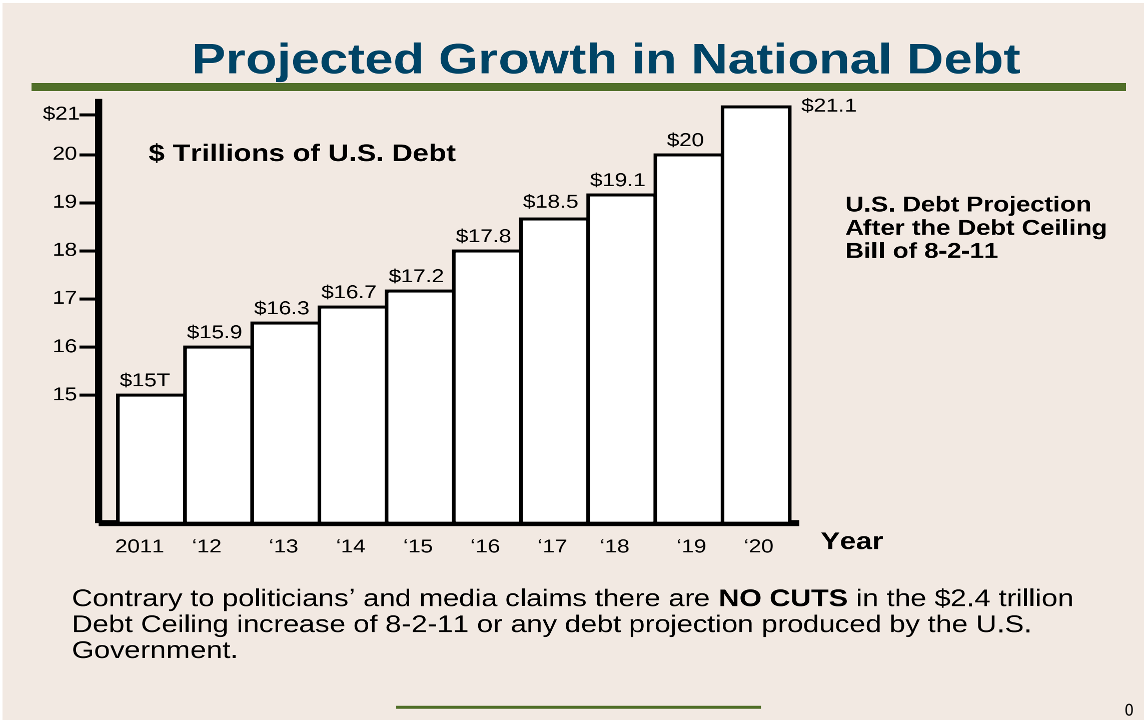
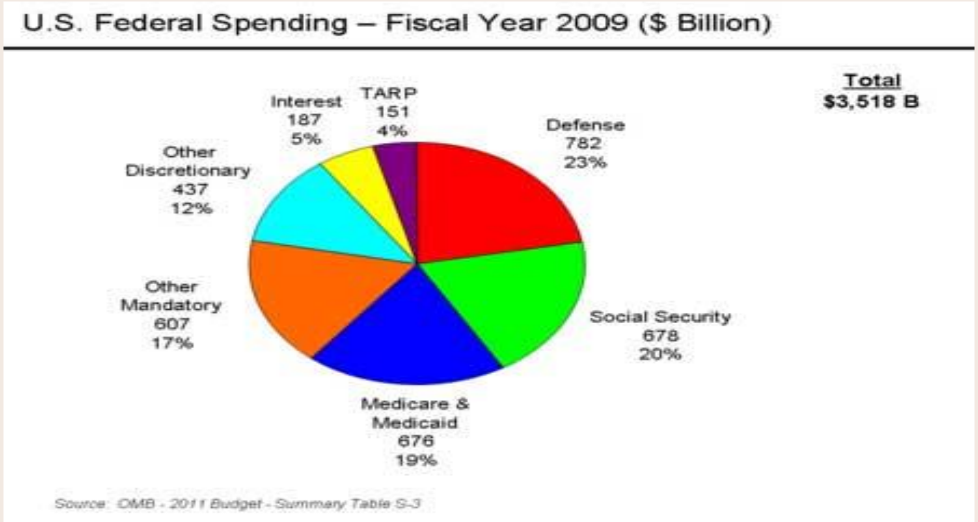
The Dimensions of Our National Debt & Financial Crisis
- following documents our current path to national bankruptcy



- The national debt is currently $15 Trillion and grows to $21T. Unofficial recent estimates indicate it could grow to $23T or more.
- This is President Obama's projection and leads to national bankruptcy if its trajectory is not drastically changed.
- The national debt is <u>Cumulative</u> - it is built up by annual budget deficits.
- National debt is currently about to pass GDP of about $16Trillion.
- When Pres. Obama took office the debt was about $10T - it has increased by 50% to $15Trillion in just 3 years.
- Something to recognize is that any "cuts" proposed by anyone on either side in Washington is merely a cut in the projected staircase of increases over the next 10 years - not a real cut.
- Interest to service the current 2012 debt is about $207B,or about $600MM a day - we see the impact of that on the Federal budget on next slide.

Federal Budget 2009



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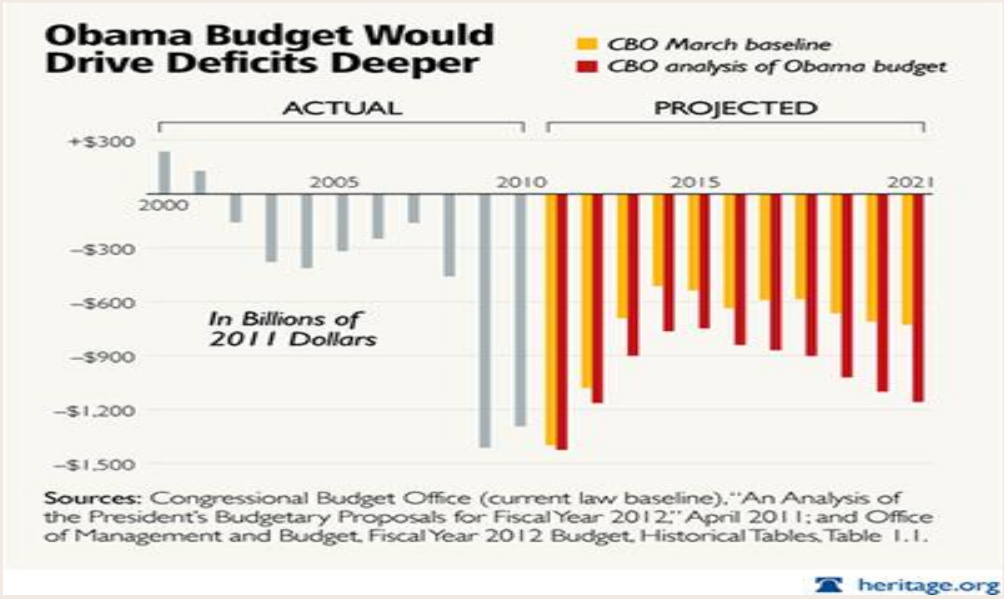
- 2009 is most recent accessible pie chart cut in these categories, but is exactly the same proportionally as 2012. The Senate never passed a 2011 or '12 budget, but spending in '12 is projected to be $3.7T - $200B more than 2009.
- 80% of budget is dedicated to obligations. Discretionary items are a mere 12%.
- Two things to recognize: To get anywhere near balancing the budget, Defense, SS, Medi&Medi must be reformed. And Interest on the debt will severely pressure every budget item as interests rates rise. These are inescapable.
- Medi&Medi and SS will absorb 50% of the budget in 2020 and 70% in 2030 - a guaranteed budget breaker. What happens to Defense, Other Mandatory and Discretionary funding? There's no escape without major reform. The urgency is if we reform now, the entitlement programs can be left alone for those now age 55 and older. But if we wait, the necessary reforms will hit those already retired.
- While the entitlement programs are on an actuarial path toward bankruptcy, the interest on the debt can throw the country's economy into crisis within a year of a significant spike in rates.
- At the current interest rate of 2.25%, interest payments on the debt absorb 5% of the budget as shown on this chart. When interest rates increase to 5% they will grow to absorb some 10% of the budget. At 10% interest they'll absorb 20% of the budget. And should interest rates climb to 20% like the early 1980s interest payments could absorb 40% of the federal budget. Couple this with the Medi&Medi projections and the entire budget could be absorbed with interest and entitlements.
- Make no mistake - interest rates WILL rise - it's only a question of when and how much. **The country is being placed in a steel trap framed by debt. If we do not get control of it, we will not escape national bankruptcy.**

Federal Budget 2000 - 2021



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- Here we have 18 years of budget deficits - which did begin with those 2 years of celebrated surpluses in 2000 and '01. We can see the deficits start after the late '01 recession and accelerated after the Iraq invasion in '03.

- But notice - the Iraq and Afghanistan wars did push the deficit up but only to a peak of $400B in '04. Then it was steadily shrinking, being absorbed by a growing economy till it came in under $200B in '07.

- As the economy softened and then crashed in '08 the deficit expanded to $400B in that year.

- But, the deficit projection in the following years looks dramatically different. Pres. Obama's first year in office saw the deficit soar from $400B to $1.5T - almost a billion of which was the stimulus bill. And though the deficit is projected to recede for a couple years to about $700B, it is projected to balloon as the cost of Obamacare kicks in.

- Now, the deficit is the shortfall between what the government takes in tax revenue annually and what it spends. So, in 2011 the gov't collected about $2.3 trillion while it spent about $3.8 trillion. The difference is a deficit of some $1.5 trillion which appears in the center of this chart.

- The $15 trillion national debt is comprised of the accumulation of all these deficits - they just keep piling up as the total of our debt owed. It is currently the equivalent of 15,000 Yankee Stadiums piled up somewhere for us to pay for - think about that for a minute.

U.S. Debt Crisis Related to a Household

Why the U.S. Was downgraded

• U.S. Tax revenue: $2,170,000,000,000

• Fed budget: $3,700,000,000,000

• New debt: $ 1,530,000,000,000

• National debt: $15,000,000,000,000

• Recent budget cuts: $ 38,500,000,000

Now let us remove 8 zeros in each category and pretend it is a household budget

• Annual family income: $21,700

• Money the family spent: $37,000

• New debt on the credit card: $15,300

• Outstanding balance on the credit card: $150,000

• Total budget cuts: $385

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- To give these numbers a dimension to which we can all relate, we have this slide.
- The top portion shows the budget and debt numbers we just discussed.
- But if we remove 8 zeros from them we can understand their proportionality in terms of a household budget. We have that depicted in the bottom portion of the slide.
- If we take the annual tax revenue of $2.17 trillion, and cut the 8 zeros we have what we'll call a household income of $21,700.
- And if we scale the federal spending of $3.7 trillion down to size we have the family spending of $37,000
- So the family cuts $385 a year from its budget and thinks that will do something against total family debt of some $150,000. We know where this picture leads…………..