America 2011

(**Note**: the following article was written by Ray Lynch - president and founder of **Life Change Concepts** - a non-profit Christian Financial Counseling Ministry. Ray has a B.S. in Civil Engineering from the University of Delaware and a Masters of Administrative Science from Johns Hopkins University. I've had the privilege of sitting on LLC's board since 2006 and have served the ministry by working with couples and individuals as a budget counselor.)

The year 2011 will be remembered as the Year of the Debt Ceiling Debate. For the first time in my 64 years Congress did not automatically raise the debt ceiling. The **only** reason this occurred was because of a band of terrorists (as labeled by the Democratic Party) who were elected to Congress with the support of the Tea Party. They would not agree to the raising of the debt ceiling unless Congress agreed to a reduction in federal spending. In the end, a last minute bill passed calling for a reduction in federal spending in exchange for raising the debt ceiling. This certainly was not a victory for fiscal conservatives like me.

As the debt ceiling debate waged on, I decided to do a little research with regards to the spending habits of the federal government. What I found was very disturbing and left me wondering how any rational person could actually be calling for more government intervention into the U.S. economy. All data was taken from the GovernmentRevenue.org website where Gross Domestic Production (GDP), population, federal revenue and spending, and total national debt are recorded from 1913 to 2010. So let me start with the raw data and then I will comment on what I believe it means.

Year	Pop.(Millions)	Fed. Spending	Annual Deficit	Total Debt	GDP	Debt (% GDP)	Spent/Citizen
1930	123.0	$3.9B	$0.9B Surplus	$16.2B	91.2B	18%	**$32**
1946	143.3	$66.5B	$20.1B	$271.0B	222.2B	121%	**$464**
1960	179.3	$97.3B	$2.5B Surplus	$290.5B	526.4B	55%	**$543**
1980	226.5	$590.9B	$73.8B	$909.0B	2.79T	33%	**$2,609**
2000	282.2	$1,789.2B	$236B Surplus	$5.6T	9.95T	57%	**$6,340**
2010	309.0	$3,460.0B	$1.3T	$13.5T	14.5T	93%	**$11,197**

There is much we can glean from this information: some good and much bad. Please be sure to note the changes from billions (B) to trillions (T) as you review the data.

God has blessed America and, for the most part, we have been a hard working, God-fearing nation. As a result, the nation's output as measured by GDP has grown dramatically over the past 80 years, even after adjusting for inflation. In the above data I did not adjust for inflation but the key categories to focus on are 'Debt (% of GDP)' and 'Spent per Citizen'.

Surpluses were fairly regular from 1930 through 1969. Since 1969, there have been only deficits with the exception being 1998-2001 when President Clinton and the Republican-led Congress actually balanced the budget. It should be noted that during this 41-year-period the upper tax rate has fluctuated between 28% and 70%, which would indicate that regardless of how much the government taxes us, politicians **still cannot live within their means.** Accordingly, most true fiscal conservatives do not believe those who say that tax increases are necessary to bring the federal budget into balance. History says that Congress will find new ways to spend this revenue.

After the end of World War II, the government debt stood at 121% of GDP in 1946. **In 2011, the government debt exceeded 100% of GDP for only the second time in our history.** Politicians who probably can't balance their personal budget as well as the Department of the Treasury officials love to tell us that we should only be concerned with the debt as a percent of GDP. They then state that our problem isn't the amount of debt we have, but the fact that our GDP has taken a hit because of the Great Recession. Well the truth is that our **GDP, adjusted for inflation, grew nearly 14 percent between 2000 and 2010 while our spending grew over 3.5 times faster at 51 percent.**

Even though the debt to GDP for 1946 and today are about the same there are huge differences between then and now that should raise concerns about us duplicating the post-war feat of bringing the debt to GDP percent down to 33% by 1980. First of all, many necessities like gasoline and sugar were rationed during the war years, so workers were able to save on average 35% of their incomes. They didn't have anywhere to spend their money. As a result, Americans had huge savings when the war ended, rationing was no longer and, coupled with a positive outlook on life, they were ready to spend. There was a huge housing boom over the next 20 years as well as a baby boom, which brought on all the spending associated with having children. But unlike the housing boom of the early 2000's which was totally financed by debt, this post war boom was paid with cash and, therefore, did not bring our country to its' knees when it stopped. Our manufacturing complex met these robust needs of Americans, as well as the need to rebuild Japan and war-torn Europe when America converted from war time production back to making cars and televisions. The GDP took off and government surpluses were keeping the national debt in check. Unfortunately, our once proud manufacturing base has become uncompetitive due to tougher regulations not imposed on manufacturers in countries like China and Mexico. Also today, many Americans are strapped with consumer debt and little or no equity in their homes. There will be no buying binge like the late 40's and early 50's unless we increase everyone's lines-of-credit (which the current administration would like to do).

While Bush was far from a true fiscal conservative and added $4 trillion in debt in his eight years, Obama has already blown by that figure ($4.5 trillion in 2 ½ years) with the debt figure for Obama's first term projected at $7 trillion – a staggering amount. Obama and the Democrats have justified this deficit spending as necessary to create economic growth and job creation. That has not happened. In fact, our country has lost 2.5 million jobs since he took office, and despite massive federal (borrowed) "stimulus" being pumped into real estate and interest rates being kept artificially low, housing prices have dropped every month since he took office.

If we take our eyes off the debt to GDP and instead focus on the amount spent by the federal government per citizen we should see a serious problem. In 1930, before the Social Security Act was enacted, the federal government spent $32 per American citizen; or $128 for a family of four. Adjusting for inflation to 2010 values the government spent $400 per person in 1930 as opposed to $11,197 per person in 2010. This works out to an increase of 28 times as much. **Just since 1980 the amount has tripled!** The reason for this is entitlements. We have thousands of boomers turning sixty-six each month who are starting to collect $1,200 to $3,000 per month for the next thirty years. Of course we were supposed to have $4.0 Trillion in the Trust Fund that was collected over the past 25 years, but that has all been borrowed by the government to pay for wars and social programs. ObamaCare and the increasing number of baby boomers reaching retirement will rapidly raise the $11,197.00 over the next ten years and beyond. Stop for a moment and think about the fact that in 2010 our government spent nearly $45,000 per a family of four. That is more than most Americans make in one year.

The Tea Party Representatives in Congress understand what is going on. They can see that we are fast approaching the cliff and this is why many of them voted against the Debt Ceiling Bill. **Without entitlement reform, America will eventually default on our debt.** The truth of the matter is that even with entitlement reform, maintaining current federal services and federal involvement in our economy will require tax increases (and not just on the rich). So Americans have to choose where they want this country to be 30 years from now. Here are your choices:

1. Maintain current levels of services and economic involvement including no changes to entitlements.
2. Maintain current levels of services and economic involvement but reform entitlements.
3. Reduce the size and involvement of government and reform entitlements.

The Debt Ceiling Debate really was a debate about the size and intrusion of the federal government in our lives as much as it was about the growing debt. As you think about whether you want the government to take care of your every need from cradle to grave, consider the following facts.

Fact One: The government has no incentive to be efficient and, therefore, is not.

In 1975 while working on my Masters in Business at Johns Hopkins University (not exactly a stronghold of conservatism) I took a course on public versus private sector participation where we examined the role government should play in our society. During that course we read numerous writings that confirmed the inefficiencies of government in most of its areas of involvement. The general rule of thumb supported by many studies (paid for by taxpayer's money, I'm sure) is that the private sector can do most things for 30-40% less than the government and produce a better service or product than the government. Classic examples where government involvement has produced bad results include the Departments of Energy and Education. Since the creation of the former in the late 1970's America's dependence on foreign oil has risen from 30% to 70%. With regards to public education the record clearly shows that it has been on the decline since the Department of Education was created in the 1970's. If these examples don't convince you, the U.S. Postal System is losing billions of dollars every year.

What happens when dollars are moved from the private sector to the public sector is that we make our GDP less efficient: that is we have an ever diminishing amount of capital for the private sector so that even though private sector advancements are producing more with each dollar, there will be an overall slowing of the growth of GDP because of less capital going to the efficient private sector. Shifting capital from the public to the private sector along with the elimination of ridiculous regulations (some regulations are necessary) would create an environment where growth in our GDP would be explosive. Central planning has never worked in the history of mankind and it will not work in America.

The following extract from the core beliefs of The American Institute for Economic Research (AIER) supports this line of thought (AIER is a private, independent, scientific, and educational charitable organization formed in 1933).

"All social arrangements include methods of allocating available resources. Some provide for control by a few based on brute strength (tyrannical or warlord societies), on title by birth (monarchies and societies with rigid class distinctions), or on mystical abilities (witch doctors and seers). A broad view of history suggests that such arrangements have been unsuccessful in helping people live better lives. **The most innovative and successful social order to date has been based on individual sovereignty, which**

began to evolve in late medieval England. The development of English Common Law, especially Magna Carta and the termination of Star Chamber proceedings, greatly advanced the rights of people to be secure in their persons and possessions.

The most significant subsequent experiment was the Constitution of the United States, especially its Bill of Rights. The Constitution limits the power of federal government by the express enumeration of federal responsibilities. It affirms the basic common law rights of each person to freedom from coercion by others. And it embraces the fundamental dictum that no one has a right to take without compensation the fruits of another's effort.

Any number of government operations highlight the inefficiencies that exist in the absence of the market mechanism for economic reward and punishment. But in spite of a general recognition of this inefficiency, government programs claim ever more resources and wherever government has interfered with rewards commensurate with talent and effort, wasteful inefficiency has prevailed."

Fact Two: The bigger an organization gets the more difficult it is to have reasonable control over fraud and other abuses – and the government is the largest organization in the world.

Over the past twenty years we have experienced the Enron fraud, the mortgage bond fund debacle through Fannie Mae, and numerous other failures of large organizations to properly manage the funds entrusted to them. Each time Congress has reacted harshly condemning the organizations for their failure to be proper guardians of their businesses. At the same time, they have failed many times more than these abuses with the tax payer money entrusted to them. What amazes me is not that fraud and waste are so prevalent in our government (it is the largest organization in the world) but that our Senators and Representatives can be so judgmental without seeing the beam in their own eyes.

During the economic meltdown of 2008 our leaders came up with a new phrase: **too big to fail**. This seems to be a contradiction in light of their criticism of large corporations that had failed in their fiduciary responsibilities. **Waste and fraud will only increase as our federal government grows**. Returning to the Constitutional mandate of limited federal powers will reduce waste and fraud.

An example of the private sector being more effective in eliminating waste and fraud can be found in the health insurance industry. While it is estimated that 10-15 percent of all Medicare/Medicaid payments are for fraudulent claims, the private health insurers have less than 2 percent. The reason for this dramatic difference is because the private sector has invested millions of dollars in computer software, etc. to help them flush out fraud. They make this investment because they have a financial incentive to do so. And yes they make more money, but at the same time they are able to reduce their customer's insurance premiums. On the other hand, all we have heard from the government during the past 30 years is talk, particularly during budget talks when they tell us they will reduce fraud and waste. **But they never do, because they do not have an incentive to do so.** Turning more health care payments over to the federal government through ObamaCare will raise insurance premiums!

Fact Three: Many in government want to eliminate suffering and believe that government is the best way to accomplish this goal. History has proven that capitalism and Christianity, not government, has helped more people.

Again, thoughts from AIER dispel the belief that government is a viable solution for suffering people.

“Free enterprise competitive market capitalism is the economic system that best fosters improvements in people’s lives. Free enterprise recognizes the right of individuals to associate voluntarily to process things. Markets reflect the striking of bargains between those wanting to exchange. Competition is another form of voluntary cooperation: would-be sellers strive to cooperate most effectively with would-be buyers. In doing so, sellers voluntarily move into the economic roles where each maximizes rewards. The resulting social order has enabled people to achieve undreamed-of-advances in satisfying their wants and needs. At its creation, the United States was an economic pygmy in a world dominated by a few economic giants. In just 150 years, this pygmy grew to become the greatest economic giant of all time.

Many have attributed this success to the abundant natural resources discovered on the American continent. These no doubt helped. Yet, other nations such as Argentina, Brazil, and Russia enjoyed similar natural advantages and did not flourish. What chiefly distinguished the United States were greater individual freedom and a legal structure that preserved individual property rights. Both promote rapid economic progress in a number of ways. They foster individual enterprise: persons who might have been prohibited from developing and using their talents in the more restrictive social orders are permitted and encouraged. Not everyone will become a Thomas Edison or a Henry Ford or a Bill Gates. But the more a society fosters the opportunity to develop one’s full talents, the greater the chance that those who have exceptional talents will be able to employ them for the benefit of themselves and the social group. [**Author’s comment**: This same argument can be used regarding abortion – could one of the 35 million babies aborted since Roe vs. Wade have been the person God would have used to discover a cure for Parkinson’s disease?]

An underlying assumption of a society organized around individual sovereignty is that economic incentives matter. They increase both individual and social well-being. Incentives encourage productivity, by offering greater reward to those who better serve their fellows. As a consequence people get more of what they want in production to the value of their own contributions to society. In addition, provision of higher reward to the more productive gives the successful more control of limited resources, benefitting all.

All too often the solution to the equities resulting from special privileges for some parties has been government intervention that bestows yet more special privileges on others. Since the 1930s, the government has established program after program to reduce the suffering of us all. But in practice, these programs simply confer advantage to one or another interest group. Federal deficit has piled on top of federal deficit, year after year, without evidence of a resulting long-run economic advance. On the contrary, the evidence strongly indicates that government meddling with free enterprise, especially in the form of inflationary policies, encourages economic inefficiency.”

A recent example where our government has attempted to prevent suffering is in their decision to extend unemployment compensation during the Great Recession from the normal six months to up to two years. Although I am sure some have been helped by this decision, in doing so the government has taken away the incentive for many to attempt to re-enter the workplace. Those whose skills would only earn them $10.00 per hour or less had no economic incentive to find work. Others, who my friend Steve calls “gamers,” found ways to take advantage of the system. Let me share three examples that I have heard about. For the first family the husband collected unemployment compensation while bringing in around $3,000.00 per month in a “cash” job. The wife proudly claimed that they were doing better than before he was laid off. I guess so, since they are paying no taxes. The second case was the wife working under her husband’s name so that she could continue to collect unemployment compensation. The final

case was a single lady who never looked for a job for one year while she collected unemployment compensation and took care of her aging father. She stated to me that she would start to look for work when the check from the government stopped. In a country where Christian values are on the decline and many look at a government meal ticket as an entitlement is it any wonder that these abuses are taking place. Studies have found that a very high percentage of people on unemployment find work within 2-3 months after their unemployment checks have stopped. This would suggest that many in America today who are unemployed are not searching for a job as if their lives depended upon it.

What has separated the United States from the rest of the world is our generosity. Time and again we have helped, not only those suffering in our country, but those around the world. Free will giving from the heart by millions of individuals has proven far more effective than government programs in meeting the needs of suffering people. Whether it is thousands of people taking vacation time to go to Mississippi to help Hurricane Katrina victims and the Haiti earthquake victims, or millions giving financially to aid the families of those killed in the 9/11 attacks, personal philanthropy works, because it meets not only the physical needs, but the emotional and spiritual needs as well. Jesus said, *"for where your treasure is, there your heart will be also."* People, not the government, have hearts, and when they give they pour their hearts into the situation resulting in far greater good than would come out of a government program.

In conclusion, our country desperately needs leaders that realize that God, not our government, is our Provider and is in control, that we live in a fallen world and all suffering cannot be eliminated by man (Jesus promised, not to eliminate suffering from our lives, but to give us the grace and strength to endure) and that the best way to restore America to greatness is to reduce the government's involvement in our lives and allow individuals to suffer the consequences for their decisions and actions and learn and grow from the suffering. The Bible says, *"Consider it all joy, my brethren, when you encounter various trials, knowing that the testing of your faith produces endurance. And let endurance have its perfect result, so that you may be perfect (mature) and complete, lacking in nothing."* (James 1:2-4, NASB) It is impossible for a person to emotionally and spiritually mature without suffering.

The election of 2012 will be very important in determining which direction America will head, so I encourage you to vote for those who will lead America in the direction you want us to go.

Regardless of the outcome of the 2012 election I encourage you to put God first in your life, be generous to those who are truly in need, get out of debt completely, and take ownership of your decisions and accept the consequences with grace and humility.

In His Grace,
Ray Lynch
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