How to put the National Debt into perspective!

Scenario #1

You own a business with total gross revenues of $1,400,000

You profit margin is 14%. Therefore you have about $220,000 to take home for your family to live off of and enjoy.

Instead of spending within your means, you actually spend $380,000 per year, running a deficit of $160,000/year. Your expenditures are fixed, meaning you cannot reduce the amount you spend below current levels.

Your lenders have been supporting your extravagances and lending you the shortfall in your spending each year.

You now have total debt of $1,300,000, with interest being charged at 2% or $26,000/year.

Servicing the interest on your debt is not a problem at this time, as it is only 12% of your income, but….

How long do you think your lenders will continue to support your annual deficits of $160,000/year?

To keep things simple in this illustration, your revenue and your expenses remain constant….

In four years time, not including compounding, your debt will grow to $1,940,000.
Interest will be $38,800, just under a 50% increase in the cost of debt service.

Where is that money coming from? Borrow more?

You aren't alone; there are other friends and neighbors in the same or similar situation. One of them hits the "Brick Wall" and cannot pay their interest or the lenders have already cut them off and raised interest rates to cover their losses.

What if your lenders say, "Things are looking a little shaky." We will have to raise your interest rate to 4%". Now your debt service is $77,600 in interest, almost a 200% increase in the cost of your original debt service and 35% of your income.

What do you do now?
To compare the individual scenario to a National issue….

Multiply all the above numbers by 10,000,000…and let's look at our economy.

Scenario #2

The United States Government Gross Domestic Product (GDP) is approximately $14.2 Trillion.

Total tax receipts are approximately $2.2 Trillion.

Total annual expenses- $3.8 Trillion. Our budget for current fiscal year.

Projected annual deficit for this year $1.6 Trillion

Average cost of Treasury securities, little over 2%.

Just because the numbers are so big, do they make everything different?

Neighbors and Friends: European Union, Japan.

Lenders, 1/3 of our debt are financed by foreign countries. Japan, China are the two biggest. What if a small lender said no more? They need to use their money at home to service their debt problems. Would that be enough to upset the proverbial apple cart?

What's different between the out of control household and the US Gov't in the way they approach the problem?

The United States…

- Recently passed legislation, health care, financial regulatory reform and others that greatly increase the amount of our fixed annual costs above levels stated previously.
- Has liabilities that add and far dwarf the household in Scenario #1:
    - Fannie and Freddie guarantees
    - FDIC insurance
    - Medicare/Medicaid
    - Social Security.
- When adding these liabilities in, estimates place our indebtedness in excess of $100,000,000,000,000. That is $100 Trillion.

What is the government doing to solve the problem?

- Keep interest rates artificially low, forcing savers into riskier assets.
- Keeps bailing out companies, pensions, states, other nations and going further in debt.
- Raises taxes and regulations on the private sector that generates their income.

Do these solutions seem viable to you in solving an overextended debt problem?

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