

The Deficit and Current Cumulative Debt - The Timetable for the "Work Out"

We have prepared a separate Conversation Piece that discusses the US Government's spending, and in that piece we provide a summary of the budgeted deficit for 2013. We are certain that the country's founders would never have envisioned the day that the federal government would become the nation's largest creditor, debtor, lender, employer, consumer, contractor, grantor, property owner, tenant insurer, health-care provider and pension guarantor.

Here are some statistics regarding the trajectory of the growth in the scope of the US government's spending, expressed as a percentage of the country's GDP (Gross Domestic Product) -

1887 - 2.4%, 1938 - 7.9%, 1983 - 22.9%, 2012 - 25.2%.

Not only is the magnitude of the US Government's spending on the wrong trajectory, our politicians (in both the executive and legislative branches of government) are failing the country's citizens by pushing the obligations for this spending on to future generations.

The amounts below show the growth in the country's cumulative "on book" debt over the past 10 years -

2003 - \$6.8 trillion, 2004 - \$7.4 trillion, 2005 - \$7.9 trillion, 2006 - \$8.5 trillion, 2007 - \$9.0 trillion, 2008 - \$10.0 trillion, 2009 - \$11.9 trillion, 2010 - \$13.5 trillion, 2011 - \$14.8 trillion, 2012 - \$16.1 trillion

Over the past several years, there has been a fair amount of discussion and debate as to whether there ought to be an amendment to the US Constitution to require a balance budget. While this might be somewhat helpful, our Editorial Board does not believe that such an amendment is necessary. Instead, what the country (desperately) needs is for our elected officials to simply re-structure (reduce) the magnitude of the US government's spending, and implement a "more than balanced" budget. If the country were to be treated as a business enterprise, this entity would have been put on a financial institution's (ie, a bank's) "watch list" several years ago, and that bank would demand that the entity hire a turnaround consultant to get its financial house in order. The country did get such a wake-up call on August 5, 2011, when the credit rating agency Standard & Poor's lowered the country's credit rating to AA+ from AAA. Standard & Poor's issued a strongly worded critique of the American political system, saying that "political brinkmanship" over the debt had made the US government's ability to manage its finances less stable, less effective and less predictable.

Our elected officials need to sharply curtail the magnitude of the US government's spending, and then set a level of tax inflows that will be sufficient to create the surplus needed to begin repaying the \$16.1 trillion cumulative debt over a reasonable period of time. We are proposing that an annual surplus of \$1 trillion per year be generated, so that the cumulative US debt amount can be repaid by the year 2030 (or so).

Federal Spending	Federal Budget	Mandatory	Discretionary	Alternative Budget	
(in Billions)					
Social Security	866	860	5	860	(no discretionary amt)
Defense	627	9	618	627	OK / To be reviewed
Income Security	542	475	67	1	(to states and NPOs)
Medicare	531	524	7	1	(to states and NPOs)
Health	443	385	58	1	(to states and NPOs)
Interest	223	223	0	223	
Veterans	148	86	62	148	Any reduction TBD
Education, training, Social Services	129	32	97	1	(to states and NPOs)
Transportation	104	9	94	1	(to states and NPOs)
Justice	59	16	43	59	Any reduction TBD
International Affairs	56	0	56	56	Any reduction TBD
Natural Resources / Environment	40	3	37	1	(to states and NPOs)
Community & Regional Development	35	2	32	1	(to states and NPOs)
Science, Space and Technology	30	0	30	1	(to states and NPOs)
General Government	29	10	19	29	Any reduction TBD
Agriculture	23	17	7	1	(to states and NPOs)
Energy	13	3	9	1	(to states and NPOs)
Spending	<u>3,898</u>	<u>2,654</u>	<u>1,241</u>	<u>2,012</u>	
Revenues	<u>3,030</u>			<u>3,012</u>	**
Annual (Deficit)/Surplus	<u>(868)</u>	-29%	*	<u>1,000</u>	***

* We have a fundamental question -

What kind of business (or individual or family) can successfully stay afloat under a recurring annual 29% deficit?

TBD - To Be Determined

NPOs - Not for Profit Organizations

** A slight reduction in total Federal tax receipts

*** Goal: A \$1 trillion surplus, to begin paying down the Cumulative Debt over the next 17 years or so