



# Missing the point

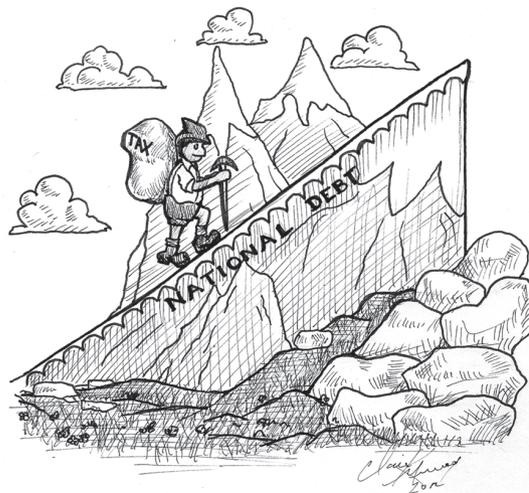
**As this piece is being written**, the outcome of negotiations in Washington to resolve the fiscal cliff is unknown. As this is being read, that outcome will be known. However, I do not believe for a second that the result will be an honest one.

I use the word honest because I resent the fabrication of reality being advanced by politicians, perhaps more so by the Democrats. This is the same song we are listening to from the capitals of Europe. Essentially, that music is based on the premise that if the "rich" would only pay their fair share, the deficit and the debt wouldn't be a problem. Furthermore, if the rich would only pay their fair share, then the country can continue to offer all the social programs it currently has on its agenda. This is a completely dishonest premise.

America has three so-called entitlement programs: social security, Medicare (health care for the elderly) and Medicaid (health care for the poor). We have similar programs in Canada with our old age pensions and universal health care. Europe, too, has similar programs. Americans have paid premiums for their social security benefits, but these funds have not been segregated as they have in Canada through our Canada Pension Plan. As a result, the current cost to the U.S. Treasury of responding to these three programs is about equal to all that government's revenue. Of course, the government has other obligations as well—like a defense budget, interest on its debt and the host of other services which government must provide. It doesn't take a financial genius to understand the current situation cannot continue and that the government must both raise revenue and reduce expenses. Given the sheer size of the three entitlement programs, and most importantly, the future cost of these programs in their current form, it is absurd and downright dishonest to suggest the U.S.'s fiscal problems can be solved simply by raising revenue.

If America were a company, the accounting treatment which would apply would require an estimate of the present day value of all the future liabilities of the country. That estimate would then be displayed in the accounting records or balance sheet of the company such that its shareholders, management and lenders would all understand the weight or materiality of these future liabilities. In the case of the U.S., that present day value is generally estimated to be at least \$50 trillion (not billion, but \$50,000 billion). Some place it as high as \$75-\$80 trillion. My point is that these numbers are huge and there can be no prudent plan that ignores this liability.

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Is it fair that 10 per cent pay over 80 per cent?**



President Obama, during his first term, appointed a bi-partisan panel led by two very well-respected politicians: Alan Simpson and Erskine Bowles. Their mandate was to recommend a medium to long-term solution for the fiscal situation. The essence of their recommendation was to raise revenue and for every new dollar of revenue raised, cut expenditures by three dollars. The President ignored the report.

All the current political rhetoric is around this issue of "fairness." Is it fair that almost 50 per cent of the population pays no tax? Is it fair that 10 per cent pay over 80 per cent? This issue of percentages drives me crazy. A comparison of the percentage of income Warren Buffett's secretary pays vs. the percentage he pays is frankly meaningless. Presumably, she might pay about, or less than, \$10,000. He pays millions. What do we want? We want more people to pay millions!

Let's reform the tax system and do away with deductions like the one for interest expense on home mortgages. But in the course of such reform, let's please ensure the resulting environment still encourages risk-taking and the entrepreneurial spirit vital to driving economic growth.

While we're at it, let's please have some honesty around where tax dollars go now, whether such programs can continue in their current form, and where revenue increases are possible without undermining the competitiveness of the economy.

As Greece would do well to understand, its current deficit and social programs are paid for by borrowing money. At some point, presumably, there is a valid and underlying promise to repay that money. The only legitimate way that can happen in Greece, the United States or anywhere else is to ensure two things: a reduction in the rate of borrowing, and a concurrent growth in the economy.

In reviewing the end result of the fiscal cliff discussions, the Greek or Spanish debt talks, ask yourself whether those objectives have been met. My bet is they won't have been, yet there will be many claiming victory. Too bad any such claims will be hollow. | ABM

The views expressed in this column are those of the author and not necessarily those of Atlantic Business Magazine. Feedback: [dchafe@atlanticbusinessmagazine.com](mailto:dchafe@atlanticbusinessmagazine.com)