

THE MONEY MARATHON---THE FINANCIAL FUTURE OF OUR COUNTRY May 2009

Recently, I was asked to speak at a “Tea Party” concerning taxes and government spending. The day after my talk, a good friend called to encourage me to put my talk in writing. (I have excluded the friend’s name to protect the innocent.)

My thoughts are not designed to be political in that there is plenty of blame to go around. The ideas expressed here are to make you aware of some real financial concerns our country faces. The more all of us know, the better able we are to tell our leaders how we feel, which can hopefully influence policy. If we don’t make changes soon, I am afraid our financial future looks bleak.

According to the Congressional Budget Office, the new federal budget projections over the next 10 years from 2010 -2019 create a deficit of \$9.3 trillion dollars, \$6.5 trillion more than if we “had done nothing” (Boskin, Michael, “\$163,000 Tax Bomb”, Wall Street Journal, April 3, 2009). Although it is popular to point out that the annual deficit is projected to decrease by 50% in 2013, this is misleading in that 2009’s baseline deficit is huge as result of all the stimulus measures. In fact, just the increase in the deficit in 2013 (\$459 billion) is bigger than the nation’s deficit in any year in our nation’s history. In this same article, the author points out that the increase in the deficit from a do-nothing budget, \$6.5 trillion equates to a \$163,000 tax increase for every income paying family. If you were handed a personalized \$163,000 tax bill today, would that concern you? It would me. Basically, this is what is happening. The author goes on to say that what is really disconcerting is the deficits in the outlying years “are three times safe levels” and “cause the debt burden to soar to banana republic levels”.

The concern for the future does not stop there in that this deficit does not begin to address the looming time bomb of our under funded Social Security, Medicare, and Medicaid Systems, which over the current generation’s lifetimes are projected to be under funded by over \$50 trillion (Gokhale, Jagadeesh, “Entitlements Rob American of \$51 Trillion” Investors Business Daily, May 2 2007). Remember, this is about eight times the amount that would cost each tax paying family \$163,000.

Also, I should note that the proposed climate tax or carbon trading system is projected to cost every family nearly \$45,000 over the next 10 years, or \$4500 per year (Sensenbrenner, James “Technology is the Answer to Climate Change” Wall Street Journal, April 3, 2009). I am digressing from the main point, but I would also like to see a national debate similar to a Presidential debate where experts on both sides of global warming debate the issues and cost/ benefits so the American Public can help decide this issue.

Another way to look at this problem is to note that government spending which has historically been at nearly 20% of Gross Domestic Product (GDP) since World War II is projected to grow to over 50% of GDP in the next 40 years (Ferrara, Peter “Slimming Entitlement Costs” Barron’s, October 8, 2007). According to the author of this article, “Our capitalistic free-market system, the source of America’s prosperity, will constitute less than half of our economy. Something like Swedish-style socialism will dominate.”

Obviously, these are big problems that should be a concern to all of us. How do we slow down the growth in spending that is causing these deficits? Amazingly, at least part of the answer may be in overhauling the tax laws in a way that generates less support for government spending and therefore deficits (Fleisher, Art “ Everyone Should Pay Income Taxes”, Wall Street Journal, April 12, 2009). Here are a few tax facts according to Fleisher.

- The bottom 60% of taxpayers pay less than 1% of income taxes while the top 10% of taxpayers pay 72% of income taxes.
- The bottom 40% actually pay no income taxes but receive \$33 billion in government checks back.

A certain amount of income re-distribution is fine but the country faces problems when 50% of the country doesn’t pay income taxes. An additional problem is the number of tax loopholes available for wealthy taxpayers for almost every social cause. The tax laws have become so complicated now that it is estimated that taxpayers pay over \$200 billion annually for compliance and 7.6 billion man hours complying with federal tax law (April, 20, 2009 Barron’s Thomas Donlan “It’s Greek to Us”). There are 3.7 million words to the tax code and 4 million words in the official regulations and explanations. Have you read all of these? Complication leads to fraud and mistakes. Fleisher suggests in his article that we simplify the tax laws by first abolishing all Social Security, Medicare and Estate Taxes. That would help eliminate the myth that Social Security and Medicare are supported by government trust funds. In place of the current tax law, he would propose one progressive, multi tiered system with no credits or deductions. Everyone would pay. The bottom 50% would pay which would broaden the tax base and the top group would have loop holes eliminated all of which would allow the overall tax rates to be lower. Lower tax rates would in turn promote growth. This approach would also eliminate current class warfare by raising taxes on some and lowering them for others. With this system if taxes are lowered, everyone gets lower taxes and if taxes are raised everyone pays.

Most significantly, a tax code like this would generate less public support for government spending/deficits, or as Fleisher says “an environment where spending programs receive the scrutiny they deserve. It’s funny what happens when everyone pays the bills: Americans may want less spending so they can pay fewer bills.”

It has been said that great societies succeed as long as they continue to try to make the world better for the next generation. Once great societies forget about the next generation they begin to decline. What are we doing to the next generation? Are we hopelessly mortgaging their future? The only way to change this is to let our leaders know you are not happy and want real solutions.

Remember every investor's situation is unique; and it is important to review your specific situation with a financial professional.

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