THE HEALTH ISSUE

Atlanta TRIBUNE THE MAGAZINE

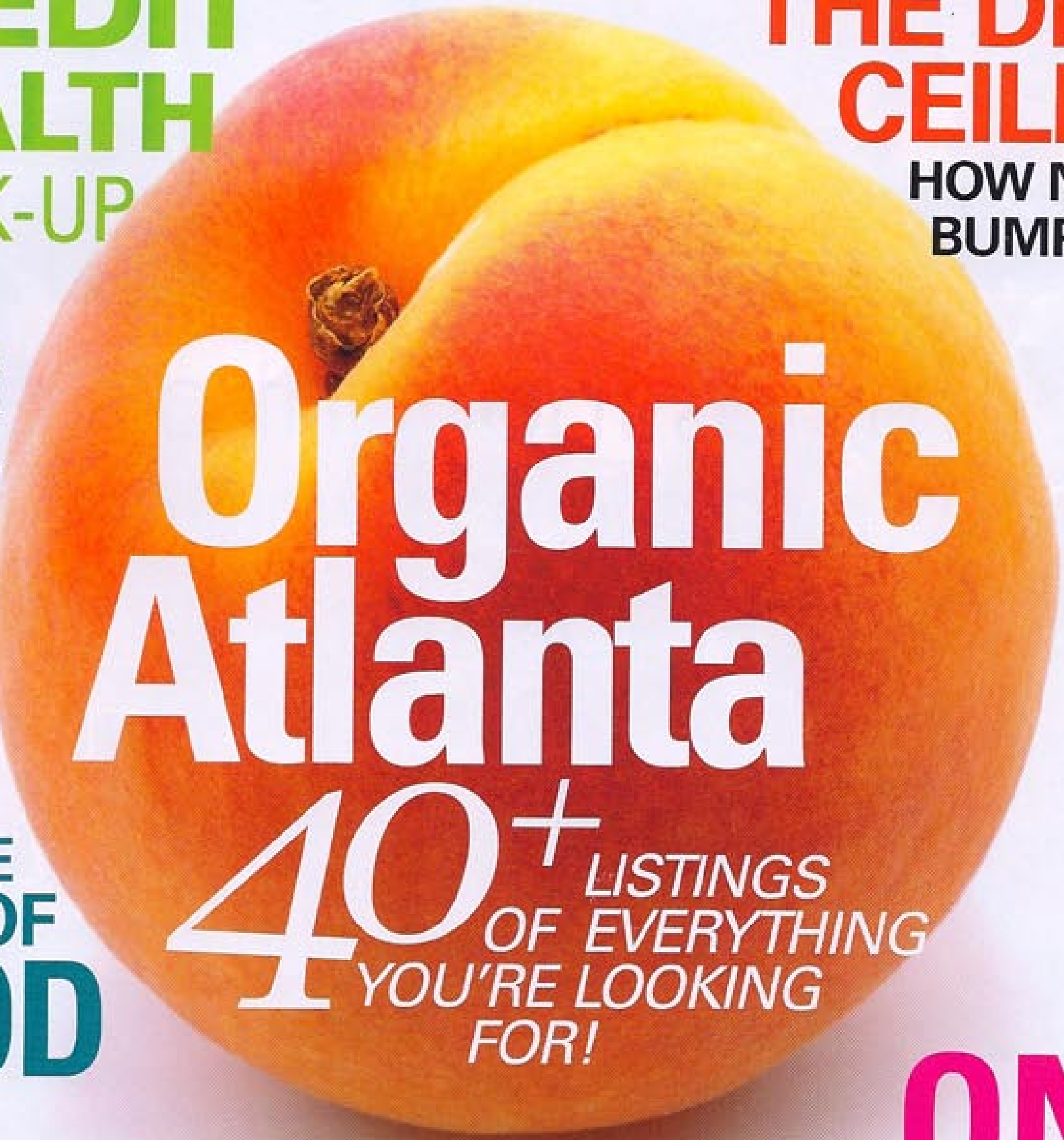
www.atlantatribune.com

ATLANTA'S LEADING SOURCE FOR BUSINESS LIFESTYLE NEWS

CREDIT HEALTH CHECK-UP

THE DEBT CEILING

HOW NOT TO BUMP YOUR HEAD



ÜBER {ECO} CHIC

PG. 55

Organic Atlanta

40+ LISTINGS OF EVERYTHING YOU'RE LOOKING FOR!

NEW!

FOR THE LOVE OF FOOD

PG. 61

October 2011 $3.95

1 0>

0 74470 24622 0

ONE

POSITIVE FORCE AGAINST TRIPLE NEGATIVE BREAST CANCER

THE DEBT CEILING and Your Money

By Leah D. Stone

During the tumultuous month of July 2011, the U.S. government battled publicly over raising the federal debt ceiling in order to fulfill its financial obligations to its creditors. Many Americans watched this controversial debate unfold with trepidation as they wondered how they would be impacted if a resolution was not reached.

On July 31st, days shy of the August 2nd deadline, President Barack Obama and Congressional leaders from both parties announced that an agreement had been reached that would raise the debt ceiling by $2.1 trillion, reduce the deficit by $2.5 trillion over the span of a decade and sidestep a default on debt interest payments, an event that likely would have sparked a global economic depression. While the nation went back to business as usual, considering the crisis averted, the downgrade of the United States' AAA credit rating for the first time in history by the Standard & Poor credit rating agency indicated business would be anything but. Still, most Americans did not truly have an understanding of the debate, the solution or the impact it could have on their lives. Below, financial and policy experts weigh in to help decipher the debt ceiling debate.

Working Definitions

The much-discussed debt ceiling differs from national debt and the debt deficit. According to the Congressional Budget Office, the national debt is the total value of outstanding bills, notes, bonds, and other debt instruments issued by the Treasury and various federal agencies. The debt deficit is the amount by which the federal government's total outlays exceed its total revenues in a given period, typically a fiscal year. The debt ceiling, also known as the debt limit, is the amount of gross debt that the federal government can lawfully obtain. Federal law requires Congress to approve any increases to the limit and the President to sign the act into law. The government first enacted the debt ceiling in 1917 to issue bonds during the first World War. And though not a popular decision, Congress generally increases the debt ceiling with little fanfare. In fact, since 1962, policymakers have raised the debt ceiling 74 times.

In May of 2011, the government surpassed the established debt limit of $14.3 trillion. But instead of quietly raising the limit, the issue became a political firestorm between the Republican-controlled House of Representatives and Democrat-controlled Senate with the President at the center.

After weeks of public debates, failed compromises between party and Administration heads, and scores of temporary fixes proposed by the Treasury Department, the President signed into law the Budget Control Act of 2011, on August 2nd, which included several key principles aimed at controlling the current budget issue. Per the CFRB, major components included:

- Three-year tranche debt ceiling increase; $2.1 to $2.4 trillion increase
- 10-year discretionary spending caps; about $750 billion
- Guaranteed vote on the Balanced Budget Amendment; requirement for both Houses to vote by December 31, 2011
- Formation of a Joint Select Committee (dubbed the "Super Committee") which will recommend $1.5 trillion in savings by November 23, 2011. If the committee does not recommend at least $1.2 trillion in cuts, in 2013 cuts would be split equally between defense and non-defense budgets, exempting Social Security and low-income programs.

Sweeping Implications

The debt ceiling debate set off a chain of events that will change the global financial landscape for many years to come. Coming to the fore is the amount of debt that is held by other countries. Alvin Hall, financial educator and author of "Your Money or Your Life," asserts that approximately one third of the United States' debt is held internationally. "[Countries] buy U.S. government debt as a way of parking their money. It's considered one of the safest investments in the world."

But the domestic infighting could sully perception and subsequently squander confidence in the United States' capacity to stabilize itself, thus threatening the terms of future investments and engagement.

"When politicians take these hard stances with no compromise, it spooks the world markets. If the government had defaulted on payments it could have been catastrophic. Debt would not have been sold off immediately, but investors would have lightened [the U.S. debts they carry], driving prices way down and [the economy] would have undoubtedly lurched into a Depression."

Hall continues, "[Many] Americans still believe in the myth of America that we do it all alone and deny that more and more countries are buying our securities. Now, China is the largest holder of American debt."

Dr. Thomas "Danny" Boston, professor of economics at the Georgia Institute of Technology and CEO of Euquant, an economic consulting firm, agrees. "Though the immediate crisis has ended, there is an underlying bigger issue. Domestic and international investors

NUMBER CRUNCHER

1.5
TRILLION

Recommended savings expected by November from the recently formed "Super Committee."

74

The number of times policymakers have raised the debt ceiling since 1962.

1917

The year of the first government enacted debt ceiling in order to issue bonds during the first World War.

The debt ceiling, also known as the debt limit, is the amount of gross debt that the federal government can lawfully obtain.

thought this issue [debt ceiling debate] would have been resolved more easily and it has caused uncertainty around the United States' capacity to fix issues surrounding the country and if the political divide will be mended."

The appearance of governmental discord may have fueled Standard & Poor's credit downgrade decision which will, among other things, lead to an increase in interest rates over time, particularly with credit cards. "Financial institutions use 'creating shareholder value' as a way of justifying increasing fees. Everything is fee-based and this will continue," says Hall. "If you do not have substantial assets in your bank, it will cost you more to maintain your life."

Social services and entitlement programs like Medicare, Medicaid and Social Security, which constitute more than half of the federal budget, will be another area that will see long-term adjustments and cuts.

State and local governments are also poised to be in fiscal predicaments given the likelihood of federal bail outs dwindling — leaving states and local municipalities subjected to credit rating downgrades.

"States will be hit hard with fiscal tightening as they are mandated to have balanced budgets," says Boston. "Monies they would have had in the past through stimulus packages and social programs (e.g. Medicare and welfare matching) will be cut back significantly. With what's on the horizon, they will be hit even harder than the federal government when it comes to making deep cuts."

While Hall predicts "very little truly positive coming out of this," education is one area that he believes will remain more or less the same because of the political posturing educational policy typically mandates.

"Education will likely see cuts and increased costs, but politicians get elected by appealing to our children's future. There will possibly be reductions in Pell grants and other programs, but overall it will be an area politicians will not want to be seen as cutting and, thus, contributing to decline of Americans' skills in a globally competitive economy."

The job market will continue to see instability, forecasts Boston. "The bottom line of all of the wrangling [during the debt ceiling debate], is we find that now, no investment [and] no hiring is taking place. There is a loss of confidence in the economy and corporations don't know what the future will look like."

And this lack of confidence disproportionately seems to be impacting minorities. "Black unemployment went up from 15.9 percent to 16.7 percent in the last poll, with Hispanic rates staying flat at 11.3 percent," Boston reveals. "White unemployment, however, dropped from 8.1 percent to 8 percent. The unemployment burden seems to be falling to minorities."

"[Countries] buy U.S. government debt as a way of parking their money. It's considered one of the safest investments in the world."

"States will be hit hard with fiscal tightening as they are mandated to have balanced budgets." Dr. Thomas "Danny" Boston

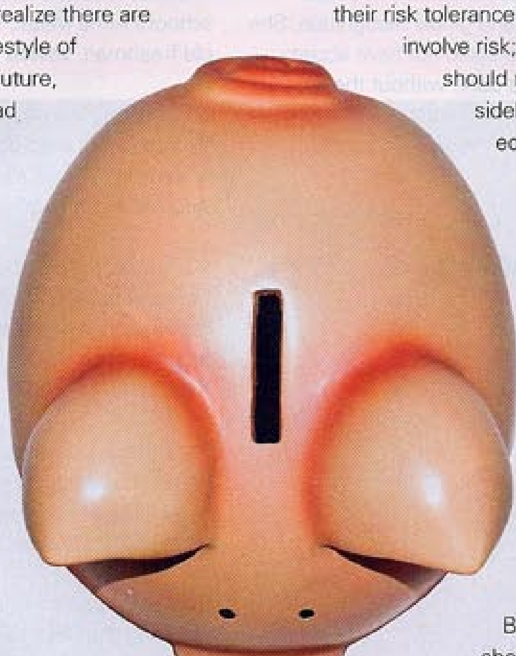
Future Outlook

This period of instability begs the question: Can this issue ever be resolved? According to Howard Ebo, financial services representative, "This is unchartered territory, we really don't know. What we do know is that the government has the ability to print money to service our debt, generate money from increasing fees and taxes and cut the government spending in services. Government officials say that all of these options are under consideration."

"Historically, the United States has run a large debt and deficit knowing the economy would grow and it would be wiped out in prosperous times, so there wasn't cause to worry," explains Boston. "We are no longer the unquestioned dominant world economy, but politicians still act like we have the ability to grow by leaps and bounds. We have to realize there are real limits on what the lifestyle of Americans will be in the future, though we never really had to worry about it in the past."

Hall offers tips to the average professional:

Save cash: It may not be the smartest thing, but it feels like the safest. The bad thing is the American economy depends on us spending, but if you don't have a job, you can't spend.



Spend judiciously: Watch your expenses every day and make sure you are in control of what you're spending. Take financial responsibility of your future, including your FICO score.

Find the right financial advisor: One who is trustworthy and honest and not there to make commissions. If you can't afford or find a financial advisor, read financial information from reputable publications and websites that give you practical, common sense ideas and help you to maintain a balanced perspective.

When investing, alter your mix: The volatility of the stock market will scare people and have them wondering if it is for them. But the up and down [of the stock market] will likely continue. Clearly define your goals based on your age. If you're under 30 you can likely ride this out, if you're over 30, seek sound investment counsel.

Ebo agrees, "Overall, Americans should continue to focus on the fundamentals of investing. People often panic during these times and make decisions that hurt their long-term goals. This is a good time for people to revisit their risk tolerance levels. Investments involve risk; however people should not sit on the sidelines. They should educate themselves and consult with licensed financial representatives to determine an appropriate course of action. Before looking at investment opportunities, I recommend that the average American seek knowledge first. Being educated about financial products and services is the first step for any investor. You should have a good idea of your goals and the amount of risk you are willing to take to reach them. I [also]recommend a risk assessment to determine how much risk you are comfortable with to achieve possible rewards."

Hall concludes, "People who will survive will have flexible job skills and be able to move across industries." With the rocky road ahead, the chance for the average citizen to weather the storm will come from being armed with the right knowledge and good decision-making skills. AT

Watch your expenses every day and make sure you are in control of what you're spending. Take financial responsibility.