FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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The Debt Clock

You've probably seen this online debt clock, which I link to from time to time. It's fascinating to spend some time there and note what's increasing and decreasing, and how quickly. The U.S. national debt (top left) of $31.2 trillion is increasing at a fast clip, but check out the growth rate of U.S. unfunded liabilities (bottom right) of over $172 trillion. (Does that number even mean anything to you? Probably not, because the human brain has a hard time comprehending very large and very small numbers.) This week I'm going to spend some time digging into these numbers.

Let's start at the top left with the state debt clocks. There are two ways of looking at the debt burden: debt/GDP ratio and debt per citizen. I prefer the former since it takes into account the state's ability to service its debt. The debt/GDP ratios make the states seem like models of financial rectitude compared to the federal government, as the highest ratios are around 20%. But the debt per citizen figure ($13,892 for California) reveals how much trouble these states are in.

Next, let's look at the world debt clocks. Some countries (Japan, Greece, Italy, Portugal) are in abysmal shape compared to others (Saudi Arabia, Nigeria, Indonesia, Turkey).

Now let's look at the U.S. National Debt section at the top left. Federal debt per citizen is

$93,763. So as soon as each child is born, we welcome them into the world by telling them that they owe that much in federal debt alone (which does not include the MUCH larger unfunded liabilities). However, not every citizen actually pays taxes. Federal debt per taxpayer is $247,882 (again, without unfunded liabilities). In the strip at the bottom, note how the federal debt/GDP ratio went from "only" 56% in 2000 to 122% today. What will it be in another 20 years from now?

Next let's look at the revenue section at the top right. Federal and local revenues are both declining, but state revenues (probably not every state) are rising. Federal income tax revenue is declining despite rising corporate income tax revenue. That's probably due to an aging population, declining labor force participation (due in part to overly generous welfare benefits, a massive increase in the number of people who are "disabled," and people who can't work because they're addicted to something—drugs, alcohol, food, porn, the Internet) and less tax revenue from investments (due to artificially low interest rates and realized capital losses).

Both state and local debt are rising, but the amount of local debt per citizen ($6,857) is shocking, especially compared to state debt per citizen ($3,700). The total government debt/GDP ratio is 135.2%.

Next let's look at the largest items in the federal budget, which are enormous. Medicare is first ($1.485 trillion), followed by Social Security ($1.228 trillion), defense/war ($770 billion), and interest on the national debt $480 billion. All of these amounts are obscene, but I think the worst is Medicare, not just because of the amount but because of the results we get from telling people to eat a lot of carbs and grains (but not natural saturated fats, because that makes you fat!) and then treating the horrific, inevitable symptoms (instead of the underlying causes) with expensive pharmaceutical products that are often ineffective and have awful side effects.

Next we'll look at the total debt section in the middle of the left side. Credit card debt is $1.19 trillion and rising, but that's actually modest compared with student loan debt of $1.758 trillion (which is $40,293 per student!). Total personal debt is $24 trillion, or $72,000 per person. U.S. total debt (from all sources) is $92.9 trillion. Total interest paid (for all debts) per year is $3.469 trillion, or $13,451 per adult. If the Fed keeps jacking up interest rates quickly, it will be interesting to see how Americans will be able to pay their interest. Perhaps they can draw on their $9,683 of savings per family.

Check out the U.S. debt held by foreign countries: $7.5 trillion. What will happen when they get tired of the U.S. abusing its "exorbitant privilege" of printing dollars to pay for foreign goods, and they sell their U.S. Treasury bonds? Or when a country like China wants to exert pressure on the U.S. at a key moment, such as during an invasion of Taiwan? All of those dollars will come flooding back to the U.S., causing prices to spike higher.

Now let's look at the gray grid towards the bottom right. The U.S. workforce is actually smaller today than it was in 2000. The actual number of unemployed is almost twice the official figure (primarily due to redefining "unemployed" and hiding the unemployed in the federal disability program). The number of adults not in the labor force has increased from 81.5 million in 2000 to 99.7 million today--more grasshoppers for the ants to feed. Government employees (23.3 million) make up 14.7% of the U.S. labor force. Not only do they have to be paid by the private sector, most of them are actually destroying value. As this percentage increases, we move closer towards economic collapse.

The median new home price in 2000 was $168K; today it's $441K. Good luck getting into one of those with stagnant real wages (median income has increased from $32K in 2000 to $36K today) and high student loans. The number of manufacturing jobs has declined from 17.1 million in 2000 to 12.9 million today. Increasingly, the only thing the U.S. makes is dollars.

There are 57.2 million retirees and 8.9 million disabled people. Add 23.3 million government employees to that and you get 89.5 million people who have to be supported by a private sector labor force of 135.7 million; that's a ratio of 66%, which explains why private sector workers are getting crushed by taxes and have difficulty saving money.

Sixty-four million people are covered by Medicare, but a shocking 86.2 million (including people in the federal disability program) are covered by Medicaid, which by the way pays for a scrip for Oxycontin with few questions asked. What could go wrong? Almost 41 million people are on food stamps, which is 12.3% of the population.

In 1913—the year the Federal Reserve was created, supposedly to maintain stable prices--the dollar to gold ratio was $28.83; today it's $6,412. In 1913, the dollar to silver ratio was $2.65; today it's $870.

Now let's look at the last row. Both household assets and total national assets are declining rapidly. The average assets per citizen is $520,814. Unfunded liabilities for both Social Security ($22.3 trillion) and Medicare ($34.7 trillion) are increasing rapidly. Total unfunded liabilities (which also includes the totally unfunded military and civil service pension systems) of $172.4 trillion are increasing by $1 million about every 4.5 seconds, resulting in a total unfunded liability of $517,149 per citizen.

So if we were able to sell off ALL of the assets in the U.S., it would be enough to pay for the benefits that politicians have already promised (but not any benefits from new programs). So payments from the programs above would continue, but we would all own nothing (and be happy about it, as the World Economic Forum would say), and we would still owe debt of $92.9 trillion. So do the math. How do you think this will end?

Note that this just covers our financial/economic insolvency. It says nothing about our cultural, social and moral bankruptcy.

News Items

The Atlantic Suggests Amnesty for Pandemic Authoritarians: Uh, no, it doesn't work that way. We'll see you in the dock at the Hague for crimes against humanity.

Top Dems Urge Biden to Nationalize Oil & Gas Industry and Biden Calls for Windfall Profits Tax on Oil Companies They want to destroy the fossil fuel industry (and perhaps also Western capitalism), or at least make fossil fuels prohibitively expensive.

Peter Schiff: A Financial Crisis Is Coming

What You Should Be Doing Now

Documentary to watch: "Eat the Rich: The GameStop Saga" on Netflix. Excellent.

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Generally, I don't have time to answer questions about your specific situation, but if you have a general question that I think other readers also have, let me know and I will provide an answer in a future issue.

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