buchholz, a former White House director of economic policy under President George W. Bush and managing director of the Tiger hedge fund, was awarded the Ally Young Teaching Prize by the Harvard Department of Economics and is the author of New Ideas from Dead Economists, The Price of Prosperity, and co-author of the musical Glory Ride.@econTodd

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