THE DANA VIEWPOINT

COMMITMENT TO EXCESS

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The current debt/deficit debates taking place in Washington would be amusing if they weren't tragic. What is the sense of having a debt ceiling, if we just keep raising it? There have been 75 increases in the debt ceiling in the last half century. Why have a debt ceiling at all? We could then avoid the charades that take place every time we bump up against it. So who is buying the new debt issued by the Treasury to pay our bills? It's not Japan. They have their own fiscal problems right now. China? They are reducing their exposure to dollars. It's certainly not Europe. They are having enough trouble finding anyone to buy their own debt. That leaves the Federal Reserve. In effect, we are issuing more debt to buy from ourselves. Every hour of every day the US spends one fifth of a billion dollars it doesn't have. Watch www.usdebtclock.org. It will make your head hurt.

Consider the following:

1. Federal spending from fiscal 2003 to 2011 increased by 28% - roughly four times inflation, nearly six times GDP and nine times the population growth.
2. Washington's total spending as a proportion of GDP increased over those years by 22% - from 20.7% in 2008 to an alarming 25.3% in 2011. As a comparison, from 1996 to 2005, spending as a share of GDP never reached 20%.
3. Federal debt held by the public has increased by 87% from 2008 to 2011 and by 78% as a share of GDP.
4. The Federal deficit during these years has expanded by 2.59%. It's now \$1.4 trillion.
   (These figures provided by Investor's Business Daily, 7-8-11.)

Speaking of excesses, the Los Angeles Dodgers are seeking protection under Chapter 11 of the bankruptcy code. It seems the McCourt's (owners) excessive life style caught up with them – multiple lavish homes, private security, country club memberships and a six figure hair stylist on call for Mr. and Mrs.

Have we learned nothing from watching the PIGS (Portugal, Italy, Greece and Spain)? Excessive government spending has finally caught up to them and austerity measures they are forced to take are causing riots in the streets. Could it happen here? It already happened to a limited degree in Wisconsin. It is difficult to increase wages, benefits and entitlements and then try to take them back or reduce them. However, there seems to be a growing acknowledgement that we have these problems and now is the time to address them. If there ever

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was a time for bipartisanship it is now. These problems didn't just pop up. They have been accumulating for decades, so both parties can accept responsibility for the excessive spending and work together to fix it.

Can it be fixed? Yes. Cutting spending is a start. However, spending cuts are only temporary. Populations increase and inflation will continue to push nominal spending up even in the face of spending cuts. So Congress needs to do at least two things:

1. Put in place a hard and fast debt limit. Staying under that limit will require overhauling three major entitlement programs – Social Security, Medicare and Medicaid. This will be tough, but it can be done without bankrupting retirees or those about to retire. Plans have been introduced to increase retirement ages marginally and privatize a portion of benefits for younger workers. Healthcare may be more difficult to reform, but benefits will need to be reduced and co-payments increased.
2. Grow the economy. We mean the private sector economy. The more the government grows, the more it spends and taxes, displacing the private sector. It is the private sector that creates jobs and pays taxes. Businesses large and small need to be encouraged to invest and create jobs. Congress needs to lower the corporate tax rate and eliminate the onerous regulations. This would not only encourage businesses already here in the US but would encourage businesses that moved overseas to return.

Groundhog Day: That's what it feels like every first Friday of the month, as it is a repeat of the previous 'Employment' Friday. The jobs report last Friday indicated a very disappointing 18,000 new private sector jobs created in June. Not only that, but May's job growth was revised down from 54,000 to 25,000, and the unemployment rate ticked up to 9.2%. In spite of that, US equities due to strong earnings and growing dividends still appear to be the best and most compelling place to invest.

Random Thought for July 2011: **"**People who refuse to face the reality of hard choices are forever coming up with some clever "third way" – often leading to worse disaster than either of the hard choices."

Thomas Sowell, Economist

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