Your on the Street Reporter

Uyless Black

Is America on the Financial Skids?

Is America on the Financial Skids?[1]
Report One: America's Deficits

Supply siders: Throw some money upward and it will trickle down below.
Do gooders. Throw some money downward and it will stay where it belongs.
The average citizen: Stop throwing my money away!

Musings of the 1880s: "If present trends continue, our cities will be buried in horse manure.

June 19, 2008

Hello from Your on the Street Reporter. The report titled *A National Marshall Plan?* brought forth a variety of comments. I was taken to task about my claim that America's current and projected federal public debt is not sustainable. Some readers said I was too pessimistic about the future growth of the economy; that America's growth would absorb the costs of entitlements and other expenditures. They cited statistics showing America is still the most productive country in the world.

Points well made, but I'm sticking with my guns. I'm taking the subject a step further, and in this and subsequent reports, I suspect I'm going to be stepping on some more of my readers' toes. If so, don't such say, "Ouch!" Send me your counter-claims.

This report will focus on the United States' current financial position. A second report will focus on aspects of America's society, how our culture has changed since WWII, and how this new milieu is affecting America's current and future economic position in the world. During these notes, our political system's fault lines---those that began about three decades ago---will be drawn. A third report will offer suggestions about how America might right its financial ship.

These subjects are downers with lots of bad news, but the issues must be faced. The good news is the problems can be solved if we have the will to initiate major changes, with associated sacrifices---and soon.

Facts are Stubborn Things

Let's lay-out and simplify a few complex facts. I need this simplification for myself because much of this data, as explained by economists, is above my mental and monetary thresholds. For

[1] Not much in these essays reflect original thoughts. They are offered by people more accomplished than your Reporter. That stated, I hope you will find I have synthesized these sources into a somewhat understandable exposition. In addition to gleaning these ideas from watching the nightly news and reading the daily newspaper, my primary sources are:
Peter G. Peterson, *Running on Empty* (New York: Picador Press, 2004).
Alan Greenspan, *The Age of Turbulence* (New York: The Penguin Press, 2007).
Tony Judt, *PostWar: A History of Europe since 1945* (New York: Penguin Books, 2005).
Dennis Cauchon, *USA Today*, May 19, 2008, and May 29-31, 2009. (The latter source was added to this report as new data was made available by the U.S. Government.)
Unless noted otherwise, verbatim quotes about economics and economists are from Microsoft's Encarta.

this part of our discussion, I will rely on the wisdom of Peter G. Peterson and Dennis Cauchon (see footnotes on page 1).

We read in the newspapers that the United States government and its citizens are spending more than they earn. Uncle Sam borrows money for its consumption by issuing IOUs (as examples, Treasury Bills and Treasury Bonds) to anyone who will take-on our debt. As a country, we import more stuff than we export---so we borrow the difference with Treasury notes. As individual citizens, we spend more than we earn---so we borrow the difference with credit cards and mortgages.

Do you have a savings account of any significance? How about a long-term retirement plan? Chances are, the readers of this column will say yes to both questions, because my readers are smart people. But for 50% of America, these answers are no---a staggering statistic. Half of our citizens have no savings account or retirement plan.

Of course, for both our country's and our citizens' obligations, interest must be paid on these debts. The U.S. must pay interest on its T-bills and T-bonds, and we must pay interest on our credit card charges and mortgages. We return to these debts shortly. For now, let's examine America's "unfunded liability."

The "Unfunded Liability"

The unfunded liability reflects Uncle Sam's promises (benefits) to its citizens, such as Social Security and Medicare. It is calculated as follows:

Benefits payable to Americans – payroll taxes from Americans = unfunded liability.

Unfunded liability includes all citizens 15 years old and older who participate in these programs. Again, "benefits" mean Social Security, Medicare, veterans' help, etc. The "payroll taxes" from Americans mean the receipts Uncle Sam extracts from us as we toil our way toward America's old-age rainbow.

Simple? Yes, and scary as well: The Treasury Department stated that America's unfunded liabilities----as of January 1, 2003---was $27 trillion.[2] Keep this figure in mind. It reflects data about five years ago. Also, note the word is trillion, not billion, or million. To gain a sense of this figure, remember that 27 trillion has 12 zeros following the 27, as in: $27,000,000,000,000.

Using five-year old data, the good news is that, over the next 75 years, younger Americans will contribute (in excess of their benefits) $6 trillion to the kitty. So, let's make the unfunded liability figure $21 trillion. Notwithstanding this contribution, the figure is still so large it's hard to get a handle on it. Stated another way, it is roughly $200,000 per U.S. household.

Now for the grim news: This $21 trillion is expressed in what is called "present value." This means the figure is the amount needed ***today*** (and earning interest) to offset the costs of these programs for the future (until the year 2078 for this discussion).

[2] Peterson, 30.

Unfunded is unfunded. Our government does not have a penny of this money in its larder. But as some folks say, no problem. Future generations can figure out a way to come up with this money. And that is the crux of the matter: America is in the process of bankrupting its future citizens.

Critics of these ideas say Uncle Sam has about $3 trillion in the Social Security and Medicare "trust " funds, and that is in *current* money, not an amortization into the future. Granted, $3 trillion is a lot of money. Still, $3 trillion - $21 trillion = minus $18 trillion. And the trend lines show this figure is increasing each year.

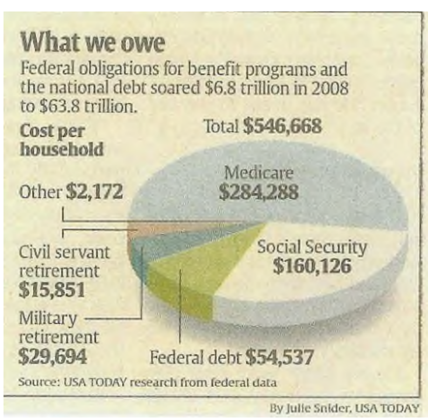
Besides, the so-called trust funds can be raided anytime by Congress. The term *trust fund* is a deceptive term. If a government program runs a surplus, the U.S. Treasury can spend the surplus on other programs and issue an IOU to the trust fund.

Flash forward to 2008. Today, we learn the federal government's long-term "promises" expanded by $2.5 trillion in 2007.[3] This figure ***doubled*** the expansion of the year earlier. Mr. Peterson, your 2002 data is too modest. As of now, we Americans are now indebted to the tune of $57.3 trillion to cover the lifetime benefits for us Americans. So, let's revise that $200,000 household debt. It's now close to $500,000 per household.[4]

Oops. We forgot to add our obligations to state and local governments. When doing so, the unfunded liability figure---as of 2007--- rises to $61.7 trillion. This additional obligation translates into a debt of $531,742 per household. No big deal, most all of us have a half million dollars lying around to take care of America's future.

Sidebar: Update on Statistics

Since writing this essay, *USA TODAY* compiled data from the U.S. Government that places the debt per household (excluding the state and local government obligations) at $546,668.[5] If state and local is added in, the figure comes close to $600,000 per household. The figure below is how *USA TODAY* calculated the debt.



[3] Dennis Cauchon, "Bill for Taxpayers Swells by Trillions," *USA Today*, May 19, 2008, A1.
[4] Cauchon, May 19, 2008, A1. (As stated, added to this report as new data became available.)
[5] Dennis Cauchon, "Leap in U.S. Debt Saddles Taxpayers," *USA Today*, May 29-31, 2009, A1.

Again, the detractors tell us these liabilities should be of no concern because future generations will have more income. This assertion is the claim of economist Dean Baker.[6] Really? More income in relation to what? In relation to inflation? In relation to compound interest being paid on our national debt? That the population of future generations will be dwarfed by the population of old folks? That America has experienced times when real wages did not increase. Sorry, Mr. Baker, but as our youngsters say, "Get real."

Here is what America's citizens took on in new entitlement liabilities (promises to ourselves) in 2007:[7]

- Medicare: $1.2 trillion
- Social Security: $900 million
- Civil servant retirement: $106 billion
- Veteran benefits: $34 billion

To this astounding situation, we seem to be saying, "We'll pass our financial immoralities to our grandchildren. Don't bother us, we're downloading iPod stuff from *American Idol* and our memory banks are full."

Declining Infrastructure

I have both Red and Blue readers, and I suspect your opinion on the unfunded liability issue might depend on the color of your political stripe. But consider this thought, which I imagine (and hope) is held by anyone: In order to remain wealthy, a country must continue to invest in its infrastructure, such as roads, bridges, research, education, and the environment After all, infrastructure investment is one of the components leading to a country's wealth in the first place.

Money taken from the federal budget for these areas is *investment* money. It's the same concept as you and I taking money from our personal budget to invest in fixing the roof on our home, or repaving our driveway. Let's hear again from Peter Peterson about this issue:[8]

> Back in the late 1960s and early 1970s, total federal spending on physical capital, research and development, and education and training averaged over 6% of GDP; by the late 1990s it weighed in at under 3% of GDP. The decline occurred both in defense and nondefense related programs. Between 1965 and 2000, these kinds of future-oriented investment outlays shrank from 32 to 14 percent of total federal spending. Benefits to individuals meanwhile grew from 25 to 59 percent.

A few observations to conclude this part of the report:

- That collapsing bridge on the Interstate up North is a harbinger of things to come.

[6] Cauchon, May 19, 2008, A1.
[7] Cauchon, May 19, 2008, A1.
[8] Peterson, 46.

- When George W. Bush entered office, the ten-year budget balance was projected to be a $5.6 trillion surplus. By August of 2002, this projection (by the Congressional Budget Office) was a $1.4 trillion deficit.[9]

- Mr. Bush belongs to the (former) Grand Old Party who used to preach and practice fiscal conservatism.

Deficits

When we speak of "deficits" for this part of the report, we mean the spending by our government that is financed by borrowing and not by the taxes from citizens. As of 2007, the trade deficit is running over $700 billion a year.[10]

Some say a nation's deficits don't matter: "At a 2002 policy strategy meeting, Vice President Dick Cheney reportedly announced that 'Reagan proved deficits don't matter.' "[11]

I can't grasp what Mr. Chaney means, but then I'm not an economist or a U.S. Vice President. I side with President Bush's chairman of the Council of Economic Advisors (Gregory Mankiw): "When the government (runs) a deficit, the interest rate rises and investment falls. Because government investment is important for long-term economic growth, government deficits reduce the economy's growth rate."[12]

I ask Mr. Cheney how he explains the following: If left undone, the present deficit disorder will translate into America's entitlement programs consuming more than half the federal budget by the mid-2030s. And this is a conservative estimate. *Other projections predict America's publically held debt will consume the entire GDP within twenty years*.[13] Mr. Cheney, I'm listening… .

A Pact of Mutual Dependence

It can be argued (and I have respect for this view…to an extent) that China is not going to stop lending America money anytime soon. China is enjoying a huge imbalance in foreign trade with the United States. America's love of Nike running gear and Martha Stewart pillowcases keep China's workers semi-happy and China's leaders in their leadership positions. In turn, it keeps the U.S. operating with increasingly large budget deficits, but with happy consumers of shoes and sheets.

As of now, the United States is locked into a state of mutual dependence with its exporting partners. The flow of capital allows Americans to keep buying, and it generates income, employment, and wealth around the world. This export/import imbalance is quite important to a country like China, because it is allowing the nation to transform itself from a poor rural country to a high-powered industrialized nation…like the United States. Yep, our borrowing habits are creating what will be a formidable economic competitor.

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[9] Peterson, 8.
[10] Peter S. Goodman, "The Dollar: Shrinkable, but (so far) Unsinkable," *The New York Times*, May 11, 2008, 1.
[11] Peterson, xli.
[12] Peterson, 41.
[13] Peterson, 35.

However, in recent months, it appears some foreign governments "…are beginning to hedge their bets on the dollar."[14] Russia is putting more money into the Euro. And almost all countries owning U.S. debt are beginning to divert their monies into their own "state-controlled investment pools known as sovereign wealth funds."

> Between 2001 and 2007, the dollar's share of the world's total foreign exchange reserves shrank from about 73% to 64 %, as the Euro expanded from about 18% to 25%, according to the International Monetary Fund.[15]

These countries are making their decisions for several reasons. First, they can often get better rates on these instruments. Second, they wish to spread their investments. Third, they recognize they are facing a future aging population and must garner resources for supporting this eventuality.

However, many economists believe, that for the immediate future, the U.S. dollar will remain strong because America is wealthy, stable, and secure. But, eventually, the pact will have to end:

> …some analysts wonder how much longer China can continue to win at this game. Investing money in the United States requires spending less on enormous problems at home, like pollution and health care. By indirectly making mortgages cheap in the United States, China has helped foster the boom that saturated Miami with glittering condos even as tens of millions of Chinese live in dilapidated concrete block apartments.[16]

Lethargy of America's Citizens?

I've not seen any studies on this subject, but it's a good guess that Social Security and Medicare have created an illusionary safety net for many American citizens. They assume they will be taken-care-of in their older years, so why bother to save? Today is expensive enough as it is. After all, all our kids *must* have a cell phone and their own iPod. Uncle Sam will take care of our future. Our present job is to take care of ourselves and our family. How else to explain this data?[17]

- As mentioned, as of 2000, 50% of all workers between the ages of twenty-five and sixty-five do not participate in any retirement plan other than Social Security.

- Those that do have a plan, about 40% of them cash their plans out at some time in their careers, and do not roll them back into savings.

- Half of all households between ages of 45 – 54 have total financial assets of less than $46,000. (Remember the $530,000 to $600,000 each household is in hock to keep America's entitlements afloat? Not a pleasant match of assets to liabilities.)

[14] Goodman, 1.
[15] Goodman, 4.
[16] Goodman, 4.
[17] Peterson, 51.

Instead of saving, we Americans are spending…spending more than we earn. Foreigners are supplying the difference. Andrew Mellon said, "A nation is not in danger of financial disaster merely because it owes itself money." How about if it owes money to foreigners? Granted, at the present time, the mutual dependence pacts of America with China/Japan/South Korea/Taiwan/Germany/Saudi Arabia/Singapore/Mexico/Canada/England/Russia/Israel, etc. are just that: ones of mutual dependence. How long this fantasy might last is discussed in subsequent segments of this report.

Supply-Side Economics

Supply-side economists believe lower taxes, less government regulation, and increased incentives to corporations will lead to additional investment, more productivity, and high growth. They state, "…the key to economic growth and prosperity is ensuring availability of capital and freedom of entrepreneurship, and that government need not be concerned with stimulating the demand for goods and services."[18] (To these points, I whole-heartedly agree.)

With lower taxes, supply-siders believe citizens will spend their money, which will lead to an expanded economy. I've heard the saying associated with this theory, "A rising tide lifts all boats."

Granted, tax cuts will lead to temporary loss in government revenue, but the "siders" say the resulting economic growth will later result in increased government revenue. Of course, some supply-siders don't want the government to grow. Some want the tax cuts to force a downsizing of government. Of course. Don't we all favor a smaller Uncle Sam? You bet, just as long as it doesn't affect our pocketbooks.

Anyway, according to the supply-siders, with massive tax cuts, the money is returned to the people. Even more, with tax cuts to the rich, a lot of money will trickle down to the masses. By reducing taxes (more and more), additional revenue will be raised as Americans spend and invest (more and more).

If this idea is true, I suggest we eliminate taxes completely. In this manner America can generate huge surpluses. John Kenneth Galbraith said, "Trickle-down theory—the less than elegant metaphor that if one feeds the horse enough oats, some will pass through to the road for the sparrows."

Some anti-government ideologues think the creation of a massive federal deficit is the only way to curtail the size and influence of government in lives of American citizens. They don't think Democrats or the general public will ever consent to a scaled-down government, so the only approach is to make it impossible for a government to function because of its debt. (We'll have more to say about this approach in Report Two.)

I too would like to see a smaller, less-intrusive government. I would settle for a government that protects me from other citizens, but does not protect me from myself.

[18] "Supply Side Economics."Microsoft Encarta.

Supply-Siders are Right and Wrong. It appears the theories of supply-siders are both correct and incorrect. First, tax cuts, if applied at the right time, can stimulate an economy. Second, it has been demonstrated that the longterm consequence of tax cuts, without associated spending cuts, simply lead to future tax increases. I would take these folks more seriously if they also reduced government spending. In the long run, income from taxes must be tied to the out-lay of spending. Without spending cuts, longterm tax cuts do nothing more than shift debt to future Americans.

To the chagrin of the Republicans, it has also been demonstrated that tax cuts (at least for the top tax bracket) do not contribute to an increased revenue stream in relation to the GDP.[19] Please see the right side of Figure 1 for a view of this phenomenon. Even with a decrease of taxes on the rich, the revenue stream remains flat.

Yes, but to the chagrin of the Democrats, the left side of the figure demonstrates that high taxes on the rich also have no effect on the revenue stream in relation to GDP. *Revenue as a percentage of GDP remains about the same, regardless of this tax rate.*[20]

Yet we ordinary citizens bear witness to the inane protestations of politicians who lead us to believe this single issue is the hinge on the door of America's fiscal health.

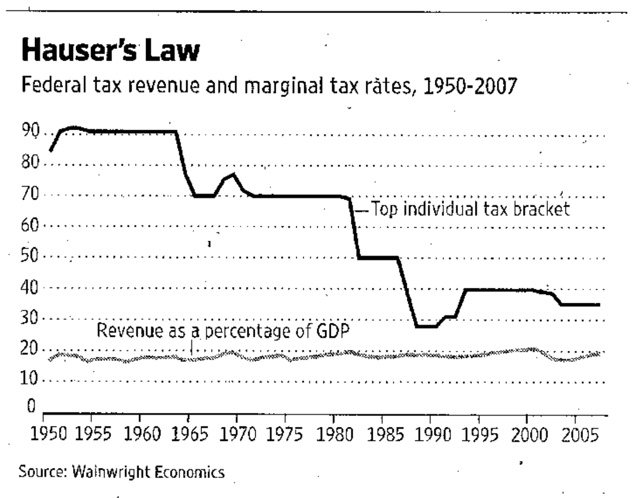

Figure 1. Revenue and taxes.

During Clinton's time in office, his deficit reduction package hiked the top marginal tax bracket from 31 to 39.6 %. The supply-siders said the action was going to be disastrous. What followed was a seven-year boom in "…jobs, savings, investments, and productivity."[21]…Which is not mentioned in The *National Review*.

[19] David Ransom, "Your Can't Soak the Rich," *The Wall Street Journal*, May 20, 2008, A23.
[20] For those financial whizzes reading this report, your Reporter would appreciate an explanation of this situation. My suspicions are that the number of people in the highest tax bracket receiving a tax break are not enough to make a dent in the revenue stream. Another possible explanation is that the rather smooth revenue line in Figure 1 is due to the Fed altering the money supply to stabilize money velocity, and to smooth-out peaks and valleys in the revenue stream as a percentage of GDP. But admittedly, I'm out of my element here.
[21] Peterson, 166.

The shrill of the experts: *Big taxes lead to a strong economy! Small taxes lead to a strong economy!* Economics remind me of Laurence J. Peter's take on the matter, "An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today."

During my ten years at the Federal Reserve Board and the Federal Reserve Bank of Dallas, I worked with a lot of brilliant economists. Prior to this job, I had no exposure to the arcane world of economics. As a software programmer, my job was to translate the economists' hard data, hard numbers, and unyielding equations into code. During this time---and in hindsight, I am reminded of Theodore Ruszak's admonition about this matter, "Economics is as much a study in fantasy and aspiration as in hard numbers—maybe more so."

We've skewered our government enough for this report. We ourselves remain noble and pure. Hmm. Except that in a democracy, we are the government. Pogo said it well, "I has seen the enemy, and they is us." Somewhat Pogo. Your idea is nearly on target, but it needs slight revisions; which we will do in the next report. We also return to America's financial problems and that pesky one-half million dollars each American household owes to our children and their children.

Is America on the Financial Skids?
Report Two: America's Changing Culture: Entitlements and Bailouts

Democrat: There is no limit to how much I would take from Uncle Sam; it runs to millions.
Republican: There is no limit to how little I would give to Uncle Sam; it runs to nothing.

June 20, 2008

Hello from Your On the Street Reporter. We continue with our fun-filled report on America's economic problems. Lest you think I am not a patriot because I am criticizing my country, in the third and final segment of this series, I will shift emphasis and---instead of griping about America's fiscal woes---I will offer ideas on solving our problems. For this report, we concentrate on two aspects of modern America: entitlements and bail-outs.

Present day America is different from the America of a few decades ago. Our society has changed. Our political machinery is out of sync with the ideas of our forefathers, even our fathers. Slowly but surely, we are dismantling the noble instrument our predecessors so painstakingly built. To cite a few examples: Gerrymandering has reached such levels of sophistication that often as not, a politician chooses the voters instead of the voters choosing the politician. The nation's deficits, a subject of Report One, are spiraling out of control. Rugged individualism is being replaced with politically correct group think. The once laudable causes of civil rights for blacks and women have been taken hostage by short-sighted political neophytes, who prefer advancing their one-issue agendas at the expense of advancing a broader agenda for America.

On the whole---as a population---we have stopped reading or watching anything requiring more than a few seconds of our attention. Sound bites are not just a television phenomenon. They are essential to text messaging, voice mail, and even email---where we parallel-process our electronic correspondence with assorted faces, tubes, and twitter downloads.[22]

Why is this aspect of our cultural evolution important? Because this trend is moving us away from an intelligent and detailed discourse about our problems.

One cannot solve complex problems with a 30-second analysis. But we are conditioning ourselves to do just that. Even worse, we are coming to rely on the inane venom of public commentators such as Bill O'Reilly, Nancy Grace (a misnomer), and Keith Olbermann. These media pundits provide few insights, mostly obstreperous opinions no better conceived than those we postulate over our morning coffee and evening beer.

Gone are the Edward R. Morrows, the Walter Lippmans, and the Richard Stouts. Those journalists offered food for thought. They attempted to delve into issues in dispassionate, non-ideological detail. If these men were alive today, I suspect they would be pushed aside by the Rush Limbaughs of the world.

[22] Twitter came a callin' just after I wrote this report; so I added it here.

Our country has serious fissures, but the politicians are ignoring many of them. Why? After all, the job of Congress and the White House is to keep America functioning as a viable democracy. It is not happening, because we citizens demand our politicians fulfill our immediate needs and wishes, including earmarks and pork barrels.

The word *immediate* is telling. In many instances, line items in America's budget are created only to address short-term issues, at the expense of long-term problems. The word *wishes* is also telling. In many instances, America's budget is not used to fulfill needs, only wishes.

To stay in office, many politicians refuse to spend their immediate political capital to address problems that will not manifest themselves during their terms in office. The problems will show themselves later, passed off to future generations.

Ultimately, we citizens must shoulder the blame for allowing our politicians to get away with this tragedy. We ask, no demand, they focus on the short range. We don't allow them to explain we are in serious financial trouble. If they do, if they dare bring-up bad news, such as the need for tax increases or the requirement for reduced government services, they are voted out of office.

Oh sure, we cheer them when they offer general platitudes about big government's evils, about the Nation's funk being created by the past four/eight years of an administration's funky policies. But when pressed for answers, our politicians set forth yet more programs to cure the problem, without associated *workable* ideas on how to fund them. Perhaps I'm losing sight of the forest because I'm looking at the trees. But with minor exceptions, looking over the past thirty years of America's fiscal meanderings, I can't tell the difference between a Democrat and a Republican.

I'm not proud of the situation we Americans now find ourselves. Does that mean I'm not a patriot? I think not, but you can answer this question on your own. For myself, I'm reminded of a quote of G. K. Chesterton, "My country, right or wrong is a thing no true patriot would think of saying….It is like saying 'My mother, drunk or sober.' "

Pogo Was Close to the Target

Pogo was nearing the bulls-eye with his observation of "I has seen the enemy, and they is us." But with a caveat. Pogo was not entirely correct because, in many instances, American citizens have been duped by their leaders. For example, the Bush's administration's disgraceful passage of the prescription plan, which added billions of dollars to our debt. You want deficits? Just wait for that prescription "donut hole" to be filled-up by Uncle Sam!

In other instances, the leaders have unwittingly duped themselves. For example, during some of its taxing decisions, Congress did not realize tax bracket would creep upwards so quickly and erode the income of the middle class. These deceptions and self-deceptions have led America down the path toward serious financial problems.

What's Changed?
A brief digression to the America of my younger years. Yes, I know. The older folks lament the present; the younger folks make fun of the past. It must be a law of nature that generations cannot accept each other's views about life. Anyway, here's some food for thought:

Affluence. The word *affluence* was once associated with the very rich; the individuals we fantasized about during our weekly trip to the movie theater. But the trips of these folks were a bit more extravagant: Airplanes to Europe for sightseeing, ships to Hawaii for surfing, trains to Vail for skiing. Three generations ago, these excursions were beyond almost all Americans' pocketbooks, certainly beyond the purses of America's middle class.

Prior to WWII, most American families had little discretionary income. Extra money, beyond meeting the monthly bills, was hard to come by. But post WWII witnessed a huge change. The United States emerged from this war as the richest and most powerful nation on earth. Europe was half-starving. Russia was devastated. Japan was prostrate. China was still a poor agrarian country involved in a civil war.

Ever so surely, we Americans began to accustom ourselves to consumption on credit. Where our predecessors had lived on their income, we began to live on debt, paying tomorrow for what we consumed today. Installment plans. Mortgages. Credit cards. Buying---almost at will---for heretofore unobtainable goods. Refrigerators, once the icy domain (sorry, just couldn't resist) of the rich became available to anyone who had an electric plug in their home.

By the 1970s, America's middle class could enjoy many of the perks heretofore available to the upper class. Perhaps the houses weren't as grand, or the cars, or the clothes. But most Americans could ski the same slopes as the Rockefellers, visit the same places in Rome as the Rothschilds, and enjoy the same Atlantic Ocean view from a cruise ship as the Kennedys.

In only sixty years, an extraordinary change has occurred in our material life style. In less than three generations, Americans have evolved from a society of relatively modest means to a society so affluent, European holidays, skiing weekends, and ocean cruises are not the exception, they are the rule.

At this juncture, you might say, "What's wrong with our affluence, Uyless? We've earned it! We Americans are innovative, hard-working, and productive. Our system of government and risk-taking capitalism is the bedrock of our wealth, and the envy of the world. Get off your curmudgeon stool."

I agree. I've no problem with our wealth, and I don't feel guilty about it. After all, my long-time mantra has been, "Living well is the best revenge." However, consider this aspect of our society: In spite of our growing affluence, we are insisting more-and-more that Uncle Sam take care of us. Our material well-being continues to improve, but we also continue to look to our government to line our pocketbooks. As a society, we've become very well-off, yet we continue to expect our government to make us even better heeled.

Take welfare aid as one example. In 2002, the Census Bureau calculated *only 12 cents of every dollar of the $1.2 trillion dollars doled out by federal, state, and local governments goes to people to lift them out of poverty*. Stated another way, 88 percent of the funds designed to "bootstrap" the destitute citizens up a tiny notch in our human tribal hierarchy does not go to these miserable folks.

Only twelve cents of this dollar are made available to offer a distant chance for a citizen's supposed guarantee of "the pursuit of happiness." OK, according to the musical *Jesus Christ, Superstar,* even Jesus knew "there would be poor always." Still, where does that other money go?

The remainder---88 cents of every "welfare" dollar---goes to others.[23] *Who are those others? Us!* The middle and upper classes of America. Do we really need this money? No. Will we give it up? No way. Pogo is close to his take on us.

Politics. Let's change pace and look at our political process roughly three generations ago:

- America's political system encouraged the opposing political parties to work together. The procedure was part-and-parcel of the art of compromise.[24] Yet these compromises yielded legislation spawning a country that is the admiration (and envy) of the world. I don't deny that throughout our history, the parties were often at each others' political throats. But I must also say, I don't see as much "working across the aisle" as in the past. The result? Almost 30 years of no structural reform, because the opposing parties have stone-walled each other.[25]

- America insisted on self-responsibility. A citizen was expected to provide for his/her current and future welfare. America provided the opportunity to achieve the means to gain long-term security, but America was---in no way---going to grant it.

- America's focus was on independence from Uncle Sam for support. A citizen said to the government, "Let me alone; leave me be."

These traits are vanishing. In their place, we now have a country whose political parties cannot come to compromises to solve our problems. Our society has evolved from one of free-market capitalism to one of welfare capitalism. We bail out inept, failed companies. We spend more than 50% of our budget on entitlements. We have cut by 1/2 investment in our infrastructure (education, bridges, etc.) in the past 20 years, and diverted that money to a wasteful medicine program.

About that infrastructure:[26]

[23] Ibid,. 151.
[24] In those days, opposing party politicians sat down for a drink with each other in their offices. Nowadays, they don't have the time. They must be concerned with raising money for the next election. Thus, they head for home, when given a chance, in order to raise money for their next campaign.
[25] Peterson, 120.
[26] "The Cracks are Showing," *The Economist,* June 28, 2008, 35. All these items are quotes from this article.

- In 2005, the American Society of Civil Engineers estimated $1.6 trillion was needed over five years to bring just the existing infrastructure into good repair. (Another study recommends at least $225 billion for the next 50 years.)

- (The New York-New Jersey-Connecticut) region…will have the infrastructure of a third-world country within a few decades.

- The Highway Trust Fund, which provides most of the federal money for transport projects, will be at least $4 billion in debt next year. (Reporter's note: Where did the money go?)

- America invests a mere 2.4% in infrastructure, compared with 5% in Europe and 9% in China.

We no longer save. As stated, only 50% of our citizens have a retirement plan beyond Social Security. Our national debt is so huge our children cannot hope to pay it off. Yet we and our politicians flip the channel to "American Idol." Not our problem. We'll be dead before America's disgraceful pillage of its legacy comes to haunt future generations.

The moral fiber of a country is judged by what its citizens leave to its future citizens. What is the present generation leaving to the future? Fiscal bankruptcy and moral lethargy.

In my view, it is the patriot who brings up these issues and addresses them. Waving the flag and saying, "Ain't America great?!" is not patriotic at all, because such behavior ignores what is happening to our country.

We have the time to right our ship...if we start restorative actions soon; a subject discussed in the third segment of this report. But I'm not confident we have the will. Those WWII and post WWII citizens---those who forged modern America into greatness---are either dead or semi-comatose. They have been replaced by people of a different breed and character---bent on feeding from Uncle Sam's (diminishing) horn of plenty.

While America sinks into a fiscal black hole, our current "patriots" make the issue of wearing a flag pin on a suit label of more importance than spending time on these impending disasters. What fatuous malarkey.

Roots of the Fiscal Problems
The Democrats' Failures
I've just irritated our conservative readers. I'll now put the liberal readers in my gun sights. The problems outlined in these reports began with the Democrats and Franklin Roosevelt. The Legacy of Entitlements began with the New Deal. This program was an over-reaction to the Great Depression. It was Roosevelt's strategy to mobilize the country.

I've no argument with a government intervening during a crisis, as was done with the New Deal. I do have a problem with massive, permanent interventions. The New Deal guided the United States onto the path of a semi-welfare state---completely at odds with its past of rugged entrepreneurship.[27] If the politicians had left the New Deal as it was originally legislated, I suspect America would not be in trouble today. However, they continued to add more entitlements, perks, earmarks, and pork barrel. In only four decades, the United States citizens have evolved into folks who not only *expect* Uncle Sam to take care of them, they *demand* this care.

It is one thing for a government to take care of its citizens. It is quite another for a government to insure its citizens against the risks of day-to-day living. And at what cost? Just consider the initial years of the New Deal. (See the list below.) To be fair, many of the programs made a lot of sense. The trouble is the New Deal unlocked Pandora's budget box:[28]

- The Federal Deposit Insurance Corporation (FDIC) was formed, partially to insure depositors against loss.[29]
- The Securities Exchange Commission (SEC) mandated rules for the securities market.
- Legislation provided mortgage relief for farmers and homeowners.
- The Federal Housing Administration (FHA) offered loan guarantees for home purchasers.
- The Federal Emergency Relief Administration expanded relief grants to states.
- The rich were taxed more.
- Private utilities were put under strict regulation.
- The Rural Electrification Administration (REA) provided subsidies for rural electrification.
- The National Labor Relations Act of 1935 gave federal protection to the bargaining process for workers.
- The National Labor Relations Act guaranteed workers the right to organize and bargain through unions.
- The Fair Labor Standards Act mandated maximum hours and minimum wages for most categories of workers.
- The Social Security Act contained three major programs—a retirement fund, unemployment insurance, and welfare grants for local distribution (including aid for dependent children).

I think even arch-fiscal conservatives will acknowledge the New Deal bootstrapped America out a sinkhole. Many of the plans listed above were needed. If left alone, the original New Deal plan would not have been dangerous to America's long-term vitality. Instead:[30]

- In 1950, 1952, and 1954 (all election years), Congress <u>doubled</u> the Social Security benefit level and <u>eliminated</u> the tie between a worker's benefit and the number of years the worker had been paying into the system.
- In 1958, disability insurance was added to the plan.
- In 1958, an earlier retirement age was established for women, even when it was known women were <u>living longer</u>.

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[27] I am speaking on an absolute basis, using past America as a benchmark. When compared with other countries, the United States is still considered the most competitive country in the world and the country in which others prefer to do business.
[28] "New Deal," Microsoft Encarta.
[29] The FDIC deposit insurance program has provided a bedrock to America's infrastructure. It has diminished our fear of banks and provided the common citizen, usually not versed in finances, a safe haven for savings.
[30] Peterson, 114-118.

- In 1961, an earlier retirement age was established for men, even when it was known men were living longer.

To top it off, President Lyndon Johnson established the "Great Society," including HUD, food stamps, and many other programs. And his ultimate topper? Medicare.[31]

Now look at what we have, courtesy of Uncle Sam (a *much* abbreviated list):[32]

- "Disabled" veterans (courtesy of smoking) are compensated for their choice of oral satisfaction.
- The government pays-off owners of agribusiness and energy corporations, who choose to retire at 62.
- The government pays-off *healthy, productive* workers who choose to retire at 65.
- The government preserves estates of well-off folks by reimbursing for nursing home care at age 80.

How could we have approved of such extravagance? After all, it was known a Social Security recipient would receive more money than he or she put in. It appears most everyone in America believed the United States would *always* continue to expand both its wage base and its population base. That is to say:

- Wage base: Real incomes would continue to grow each year. Thus, the taxable base on which Social Security benefits rested (during a current period) would always be higher than the taxes paid by the Social Security recipients (during a past period).

- Population base: America would continue to procreate at a sufficient rate to keep the population growing. Thus, there would always be more young workers than old retirees.

As it turns out, these two assumptions were not correct. Their end results remind me of the old-age rule named The Law of Unintended Consequences: An action, however well-thought-out, will yield results different from those expected.

For wages, during parts of the Ford and Carter administrations, real-wage growth actually turned negative. As for the population base, it is declining. (Unless we continue to import people south of the border.)

Turn-about is fair play. It's time to trample the Republicans.

The Republicans' Failures

Ronald Reagan accomplished some great feats. He and Paul Volcker ended double-digit inflation. He faced-down an arrogant air traffic controllers' union. He put the final nail in the coffin to the USSR and the Cold War. He made major changes in the regulation of banks and airlines.

[31] A national health plan is a good idea. Joe and Josephine Citizen can in no way afford to fund the expenses of modern medicines. In Report 3, we examine why Medicare is not the answer to a national health plan.
[32] Peterson, 110.

Ironically, his fiscal policies created the same long-term problems as Roosevelt's New Deal: longterm deficits. But Ronald did not do it with spending. He did it with tax cuts….with no commensurate cut in spending. For certain, tax reform was needed. High marginal taxes were wasteful. Bracket creep was hurting average Americans.

So, what happened? In order to stay in power, the Republicans learned (from the Democrats) they had to offer Americans something to help their pocketbooks. Because past Republicans were fiscally conservative, they had a hard time staying in office. Their constituents---and increasingly, special interest groups---would not give them money for campaigns or their vote. Solution? Cut taxes.

At this point, it should be emphasized many Republicans really believe deficits don't matter. Specifically, the so-called supply-siders, introduced in Report One, hold that over time, people will spend their way out of these deficits. So far, it has not happened. In addition, and to be fair, many fiscal conservatives are simply against big government, and think massive tax cuts are the only way to "starve the beast." (See sidebar below.)

Sidebar: Starve the Beast?

The critics of the "supply-side starvers" claim this approach is not ethical, that it will lead to the disadvantaged becoming even more disadvantaged. Perhaps, but it is instructive to note that *only one out of every four federal benefit dollars goes to America's underclass*---those people who are "measured" to qualify for the money.[33]

Furthermore, as stated earlier, in 2002 the Census Bureau calculated that only 12 cents of every dollar of the $1.2 trillion dollars doled out by federal, state, and local governments goes to people to lift them out of poverty. The remainder goes to others.[34]

Starve the beast? Which one?

Contrary to some historians' views on this subject, Reagan planned to have his tax package complimented with a spending cut package, all designed to reach a balanced budget in two years (1984). It did not turn out that way because (a) the tax cuts got out of control, (b) the designers miscalculated bracket creep, and inflation fell faster than expected. The spending cuts never occurred because the administration was unable to get rid of the Departments of Education, Energy, and the Small Business Administration.

About those tax cuts. Here are a few examples:

- Tax-free savings certificates.
- Special write-off for trucking companies.
- Bigger pension plans write-offs.
- More tax breaks for farmers.
- Tax breaks for mass transit systems.

[33] Peterson, 151.
[34] Ibid.

- Tax exemptions for citizens living overseas.
- Exemptions from federal inheritance taxes.
- Exemption from employee stock ownership plans.
- And so on…the legislation was hundreds of pages long.

Good policy? Depends on if you got a tax break or not. Nonetheless, reality crept in. The loss of revenue, with few serious cuts to spending, led to the GOP accepting tax hikes in 1982, 1983, 1986, and another in 1990. By 1991, the tax rates were close to where they were at the end of Carter's presidency.

To understand how so out-of-control our fiscal ways are, consider what the Democrats in Congress are planning.[35]

Rugged Americans!
A House bill, passed by 258-155 last year, would, "…nationalize a chunk of the insurance business that covers major storm-damage claims." The result would reduce homeowners' insurance premiums---roughly $500 annually in Florida. Great, but what about citizens who have chosen to build their homes in places that are not noted for flooding. Tough. You will pay the tab for another's lifestyle choice. Thus, your view of the local coal plant in Pennsylvania will remain the same. Your fellow citizen's view of the Atlantic Ocean, perhaps interrupted by an occasional hurricane, will also remain the same. ….And you will be paying for it. Lower premiums will encourage more irresponsible coastal construction.

People are not all that stupid. The *USA TODAY* reports that, "The number of people who live in coastal areas that are most vulnerable to wind and water has fallen slightly since 2000."[36] Not growing, as in the past, the population of about 2.1 million people living in higher-risk areas on the east coast has fallen by one per-cent over the past eight years.

Left alone, humans usually make rational decisions. Millions of years of trial and error tend to hone one's judgment and survival skills. But no, we can't have Americans assume the risks associated with their choices. Uncle Sam, facing the wrath of insurance company lobbyists, coastal beach PACs, fretting Governors, local Chambers of Commerce, and irate, sodden voters, passes yet another bill to keep ourselves out our own harm's way. Today, government welfare aid to corporations and private citizens would make a socialist blush.

Debt forgiveness is the way America operates today. Inherent in this practice is the admission that irresponsibility is countenanced, incompetency is rewarded, and plain old bad luck is no longer allowed to happen.

> **Individuals**. You have a bit of bad luck with Mother Nature? Build too close to the ocean? Too close to the Mississippi River? In downtown New Orleans? In the middle of forest, infamous for its fires? You take on a loan for a home that is well beyond your means, hoping those variable interest rates will *never* go up? Uncle Sam will reward your stupidity and arrogance.

[35] Elizabeth Williamson, "Taxpayers May Face Hurricane Tab," *Wall Street Journal*, June 1, 2008, 1.
[36] Brad Heath, "Hurricane High-Risk Areas Lose Residents," *USA Today*, May 30, 2008, 1A.

> **Corporations**. As a CEO, you take on risky home loans, some so dangerous a ghetto loan shark would refuse? You create compensation packages for union workers so bloated they add $500 dollars to the cost of very car you sell? Your company goes down the tubes, and you take a golden parachute? Uncle Sam to the rescue.

Where will it end? This week, Washington reporters and politicians are suggesting the finances of Freddie Mac and Fannie Mae will have to be bolstered-up by the Federal government. Some leaders state these institutions may be taken-over by Uncle Sam. The ultimate bail-out.

Perhaps we should not be surprised. The foundations for our present financial edifice were laid almost a century ago, and we've been busily putting tar-paper and shingles on it ever since. Now, the rooms of America's house are so closely nailed together, it appears nothing is allowed to fall for fear of bringing down the entire house of cards. I recall a quote from F. Scott Fitzgerald, "There are no second acts in American lives." In past times, maybe so; in present times, second acts are routinely financed by the taxpayers.

I am just enough "old school" to suspect the growing cocoon of entitlements and bail-outs is weakening aspects of America's fiber, of its backbone. I say so because I've come to the conclusion we have become conditioned to this very good life. Who could have said it better than anon, "It's hard getting up in the morning when you've been sleeping between silk sheets."

Except those silk sheets don't belong to us. We borrowed the money from China, Japan, et al to buy them. The trouble is, given our present deficits and especially our future obligations, we don't have the money to pay for a pillowcase, much less a sheet.

As a noted person once said, "What is to be done?" Better to ask, "What can be done?" We've done enough damage for this report. The third and final report for this subject will offer suggestions I hope will be in the upcoming Republican and Democratic Party platforms.

Is America on the Financial Skids?
Report Three: Changing the Culture

Patriot: Let's fix those bridges in Iraq!
Non-patriot: First, let's fix those bridges in Minnesota!

Conservative: Mr. President, put up that wall!
Liberal: Mr. President, tear down that wall!
Moderate: Mr. President, fix immigration!

You can pay me now, or pay me later.
But sooner or later, you're gonna pay me.

Hello from Your On the Street Reporter. As stated in segment one, most of the ideas and observations for this report did not spring forth from your reporter. Anon says, "Nothing is original. Everything is derived."

I suspect sometime in ancient history, one of our ancestors experienced a single original idea, and we've been tacking-on derivations ever since. Maybe Adam's original sin was also our first original thought, and we've been adding to Adam's inventory ever since. In either case, sin or no sin; fun or no fun, footnote 1 in the first segment lists the primary sources for this essay.

What to Do
I mentioned the last segment of this report would offer suggestions to address the problems described in the first two segments. I make no pretense of knowing anymore about this subject than anyone else. This "advice" is just that, advice: "…people are always willing to follow advice when it accords with their own wishes."[37] Thus, I suspect many citizens and politicians will shy away from these ideas because they likely run counter to what they think in the first place.

Anyway, let's give it a shot. Below is a list of recommendations, followed by explanations. I've not included other important points, such as the need to reform our budget process, our need to change the way we fund elections, and others. These items are enough for now:

- **Altering a Materialistic Mentality**
  - Changing the way Americans spend their discretionary income.

- **Social Security**
  - Increase the retirement age for receiving benefits.
  - Index new Social Security benefits to the consumer price index.
  - Require all citizens to participate in a personal retirement plan.

- **Trust Funds and Other Special Allocations**
  - Funds cannot be raided.

[37] Lady Blessington, "The Confessions of an Elderly Lady," 161, 1838, in Leonard Roy Frank, *Quotationary*, (New York: Random House, 2001), 14.

- **Medicare**
  - Overhaul the administration of the plan.
  - Add competition to Medicare.
  - Use others' successful models.
  - Fire the lawyers!
  - Initiate a national plan for promoting public health.

- **Gas**
  - Keep gas prices at a high level and provide more funds for research.

Altering a Materialistic Mentality
We tackle the hardest issue first: changing the spending habits of America's citizens. But how? As mentioned, half of us have no savings or retirement plan. In addition, the economy is based on our spending, and not saving. I saw a bumper sticker a few weeks ago that proclaimed, "I shop, therefore, I am." It's funny, but its message is serious:[38]

> Material consumption---buying and possessing things---has become the primary way of belonging in America and around the word. If we can't buy, if we can't consume, we simply can't belong.

The 2009 financial meltdown was a wake-up call for some people. Stories in the media cover the turnaround attitudes of once former shopaholics to born-again savers. Perhaps for a while, but more is needed than a temporary fiscal problem. Twenty-four hours a day, we are bombarded with consumerism propaganda. What's needed are equally heavy doses of the value of thrift and the joy of noncommercial experiences, of the satisfaction of moderation.

Noncommercial experiences? Such as a visit to a park? Yes, and not a theme park. Moderation? Such as? If we---on occasion---thought about the idea that *enough is as good as a feast*,[39] we might find ourselves consuming less, perhaps saving more, and maybe feeling better about ourselves.

Social Security
In the year 2018, Social Security is predicted to begin paying out more than it takes in.[40] The Congressional practice of borrowing from this trust fund to pay for other programs will no longer be an option. The situation reminds me of a bank scam artist who can no longer "float" checks between different accounts. Like the check kiter, our leaders will have to come-up with real money. Raising taxes to cover this shortfall makes no sense, and will not fly politically. Why should younger voters pay more to subsidize the older voters? (Who created the problem in the first place.)

Some people think older citizens should be entitled only to a percentage of their Social Security benefits based on their current (retired-age) income. I'm not in favor of this proposal. I don't want to "reward" my dissolute neighbor down the street for spending his discretionary money on

[38] Mark Sagoff, "Do We Consume Too Much?" *Atlantic*, June 1997, in Leonard Roy Frank, *Quotationary* (New York: Random House, 2001), 146.
[39] John Heywood in Leonard Roy Frank, *Quotationary* (New York: Random House, 2001), 518.
[40] Peterson, 197. In addition, many of the following ideas are sourced from Peterson.

apartment-size SUVs, snowmobiles, or jet skis, while I "spent" my discretionary money on an IRA.

I favor these actions:
(1) Gradually increase the retirement age for receiving benefits. It makes no sense to keep this age the same when our life expectancy is increasing. (To make this change politically palatable, thresholds would be raised a year or so before those affected become old enough to understand they are losing part of Uncle Sam's pie. I joke…somewhat).

Recommendation 1 might not fly because some Americans may have to sacrifice, and self-sacrifice for a common good is not an overwhelming human trait. But for this next recommendation, everyone wins: (2) *Index new Social Security benefits to the consumer price index.* Presently, benefits are indexed to wages. This practice creates enormous problems because, (a) historically, wages rise at a faster rate than inflation; and (b) when we reach the age of 62, our benefits are indexed to the average wages of America's workers for that year.

Every year, Social Security benefits are increased based on wages. Because wages are increasing faster than prices, each succeeding 62 year old gets a bit more than the previous 62 year old. If prices and wages increased in lock-step order, this situation would not be a problem. But they don't; so it is.

With our current situation, no matter how productive we become; no matter how fast our PC's Intel chip spits-out 1s and 0s; no matter how efficient our mangled-English correspondence becomes on cell phone screens, we can never pay our way out of Social Security's upcoming deficit. After all, if productivity rises, so do wages, so do Social Security benefits.

The experts tell us this change will lead to the complete disappearance of the Social Security debt. In fact, they say the cost of Social Security would continue to shrink, theoretically, indefinitely. Therefore, when revenue begins to exceed outlays, Congress could dole out more money in Social Security benefits to everyone. The politicians stay in office, and we citizens stay out-of-debt to ourselves.

This idea has one problem: It will lead to a citizen's gradually receiving less money than with the current use of wage-indexing. Consequently, another associated proposal is: (3) *Require all citizens to participate in a personal savings plan.* We've heard about this idea in the past. I've been against it because my Libertarian bent does not want Uncle Sam telling me what to do with my money. After consideration of the benefits of recommendation 2, I now (reluctantly) favor this idea for these reasons.

First, the amount would only be 2 % or so of our wages. Second, I dislike my practice of saving to be compromised because 50% of my fellow citizens have no savings. Third, this money could not be touched by our politicians. It would be our trust fund, highly regulated to protect ourselves from raiding it to purchase a speed boat, but ours to spend when we retire. Fourth, these funds would consist of fixed-income and indexed funds. The indexing would be tied to a global equity figure to prevent misuse by fund managers and thwart Congress from passing a law preventing an investment in a company not in tune with a Congressperson's ideology.

Trust Funds and other Special Allocations

Funds set-aside for any program cannot be used by another program. The politicians' discreditable use of trust funds (money supposedly set aside for specific programs) is akin to the illegal bank practice of "kiting"---introduced earlier.

Granted, Congress must have some flexibility in how planned budget line items are spent. For example, the money to build a bridge to "nowhere" might have to be diverted to rebuild a collapsed bridge that formerly went "somewhere."

Funds with billions of dollars invested for our future generations should remain sacrosanct. In this regard, macroeconomics should adhere to the same ethics as microeconomics. For example, you and I might establish a fund to finance our kids' college education. Unless we fall in harm's way----the loss of our home comes to mind---we do not siphon from those funds. OK, we use some of it, say, to take a cruise, but we at least include junior as a passenger. After all, it's his money.

Medicare

First, (1) *Medicare's administration must be changed*. A medical plan with 45,000 pages of regulations cannot possibly operate efficiently.

I'm told doctors and hospitals routinely "game" the system to their advantage, with substantial income as a result. I'm also told doctors and hospitals would rather not treat Medicare patients because of paperwork and lack of adequate compensation. Which is the case?

I do not pretend to know. I suspect most Americans don't either. But this we do know: Medicare's share of our GNP is roughly *twice* as large as any country in the developed world. I've had health care in Canada and Britain. Granted, I did not have serious medical problems. Still, I could not tell the difference between theirs and ours. I do know my care in America was not *twice* as good as that I received in Canada and Britain.

Something is amiss. Listen to what Peter. G. Peterson has to say (direct quotes):[41]

- The Inspector General for the Department of Health and Human Services says that demonstrably "improper" Medicare claims consumed $13.3 billion in 2002, or about 6.3 percent of the system's fee-for-service payments.
- Doctors opt for a wide variety of treatments not because there are better clinical trials showing that one form of treatment is better than another, but because of professional preference, which may itself be shaped by the local "style" of medicine, or the availability of specialists…without any variation in health outcomes.
- (In 2000)…per capita Medicare spending was $10,550 in Manhattan, versus only $4,823 in Portland, Oregon---with no measurable difference in quality of care. (Really? The Portland

[41] Peterson, 206-207.

hospitals were not reported to let their emergency room patients lie dying on the floor.[42] That, my friends, represents a *measurable* difference in health care quality.)

- Medicare patients in Miami are treated by twenty-five specialists on average, in Minneapolis by fewer than four specialists. Yet the result is the same; all of these patients die in six months.

No amount of money can substitute for competency; or for that matter, competition. For this part of the report, (2) *competition be added to the Medicare mix,* and (3) *Medicare's basic structure be altered based on other successful models*. The Federal Employees Health Benefit Plan (FEHBP) is a good place to start.[43] It provides for competition and allows one to choose plans. In addition, if a patient wants more expensive care than the standard low-cost or medium-cost plans, the patient pays for it.

If Uyless Black wants an MRI to help locate a phantom pain from an old injury, he pays for it. If he wants two or three opinions on a decision to operate on his phantom pain, he pays for it. A funny thing happened on the way to the local phrenologist for a worthless treatment: Folks discovered the FEHBP is largely self-controlling.

I'm also told a "managed competition" model such as FEHBP would destroy an "unmanaged competition" model such as Medicare. Great, as our leader says, "Bring it on!" Something or someone needs to kill Medicare before Medicare kills the United States economy.

The next recommendation for Medicare is (4) *Fire the lawyers!* It's time to pick on these guys again. For this issue, I point-out (as have many) that America's tort system is out of control. A lot of the fees paid to doctors and hospitals go directly to their insurance companies. Litigation costs in America exceed by far those in other countries. I've made the case in other essays that the United States' admirable goal to treat citizens fairly has been perverted by the growing fixation on (a) guaranteeing fair outcomes, (b) through laws. Life is not fair, yet we are passing law-after-law to try to make it so. In so doing, we are handicapping America's ability to do what it is supposed to do best: Doing business.

The final recommendation in this category is (5) *initiate a plan for promoting public health*. I ask you to do your own survey. Sit down in a department store or a restaurant. Take out a pencil and paper and make note of the number of fat people vs. nonfat people who pass by. Don't do your survey at trendy, yuppy places. Nordstorm's is not a weathervane of Americana; nor is the Capitol Grill. Go to Sears and Burger King. I'll wager your Burger King 1,000 calorie bacon cheeseburger against my San Francisco 1,000 calorie rum bun that at least 50 percent of the people you see are overweight.

Who is paying for the eating habits of these Creatures-of-Caloric-Intake? You and I are: Medicare visits, hospital stays, increased insurance premiums, unwieldy dance partners. This

[42] An incident in an emergency room at a New York hospital. Esmin Green, 49, had been waiting in the emergency room for nearly 24 hours when she toppled from her seat at 5:32 a.m. on June 19, falling face down on the floor. Shortly thereafter, she died, while the hospital staff walked around her.

[43] http://www.opm.gov/insure/health/about/index.asp for more information.

country needs to assemble a massive PR effort to wean its citizens off the twin teats of fast food and no exercise.

Will my "advice" (actually, the advice of those cited in footnotes) solve the Medicare crisis? I think so. Will these recommendations find their way into law? I hope so, but I'm not betting my next rum bun on the outcome.

Gas

The next recommendation will likely step on a lot of toes*: Keep gas prices at a high level and provide more funds for research.* I've read several reports and essays that the price of gasoline has nothing to do with supply; that the conventional supply and demand principles don't apply to something in the ground; that the problem is one of production, not supply; that futures speculators aren't the problem, but a manifestation of the problem, etc.

I have no idea about the issues of supply and demand, or about futures speculators. One point is obvious: Higher gas prices are leading to less driving and a spur to look to alternative sources. If prices go back to, say, $2.50 a gallon, we will go back to our old habits, and R&D money will dry up.

Eventually, the oil pools are also going to dry up. As the TV advertisement states about addressing an immediate problem or ignoring it, "You can pay me now or you can pay me later. But sooner or later, you're gonna pay me."

I am aware of the hardships being endured because of high gas prices. Some companies are going out of business. Low income citizens are hurting. Holly and I pay two single moms to do yard work and clean the house. They are stretched to pay for gas to drive to their clients' homes each day. As Bill would say, "I feel their pain." But facts are facts. Unless the oil owners and oil producers are suddenly smitten with Mother Theresa's wand of altruism, high gas prices are a way of life in America.

And here is the irony of the situation. People in most parts of the developed world have been living this way of life for decades. We've been living in La-La Land, blissfully unaware of reality. The sooner we get off oil's nipple, the sooner we will fix many financial and security problems.

It's a wrap. Thanks for sticking with me and going through a lengthy report. Let's finish on a lighter vein. Here are two quotes; fitting finishes to our look at America's finances:[44]

"There are two problems in my life. The political ones are insoluble, and the economic ones are incomprehensible."

- From Alec Douglas-Home (1903 - 1995), British prime minister. Speech

"One man's wage rise is another man's price increase."

- From Harold Wilson (1916 - 1995), British prime minister. *Observer (London)*

Your on the Street Reporter

[44] Microsoft Encarta.