

The Delta Group

A FINANCIAL ADVISORY FIRM

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Overview:

I bet an ole' college buddy a case of wine that the "fiscal cliff" nonsense would not be resolved by year end, thus seeing the return of the pre-Bush higher tax rates to take effect January, 2013. Since each party has entirely different view of priorities and necessities of both government and drivers of the economy, I bet a broad agreement would not be forthcoming.

Generally, liberals view tax cuts as benefitting few and government spending a societal necessity to re-allocate wealth to support those in need. Conservatives regard smaller government with less taxes and regulations as an economic necessity to grow the economy and support and broaden the middle class.

On the income side of the ledger, the new "fairness" tax on the richest of us will boost tax collections a mere 3% and reduce the deficit marginally. Tax collections historically have ranged from 15% to 20% of GDP, with economic activity having the greatest influence on tax revenue. The current tax take is 17% and represents a 60% increase over the past decade.

On the spending side, Federal expenditures DOUBLED over the same period and now consume 24% of the economy, significantly above the 20% historical average. The 7% shortfall (24% minus 17%) is our infamous trillion dollar deficit; and, given the entangled ideological challenge to move the needle in either direction, seemingly permanent.

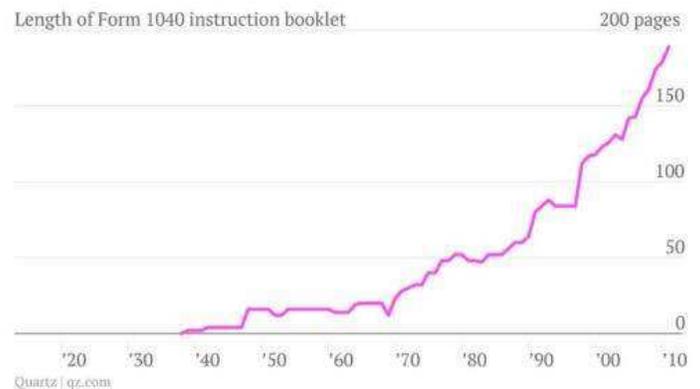
Entitlement (Social Security-Medicare) programs are consuming an ever increasing majority of the Federal budget, and reform has similar political differences. George Bush trial-ballooned privatizing social security, trading a government promise for possession and control of our own payroll contributions. Viewed as a gift to the thieves on Wall Street, universal support was not forthcoming.

Ten thousand Baby Boomers turn 65 **everyday** and undermine its viability and belief as a provider of retirement security. The economic downturn with lower payrolls and early retirements is drawing out more benefit than contributors pay in. Revamping the antiquated program requires means testing, or delaying payments to younger generations, to ensure some level of benefit in the coming decades.

Economic

Over the years, the government has tried many schemes to promote economic growth. Supply Side, Trickle Down and Crony Capitalism have been previously applied with Bubble-Nomics, Keynesian Stimulus Spending and Taxing the Rich being the most recent. With the overly complex interjections that make up our 72,000 page tax code (whose only stimulation is to accountant personnel), might someday we give a nod to Less is More?

The graph below depicts IRS insanity relative to the skyward growth of the 1040 PUB 17 "do it yourself" guide over the last 70 years.



Following is a similar graph tracking US debt accumulation over the same period. Correlation?

