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Surviving the Debt Crisis

by Craig Maugham

What you need to know to beat the downturn
and thrive going forward.

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Table of Contents

About the Author

Craig Maugham is a pen name. Craig has a background in research and reporting but felt that the subject and content of this book was too controversial to be released under his own name.

The author has done his best to provide a balanced account of how the crisis developed and gather the best information and theories, from a wide range of sources, about how to survive the current situation and be better placed to thrive in the future.

He believes that much of what is written about the situation is colored by personal or institutional bias.

Craig says, "The size and urgency of the current situation makes people suspicious and likely to react strongly against anyone that expresses a view which they do not agree with. This could affect the public perception of myself and the various organizations which employ me from time to time."

"I wanted to put these ideas out without people thinking they were colored by my personal views or slanted to favor the positions of the companies I produce my other reports for."

"I have included some material which I felt was presented in a balanced way, but which I personally don't agree with, in the interest of balance and to be fair with my readers by giving them a range of views."

"I hope that all readers will find the material helpful with the decisions and plans which we all need to make so that we cannot just survive this crisis, but thrive into the future."

The State of USA Government Financials – An Overview

The United States of America began to feel the effects of this financial crisis about September 2008, though some believe that signs were there earlier.

This crisis developed from decisions and actions in various areas over a long period.

This financial crisis has already had serious effects on many companies, families and individuals.

It is acknowledged as the most significant problem with the international financial system for many years. But, no-one can be certain of how long or drastic the crisis will become because of the interlocking demands and reactions of the various countries, governments and major corporate players.

Just a few months ago, the Iraq war held precedence over all other news and the Administration put major efforts into possible improvements with the Iraq war and the Afghanistan conflict.

Right now, no other subject gets the coverage which is, naturally, given to the financial turmoil of the United States of America.

This crisis has developed during the period of a fiscally responsible and conservative Republican domination in Washington.

State debt assumes enormous proportions once it goes out of control.

It is not that a government does not have any debt. Debt is a part of every government's financial affairs. But, huge amounts of debt are definitely a matter of concern.

The national debt was about $5.7 trillion in January 2001 when President George Bush took office.

The national debt presently stands around $10 trillion. It has grown by more than $500 billion each year since the fiscal year 2003.

The $700 billion government bailout could cause the national debt to exceed $11 trillion, perhaps by the time that the new President Obama comes into office.

This could surely mean that the new President and government would start under the burden of an immense long-term debt.

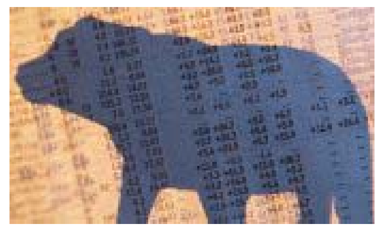
The national debt ceiling is presently at $10.6 trillion. Congress Treasury Secretary wants it to be raised to $11.3 trillion to clear debts arising out of massive borrowing that are believed essential to deal with the current financial crisis.

This could translate into a national debt of around $37,000 each for every man, woman and child in the United States.

What Factors Led to the Current Situation?

There was not just one thing which caused the present crisis to develop. Even the most reputable experts have differing views about the main causes.

Most accept that a major factor was uncontrolled borrowing from foreign central banks and other world nations.



Many say that the U.S.A. Federal Government has continually borrowed to maintain operational expenses.

The funds have been aimed at spending on many areas, including:

- Federal Medicare prescription benefits
- Oil prices (that tripled since the start of Iraq war)
- Military campaigns

and many other programs.

As I am writing this, the United States finances are under severe stress.

The US dollar has lost significant value.

Some fear that there may be negative effects from some of the quickly prepared measures that are being used to try to remedy various aspects of the crisis.

While governments can introduce measures to reduce some of the pressure on institutions such as banks etc., their ability to provide quick help to individuals and families in a major crisis like this is more limited.

Savings in banks and with other institutions may be affected while we wait for the new measures to have significant effect.

Some people say that the federal government's actions to protect the banks may add significantly to inflation.

The present financial crisis is not something out of the blue.

A few people predicted aspects of the crisis well in advance but the "common wisdom" of many experts was that these suggestions were over-stated.

The recent surge in America's debt has outpaced technology - the clock which shows a record of the country's national debt has run out of digits! This clock, National Debt Clock, shows total debt owed by the government of the United States of America. It was first installed at Times Square in 1989 by real estate developer Seymour Durst. Mr. Durst wanted the public to be informed about the nation's overall debt. It was $2.7 trillion at that time.

Seymour died in 1995 and the clock is now the property of his son, Douglas Durst.

This debt clock has provisions to show only up to 9,999,999,999,999 dollars after the dollar sign. Once the debt level reached the 10-trillion dollar level, it could not easily be represented on the clock. The operator of National Debt Clock, The Durst Organization, then dropped the dollar sign in the total figure. Presently, I believe that arrangements are being made to create a replacement for the clock with two additional digits. This new 15-

digit clock would make it possible to accommodate and display up to a quadrillion (a million, billion) dollars of debt in addition to a dollar sign. However, this clock is not expected to be in place sometime during next year.

A common view of many experts is that one of the best strategies for the federal government to reduce the current financial problems requires that it borrow many hundreds of billions of dollars.

Of course, this borrowing is very likely to translate into higher taxes for the average taxpayer. The justification for this would be so that expected large increases in Social Security costs, healthcare programs for the elderly and Medicare could be dealt with.

The people that support this view say that another possible justification for the amount of increase in taxes could be that the extra government revenue would be, in part, a possible protection for the American economy from another recession.

They estimate that a minimum of two years of government borrowing would probably be required for the extra reserves to reach a suitable level.

It is likely that the rise and fall of deficit and debt might be very sharp over the next period.

It is very likely that the new government will have a major task to steer our economy through the troubled waters.

But, the status quo and historic policies cannot be maintained because it would be too risky for the economy.

Too much dependence on continual increase of deficits because of increasing government borrowing could cause a lack of capital available for companies as investors might feel safer buying government-owned securities rather than privately-owned securities.

People that support this view claim that the debt market might be flooded with Treasury bills and other US securities. That could mean that the government would have to pay higher interest to attract enough buyers.

Higher federal interest rates could help to push interest rates of mortgages and other similar loans higher.

This could be expected to have some dampening effect on overall economic growth.

The government would depend in part on foreign investors. It might also mean a cut in spending along with the increase in tax rates.

Most accept that some tax increases are probably inevitable. The bailout could cause some increase in deficit levels and that could lower expectations for growth of the gross domestic product.

So, the government could have to draw in more revenue primarily from taxes.

There seems to be little that can be done to prevent this occurring to some degree.

Some analysts also predict that a growing deficit is on its way.

Although we cannot, at this stage, predict how long it could take America to get through this financial crisis, you can plan how you can make the best possible future for yourself and those close to you.

The government will, at some point, be able to sell assets like mortgage-backed securities held by financial firms and some bank shares it purchases during the current bailout, and then be able to use the money to recover some of the huge costs it has incurred. This practice has yielded positive results in similar bailouts undertaken by other countries like Sweden which have sometimes been able to recover up to two-thirds of their initial costs.

You can discount the extreme claims that the present crisis could lead to bankruptcy of the federal government.

Given the cooperation of all the stakeholders, there are signs that a new resurgence, more growth and a chance to rebuild our financial economy to a higher level than before are possible.

Our government must do its best to chart a new growth plan and prevent corruption and planning defects right at the start.

A lot can be learned from past mistakes.

This could offer an excellent opportunity to produce and follow a better plan to rebuild our future and the future of America.

United States Government Debt

United States government debt, also referred to as the national debt or United States total public debt, is the amount of money owed by United States federal government to holders of U.S. debt instruments.

The total Public debt includes state and federal debts which is owed to corporations, individuals and foreign governments. But, this debt excludes all social security debts and intra-governmental obligations.

Some of the federal securities held by the public include Bonds, Treasury Bills, United States Savings Bonds, Notes, TIPS and State and Local Government Series securities.

External debt includes debts which both the public and private sectors owe to foreign people and organizations. Foreign ownership of public debt is a substantial part of the total national debt.

When U.S. federal debt passed the $10 trillion mark on 30th September 2008, public debt stood at $5.3 trillion.

Further debts included Social Security obligations, Medicare, Medicaid and others.

A division of United States Department of the Treasury, the Bureau of the Public Debt, calculates the amount of money owed by the government daily.

Budgeted and non-budgeted spending has pushed total debts upward by around $500 billion each year since 2003.

The budget deficit fell from $318 billion in 2005 to $162 billion in 2007, but moved sharply up again to $455 billion in 2008.

There have been regular warnings from the U.S. Treasury Department, Office of Management and Budget (OMB), and the Government Accountability Office (GAO) that debt levels are sure to increase dramatically due to social programs like Medicare, Social Security, Medicaid and interest owed on outstanding debts.

There are estimates that benefits under entitlement programs could exceed government income by more than $40 trillion in the next half century.

If the changes which they propose are not done, some experts claim that federal expenditures could surpass federal tax revenues by sizable margins in a shorter period than that.

The Beginning of Federal Debts

Public debts have been a part of its existence since the United States of America came into being.

The first reported value of public debt was $75,463,476.52 on January 1, 1791. This was a combination of debts that were incurred during the American Revolutionary War and the creation and implementation of the Articles of Confederation.

Debt continued to increase over the next half-century.

It was brought down to zero for a short period in early January, 1835.

After that, the debts just kept increasing.

The Civil War in America was responsible for a huge surge where debts rose from $65 million in 1860 to more than $1 billion in 1863.

The following year, it stood at $2.7 billion.

There were a few fluctuations during the rest of the century. But, strong economic growth was recorded through most of the period from 1800 to 1912.

Then, debts started increasing again. It was around $22 billion during the 1920s, the World War I period.

History repeated itself and debts grew to an alarming $260 billion by the end of World War II from a figure around $51 billion in 1940.

Public debt and inflation soared in tandem during the nineteen-eighties. The nineties saw the debts increase by about two hundred percent within a decade.

Better results were achieved towards the close of the century.

But, debts then started climbing quickly again.

Public debt stood at about $7.9 trillion at the end of 2005. This was about 8.7 times the level of public debt in 1980.

For the greater part of the last half-century, America had enforced a debt ceiling. The Treasury could issue as much debt as the government required as long as it was within the specified ceiling.

Over time, the United States Congress passed new laws which caused fairly regular increases in the level of the ceiling.

Congress increased the debt limit to $9.815 trillion in September 2007.

In July 2008, the ceiling was again raised to $10.6 trillion with the passing of new laws to accommodate the bailout of mortgage giants, Freddie Mac and Fannie Mae.

Congress used to approve legislation for each debt issuance. It was decided that this was no longer possible because of the growth of fiscal operations in the twentieth century.

Categorization of Public Debts

Public debts are of two main types:

1) Marketable and Non-marketable securities held by the public
2) Securities held by government accounts

Ownership

Public debt holders cover a huge group of people that owning bills, notes and bonds.

The U.S. Treasury regularly publishes data providing information about the holders.

The foreign and international holders of the debt are also put together from the notes, bills, and bonds sections.

More than half of the total national debt is owed to the Federal Reserve and intergovernmental holdings.

According to reported figures of the US government in September 2008, it has supported its obligations to bailout home mortgage companies of Freddie Mac and Fannie Mae through the Housing and Economic Recovery Act of 2008.

The balance sheet obligations of these two companies are over $5 trillion. The Government does not account for these obligations in its current balance sheet.

The U.S. Treasury contracted to receive US$ 1 billion dollars in senior preferred shares and a warrant for 79.9% of common shares from each of these Government Sponsored Enterprises or GSEs.

This was done to maintain adequate capital ratios in the enterprises and ensure essential solvency. This is, effectively, nationalization of the companies.

Some people claim that some of these US governmental actions place taxpayers' funds at some risk. The effects of the takeovers may not be predictable immediately. The overall picture will probably only come into focus later.

At the time of the takeover, more than 98% of Fannie's loans were being repaid in a timely manner.

Both these companies are claimed to have had a positive net worth where their assets were valued much higher than their liabilities.

The Congressional Budget Office has directed incorporation of the assets and liabilities of these two companies into the federal budget. This shows the extent of governmental control over these entities.

Foreign Ownership

Presently, foreign governments are said to have about 25% holding of total US debt.

This figure was about 13% in 1988.

US Treasury statistics indicate foreigner organizations and individuals held 44% of federal debt held by the public in 2006. Two-thirds of this was held by central banks of countries like China and Japan.

Although there was a fall in such investments in 2007 due to the depreciating value of the US dollar at the time, but foreign investors continued investing in US-dollar–denominated instruments.

This exposure is claimed by some to pose a threat of some scale to the US economy.

If the foreign investors start selling Treasury securities or stop purchasing them, some people claim that it might cause significant losses.

It seems that such losses may be a very unlikely situation but the possible effects from such a theoretical situation becoming reality must be considered when decisions are being made.

Central banks of Sweden, Russia, Italy and the United Arab Emirates reduced their dollar holdings marginally in 2006.

Kuwait and Syria discontinued pegging their currency exclusively to the dollar in 2007.

These occurrences may not be pointers to what could happen in the future.

The Uses of U.S. Government Debt

When US government expenses are more than the revenue collected, there is an issue of new debt to cover this deficit.

This debt is raised in the form of government bonds sold in the open market.

The Federal Reserve credits the US Government for an amount equivalent to the dollar amount of the bonds.

The increase in dollars comes from the new money created to acquire the bonds and also from the money available through the Federal Reserve.

The practice of Fractional Reserve Banking prompts using of this available money as an asset in the financial records of the US Government.

So, the expansion of the amount of available money may be many times the amount of the initial money created.

The effect of this money being created is some dilution of the value of dollar as there are now more dollars in circulation.

This fall in the value may affect the short-term interest rates of banks and may push inflation figures higher to some degree.

There are other market forces and dynamics at work. The expansion of the money supply is not the only factor that causes changes in inflation or interest rates, but it may be a major one.

An interesting feature of the history of US debt is that inflation has remained more or less stable despite the increase in debts.

This is believed to mainly be due to the Chinese holdings in dollars. As I write this, China holds more than $1 trillion in dollar denominated assets and $330 billion of this are in U.S. Treasury notes.

The US Dollar Reserve is $1.4 trillion.

If China decides to divest a large portion of those reserves, the value of the US dollar could go down to some degree.

Some economists and financial analysts share the view that an increase in money expansion does not cause an expansion of the economy. Their view suggests that the government also has to adopt strict debt monetization measures.

In the absence of those measures, government borrow reduces the savings of others which might be in circulation for other purposes.

Then, the private sector might have a lack of available money and overall interest rates might record a fall.

Possible Risks to US Dollar

Normally, precious metals are used to provide backing to currencies of countries. When there is a trade imbalance, countries operating under such a scheme could send precious metals and try to fix all imbalances.

The US government does not function under this scheme. Therefore, the country may print all the money it wants.

In technical terms, the country can never go bankrupt.

If there is ever any gross imbalance between money in circulation and the economic worth of a country, the situation might have some potential to point toward hyperinflation.

So, the economic policies of the country have to focus on stabilizing overall debts with a stable currency.

US government agencies like the Office of Management and Budget (OMB), Government Accountability Office (GAO), U.S. Treasury Department, Congressional Budget Office and other financial agencies provide essential debt and financial analysis.

These agencies have the view at this time that the US government has faced many financing challenges over a long period. These were to some degree due to expenditures on entitlement programs like Social Security, Medicaid, Medicare and other similar programs.

Expenditures under these programs may at times exceed ability of the nation's economic growth required at that time to support them.

Future predictions by these agencies indicate that such expenses could exceed tax revenue between 2030 and 2040 which would lead to higher borrowings to support the discretionary spending in fields like education, homeland security, military, and law enforcement.

Some estimates are that, in the absence of stringent reforms, the demand on these government resources could cause government expenses to increase by $40 trillion over the next 75 years.

If debt ratios continue to double, then they might increase by 600% by 2080.

The US government has to decide from time to time whether to cut government expenses and, possibly, payouts or increase taxes.

If the increasing dependence on foreign funds continues, the US might theoretically, not be able to take independent decisions on some of these crucial matters.

Interesting Statistics

- $ • Total U.S Consumer Credit Card revolving credit debt was $937.5 billion in November 2007.
- $ • U.S. official gold reserves are worth $261.5 billion as of March 2008.
- $ The Strategic Petroleum Reserve is at $67 billion at a Market Price of $104/barrel with a $15/barrel discount for sour crude.
- $ Foreign exchange reserves are at $63 billion.
- $ The national debt, as of February 2008, was $30,400 per person U.S. population. That equated to about $60,100 per head of the U.S. working population.
- $ At the time of writing, estimates put the national debt at $37,000 each for every man, woman and child in the United States.
- $ Total U.S. household debt was $11.4 trillion in 2005. This included mortgage loan and consumer debt payments.
- $ Total U.S. household assets were $62.5 trillion in 2005. This included real estate, equipment, and financial instruments like mutual funds.
- $ The U.S. balance of trade deficit in goods and services was $725.8 billion in 2005.
- $ Global market capitalization for all stock markets was $43.6 trillion in March 2006.

- Net interest on public debts in the fiscal years of 2007 and 2008 was estimated at around $239 billion. This was estimated to be about 9.5% of government spending.

The Economy of the United States

The US economy is among the richest in the world. Our country has been the largest importer and among the top three exporters of goods in the world in recent years.

The GDP (Gross Domestic Product) per person is about fifty thousand dollars and there is high investment in the economy by foreign investors.

The financial meltdown has created or increased the problems facing the economy like increasing national debt, a large current account deficit, high mortgage debt and a weaker currency.

External debt forms almost sixty-five percent of the GDP and some estimates say it now totals about sixty trillion dollars.

Economic History

America became an independent country more than two centuries ago, gaining independence from England.

It was then a largely agricultural economy.

The country was prosperous due to ample natural resources, a hardworking population and a progressive political system that ensured supportive policies for agriculture and, later, manufacturing.

Immigration

America, being a land of plenty and opportunity, has always attracted many of the best people from all over the world.

First, there was an influx of immigrants from Europe and then from Latin America.

Many African –Americans came here as slaves to work on the cotton farms of the south and then settled into agriculture settlements after the American Civil War.

The twentieth century saw an increase in the numbers of Asian migrants when quota–based migration rules were eased.

State of the American Economy

The economy grew at a slow pace with high unemployment in the years after the great depression of 1930. This was said by some to be also partly due to America's participation in the Second World War.

The government then bolstered confidence in the economy by reducing taxes, increasing government expenditure and increasing the money supply.

The decade of the 1970's saw great demands on the US economy because of the Vietnam War and oil shocks.

To avoid recession, the government reduced its expenditure. It did not cut taxes, but controlled the money supply more closely.

Until the 1970's, the government used fiscal policy as a tool to control the direction of the economy. During this time, the economy went through a period of slow growth.

There was a large deficit and rising unemployment, which reduced the effectiveness of fiscal policy in directing the US economy.

Since the 1990's, the focus has been to control and direct the economy through monetary policy rather than fiscal policy.

Some of the major issues presently facing the US economy are;

a very high housing mortgage debt,

- $ funding of the Medicare and Social Security obligations,
- $ external debt,
- $ increasing trade deficits and
- $ low domestic savings.

Main Features of the American Economy

Progressive Legislature and Judiciary

The main feature of the US economy is a legal system that promotes free trade and private enterprise with minimal government intervention or sanctions.

The American judiciary enforces contracts and protects intellectual property.

Government regulation of banking and finance aims to prevent fraud, protect an individual's privacy and avoid monopolies in trade. This sometimes affects labor laws and environmental protection.

But, with an increasingly activist public, the government is under pressure to balance the need to protect the environment and guarantee the public safety against the need to encourage new development projects which sustain and increase jobs for the population.

Abundance of Natural Wealth

There are vast natural resources in the U.S.A., such as natural gas, mineral oil, fertile land and large bodies of water.

The climate is not extreme over most of the country and mostly supports a range of agriculture and/or manufacturing activities. There are excellent waterways across the country that provide transport and trade linkages. Its vast coastlines on the Atlantic and the Pacific Oceans provide fast trade links to Europe and the rest of the world.

Skilled Manpower

As mentioned earlier, the US is a melting pot of people from across the world since it offers a better life and a high standard of living than many other areas. Productivity per person is generally high which contributes to the growth of the American economy.

People can move freely and work in any area across the country, which helps to ensure availability of skilled workers as long as jobs are available.

Corporatization of Business

Many of the World's largest business entities have a significant presence in the U.S.A and some employ large numbers of workers.

The share market has been very active and attracted investors from across the world to invest in US companies.

Many American companies get some of their income from markets across the world and have their views heard when world business matters, including government regulations, are discussed.

The USA's government policies promote free enterprise by providing affordable electricity, good infrastructure and supporting companies in this country with government contracts.

Government Policy

Regulation by Economic Means

- Some laws aim to protect good business practices and prevent the building of monopolies in sectors like telecommunications and electricity.
- The government takes steps to promote competition and to protect the consumer from unfair dealings.
- Government intervention in the market is intended to help stabilize food prices and prevent hoarding in times of scarcity.

- It has also helped industries like airlines and trucking firms when there have been negative effects from external causes.
- Antitrust laws prevent monopolistic mergers that can result in harm to smaller players in an industry.
- The Federal Reserve governs bank regulation around the U.S.A. and there is also some regulation at the state level, designed to protect the interests of depositors and low-income individuals.
- The Federal Reserve decides the monetary policy and controls the stability of the American dollar.
- The money supply has four components; M0, M1, M2, and M3.

M0 is the sum of all actual currency and accounts in the central bank that could be exchanged for physical currency.

M1 is the difference between M0 and the amount of **M0** in safes plus the amount in current accounts.

M2 is the sum of **M1**, time deposits and money market accounts.

M3 is the total of **M2**, **CD's** and deposits of Eurodollars etc.

- The Reserve publishes data regarding M0, M1, and M2 from time to time for the public.

The Role of Government

• The government has multiple roles at the Federal and state levels. At the federal level, it regulates and formulates policy related to education, health, defense, the space program and the economy. At the state level, it is responsible for maintenance of roadways, public schools and law and order to ensure the safety and security of its citizens.

• The federal government also provides low-cost loans to fund education of needy children and loans for small and medium enterprises at nominal rates of interest.

• It aims to remove trade barriers for American products in foreign countries and ensure free and fair global trade.

• It provides Social Security for those who have no jobs and medical insurance for the senior citizens and needy low-income families through the Medicare and Medicaid program respectively. These welfare programs come in for criticism since they may encourage some people to remain on federal dole for life even though they are capable of making a living for themselves.

Components of the Economy

Public debt

This is the total amount of money owed by all departments of the US government, including interest. It is a sensitive topic as it affects the amount of debt liability on each American citizen. It is among the largest in the world and comparable to the debt of countries like Japan.

Segments of the Economy

• Electricity generation is more than the consumption, but America does import some electricity to meet domestic demand. Most of the electricity comes from fossil fuel and about twenty percent from nuclear sources.

• Oil consumption is about twenty million barrels per day which currently depends on imports equivalent to more than thirteen million barrels per day.

• Natural gas consumption is substantial but the reserves are plentiful at the current time.

• Food products grown include corn, wheat and a host of dairy products, fruits, and vegetables.

• America exports services, software, cars, manufacturing equipment, and a host of other things. Major imports include petroleum, oil, and consumer items.

Components of American Trade

Trade Deficit

The US has a trade deficit with most partner countries running into millions of dollars each year. This is of concern to many who see it as a representation of the amount of American assets, including government debt, in the control of foreign investors. They earn dividends on American assets and the money goes out of the country. The foreign investors may re-invest in American assets or shift the capital out of America, which might result in a loss to the American economy.

Since many countries have export-driven economies dependent on the U.S.A., the magnitude of the external debt is of concern to the world economy. Any significant shift in the equation is likely to benefit or adversely affect world economy as a whole.

For example, China purchasing large amounts of dollars to keep its currency devalued was claimed to be a major factor in the housing bubble in September 2008. Consequently, the American economy and banking institutions are negatively affected.

As the U.S.A. is a major player in the world trade, some countries peg their currency to the dollar, putting their faith in the American economy.

Conclusion

With the increasing financial crisis in the U.S.A., there are instances of government bailouts and intervention in all major banks and financial institutions across Europe and the developing world.

But, after my research, I believe that the American economy will remain robust and is able to recover from the current crisis given time and goodwill on the part of all the parties involved.

Is US Debt Destroying the World Economy?

Ever since the Wall Street started tumbling and the American economic crisis came out in the open in September 2008, there have been effects around the world. This disaster and meltdown was not restricted to this country alone; the repercussions are being felt across the globe.

It is aptly termed as a global recession.

The American Economy and the World Economy

Volatility and uncertainty are widespread at this time in the financial markets.

The growth rate of the world's economy has slowed down.

China has been posting double-digit growth rates for the last four years. However, the growth rate has fallen to 9.0 percent in this quarter, according to the National Bureau of Statistics. This fall is primarily attributed to the unstable international economic climate.

Similar reports are coming from Japan, the second-biggest economy in the world. The Bank of Japan is Japan's central bank. It's Governor, Masaaki Shirakawa, has predicted stagnancy in economic growth of the country as the result of fallout of the economic recession in countries across the world.

With the American economy, development across different states of America, its lending to other developing countries and the overall state of affairs in the United States has a direct effect on the economic situation of other major countries of the world.

From current U.S.A. data, new home sales in the United States fell to their lowest level since the recession in 1991.

The Start of the 2008 Crisis

The present financial crisis in the U.S.A. had its beginnings in the highly acclaimed and popular sub-prime US home loans. These high-risk loans were packaged as derivatives or complex investment instruments and sold to banks and investors across the world.

The crunch began when people defaulted on these loans. Repayment delays and defaults in paying back loans started a grim chain of events in motion.

The worst-hit businesses were the lending banks. They became cash-strapped. Inter-banks loans alone could no longer ensure the smooth functioning of the world financial economy. It became clear that not all banks could survive this situation which could have led to bank failures across the world.

This caused world governments to pump in as much as three trillion dollars, in addition to huge cash infusions, into these affected banks.

ING, one of the largest banks in the world, reported a loss of around 675 million dollars in the current quarter. The Netherlands then announced a 13.4-billion-dollar bailout for ING.

Similar scenes occurred when South Korea offered of over hundred billion dollars in guarantees to meet offshore debts of their domestic banks. Britain's Finance Minister, Alistair Darling, put up plans for boosting public spending to overcome the negative growth rate of the British economy over the last two quarters.

However, the overall sentiment was not all depressing.

The announcement by US President George W. Bush and the European leaders to hold various summits to address this worst world crisis since the Great Depression has brought some cheer into investors and markets alike.

The first summit is to be held soon after US presidential elections on November 4. The summit will primarily address reforms to set the international financial system right.

The most urgent need of the hour is an extensive overhaul of the system while preserving the traditional foundations of democratic capitalism such as free enterprise, free markets, free enterprise and free trade.

Critical Appraisal

The ongoing global financial crisis has many similarities to the Great Depression of the twenties. Major changes like bank failures, the worsening credit crunch, rushed mergers of banks and financial institutions, sinking stock markets and some financial giants tumbling cause similar sentiments to those which were common during that Depression.

However, the major difference is that there is no great change in day-to-day life of the common person. The Great Depression pushed millions of families into extreme poverty.

Today, while a significant number suffer severe hardship, most people are still able to purchase goods, ATMs are working, and the scale of job losses is not as massive at this point.

Some experts say that this indicates the current crisis to be more of a financial correction and subsequent panic, rather than a full economic meltdown.

This has still caused extensive damage to Wall Street institutions. But, so far, the repercussions have not been felt as deeply as during the Great Depression.

History has been a great teacher. Politicians, bankers and others at Federal Reserve, Treasury and elsewhere are well aware of how all this could translate and bring changes in the economic scene. They are trying their best to soften as much of the depressive effects and reduce the number and effects of business closures and stresses.

Although the world economy is witnessing immense uncertainty, there are certain safeguards within the economy as an aftermath of the Great Depression which are helping.

Unemployment rates were as high as 24.9% in 1933. The current rate is 6.1%. It may go up to 7% or 8% which has severe effects on those directly affected but is much less than during the Great Depression.

Most banks presently have Federal deposit insurance. Most investors do not have a risk of losing all their money. Foreclosure problems are restricted to subprime mortgages alone.

Presently about one-third of all homeowners have a clear and free title. The present Federal Reserve is not on the gold standard.

Interest rates can be decreased to increase liquidity.

The current tax structures are not entirely progressive. There are automatic stabilizers within the system.

The impact of a dollar decline in Gross Domestic Product may be offset by tax decreases and automatic government spending increases.

There are some safety nets put into place after the lessons that were learned from the Great Depression.

These include the Securities and Exchange Commission to regulate stock markets and protect investors, unemployment insurance, deposit insurance and various social security measures.

All these help to ensure greater flexibility in financial markets.

This may help the world economy to recover faster and reduce the speed and extent of negative events in the markets across the world.

The appraisal shows that there is definitely a recession but not all are convinced that we have, or may experience, a depression.

Many feel that the world economy will bounce back after two or three quarters and things will slowly start looking up.

Sources:

The Federal Response to Home Mortgage Distress: Lessons from the Great Depression by David C. Wheelock

America's Greatest Depression 1929-1941, by Lester V. Chandler National Association for Business Economics

Economic Events that Affected the Economy

The effects of tax cuts which were intended to promote innovation are hotly debated with some experts claiming they have not had the desired effect while still reducing government revenues.

• The economic effects of the Iraq war have included:

Defense expenditures increased by more than 70%.

Increased social security expenses to assist those injured in service of their country, war widows, orphaned children and other major responsibilities.

Early estimates of spending on the war effort were around $50 billion dollars each month as war expenses. Today, the total cost is about of more than half a trillion dollars. These figures are not the final ones as there are ongoing, recurring expenses which include lifetime disability and health-care benefits for wounded veterans, replacement costs of equipment, re-enlistment bonuses, recruitment costs and other associated expenditures.

The Gross Domestic Product went from a surplus of 2.4% to a deficit of 3.6% within four years.

Money allocated for building infrastructure or to repair current installations fell.

Changes in measures that were designed to stimulate economic growth are claimed by some to have encouraged increased consumer spending.

Credit card debt went near to $900 billion by mid-2007.

Sub-prime mortgages were freely available to almost everyone. Americans took full advantage of the new mortgages and their initially low interest rates. It looked too good to be true and, for many, it was.

Bankruptcy rates rose by up to as much as 60% within 2006-2007.

Foreclosures increased with some estimating that up to 1.7 million Americans might lose their homes.

Oil prices increased across the world. Oil cost about $20 to $25 before the start of the Iraq war and some believed that the prices could be expected to remain in that range for up to three years.

Market sources anticipated increased production in the Middle East could meet the increase in demand from countries like India and China. But, oil production in Iraq was severely hit.

The new occupant of White House, President-elect Obama, faces many challenges.

One of the main ones is to find some way to bring about a typical savings rate of around four percent from the much lower rate we have, as a nation, right now.

This measure could ensure future growth and stability, but it could be a difficult task to achieve from our current situation.

Also, when we begin to save more money, our spending will decline and this could cause some negative gloom.

Many households are currently cash-strapped, especially because of the mortgage issues.

Economic and Human Cost of the Iraq War

War has far-reaching effects on any society however rich and progressive the economy may be.

Loose mortgage lending has been a significant factor in the present financial crisis in the U.S.A., costs associated with the Iraq war are also.

Every war costs a lot in both economic and human terms.

The Economics of the Iraq War

A conservative estimate of the Iraq war to date would be around $4 to $5 trillion.

Some estimate the weekly outlay at around $3.5 billion.

This total cost includes much besides the pay and benefits of the troops.

It also covers all the costs incurred for keeping troops at war as per the estimates of the US government.

The war has been a factor in the increase in oil prices from less than $25 a barrel in 2003 to around $100 a barrel now.

An estimate of costs incurred for military equipment includes:

- $2.3 million for machine guns
- $1.5 million for M-4 carbines
- $4.3 million for Hellfire missiles
- $6.9 million for night vision devices
- $10.8 million for fuel per week
- $5 million to store and transport that fuel per week

- $ • $14.8 million for F-18E/F fighter planes per week
- $ • $30.7 million for Bradley fighting vehicles
- $ • $23.4 million for ammunition per week

As well as arms and ammunitions, there are:

- $ • Parachutes and aerial delivery systems costing $950,000 per week
- $ • Laundries, showers and latrines costing more than $110,000 per week
- $ • Runway snow removal and cleaning costing $132,000 per week
- $ • Flares costing $50,000 per week

Claims are made that these costs are essential to provide our troops with the best equipment available to help to ensure their safety and eventual success. No-one will deny this is something we owe them.

There are also many private-contract employees in Iraq like support personnel, translators, weapon technicians, cooks, interrogators, and others. The total cost is hard to quantify.

War brings about lot of death and destruction in its wake. Although an absolute truth, you also have to consider the payouts to families of troops killed in action. Death gratuities amount to around $2.4 million per week while extra hazard pay may be about $10.6 million per week.

People are generally less willing to join the Army. The government has to spend more to encourage the people to join the military. Recruitment and advertising expenses have increased significantly.

This is only intended to give you a general idea of the costs incurred. Some other costs, such as provision for reconstruction, rebuilding and setting right the destruction will also have to be met.

The government also has to allocate specific funds for the families of those killed in the country's service and also to take care of injured and disabled soldiers.

What the $700B Bailout may mean to You

October 3, 2008 was a momentous Friday for American economy.

Congress awarded the essential lifeline to overcome the ongoing financial and economic crisis in America in the form of $700B bailout bill. President Bush signed the $700 billion bailout package just before financial markets opened for the day.

What is in the Package?

Treasury Secretary Henry M. Paulson Jr. has brought together the most important financial package for the American public and the entire world economy.

The Treasury Department would get up to $700 billion to purchase defaulted mortgages and mortgage-related securities that are choking banks and other financial institutions across the country. It is claimed to be essential to get back these assets because the banks say they cannot lend to consumers and get intra-bank lending flowing until this happens.

However, the bailout may have some repercussions on savings plans, pensions, paychecks, and payrolls. The initial focus is to rescue Wall Street.

Federal help to the affected financial and mortgage companies could help stock markets and housing markets recover considerably over a period of time.

This bailout may bring some restrictions in payouts to executives and might initiate an ownership stake for the federal government, depending on how it is spent and administered.

After the recovery process, the government can sell its ownership and may be able to recoup the amount lent.

The Treasury could pump in around an additional $50 billion from existing funds into money market mutual funds. This would be intended to insure the holdings of investors and prove beneficial in improving the overall market health and sentiments.

The total bailout package will take some time to take effect.

The focus is to help people regain confidence and start investing with a reasonable expectation that they may receive assured and worthwhile returns.

Possible Effects on Taxpayers

Federal spending in the fiscal year 2007 was $2,730 billion against collections of $2,568 billion. The total deficit stood at $162 billion.

The bailout package of $700 billion means an increase of more than 25% of last year's collections. The bailout exceeds governmental spending of $581 billion on social security, $561 billion on Medicare and Medicaid and $549 billion on defense.

The onus of providing for federal debt rests on the taxpayers. The situation may require an increase in federal taxes now and also into the future.

Some generations down the line will have to contribute their money to repay the effects of these financial measures which have been undertaken to bring the economy out from its slump.

Through this package, US Treasury could invest $250bn in various banks like J.P. Morgan Chase, Citigroup, and Bank of America to meet the bank debts arising from failed mortgages and other losses.

Additionally, the U.S.A. Treasury could guarantee all new debt issues by banks and bank deposits for a period of three years. It is proposed to inject $250 billion directly into the financial system.

The treasury will receive preference shares, which pay a dividend. However, there will be no dilution of the ownership of current shareholders.

This is intended to restore confidence in the financial system.

The lending powers of commercial banks could increase which they say is needed to enable them to finance purchases of asset-backed paper from money market funds.

The Security and Exchange Commission has put a temporary ban on short selling, a regular feature in the stock market. Normally, short selling is selling of borrowed shares in the hope of getting them back later at a lower price. This could cause a decline in value of stocks and the companies concerned.

This ban put a temporary stop to trading of certain financial instruments and stocks. This is a drastic step yet was regarded as essential.

The recently bailed out mortgage giants could now increase purchases of higher-quality mortgage-backed securities which would be a welcome measure.

But, ownership of the riskier mortgaged assets of these giants would depend on decisions to be made by the incoming 2009 Administration.

What Will Happen If the Bailout Fails?

According to the latest U.S. Census information, there are 116 million households in the U.S.

The cost of this bailout package might translate into approximately $6,000 for each household.

The repayments could be spread over few generations of Americans.

If there is any negative fallout from this bailout package, the government might have to buy up different assets.

That might include car-loan debt, commercial real estate debt, credit card debt and other types to get more control over the banking system.

It is obviously essential for all to work together and focus their efforts at consolidating the financial position of the country.

There is more reason than ever for people and States to live within their means and stop to all-extravagant spending.

Some claim that the spending priorities should be on sectors like education and technology.

Financial crises across the world have shown that, if a crisis persists, you have to take immediate measures to counteract and revive the economy.

The longer a financial crisis persists, the more effort and expense is needed to counter its effects. This could cause more serious effects to the economy in the form of falling asset prices, destruction of wealth, loss of confidence by the public and investors and poor economic activity.

Higher levels of bankruptcy and overall economic failure could change the face of a country significantly.

Is Your Money Still Safe in the Bank?

In the ongoing liquidity crisis since July 2008, some banks have failed.

Banks have become bankrupt.

Mortgage lending institutions have collapsed due to increasing foreclosures, falling home prices and tighter credit.

Early September saw the rescue of mortgage giants Fannie Mae and Freddie Mac.

Lehman Brothers were declared bankrupt in mid-September.

The Bank of America agreed to purchase Merrill Lynch.

The biggest bank failure was on September 25 when JP Morgan Chase agreed to purchase the banking assets of Washington Mutual.

IndyMac Bank bankruptcy was another major failure.

How Safe is Your Money in the Bank?

The continuing failure of banks has created a panic in many people's minds over the question of how safe is their money that is on deposit in banks.

Under any circumstances, banks are the safest place to keep your money. The Federal Deposit Insurance Corporation insures as many as 8,500 banks in the US.

So far, only 12 out of the 117 problem banks have failed in comparison to the 834 banks that failed during the 1990-1992 recession.

The Federal Deposit Insurance Corporation, or F.D.I.C. insures all bank deposits while the National Credit Union Administration or N.C.U.A. takes care of credit unions.

These insurance companies do not have any federal funding. Banks and credit unions pay regular premiums to these insurers. Where a bank fails, it files a claim and you as a depositor get back your money.

It is best to check if your credit union or bank has the requisite insurance coverage before you deposit your money.

The FDIC covers almost all types of bank accounts, including savings accounts, checking accounts, money-market savings accounts, Christmas club accounts, and CDs.

Money market mutual fund shares, securities, brokerage accounts and bonds are not covered by the FDIC.

Amount of Insurance

The NCUA and FDIC offer similar amounts of insurance. The total account balance under a single name in a bank is insured up to $250,000.

All self-directed retirement funds of the same person in the same bank are insured up to $250,000. With joint accounts, it is $250,000 for each co-owner. They each have equal rights for withdrawal of funds.

If you have a joint account and a personal account in the same bank, your co-owner's share will be added to the deposit in your personal account. Both would have an insurance of $250,000.

With Payable-on-Death accounts, each beneficiary receives insurance coverage of $250,000. The beneficiary can be a person, any non-profit organization or charity. The beneficiary should be properly identified.

Trust accounts are similarly insured up to $250,000 per owner for each named beneficiary.

Unless stated otherwise, all beneficiary trust accounts are treated equally.

Banks Accounts with High Deposits

Normally, bank depositors do not have to worry about the safety of their money if there is a bank failure. You can get back your deposits through federal deposit insurance. If your deposit exceeds the insured limit of $100,000 or $250,000, you may not be able to secure your entire deposit amount.

In such cases, it is best not to keep huge sums in a single bank account. You might not want to distribute your money among different branches of the same bank but, instead, divide your money among several banks.

Then, you could receive insurance coverage of $250,000 at each bank.

Alternatively, if you want to keep your money in the same bank, you can differentiate your accounts through ownership categories.

You might have:

- a personal account in your name,
- a joint account in your name and that of your spouse;
- a trust account with your spouse as the beneficiary.

What Happens if a Bank Fails?

Normally, bank closures are regulated on Fridays. Depositors can access their funds fully by the following Monday. You may also be able to use your ATM cards and check books during the weekend to withdraw or transfer funds.

Online banking services would not be available to customers.

If you hold deposits exceeding the insured amounts in your account, you may recover a portion of your holdings after bank assets are sold where there is a bank failure.

Sometimes, you might get back around 70% of your deposited amount.

11. How to Deal with the Effects of US Debt

The American public debt is currently about $11 trillion with an annual deficit figure between $500 billion and $5 trillion.

The blame game is always going on.

Parts of the debt could be due to unplanned mortgages, inefficient administration, tax policies and other influences.

The list could get very long, depending on whom you ask.

But, most people in the street are focused on a few basic questions:

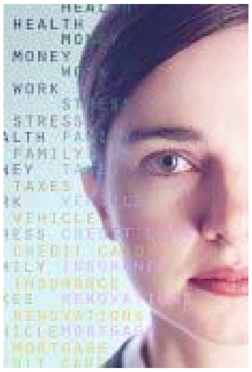
- ? Can the bailout really help the economy to recover?
- ? Can our dollar survive the jolt and again be supreme in the financial world?
- ? Can America come cleanly out from this financial event?
- ? Can the nation continue to support its various social pledges of supporting the elderly, the sick, and the unemployed?

Dealing with the Effects of the Debt

This requires you to do a self-analysis.

The bailout amount and the deficit have put you, the "average" American, into perpetual debt.

If the total debt were to be spread over the American population, it could amount to a personal debt of over $37,000 each for every man, woman and child in the United States.



The bailout package alone causes a debt of $6,000 for every American household. This amount is never static - it increases each day.

This bailout and deficit repayment does not include any percentage of your personal debts from credit card payments and mortgages.

The gloomy economic condition has brought savings figures very low.

Today, fewer people are putting away even $1 for every $100 earned.

The extravagances are many. American society is estimated to spends $1.9 billion more each day on imported cars, clothes, and gadgets than the rest of the world spends on its goods and services.

Few Americans can be motivated to cut on their spending just to reduce federal deficit.

America may try to make its way out of this situation by borrowing from foreign countries and investors. But, such borrowing might cause more lost jobs, higher interest rates, falling home values and less to spend on essentials such as law enforcement and health care.

Where do We Start?

The very first step is to start or increase your saving to restore your financial confidence.

After the World War II, savings rate increased to as high as 11% but fell slowly to 7%.

Presently, there is hardly any savings over the nation.

Another way to look at this is there has been a great increase in personal debts. Household debts consume 18% of disposable income. Americans have been spending more on luxuries and putting their money into houses to benefit from the soaring prices.

The situation did not change in a single day. It has been developed over a period.

Some of the cumulative effects were seen in the dot-com boom, federal tax cuts, the Afghanistan and Iraq wars and the current crisis.

Most federal deficits have not been as high as those of the nineties.

Americans prefer purchasing everything on credit cards and, for many, the bills may exceed the paycheck when it is time to pay.

This prompts more borrowing, often at higher interest rates, and the vicious circle continues.

The only way to break away is to stop or, at least, significantly reduce your expenditures.

Buy only the essentials.

A possible downside is that this reduced consumer spending could mean slower economic growth for the country.

A sudden increase in interest rates could push your debts higher as you would have to repay much higher than you were previously led to believe.

The new bankruptcy law may prevent you from becoming bankrupt.

You would have to continue working well past your retirement if you have bills to pay.

The increase in interest rates could push your debts so high that you may have to sell your house.

The overall effect of this financial crunch and its negative effects would mostly be felt by people in the middle-income and lower income categories.

The Politics of the Debt Threat

China is the second largest foreign investor in the U.S. Treasury, next only to Japan, with its holdings of $244 billion.

The Chinese purchase American bonds and other investments to recycle dollars earned from their exports to America. China has purchased dollars to keep its currency, the Yuan, lower in value to maintain their international competitiveness.

Although China provides the US with essential cash, this also may increase the financial vulnerability of the US. If America imposes restrictions on Chinese imports, it could cause retaliation with the Chinese disrupting the harmony of the U.S.A. financial sector.

If China stopped funding the US, the value of the dollar could plummet.

Increases in interest rates could cause mortgages to become oppressive and push the U.S.A. economy closer to a recession.

This situation is regarded as unlikely while China requires a viable American export market to fuel its economy.

Building Your Financial Safety Net

The main concern is how well you can build a financial safety net to protect your money and make your savings grow despite the negative situation.

After-effects of the Bail-out

The importance of creating a financial web to safeguard your money has never been greater.

Some of the greatest potential risks include:

1. Hyperinflation: The bailout may increase the supply of money within the country through printing of more money.

This increase might dilute dollar value due to higher amount of dollars in circulation.

A few financial giants have fallen and some others are struggling. The Federal government may have to give support through a period of more closures, bankruptcies and a stressed financial economy. The government's main instrument for support is through creation of more money. But, where there is excess money in circulation, the possibility of hyperinflation may increase.

2. Sale of U.S. Debt: US debt is spread across Japan (around $600 billion), China (around $500 billion) and United Kingdom (around $250 billion).

The total US debt is currently about $10 trillion and is expected to increase by $500 billion each year. This might cause foreign creditors to sell their US debt or stop buying any further US debt. If

Japan and China start selling US debt, it could become more difficult for US to procure new debt. The way to attract new debt is by increasing interest rates on debts or printing more dollars to cover expenditure. This might prompt hyperinflation as already discussed.

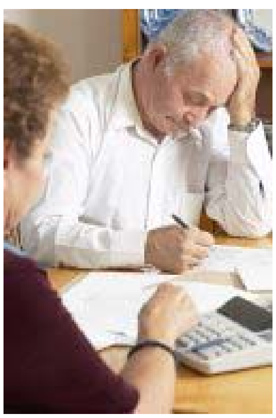
Counteracting Bail-out Problems

The bailout risks when translated into terms which the average person like me may understand include the falling value of the dollar and an increased threat to your livelihood.

But, it is possible to provide yourself with a financial safety net even in these trying times.

Adjust these Steps to Your Financial Requirements

Time in Hand



The Bail-out has probably provided you a little extra time to earn and save more money to guard yourself and your family against the possibility that the overall situation becomes even worse.

That period of time might be a few months, years or even a decade.

You should, if you believe that you might need to, look for alternative or additional sources of income.

If you are on the federal payroll, you might face the possibility that, at some point, a paycheck may not arrive on time as all state governments are deep in debt.

The scenario could be the same if you are living on pension benefits, health care or worker benefits.

This is likely to be fixed quickly to prevent major panic but plan what you can do to reduce the temporary effects before the situation is upon you.

If you are employed with private businesses, from the smallest to the largest corporations, the same sort of problem could occur and the fix may take longer.

Real pressure could be felt during the Christmas season. People have less cash in hand to spend on gifts and durables than has been normal during previous years.

Many people are fearful of their future and that of the whole economy. That was a major reason that I prepared this ebook.

Secure Your Financial Situation

The best way to look for extra sources of finance is to create something for yourself.

Look for opportunities that allow you to control your source of income. The beginnings could be slow but, whatever little you earn would help to increase your preparedness.

You do not have to fear so much about the effects of being fired of your job.

While searching for additional income sources, avoid any which require you to put in significant amounts as initial expenditure. You could do better with options that do not require much initial expenditure, even if the potential return is also lower at the beginning.

You should keep any recurring expenditures, like advertising and expenditure on stock to a minimum.

You should be able, in at least the early stages, to do the job all by yourself so that you do not have to hire, pay and be responsible for additional people.

Job Opportunities

The best job opportunities are likely to be those which relate to your present skills, areas of interests and hobbies.

Your hobbies could range from gardening, cooking, dancing, singing, writing, blogging and collecting. the list is almost endless.

You could seriously consider turning your hobbies into businesses.

If gardening is your hobby, you might offer gardening tips and other interesting information about how to nurture and grow any plant.

You could offer information at your web site or through phone consultations.

You might create a video on how to take care of your garden and sell it to interested people.

Or, you might offer garden care services to the people that do not have enough time or may be physically incapable of looking after their own garden. Be careful to get appropriate insurance for your activities before you start.

You might sell books on gardening or special gardening tools. If any of these options are too costly to start, look for cheaper alternatives.

You can apply similar tactics according to whatever your hobby or skills are.

If you have some writing talent, you can offer write-ups on events to web sites or offer content-rich articles at freelancing web sites.

You can take up these activities in your leisure time, make additional income and perhaps build them into a full-time activity. Then, you would be earning your living doing what you love. Few things can be more satisfying.

Going Ahead

Once you decide on which hobby or activity you want to pursue in your leisure to earn additional income, you have to look hard at the viability of the project.

Your work should be of a sufficiently high standard to attract customers.

If you are blogging or posting content at web sites, try to collect contact details of the people you interact with. This will help in building up your lists to ensure long-term success.

Maintain regular contact with people on your list and offer them only useful information. This can help to develop a trustworthy relationship over time.

Then, you can offer solutions which earn money for you.

The initial amounts may be only small but it could offer a constant and regular source of income over time.

Keep changing your presentations so that you do not become too predictable. This keeps up the interest of your clients.

Other Options

Affiliate marketing is another efficient way of making extra money from the Internet without any significant investment in money or time.

You might also look for possible avenues to sell information online like ebooks, audio, downloadable software and other items.

If you have practical knowledge about subjects which others want to learn, you might become a consultant or a tutor. Then, you would get paid a pre-agreed hourly rate.

These options do not require any complex start-up strategies.

You only have to start looking around and evaluating the knowledge and contacts that you have acquired in recent years to have opportunities almost start jumping out at you.

Keep Your Risk to a Minimum

The dollar rises and falls in value but it is still, basically, a very strong currency compared to may others.

Whatever you choose to do, look for options that deliver revenue with the minimum risk of loss.

Keep your various revenue streams intact so that even if your circumstances change in the future, you do not stand to lose overall.

Transition could be difficult but, where the revenue source is mostly under your control, you have less need to indulge in unproductive worry.

When you have started to build your options and assets, you can choose to spend, save, or do just about anything with your money.

Benefits Scheme

The post-bailout era may cause doubts in the minds of some people about investing in retirement benefits and the like.

You should hold the reins of how you want to make your money work for you or provide you benefits when you become old. The time for reckoning is now and you do not have to wait for any opportune moment to come your way. Instead, go out in search of available opportunities and make good use of them. Remain responsible for your actions and choose opportunities that can deliver fast and sure.

Protecting Your Money During & After an Economic Crisis

1) If you wish to achieve real wealth, focus on acquiring assets that are valued by other people. Concentrate on allocating you money across different types of assets, including some whose value might rise where others that you have face a fall in their value.

2) Decide whether you might be better off making extra mortgage payments or putting that money into investments.

3) Be careful with investments; do not fall for flattery or let yourself be convinced by claims that their past performance is necessarily a true indicator of future prospects.

4) If you get plenty of money, it is advisable that you invest the entire amount at once and not with intervals between. Diversify your investments as suggested in Point 1.

5) Making big investments just to avoid taxes is a decision that requires careful consideration and access to premium, probably high-cost professional advice.

6) If you plan to studying in college, compare the college saving plans to find those which give you the best options.

7) Coins are "little savings", so do not spend them. Try saving coins and use the paper currency; you will see that you have effortlessly saved more by the end of the month.

8) Buy a house only when you are willing to move into it immediately and live for at least a minimum of five years.

9) Instead of hiring young members of your own family or giving them a portion of your money when they are young, place your inheritance into a trust until your minors are sensible enough to handle the money.

10) Supermarket coupons can be a great help, provided you know the right way of using them.

11) Do not run after high returns without considering that 'A great reward may have a greater risk'.

12) Have you noticed people who buy lottery tickets each day? Buying more tickets does not significantly increase your chance of a major prize but inflates your risky investment significantly.

13) Both parents working may seem to be necessary at the moment, but you may not think so if you calculate the extra expenses involved such as lunch, commuting, wardrobe, childcare, etc.

14) Be careful which pension plan you opt for. Check that the agent is not selling you insurance instead of a pension.

15) Check out your life insurance policy and whether it is a good investment. Remember, an insurance policy is to protect you and not just for the company and their agent to profit from you.

16) Maintaining your investments through all cycles is the key to being invested in the right time. This may make your success rate higher rather than investing and then withdrawing from time to time because of the fees and other costs at each change.

17) Avoid using a credit card as much as possible, because you end up spending extra with it. Instead, you can go for a charge card, which makes you pay what you spend each month.

18) When you plan to buy a home, go for a buyer-broker. Realtors are the ones who represent the seller, unless you are hiring a buyer-broker who is the one who represents you.

19) Investing the same amount regularly is said to be the best way of using dollar cost averaging.

20) Instead of a fifteen-year mortgage plan, go for a thirty-year mortgage if the longer mortgage means lower monthly payments and a higher tax deduction.

21) Consider applying for a systematic withdrawal plan rather than applying for bonds if this will provide a steady flow of income even after your retirement.

22) Check that your bank accounts are insured federally. The FDIC, or the Federal Deposit Insurance Corporation protects deposits up to around two hundred fifty thousand dollars per person. If you have, more than the secured amount, you may spread it through various banks.

23) If you want annuities, consider sticking to the variable and not the fixed type. A fixed annuity has a fixed return but a variable annuity gives you a chance to earn the full return.

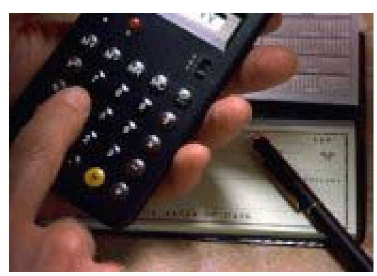
24) Grandparents often plan college funds for their grandchildren but, I believe that this requires very careful thought beforehand.

25) Do not purchase a mutual fund just because it is highly rated. Different funds, even a mutual fund that has just a single star may do exceptionally well in certain periods.

26) The money that you may need in the next two years must be cash or fairly easy to convert to cash. The stock market is not a place to store the money that you might need immediately.

27) You can invest globally, not just in the U.S.A. exchanges.

28) Keep a careful eye on your family budget; try to reduce your expenses, curtail your restaurant meals and other un-necessary expenses that may cause a future burden.



29) When you want financial advice, only accept it from a registered investment advisor. A stockbroker is not the right person to advise you on your general finances.

30) Write a check for yourself and save it first. This is an efficient, almost painless, way of saving.

31) Do not include your child's name is investments or bank accounts; this may mean that your other children might be disinherited and might cause tax problems.

32) When you sell a home, go to a qualified realtor and get referrals from people you trust.

33) Do not buy real estate investments with borrowed funds.

34) Stopping your PMI when you have around 20% of the equity on your home left might save many hundreds of dollars.

35) Buying mortgage life insurance should be considered carefully. Separate insurance might be a better option.

36) If you contribute to a nondeductible IRA account is not a great idea, maintain a proper record or you may suffer serious losses.

37) If you are 62 years of age now, you may be able to take a social security instead of waiting until you are 65.

38) Money handling processes have changed, so do not stick to how your parents handled their money.

39) While getting a pension, consider choosing a lump sum option where you can take control of your money and your future.

40) While leasing the car, consider not paying for the cap cost reduction and perhaps get gap insurance instead.

41) Saving money in your child's name may not be a good idea. You will have to part with the money once your child turns 18 or 21.

42) Instead of saving for your children's college costs, consider starting to save for your own retirement first.

43) Investing in a QTIP trust might be a good way of protecting your kids and spouse.

44) Consider taking a policy that provides five or six years benefits instead of investing in long-term care insurance.

45) Do not panic or worry; this will take you nowhere. It is not necessary that you take in all the gloom that the media throw at you.

Author's Afterword

The main reason I wrote this book was to try to reduce fear and worry by providing a plain language, unbiased (as far as any individual can do) summary of what happened.

I gathered the most reasoned forecasts that I could find and the best suggestions for my fellow Americans to protect themselves and their families, so that we are better prepared to handle whatever the future holds.

I know we, (the people of the United States of America and the people in other countries affected by the Crisis) will get through this, just like we have so many in our turbulent history.

I hope my Guide has helped you to better handle the worry and stress which so many feel as a result of, not just the actual crisis, but the biased announcements and reportage of all kinds which are bombarding us every hour of the day and night.

Craig Maugham

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