Dollars and debt: We have to be prepared

By Vijay J. Marolia, MBA

When we sit down face-to-face with our clients for their annual financial reviews, I try to uncover their biggest concerns by asking them: "What keeps you up at night?"

Nowadays, cautious clients are asking me the same question. The answer is simple - dollars and debt are what keep me up at night. But it's not *my* dollars, or *my* debt that worries me. I'm worried about *our* dollars and *our* debt as citizens of this great country.

I'm sure we all are well aware that the leaders of our government (in their infinite wisdom) are very good at spending more money than they have. But the amount (and the speed) of that spending is mind-boggling.

At the beginning of 2008, our national debt stood at approximately $9.2 trillion dollars. By the time you read this, it will be approaching $12 trillion*. But that does not include the unfunded promises we have made to ourselves in the forms of Social Security, Medicare, and Medicaid. In fact, the Peter Peterson Foundation estimates that if we include those promises, our real national debt is actually closer to $56.4 trillion! That means every household in the country owes approximately $483,000. In other words, every man, woman, and child has a debt of $184,000 - not including the debt that they actually know about (mortgage, car loans, credit cards, student loans). As you may have observed from your children or grandchildren, it's not easy these days for a kid to come up with $184,000! It is, however, very easy for our government, via the electronic printing presses at the Federal Reserve. I'll come back to that later…

Of course the problem with debt is that we must pay interest on it. In the fiscal year 2008, our government spent $412 billion on interest payments alone. To put that in perspective, that same year, the total amount our government spent on education was $61 billion - that's almost $7 of interest expense for every $1 of our children's education*. It is my humble opinion that many of the fundamental problems our society faces have their roots in that last observation.

Now, to pay for all this debt, the government must either raise revenues through taxes or print money out of thin air. It will mostly likely do both. Although many of us are preparing for higher taxes in the near future, many are not at all prepared for the inflationary consequences that will inevitably arise.

At the end of 2008, the Federal Reserve accelerated the pumping of money into the money supply by crediting excess reserves to the member banks. Before August 2008, excess reserves made up about 5% of the monetary base (money supply). Now, those reserves make up more than 90%*. In fact, although the history of this country spans over 230 years, we have somehow managed to double the money supply in just the last three years**! That is not a typo! Inflation may not be today's problem, but it will be here eventually.

But enough with the doom and gloom. You may be wondering how I ever manage to fall asleep after reading that. But I sleep very well knowing that by preparing myself, my family, and my clients for this potential scenario, we all will be able to prosper.

Unfortunately, those who are not prepared may suffer huge losses in purchasing power and/or their standards of living. Do *not* let this be you.

Please be sure to discuss these issues along with any other concerns you have with your financial advisor during your upcoming annual reviews. And remember, where some see only crisis, the wise see plenty of opportunity.

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*source: Board of Governors of the Federal Reserve System

**source: David Rosenberg of Gluskin Sheff

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