$30,000,000,000,000

Less than five years ago, I wrote an article related to the nearly $20 trillion in Federal national debt. Recently, that debt level has breached the $30 trillion mark and continues to climb. These figures do not include state or local debt or personal debt such as mortgages, student loans or credit card balances.

The Federal debt has accumulated for many reasons but stated simply, over time, the Federal Government has spent more than it has received in tax revenue. The difference between tax revenue and spending is funded by issuing debt securities, essentially borrowing those “overspent” dollars. This debt is held by, and owed to, individuals and corporations, state and local governments, foreign governments, Federal Reserve banks, as well as intra-governmental agencies. Major foreign holders of this debt includes Japan ($1,340.6 billion) and China ($1,080.8 billion)1.

Thirty-trillion is a difficult number to digest or even understand its relevance. Perhaps some examples would illustrate the magnitude of this number. If a one-dollar bill is laid end-to-end continuously around the circumference of the earth, it would take over 115,000 trips around the world to equal thirty trillion dollars! From another view, if the total US national debt was divided equally per U.S. citizen, their “portion” of the debt would be over $90,000 each.

As individuals and families, what does this mean and what should we do about this behemoth debt load? In short, nobody really knows how the story will end. In theory, unlike you and I, governments do not have a life expectancy and debt can be rolled to the next generations indefinitely. However, if our leaders and legislatures want to address this issue, it will likely mean lower spending, higher taxes, or a combination of the two in the future.

Expect lower economic growth rates in the future which will likely lead to lower returns on financial assets. If more future tax revenues go towards debt servicing (paying principal and interest on that debt), these tax revenue dollars are not available for more economically stimulative activities such as building roads and schools. If lower rates of return on financial assets are expected, a higher level of savings may be required to meet a stated financial goal.

If tax rates rise in the future in order to raise revenue and reduce debt levels, it may be prudent to consider what tax advantaged opportunities are currently available that eliminate the consideration for future and uncertain tax rates.

Ultimately our focus should be on controlling what we can control and what matters and not be paralyzed by fear. Prioritizing financial goals, budgeting, maintaining an adequate emergency fund, and increasing financial literacy are all within our control. By focusing locally on our own day-to-day financial decisions and behaviors, we can worry less about big picture things we cannot control.

.*Adam Smit is CERTIFIED FINANCIAL PLANNER™ with Adam Smit Investment Management LLC and a registered principal of LPL Financial. This article is for general information only and not intended to provide specific advice or recommendations for any individual. Securities offered through LPL Financial. Member FINRA/SIPC.*

*1 - https://ticdata.treasury.gov/Publish/mfh.txt*