

Economic and Geo-Political Tsunamis

THE GATHERING STORM

- American Challenges -

- Session Five -

The Perfect Storm 2014 curriculum is the property of Weathering the Storm, LLC.
Reproductions are not permissible without the consent of R. Michael Conley, Founder.

American Challenges: Tip of the iceberg syndrome . . .

The Challenge: Focusing on the wrong things; ignoring the time bombs below the waterline:

Tip of the iceberg:

- The next election
- Quarterly earnings
- Short term indicators
- Quick fixes

TIP

Below the waterline:
The game-changers

- Sea of red ink
- Unfunded liabilities
- Federal Reserve on steroids
- Sowing the seeds: Time bombs and mine fields
- Demographic shifts: Intergenerational impacts
(Session Six)
- Mortgaging the American Dream: There's no free lunch
(Session Six)

American Challenges: Fixating on the tip of the iceberg

Overview: The perfect storm threat requires a longer term outlook and strategic thinking; we tend to do the opposite.

Politicians:	Winning the next election – “kicking the can . . .”
Business:	Quarterly Earnings – short term fixations
Consumers:	Play now – pay later
Markets:	Wall Street vs. Main Street – “bubble mania” threats
Decisions:	Quick fixes vs. thoughtful solutions
Attitudes:	The “moral hazard” syndrome: A contagious disease

The Sea of Red Ink: Something's got to give . . .

Overview: America's toxic trifecta of debt, deficits and interest payments is growing.

Definitions:

Deficits: The difference between what government takes in and spends annually

Debt: The accumulated deficits from all previous years

Interest: The interest paid on public debt

Historical Snapshot:¹

	<u>2000</u>	<u>2008</u>	<u>2013E</u>	<u>2019E</u>
Deficits - \$ Bil. ²	+117	-239	-680	-502
Gross Debt - \$ Tri. ³	5,711	9,576	17,547	21,670
Interest - \$ Bil. ⁴	215	261	221	551

Notes:

1Composite numbers taken from various sources

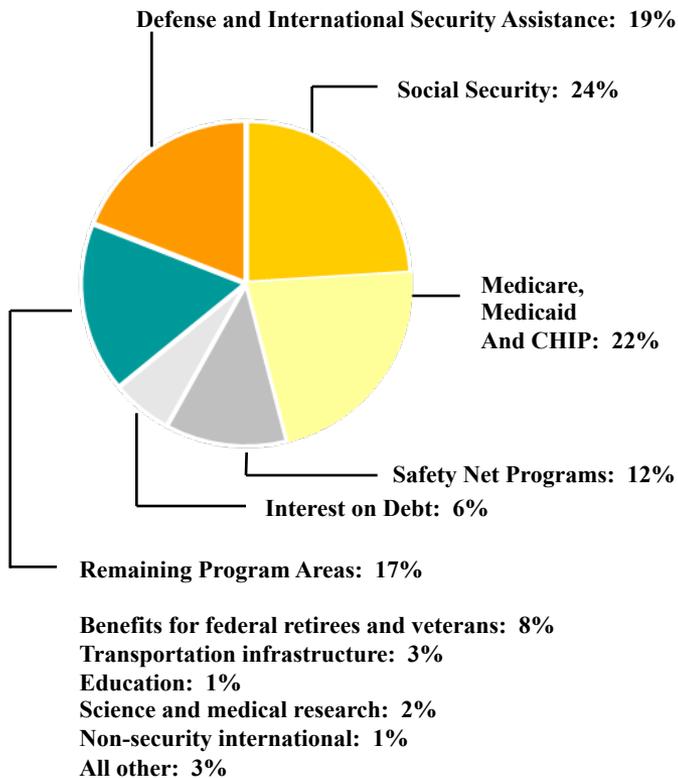
2Deficit reductions are not debt reductions

3Gross debt includes both public and intergovernmental debt (e.g., IOU's on Social Security)

4Interest charges on public debt: amount depends on credited rates. Higher rates – higher charges

The Sea of Red Ink: A snapshot look at 2013 . . .

Most of Budget Goes Toward Defense, Social Security, And Major Health Programs



Highlights of 2013 Budget

Revenues: (trillions of dollars)

\$ 2.8 revenues

- 3.5 spent

.7 Deficit (rounded)

Net Results:

- Borrowed 19 cents on every dollar spent
- Ratio in 2009: 39 cents on a dollar spent

Expenditures:

65% - mandatory and defense

6% - interest on debt

29% - “discretionary” spending

Source: 2013 figures from Office of Management and Budget, FY 2015 Historical Tables.

Center on Budget and Policy Priorities / dbpp.org

Unfunded Liabilities: A hidden time bomb . . .

Overview: The Federal government operates on a “pay-as-you-go” basis. Trust Fund reserves for entitlement programs have – to a large extent – been spent. Unfunded liabilities include:

- \$ 7.8 trillion – to fund various Federal programs
- 23.8 trillion – to fund current Social Security participants
- 27.3 trillion – to fund current Medicare participants
- 17.6 trillion – current national debt as of August 1, 2014
- \$76.5 trillion

Factoids about debt:

- \$241,000 per person living in the U.S.
- \$624,000 per household
- Massive influx of baby boomers will increase liabilities (10,000 per day)
- Recipients will live longer – collecting more benefits @ higher unit costs
- Fewer active workers will pay for more retirees: Unsustainable prognosis

The Federal Reserve on steroids . . .

Overview: The Federal Reserve's influence on financial markets, public policy and the economy is beyond description. Consider this:

1. A “primer” on the Fed and “*mission creep*” (dual mandates)
2. The Feds, Wall Street and “*illusion of wealth*” connection
3. Short term fixes for long-term problems
4. Monetizing debt, “printing” money, and policies that distort the picture
5. The impact on the “Dollar” as the world's reserve currency
6. There's no free lunch: “What's intoxicating on the way up can be devastating on the way down.”

Sowing the Seeds: Time bombs and minefields . . .

Overview: Through our “play now – pay later” culture and structural changes, we are setting the stage for major systemic problems:

1. An aging demographic – living longer– and consuming higher % of GDP
2. Entitlement and debt servicing charges that will devour future budgets
3. Growing transfer of wealth to support our addiction to oil and goods
4. Our consumer-based economy – 70% of GDP – will be cannibalized with fewer discretionary dollars left for consumer purchases:
 - Rising debt and debt servicing charges at all levels
 - Escalating healthcare costs
 - Student loan debt & defaults – an “anchor” on future growth
 - The stifling impact of energy “tariffs” on foreign imports
 - Benefit reductions and rising taxes to “make ends meet”
 - Erosion of the dollar’ s purchasing power

Sowing the Seeds: (continued) . . .

5. Health care in America:

- 17% of GDP and growing with global competitive implications
- ACA: The great unknown and in the red
- Structural challenges and implications

6. Staggering debt at all levels: Public and private, state and local

7. Educational challenges vis-à-vis other countries

8. The 2014 elections and key issues... What next?

American SWOT Factors: As we enter the perfect storm . . .

Strengths:

1. Military, economic and technological powerhouse
2. Human and physical resources, water and food
3. Global force for change with track record for meeting “impossible” challenges

Weaknesses:

1. Oil and energy dependencies over time
2. Weakened balance sheets, red-ink & over-commitments
3. Entitlement mindsets: The “good life” with strong elements of complacency, denial and unawareness

Opportunities:

1. To achieve energy independence, enhance national security and reduce threats of future wars
2. To energize and transform a tired economy
3. To re-establish a positive global role while fostering intergenerational responsibility

Threats:

1. Major shifts in balance-of-power
2. Threats to global oil supply and conflicts
3. Economic deterioration and threats to currency
4. Significant declines in standards of living if the hard edges of the *perfect storm* are not mitigated