

A Message from the Chairman
On Debt and Deficits

Much has been discussed recently about the state of our country's finances. Numbers swirl around the air like leaves on a brisk autumn day. To make matters worse, these are big numbers, very big numbers!! I believe it is important for us to understand the revenue and expenses of the U.S. just like we do about our own family's finances. It is critical for us to understand all the implications of decisions made in Washington. As I write this we have learned that the U.S. government debt obligations are no longer considered the safest in the world. On Friday, August 5, 2011 the United States had its' credit rating downgraded for the first time in history. We now have an AA+ rating rather than an AAA rating in the opinion of the Standard and Poor rating agency. It is difficult to know what this will really mean to us all in the near future but it is easy to see that we as a nation can not go on like this. I want you to understand our budgetary situation and be able to explain this to your friends and family. We must communicate to our elected officials the steps that need to be taken to put us back on a sustainable fiscal path.

Our U.S. budget is very confusing and the table below rolls all revenue and expense estimates for 2011 into a concise format.

(Source: Office of Management and Budget, Historical Tables Estimates)

<u>Income</u>		<i>Expense</i>	
Individual Income Taxes	\$ 956.0	National Defense	\$ 760.8
Corporate Income Taxes	\$ 198.4	Discretionary Non-Defense	\$ 654.7
Social Insurance & Retirement (on off budget)	\$ 806.8	Social Security	\$ 741.7
Excise Taxes	\$ 74.1	Medicaid & Other	
		Means-Tested Entitlements	\$ 567.1
Other	\$ 138.4	Other Mandatory Programs	\$ 974.9
		Undistributed Offsetting	
		Receipts	\$ (89.7)
		Net Interest	\$ 206.7
Total	\$ 2,173.7	Total	\$ 3,816.2
The Net Deficit	\$ (1,642.5)		

We all would like to believe that "waste, fraud and abuse" would solve our budgetary woes but the biggest problem we face is in the area of Medicare, Medicaid and Social Security.

Mary Meeker, a former securities analyst with Morgan Stanley recently compiled a summary of our country's finances in a book entitled USA, Inc. where she analyzes the United States as if it were a business. I want to point out a few important observations she made.

Observation #1

Americans are living 26% longer but the Social Security retirement age has increased by only 3%. If an expense rises by 26% and the ability to pay rises by only 3% trouble will come your way.

Observation #2

In 1965, the official estimate for Medicare's cost was \$500 million per year (\$3 billion in 2005 dollars). The actual cost of Medicare has turned out to be 10 times that estimate.

Observation #3

Entitlement spending is up 169% over the past 15 years, while dedicated funding is up only 70%

These costs are only going to escalate with the onslaught of Baby Boomers entering their retirement years.

Another possible area of cost cutting discussions has been in the area of Defense spending. Ms. Meeker also points out that the historic average for defense spending from 1948 to 2000 was 7%. Currently it stands at 5%. The source for this number is the White House Office of Management and Budget.

Elimination of tax cuts for the rich you say? I for one don't believe that it makes sense to take money from producers in the hope that revenue will be raised but let's save that argument for another day. The answer to the question is "There aren't enough of them"!

Ms. Meeker makes two important observations to illustrate my point. Her analysis shows that in order to have achieved a break-even in the fiscal year of 2009 the federal government would have had to have raised all individual income tax rates by 2 times to an average somewhere between 26 to 30% from the average of 13%.

She states that in fiscal year 2010 in order to raise \$1.4 trillion dollars there would have to be an increase in all individual, corporate and payroll taxes of at least 12 percentage points.

But let's go back to the wealthy one last time. On February 5, 2010 then U.S. economist for Morgan Stanley, Richard Berner performed his own analysis on ways to reduce the federal deficit to 3% of GDP each year. By raising only the top two rates, the 35% tax bracket would have to go to 76.8% and the 33% tax bracket to 72.4%! Then those lucky folks would have to pay their Social Security, Medicare, State and Local taxes with what is left. And then get about to feeding their family.

I hope you are beginning to see the perilous situation we are in at this time. Please begin talking to your friends and neighbors about this information and help them understand that we must ask our elected officials to enact meaningful spending and entitlement reforms today. We will not change business as usual in Washington without more voters understanding the real problems we face!

Please get involved!

Note:

The table below is another way to understand our problems. This information was compiled by the Heritage Foundation. I highly recommend their website for helpful information on a variety of other issues facing the United States today.

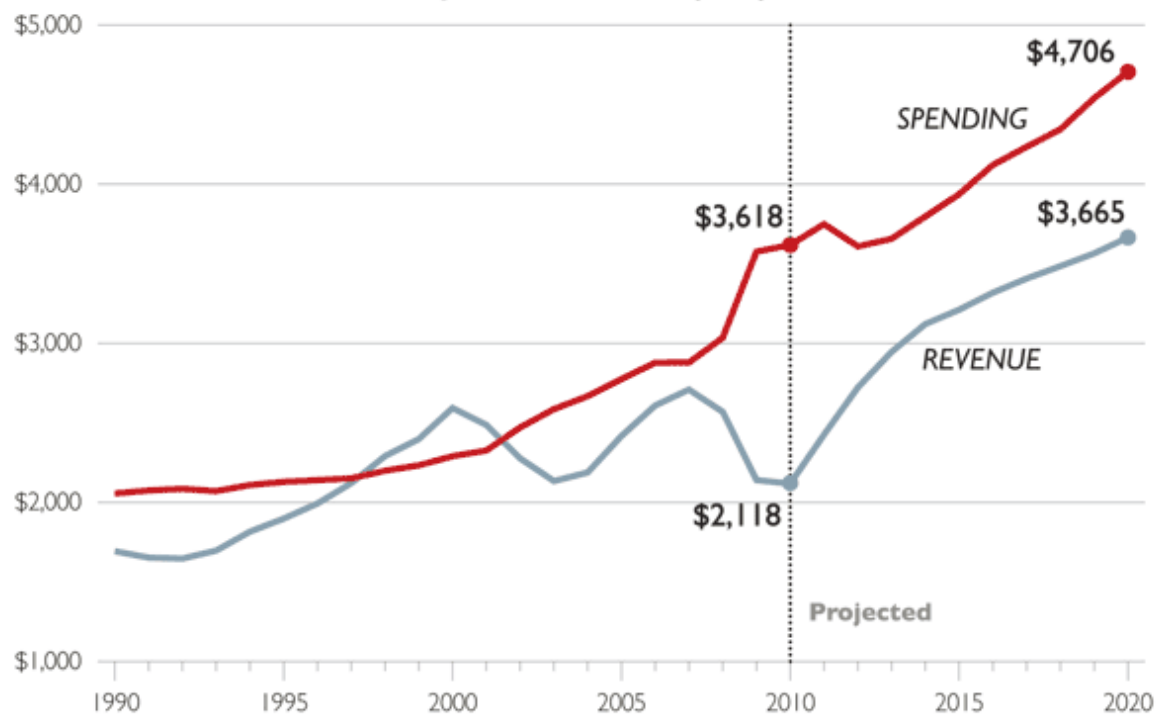
The Federal Budget, 1990–2010

IN BILLIONS OF INFLATION-ADJUSTED DOLLARS (2010)

	Discretionary Spending	Entitlement Spending	Net Interest Spending	Total Spending	Total Revenue	Surplus/Deficit
1990	\$821	\$932	\$302	\$2,056	\$1,693	-\$363
1991	836	935	305	2,075	1,653	-422
1992	806	979	301	2,085	1,647	-438
1993	793	987	292	2,071	1,697	-375
1994	781	1,035	293	2,109	1,816	-293
1995	765	1,038	326	2,129	1,898	-230
1996	731	1,079	331	2,140	1,993	-147
1997	735	1,088	328	2,151	2,121	-29
1998	735	1,143	321	2,199	2,291	92
1999	750	1,181	302	2,233	2,398	165
2000	787	1,218	285	2,290	2,593	302
2001	811	1,258	257	2,326	2,487	160
2002	902	1,359	210	2,471	2,277	-194
2003	988	1,415	183	2,586	2,134	-452
2004	1,042	1,440	186	2,668	2,188	-480
2005	1,087	1,481	206	2,775	2,417	-357
2006	1,102	1,530	246	2,878	2,609	-269
2007	1,098	1,531	250	2,879	2,709	-170
2008	1,155	1,623	257	3,035	2,569	-467
2009	1,258	2,128	190	3,576	2,140	-1,436
2010	1,375	2,034	209	3,618	2,118	-1,500

Under the President's Budget, Spending Growth Will Continue to Outpace Revenues

IN BILLIONS OF INFLATION-ADJUSTED DOLLARS (2010)



Source: Office of Management and Budget, *Budget of the United States Government, FY 2011, Historical Tables*, Table I.1, at <http://www.whitehouse.gov/omb/budget/Historicals> (April 26, 2010); Congressional Budget Office, "An Analysis of the President's Budgetary Proposals for Fiscal Year 2011," March 2010, at <http://www.cbo.gov/ftpdocs/112/doc11290/>