Sunday, June 15. 2008

The Coming Fiscal Meltdown (2008 Edition)

Back in 2005 I penned an entry here called "The Coming Fiscal Meltdown of America"

You might want to go back and read it.

Why do I bring it up here again today?

Because the situation has gotten much worse.

Back then the total tab was around $43 trillion.

Today it is **nearly $100 trillion, or more than a doubling in the last three years.**

How?

Simple - we have done nothing to address the geometric growth of the problem, and in fact have made it worse.

Read this from Dallas Fed President Mr. Fisher:

"Add together the unfunded liabilities from Medicare and Social Security, and it comes to $99.2 trillion over the infinite horizon. Traditional Medicare composes about 69 percent, the new drug benefit roughly 17 percent and Social Security the remaining 14 percent."

Nice eh?

Well, this all ties in with something that has been a "back of the envelope" thing for a while, which is *investable capital.*

What is that?

It is the total sum (either net in or out) that is available to invest into the economy in the form of stocks, bonds and other similar instruments *by individuals* net-on-net.

This has been a positive number ever since WWII.

However, when the boomers really start to retire en-masse, this figure will shift towards and eventually cross into negative territory.Â My original estimate for when that would happen was 2030, plus or minus five years.

Unfortunately, the housing bubble (which I did not manage to properly account for back in 2005) was far more pernicious than any could have imagined.Â We have "pulled forward" demand through this, and in addition have left behind debt.Â As such there is double trouble coming directly ahead from the impact on *investable capital* from the bubble and its popping, and my *new estimate* is that we now face the rate going negative in 2020 - plus or minus five years.

Note that this means that we could reach the "knee" in as little as seven years from now.

Why is this important?

Because when that "knee" is reached outflows from all forms of investments will exceed inflows, *and a secular top in all capital markets will have been reached.*Â This is not a short-term "Bear .vs. Bull" thing - it is the defining element that has led to the stock market returning over 1,000% in the last 40 years.

Now certainly I do not expect the S&P 500 to go back to 100 or any such thing.Â But the sort of "bull market" we have had since 1992 simply cannot be sustained without a positive *investable capital* flow.

We as a nation must address our medical cost issues.Â We as a nation do not want to, but we must.Â It is not an option.Â The choices are to deal with this **or it will explode in our faces**.Â

As you can see,Â the explosion has already begun.

The "bad debt meter" has doubled ***in three years.***

Now on the forum there was a rather lively discussion that devolved down into one of the participants trotting out the old tired "but if you cut off free medical care and your kid gets run over by a car, he might *diiiiieeeeeee"* chestnut.

Yes, he might.

Guess what?Â Life isn't fair.

Let's look at the Canadian system.Â They have a set amount budgeted for medical care every year.Â They add up all the diseases and their costs, and put them on a list.Â When the cumulative cost of the treatments reaches the budget level, a line is drawn.Â If your disease is below the line, you don't get treatment.Â Period.

If you are in one of the "ok" categories, you still are rationed, because there is a waiting list.Â Money can only be spent at $X/month on said disease, because that was the budget.Â Your place in queue is established and you wait your turn.

For many people this means they die first.Â

And in Canada, *you can't buy the treatment even if you have the money and are too far down the list (or below the line) at all!*Â As a consequence Canadians who **do** have money frequently come to the US (or go somewhere else) to get their maladies attended to.

How is that different than "*but your kid might diiiiiieeeeee?*"

Its not.

Guess what - unlimited demand and limited resources can't work.Â Ever.Â Period.

So now we have crazy credit overhangs, an investable capital rate that is about to go negative in the near future, and entitlement promises that can't possibly be met.

Folks, we had better get off our collective asses right here and now.Â We are simply running out of time in this regard; the fact that investable capital *will* go negative cannot be avoided.

We are therefore stuck with the fact that we ***must*** have an honest discussion and debate between and among The American People about this problem and what it means.Â

We must repudiate this entitlement spending **now** so that those people who **can** do something about it - the folksÂ who are currently working - have time to make some sort of plan.Â

We must stop promising that which is mathematically impossible, and hold the politicians feet to the fire.

We **must** deal honestly with our children and grandchildren, and **stop holding them up at gunpoint** for what amounts to our own desire to live longer and more pleasant lives ***while forcing them to pay for it.***

My daughter deserves a future.Â So does your son or daughter.

Whether they have that future depends on **us**, and if "we the people" refuse to deal with this in an honest and forthright manner, some of us - myself included - might resort to taking out full-page ads in national newspapers with the math displayed for all to see.

Why?

Because if this is not dealt with the system **will collapse**, and when it does, you will inevitably come banging on your kid's (now as adults) door asking for help.

Their proper response, after you have screwed them out of their future, is to slam the door in your face.

I think its criticalÂ that they know what you did to them -Â and why.

Something to think about......

Posted by Karl Denninger at 15:45