The Road to Hell is Paved With Well-Intentioned Debt
How Much Debt is Too Much?

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Since 1983, I've been writing investment and economic reports that polite observers would call "overly cautious". Others would call them "paranoid". But I expected this one to be different from previous reports.

I started this report determined to learn, and then communicate to you, how the costs of repairing our fiscal, trade, energy, education, terrorism, inequality, banking, housing, global warming, racism, and banking crisis's would not bankrupt the US. I would work out the numbers and show exactly how, with the great discipline and sacrifice, America could gradually bring our federal spending deficit and trade deficit into balance. Then, I would show how over a 50 year period we could pay off our national, state and municipal debts. That was my intention, but unfortunately, I did not find the solution I was expecting.

At present, the federal, state and municipal debts total nearly $16 trillion or $215,000 per taxpayer. My analysis showed that to pay off that amount of debt over 50 years at 4% interest would require an additional $740 billion in annual tax payments (See table below for calculations). That is a 74% increase over the current total of $1 trillion per year in federal personal income taxes. Is a 74% tax increase politically or economically feasible? Then I reminded myself that the national debt is predicted to double over the next ten years. And what about the unfunded liabilities for social services such as Social Security, Medicare and Medicaid, which is conservatively estimated to be $30 trillion? As we have seen in the financial markets over the last few years, there is a level of debt that threatens to destroy both debtor and creditor. What does that tell us about current levels of US government debt?

The fact is we currently have a level of debt that is going to be difficult, if not impossible, to pay off. Worse yet, due to the globalization of manufacturing, the low wages earned by Asian workers makes it impossible for US workers to compete, thus unemployment is rising. We are dependent on continued borrowing to maintain our standard of living. In the same situation, a family would be facing bankruptcy. The Country is not technically bankrupt, because bankruptcy is the process of dividing the debtor's assets among its creditors. However, without the ability to pay its debt, America must be considered pre-bankrupt.

Although it pains me to say so, I do not believe that Americans will live within their incomes as long as there are willing lenders. A politician with great promises, hopes, and programs to make government bigger, better, and more powerful will be more likely to get elected than a politician with a "restrain spending" platform and debt will continue to grow. Americans are willing to pass an unbearable debt load on to their children rather than make the sacrifices necessary to pay off their debts.

Under the circumstances, how long will it be before lenders change their outlook? Why should hard working Chinese citizens work 50-60 hours a week, save 30% of their incomes, and deposit their savings in Chinese banks which then loan their capital to America to provide our citizens with free health care, housing, education, etc., when the hard working Chinese people do not have such benefits? What happens if there are no longer willing lenders?

It is clear that our politicians, Wall Street bankers, PhD's, economists, and people who generally live on debt, believe that debt is advisable and should be extensively utilized for the greater good. Our present (and past) President and Congress actually believe that they are overseeing - indeed stewarding us through - a process of spending our way into prosperity. They lack the courage and integrity to face the crisis with creativity and resolve, rather, they stick with outdated economic theories that did not work in the Great Depression and will not work today. Despite Obama's rhetoric, "Hope" is not a strategy, a policy or a solution. Adding more debt is as thoughtful as rearranging the chairs on the deck of the Titanic.

Politicians and Wall Street bums tell us that our debt levels are both necessary and manageable. Every year, literally tens of thousands of multi-millionaires are made on Wall Street – purely from the origination fees and trading commissions on federal government, agency, state and municipal bonds, notes and bills. Do you expect Wall Street to advocate a reduction in government borrowing? Wall Street institutions, in the main, are parasitic in nature when it comes to ordinary investors. However, when it comes to Wall Street's relationship with government, like their relationship with tobacco and auto companies, politicians and have a highly functioning symbiotic relationship – they take care of each other very, very well.

$740 billion per year in new personal income taxes would be required to pay off the federal, state and municipal debt over 50 years.

The federal debt is $12 trillion, the state and municipal debts total over $3 trillion. I assumed that before we start paying down the debt, we would add a bit more and rounded up to $16 trillion to be amortized over 50 years, with the interest cost to the government assumed to remain constant at 4%.

The chart below illustrates the assumptions I used regarding what groups of taxpayers would have to pay in additional taxes to make these new payments. I assumed that taxpayers earning less than $35,000 would not pay any additional taxes. I also assumed we would use a progressive tax system, taxing higher income earners by much higher amounts. To pay off the federal, state and municipal debt taxpayers would pay the following amounts:

Income Groups of Taxpayers	Number of Taxpayers	Added NEW Tax per Year	Total New Taxes from Each Group
$35,000 to $49,999	15,951,147	$1,000	$15,951,147,000
$50,000 to $74,999	21,109,871	$3,000	$63,329,613,000
$75,000 to $99,999	13,992,314	$6,000	$83,953,884,000
$100,000 to $149,999	13,758,104	$12,400	$170,600,489,600
$150,000 to $199,999	4,858,631	$25,000	$121,465,775,000
$200,000 to $1 million	4,510,621	$50,000	$225,531,050,000
$1,000,000 or more	225,000	$250,000	$56,250,000,000
People with assets of $1,000,000,000 or more	946	$5,000,000	$4,730,000,000
total number of people paying new taxes	74,406,634		$741,811,958,600

When we amortize $16 trillion over 50 years at a 4% interest rate the annual tax payments required would be $740 billion.

That does not seem so much, given that the GDP is $14 trillion. However, when you consider that personal income taxes to the federal government totaled only $1 trillion, simple arithmetic informs us that to pay off the debt in 50 years, we'd have to raise personal taxes by about 74%!

- One million seconds will pass in the next 12 days.
- If you made one dollar every second, or $3600 per hour, you would have a million dollars in 12 days.
- You would be a billionaire in 32 years.
- You would have to work 23, 680 years to make $740 billion.

Why did Wall Street firms raise hundreds of billions of dollars in worthless mortgage bonds? Was it an accident? Were they naïve and innocent? Or did they raise money that went into the deep hole called the US housing market? Why did Wall Street firms raise $16 TRILLION and hand it over to government politicians (common liars and bullshits artists)? Was it an accident? Were they naïve and innocent? Or did they raise this money, by the trillions, from common investors and pension plans to enjoy tens of billions in fees?

With the levels of debt that they have created, Democrat and Republican politicians alike along with their partners in crime, Wall Street banks, are complicit in destroying the solvency (and economic freedom) of

American families. With the level of debt that we now live under, America is in serious jeopardy of bankruptcy.

When politicians created Fannie Mae, the TSA and the rest of the 1000's of federal & local agencies, departments and bureaus; they claimed it was "for the greater good". Are you more secure and prosperous? The answer is a definite yes, if you are from Wall Street; both Bush and Obama took care to take care of their greatest allies. Are you happier, healthier and more prosperous, due to government? Again, the answer is a definite yes, if you're on the proper payroll. Karl Marx warned that capitalism would lead to self-destruct due to the two-class system, workers vs. owners. He was right in a way; capitalism is self-destructing due to the two class system, but it is not worker vs. owner, it is people in government vs. people outside of government.

Our debt levels are threatening our society. Yet politicians along with their allies on Wall Street have voted to spend trillions more, "for the greater good". You must recognize these trillions in new debt will be the burden you will leave to your children! Does your moral compass tell you this is right? My father and mother (blue-collar) both worked two jobs to save for their retirement and their children. I inherited money to buy my first house from them. What are we saving to leave for our children? The administration claims that our future will be so much better, now that we've passed this multi-trillion dollar health plan; NEW BENEFITS FOR ALL, ALL FOR FREE! - Just like all the other promises from government. Our government is (and has been) a fraud, a Madoff scheme.

Every taxpayer earning over $35,000 must add over $215,000 to their balance sheet (on the liability side). If that's not enough to light a fire under you, our compassionate politicians in government and brilliant MBAs on Wall Street have raised spending (and debt levels); they now forecast debt levels will more than double in the next 10 years. But they still haven't told us how they'll pay for it.

Our economic and political problems persist; no politician has an alternative plan for dealing with them. With ever increasing debt, there will come a day of reckoning. The risks to one's portfolios are great. Honest advisors will tell you there are no fool-proof strategies to shelter capital. Protecting and growing your capital will require prudent investment selections combined with effective hedging strategies and a flexible, rather than dogmatic response to rapid changes in the market.