

Porter's Friday Digest

02/07/2012 02:27:00 PM

In case you missed Porter's Friday Digest, he exclusively covered the state of the U.S. economy. Here is what he had to say...

Most people still don't understand the risks we face as a nation because of our feckless leaders and their reckless ignorance of basic economics.

What follows are facts. Nothing in this essay will be conjecture or opinion. I will make no forecast – at least not in this essay. So please, stop the political name-calling... and grow up. The problems we face are ours. All of ours. It doesn't matter how we got here. It only matters that we begin to deal with these issues – soon. If we don't begin to solve these core financial problems, they will certainly destroy our country.

☛ Today, our national federal debt far exceeds \$15 trillion. This alone is not a serious problem. The interest we pay on these debts is small – thanks to the trust of our creditors, who, for the moment, continue to believe America is a safe bet.

So... what's the problem? The main problem is the amount of debt we owe continues to increase at a faster and faster pace. This is exceptionally dangerous for two simple reasons. First, there's simple math. When numbers compound, the result is geometric expansion. And that's happening right now with our national debt because we continue to borrow money to pay the interest. And we have done so for about 40 years. Think about it this way: How big would your debts be today if you'd been using credit cards to pay your mortgage for the last several decades?

☛ Even worse, our debts are compounding at an accelerating pace because we lack the political ability to limit the federal government's spending. Please understand... I'm not pointing the finger at any politician or either political party. I'm simply pointing out a fact: This year's \$3.6 trillion federal budget is 20% larger than the entire 2008 budget. And while our government has grown at a record pace, our economy hasn't. It has hardly grown at all. Thus, this will be the fourth year in a row we set a record for deficit spending. Never before in peacetime has our government borrowed this much money. And now, it's borrowing record amounts every year.

☛ This combination of borrowing record amounts of money (during peacetime) and continuing to borrow the money we need to pay the interest is setting the stage for a massive increase in total federal debt levels. Why is this happening? Don't our leaders realize they can't continue on this path?

☛ Well... the problem isn't so simple to fix. What we face isn't a \$15 trillion problem. It's actually much, much bigger...

☛ The \$15.3 trillion we owe today is really only a minor down payment on promises the federal government made to its most important creditors – the American people. Not yet included in our debt totals are the \$15 trillion shortfall in Social Security (thanks to the Democrats), the \$20 trillion

NOTICE: FED FRIDAY® and MULVIHILL ASSET MANAGEMENT, LLC® are not affiliated with Stansberry Research or The Project To Restore America. FF and MAM are distributing the above information because we agree with it. This is not investment advice. Terms of the FF and MAM Disclaimer found on the FED FRIDAY® website apply.

unfunded prescription drug benefit (thanks to the Republicans), or the \$115 trillion unfunded Medicare liability (thanks to the Democrats and Republicans).

☛ Most people ignore these looming liabilities because they obviously will never be paid. In fact, the federal government's total obligations today – including all future obligations – is more than \$1 million per taxpayer. And that's if you assume all 112 million taxpayers really count. (They don't. Only about 50 million people in the U.S. pay any substantial amount of federal income taxes.)

But here's the funny part... While everyone seems ready to ignore these obligations, we've already begun to pay them. Our spending on Medicare and Social Security already greatly exceeds the \$800 billion in payroll taxes we're collecting to pay these benefits. (Total spending on Social Security and Medicare last year was more than \$1.5 trillion.) And that means our actual debts will continue to compound faster and faster every year, assuming nothing is done to curtail these benefits.

☛ I want to make sure you understand this fact: It doesn't matter how much (or how little) Congress chooses to cut its discretionary budget. The promises we've already made to Americans in the form of Social Security and Medicare guarantee that our debts will continue to compound faster and faster, every year. How do I know?

☛ Once again... let's return to basic math. Right now, we're spending (at the federal level) \$2.4 trillion per year on transfer payments and interest on our national debt. That doesn't include any of the other functions of the government – nothing else. Meanwhile, we are only collecting \$2.3 trillion a year in income, payroll, and corporate taxes.

Let me make sure you understand this: Even if we cut every other government program – including the entire military budget – the federal revenue collected still wouldn't be enough to merely cover the costs of our direct transfer payments. Not even close. And every year, these payments will automatically grow.

☛ Here's another way to look at the same basic numbers, but on a macro scale. Right now, total government spending in the U.S. equals \$7 trillion per year. (That's federal, state, and local.) Total interest paid in the U.S. economy on all debts, public and private, equals \$3.7 trillion. The size of our total economy is only \$15 trillion. Thus, we are currently spending \$10 trillion (out of \$15 trillion) on our government and debt. This is unprecedented in all of American history. This financial structure is unsustainable – and extremely unstable, given our debt levels.

☛ There's the bigger problem (yes, it gets worse). The political solution to our soaring deficits will most likely be higher taxes. Yes, technically that's a prediction... And I promised no predictions in this piece. But let's face it. You will never see the federal government make dramatic, meaningful cuts to its promised benefits – not when half the country pays no federal taxes and more than 40 million people are on food stamps. So it's not really a prediction – it's a political reality. Will higher taxes save us?

☛ No. You cannot squeeze blood from a stone. The federal debt isn't the largest obligation we suffer under. Americans hold nearly \$1 trillion in credit card debt. We hold nearly \$1 trillion in

NOTICE: FED FRIDAY® and MULVIHILL ASSET MANAGEMENT, LLC® are not affiliated with Stansberry Research or The Project To Restore America. FF and MAM are distributing the above information because we agree with it. This is not investment advice. Terms of the FF and MAM Disclaimer found on the FED FRIDAY® website apply.

student loans. Total personal debt in America is larger (\$15.9 trillion) than all of the federal debt. In total – adding up all of our debts, public and private – Americans owe close to \$700,000 per family. It is not possible to finance our federal government's spending via taxes because the American people are broke. Total debt levels in America are the highest – by far – of any developed nation.

🚩 Tax the rich, you say. Well, of course. But marginal rates in many places are already greater than 50%. Tax rates this high don't work... They actually reduce tax revenues as people move their economic activities elsewhere to avoid taxes... or even simply forgo working.

Don't forget, the very wealthy can simply leave. James Cameron – director of blockbuster movies Titanic and Avatar – recently did just that, buying a 2,500-acre farm in Canada. John Malone, chairman of Liberty Media, likewise told the Wall Street Journal that he bought a farm on the Canadian border specifically so that he could leave the country whenever he wanted. "We own 18 miles on the border, so we can cross. Anytime we want to, we can get away."

Think I'm exaggerating the risks of real capital flight from the U.S.? Well... let's look at the facts. According to the latest IRS report, the number of Americans renouncing their U.S. citizenship has increased ninefold since 2008.

🚩 How then will the government's spending be financed? Well, I promised no predictions. Not today. But I will remind you that since 2008, the Federal Reserve has expanded the monetary base from roughly \$800 billion to nearly \$3 trillion. That, again, is a fact. Feel free to draw your own conclusions about what the Federal Reserve is likely to do in the future if the U.S. Treasury is faced with a financial need that can't be met.

🚩 You may do whatever you'd like with today's Digest. Feel free to pass it around to your friends – or anyone else who may be interested in these ideas. Be prepared for lots of nonsense about making the rich pay their "fair share" and pie-in-the-sky projections about how the entitlement system could easily be reformed.

-Porter Stansberry

Please forward this on to your friends and family, tell them to sign up for The Project to Restore America, and tell them Porter founded the Project. The more voices we have, the more effective this first-ever people's lobby will be in curtailing the out-of-control government spending.

Sign up for The Project to Restore America:

<http://signups.stansberryresearch.com/fsm/signups/signup/530.html>

NOTICE: FED FRIDAY® and MULVIHILL ASSET MANAGEMENT, LLC® are not affiliated with Stansberry Research or The Project To Restore America. FF and MAM are distributing the above information because we agree with it. This is not investment advice. Terms of the FF and MAM Disclaimer found on the FED FRIDAY® website apply.

The link above will display the following on your screen:



Join The Project to Restore America Today...

YES—I want to join The Project to Restore America!

Simply fill out your name and e-mail address below, then click the "Join the Project Now" button:

E-mail address:

After you sign up, check your inbox. You will receive a "thank you" e-mail, which includes a link to your free copy of Porter's e-book, **How to Stop the End of America**.

And you'll begin receiving our free daily e-letter, *The Daily Revolution*. Each weekday in the Revolution, we'll keep you posted on our progress.

We'll also share the latest news, ideas, and opinions related to the Project's mission from our contacts around the world—as well the top political and financial newspapers, magazines, journals, blogs, and research reports—in a quick, 5 minute read.

About The Project

The Project To Restore America is a non-partisan way to restructure America's governance. Porter Stansberry began [The Project to Restore America](#) as an effort to fix the underlying causes of our major national problems by establishing three new amendments to the Constitution that would require:

NOTICE: FED FRIDAY® and MULVIHILL ASSET MANAGEMENT, LLC® are not affiliated with Stansberry Research or The Project To Restore America. FF and MAM are distributing the above information because we agree with it. This is not investment advice. Terms of the FF and MAM Disclaimer found on the FED FRIDAY® website apply.

1. A balanced budget at every level of government
2. Sound money (backed by our country's large gold reserve)
3. A change in the tax structure -- a right for every American to keep 80% of his/her income

We have to fundamentally restructure our system. There must be more balance between rights and responsibilities. There must be some fundamental limit on spending and on taxes. And finally, we need a logical way to put a stop to the narrowing of the tax base. Everyone who votes should share in the burdens of government – otherwise the incentive will always exist to vote for more government spending, no matter how high taxes (and debts) rise.

Sponsor: Stansberry & Associates Investment Research

About Stansberry Research: Founded in 1999 – and based in Baltimore's historic Mount Vernon neighborhood – Stansberry & Associates Investment Research is an independent investment research firm, with subscribers in more than 30 different countries.

[Stansberry & Associates](#) has more than two dozen research analysts and assistants at our headquarters as well as at satellite offices in Florida, Oregon, and California. These folks have worked in the financial industry as stockbrokers, mutual fund vice presidents, hedge fund managers, and equity analysts at some of the most important money-management firms in the world.

Our analysts follow a range of investment strategies, including value investing, maximizing income, following insider trading, investing in energy and resources, short-selling and options trading, and investing in biotech and medical technologies.

Unlike Wall Street investment banks and brokerages, we are completely independent. We only publish investment research. We do not solicit banking business. We do not provide brokerage services or manage money.

We believe that's how the investment business should be, no hidden interests or secret agendas.

NOTICE: FED FRIDAY® and MULVIHILL ASSET MANAGEMENT, LLC® are not affiliated with Stansberry Research or The Project To Restore America. FF and MAM are distributing the above information because we agree with it. This is not investment advice. Terms of the FF and MAM Disclaimer found on the FED FRIDAY® website apply.