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RE: Bush Administration - Economic Impact of Tax Policies

Dear Mark,

Thank you for our discussions over the last few weeks. I appreciate your comments on my letter to President Clinton, dated January 10, 2001, just before he left office. Well, it has been almost 4 years since that writing. Certainly, a lot has changed in that time. In reviewing the last 4 years, I am reminded of the following Shakespeare quote: *"The saddest words of tongue or pen are those words that say what might have been"*.

As a member of the Concord Coalition, which believes in fiscal discipline, I am obviously very disappointed in the tax and economic policies of this administration. I will address my concerns in this letter, by contrasting where we left off with President Clinton and the wrong direction that we are now heading. To begin our discussion, we should review some terms. Politicians will most often use the term Unified Budget when speaking about the budget. This is misleading because the Unified Budget includes the social security surplus, making the budget numbers appear better than they actually are. On-Budget refers to the net effect of government revenues minus expenses without taking into account the current social security surplus. In other words, if the social security revenues were set-aside, this would show how the government is actually operating. The Off-Budget amount is basically the Social Security (and Medicare) surplus.

Now, let's first revisit the 8 fiscal budget years under President Clinton, which he controlled.

In Billions $	1993	1994	1995	1996	1997	1998	1999	2000
On-Budget	-300.4	-258.9	-226.4	-174.1	-103.3	-30.0	+1.9	+86.6
Off-Budget (Social Security Surplus)	+46.8	+56.8	+60.4	+66.4	+81.3	+99.0	+124.7	+151.8
Total Unified Budget: +Surplus/-Deficit	**-253.6**	**-202.1**	**-166.0**	**-107.7**	**-22.0**	**+69.0**	**+126.0**	**+238.4**

Fiscal Year ends September 30th Source: Congressional Budget Office (CBO)

Clinton inherited a financially insolvent government following the severe recession in 1992. Clinton passed a major economic package in 1993 ("OBRA-93"). It contained significant tax increases and budget cuts. Needless to say, it was not a very popular tax act. But Clinton claimed that OBRA-93 was needed to reduce the deficits and save the government from financial bankruptcy. As you can see, fiscal year 1993 had a Unified Budget deficit of $253.6 billion dollars. However, by the end of Clinton's second term, the Unified Budget had a surplus of $238.4 billion dollars in 2000. That's a swing of $492 billion dollars

More importantly, the On-Budget deficits were declining from 1993 thru 1999. We actually experienced On-Budget surpluses of $1.9 and $86.6 billion dollars for fiscal years 1999 and 2000, respectively. That means that the government was able to generate revenues and pay expenses without dipping into the Social Security surplus. Every number in the above table shows improvement over the 8 year period under President Clinton. It should be noted that the previous President George Bush had projected a budget deficit of $455 billion dollars for fiscal year 2000, but instead we experienced a $238 billion dollar surplus. That's a swing of $693 billion dollars.

Now, let's take a look at the current Bush Administration. First, I will list the actual fiscal record for years 2001 thru 2004 that are completed, as well as the projected fiscal budget for years 2005 thru 2008 as provided by the Congressional Budget Office (CBO).

Source: CBO	Actual Fiscal Years Completed				*Projected Fiscal Year Budgets*			
In Billions $	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
On-Budget	-33.3	-316.8	-536.0	-574.0	-537.0	-466.0	-482.0	-510.0
Off-Budget (Social Security Surplus)	+160.7	+159.0	+161.0	+152.0	+174.0	+193.0	+208.0	+224.0
Unified Budget: +Surplus/-Deficit	**+127.4**	**-157.8**	**-375.0**	**-422.0**	**-363.0**	**-273.0**	**-274.0**	**-286.0**

Fiscal Year ends September 30th

George W. Bush inherited a financially solvent government when he took office on January 20, 2001. The projected unified budget surplus for fiscal year 2001 was to be around $313 billion dollars. The CBO had projected a 10 year budget surplus of $5.6 trillion dollars over a 10 year period. Many economists projected that the national debt could be paid off by 2012.

There was a mild recession that started in the spring of 2001, but this ended by early 2002. As a stimulus to the economy, Congress paid out $41 billion as tax rebates. This was an acceleration of the lower 10% tax bracket, $300 for singles and $600 for married couples, even higher income brackets received this rebate. The fiscal year ending September 30, 2001 still showed a surplus of $127.4 billion dollars.

Then, we had the tragic events of September 11, 2001. Congress reacted by passing emergency funding in the amount of $80 billion dollars ($40 billion for direct emergency recovery, $15 billion for the airline bail-out and $25 billion for increased costs associated with homeland security). These temporary measures appeared to be necessary and these costs were appropriated out of the fiscal 2002 budget. We see that there is a budget deficit of $157.8 billion for fiscal year 2002. This represents a change of $284 billion from the prior fiscal year. Even if we take into consideration the extraordinary spending for 9/11 of $80 billion, as well as other increased homeland security costs, we still need to acknowledge a $200 billion dollar shortfall. Some of this is due to other increased spending and some of this is due to less tax revenues received.

But the Bush Administration continued to push for more tax cuts in 2002, 2003 and 2004. These tax cuts were suppose to stimulate the economy and create jobs. They claimed that this would result in overall growth and thereby result in more tax revenues so that we could "grow out" of the deficits and pay down the national debt. But let's take a look at the hard facts.

For fiscal years 2003 and 2004 we saw the On-budget deficits grow to $536 billion and $574 billion, respectively. These huge budget deficits were offset by using the Social Security surplus, resulting in a net Unified Budget deficit for these two years of $375 billion and $422 billion. The CBO projects more deficits for years 2005 thru 2008. If these above projections are true, combined with the actual figures for fiscal years 2001 thru 2004, the total budget deficit under George W. Bush (assuming he is re-elected) would be just over $2 trillion dollars and the National Debt would grow to almost $10 trillion dollars. The above figures do not include the additional costs associated with making the proposed tax cuts permanent.

The Bush Administration claims that the reasons for these deficits are primarily the recession, 9/11 attacks and the war on terror (specifically the war in Iraq and Afghanistan). But let's look at these claims carefully. The recession that Bush refers to took place more than 3 years ago now. It was a mild recession by all measures, certainly not as severe as the 1992 recession or the 1982 recession. The 9/11 attacks disrupted the economy, but those attacks were also 3 years ago and the $80 billion dollars of direct costs have already been accounted for in the 2002 fiscal budget. As far as the war on terror is concerned, approximately $140 billion dollars have been spent thus far. This amount does not justify the added $1.652 trillion in debt, to date. Furthermore, the future costs associated with the war in Iraq and Afghanistan are not included in the above projections for fiscal years 2005 thru 2008. These additional war costs are requested thru a supplemental budget which is separate and apart from the CBO figures. In other words, if we assume that another $80 billion dollars is requested for each year, from 2005 thru 2008, this amounts to $320 billion to add to our projected $2 trillion dollars of deficits and the projected $10 trillion dollar National Debt.

The tax cuts have not produced more jobs as claimed. In fact, George W. Bush will be the first president since Herbert Hoover to have a net loss of job growth in a 4 year term (currently estimated to be 800,000).

The stock market has not grown as anticipated. The market has been hovering between 10000 and 10500 since George W. Bush has taken office. Contrast that performance with the Clinton Administration, where the stock market was at 3500 in 1993, reached as high as 11600, then went back down to around 10250 where it has remained relatively stagnant for the last 4 years. The economic outlook on Wall Street is uncertain. The tax cuts have not produced the economic stimulus as promised. We are not going to "grow out" of the deficit problem as pledged. To the contrary, more increased deficits are on the horizon. These deficits are large and structural in nature. They will not decline until drastic action is taken to reverse this tide.

National Debt Components & Interest Expense Obligations

But the deficits also contribute to greater problems, the ever increasing National Debt and the pending Social Security insolvency. These two issues are in many ways "joined at the hip" since each are interdependent upon the other. Both issues are central to the government's ability to be fiscally responsible and to strive for a balanced budget.

The National Debt is comprised of two components, Intragovernmental Debt and the Debt Held by the Public. The Intragovernmental Debt is the Social Security & Medicare surpluses, as well as other government retirement obligations. It is this obligation, or IOU, that the government records when taking these surpluses to use for spending in the general governmental fund.

Therefore, it is a true statement that the Social Security surplus is being used to supplement the expenditures of the government, which includes discretionary spending (military and non-military). The Social Security surplus thereby also serves to supplement the budget shortfalls brought about by the tax cuts.

The Debt Held by the Public are actual debt obligations owed by the United States to holders of Treasury Bills, Notes and Bonds. This amount is important because the United States pays interest on these debt obligations. As the Debt Held by the Public increases, so does our interest expense ("Net Interest"). This expenditure was $155 billion dollars in 2004 and represents around 7% of our budget. The following Table summarizes the growth in the two components of the National Debt.

Source: CBO [in Billions of Dollars]

Fiscal Year Sept 30th	**Intragovernmental Debt**	**Debt Held by the Public**	**Total US National Debt**
1993	1,163	3,248	4,411
2001	2,468	3,339	5,807
2002	2,675	3,553	6,228
2003	2,859	3,924	6,783
2004	3,066	4,393	7,459
*2005**	3,326	4,771	8,097
*2006**	3,626	5,055	8,681
*2007**	3,940	5,338	9,278
*2008**	4,270	5,630	9,900

** Projected*

Please note that during the Clinton years, from 1993 thru 2001, the total National Debt did grow by $1.4 trillion. However, his Debt Held by the Public started at $3.2 trillion, grew to $3.8 trillion, but was then paid back down to around $3.2 trillion (January, 2001). This is because Clinton took the Social Security surpluses of almost $600 billion to pay down the Debt Held by the Public during the last 3 years that he was in office. This was a wise use of the Social Security surplus, which served to extend the solvency of that program.

By fiscal year 2004, the Bush Administration had managed to increase the total National Debt by $1.652 trillion dollars and more importantly, increase the Debt Held by the Public by more than $1 trillion dollars (from $3.339 trillion to $4.393 trillion). If we continue on the present course, the Debt Held by the Public will grow to at least $5.630 trillion dollars by 2008. The interest expense on the Debt Held by the Public will grow to $279 billion dollars in that year and will represent around 10% of the expenditures. This is a conservative estimate; it is believed that the interest rate on this debt will have to be raised in order to attract investors. Some experts believe that this number could rise to 15% to 20% of our budget. That means for every $5 of revenue, $1 dollar will be paid out to just cover the interest on the Debt Held by the Public.

We often speak of the need to become energy independent. Given the fact that around 50% of the Debt Held by the Public is owned by foreign countries, it is in our best interest to return to a balance budget. How can we be effective in our foreign policy, if much of our debt is held by countries that may have opposing views? We can not maintain any leverage in our negotiations if those same countries are also our chief creditors. So, it not only makes good economic sense to return to fiscal discipline, but the rewards of a balance budget can also enhance our foreign policy objectives.

We know from our own personal finances that too much debt can strangle growth in our economic outlook. We are not positioning ourselves to properly deal with the pending Social Security problem. We need to return to balance budgets and even surpluses if we hope to address the retirement of the "baby boomers" and to restructure the Social Security program so that it is solvent for future generations.

Social Security Insolvency

At the time that the Social Security program was enacted in 1935 there were approximately 40 workers per beneficiary and the life expectancy was only 62 years old. Life expectancies rose so that by 1960 that number had dwindled down to 5 workers per beneficiary. Today, we are at around 3 workers per beneficiary, with that number dwindling down to only 2 workers per beneficiary by 2030. Another reason for the decline in the worker to beneficiary ratio, is due to the huge population boom from 1946 to 1964, commonly referred to as the "Baby Boomer" generation. Following this wave of baby boomers are families that have decided to have fewer children per household. As a result of these demographic trends and as the baby boomers live longer, there are less supporting workers per retiree. The oldest of the baby boomers will begin to retire in 2008.

By 1983 Congress, along with Alan Greenspan and others, saw this impending crisis and developed a plan to meet the economic challenges of the Social Security program. Congress then enacted measures to increase the rate as well as the wage base from which employees pay their Social Security Taxes (referred to as FICA tax). Employers match, dollar-for-dollar, each dollar of FICA (and Medicare tax) that an employee has deducted from their payroll check. The following table outlines this tax increase:

Calendar Year	Social Security (FICA) Wage Base	Social Security (FICA) Tax Rate
1937 - 49	$3,000	1.00%
1960	4,800	3.00
1970	7,800	4.20
1975	14,100	4.95
1980	25,900	5.08
1983	35,700	5.40
1985	39,600	5.70
1990	51,300	6.20
1995	61,200	6.20
2000	76,200	6.20
2001	80,400	6.20
2002	84,900	6.20
2003	87,000	6.20
2004	87,900	6.20

The dramatic increases in the wage base have produced Social Security surpluses (see earlier table). These extra funds were designed to be available to restructure the Social Security program. Therefore the question that every working taxpayer and employer should ask, "is the Social Security Surplus being used to make the program solvent for us and future generations?" Unfortunately, the answer is a resounding NO.

Government has taken these surpluses and replaced them with IOU's, so that these funds can be commingled in the general operating fund. The IOU's in the Social Security Trust Fund are unfunded. In the current Social Security Trust Fund, we have what is known as a "pay-as-you-go" system. This system only works when there is more money coming in each month, than is being paid out at the end of the month. There are no real assets in place to back up the government's ability to pay. The Social Security Program is currently running a surplus, but this surplus will dwindle down to zero by 2018, then the system will go negative. Economists calculate the present value of unfunded Social Security liabilities to be around $12 trillion dollars. The longer we wait to correct this problem, the more drastic the measures to be taken.

Clinton used the Social Security surplus to pay down the Debt Held by the Public, by almost $600 billion dollars. He also proposed that 62% of each surplus dollar continue to be used to pay down the debt in order to extend the solvency of the program. His ultimate goal was to "carve-out" part of the Social Security funds to be invested in the private sector. He called this program, Universal Savings Accounts, or "USA" accounts as outlined in his 1998 State of the Union Address. This would partially privatize Social Security, but at the aggregate, or entity level. This fund is similar to a large mutual fund with citizens retaining a percent ownership so that they could enjoy a better return on their retirement investment in the private sector. However, a portion of their Social Security funds would remain as insurance in case of disability. The purpose of this carve-out was to make it impossible for congress to spend this money as part of its general revenues and expenditures. This was similar to the "lock-box" idea for which Al Gore was heavily ridiculed.

George W. Bush has spoken about "ownership" of your retirement accounts. I agree. But there should be only partial privatization, so that workers are not subject solely to the stock market as a means of securing their retirement. The problem with Bush is that his huge tax cuts, the war in Iraq and other spending increases, have created huge deficits. He is currently absorbing the Social Security surplus as part of these huge deficits. He has not paid down any debt, to the contrary, the National Debt has increased at a faster pace than our Gross Domestic Product over the last 4 years, adding $1.6 trillion dollars and counting.

The current administration is not able to restructure Social Security without adding more debt, cutting current benefits, raising taxes on workers and their employers, or some combination of all of the above. This situation is unacceptable, given that workers paid in more FICA taxes during the 1980's, 1990's and now, providing extra funds for the designated purpose of solving the Social Security problem.

All we needed was another 4 to 8 years of the Clinton policies for this situation to be much more manageable. We were actually producing On-budget surpluses in the late 1990's, meaning that the Social Security funds could be left alone. Further tax cuts could have been paid for from the On-budget surpluses. We need to return to the Graham-Rudman Act of the mid-1980's, where no new spending or tax cuts can be allowed without showing the means by which to pay for them, keeping a balanced budget in the process.

It is important to emphasize that the 9/11 attacks and the War on Terror is <u>NOT</u> the reason why we are in this circumstance. The impact and related costs associated with these two events have already been accounted for in the fiscal budgets mentioned earlier. Then, what is the motivation for the Bush policies?

A Short History of Tax Policies Since 1980

The idea of tax cuts to stimulate the economy was a popular theme of the Reagan Administration. The tax act of 1981 ("TEFRA") lowered the top marginal tax rate to 28% which was a twenty five percent reduction. This too, was to promote growth and create jobs, no need to worry about any deficits because the job growth and related increase in tax revenues would more than pay for the tax cuts. Clearly, this was not the case. We had a severe recession in 1982. The deficits began to increase. Even the Reagan Administration quietly permitted 13 "revenue enhancements" in an effort to stop the bleeding. The most famous, or infamous, tax act during the Reagan years was the Tax Reform Act of 1986 ("TRA-86") which contained major tax increases, such as; 1) phase-out of the exemption and standard deduction amounts for higher income brackets, 2) phase-out of itemized deductions based upon the adjusted gross income (AGI), 3) to tax up to 50% of social security benefits depending upon your AGI, 4) taxing capital gains at a flat 28%, you were no longer able to exclude up to 60% of the gain from direct tax, 5) taxing Unemployment Compensation, 6) and most significant, the Passive Activity Loss Rules. I had some wealthy tax clients with basically the same type of real estate income that paid more tax in the last years of the Reagan Administration than they did in the last years of the Carter Administration. But the economic damage had already been done.

When Jimmy Carter left office in 1981 the National Debt was just under $1 trillion dollars. By the time that Ronald Reagan left office in 1989 the National Debt was around $2.7 trillion dollars. Then along came George Bush, Sr. and the deficits continued to climb. He stated emphatically that he would not raise taxes, "read my lips, no new taxes" he said at the 1988 Republican Convention. But no meaningful effort was made to balance the budget, so the increased spending and deficits continued to rise. Finally, even George Bush, Sr. realized that something had to be done, so in the budget act of 1990 (OBRA -90) he raised the top marginal rate from 28% to 31%. Unfortunately, it was too little too late. His own party crucified him for raising taxes. By the time he left office we experienced another deep recession in 1992. The National Debt rose to $4.2 trillion dollars.

Then, along came Bill Clinton. His efforts, along with Alan Greenspan, Robert Rubin, Lawrence Summers and Democratic members of Congress were determined to set the government on the path of a balanced budget. The budget act of 1993 (OBRA-93), passed by 1 vote in the Senate and 2 votes in the House. No Republican voted for this bill. It included raising the top marginal tax rates (from 31% to 36% and up to 39.6%) as well as to cut spending of around $150 billion dollars. It was based upon the simple concept that a balanced budget would not need to draw private sector dollars to fund public debt, but instead these private sector dollars would be allowed to grow in the private sector, to be used to expand inventories and capital equipment investments needed by businesses. Wall Street reacted in the positive, hearing that the government was finally "getting its financial house in order". The economic outlook could now be optimistic, knowing that the huge deficits may finally disappear – and they did. It worked. This proved that the best thing that government can do for business, is to achieve and maintain a balanced budget. The question as to what is an acceptable level of operation for government is debatable, should there be more or less government, more or less spending, more or less taxes. This is an issue that we hope our elected leaders can reasonably resolve. But whatever the level of operation that may be determined, clearly a balanced budget without dipping into Social Security, must be the ultimate goal.

Please refer to my earlier "thank you" letter to President Clinton for more details.

Transfer of Wealth and the Middle Class Tax Burden

The Bush Administration has pushed thru Congress a major tax act in each of the last 4 years. They claim that these are "across the board" tax cuts. However, more than 50% of the tax benefit is skewed more heavily to the top 1% income bracket. Let's take a closer look at some of the other tax breaks.

Eliminate the Estate Tax: Under current law, the Estate Tax or "Death Tax" will be phased-out and eliminated by 2010. This tax only affects less than 2% of all taxpayers. The government will lose around $300 billion dollars of revenues as a result of this tax break. Instead of merely raising the Unified Credit from $1 million to around $5 million to offset more of the net estate value, the Republicans are striving to eliminate this tax altogether. This is not of any tax benefit to the middle class taxpayer, since they are not affected by this tax break. This is clearly a tax break for the very wealthy.

15% Flat Tax on Long Term Capital Gains: This tax break was obviously designed as a tax break for wealthy investors. Instead of permitting a lower tax rate on capital assets held for more than 5 years, they gave an overall lower tax break on all long term capital gains.

15% Flat Tax on Domestic Dividend Income: Here again is another obvious tax break for the wealthy. All qualified domestic dividend income is now taxed at 15%. I have wealthy investor clients that derive their income solely from interest, dividends and capital gains. Under this tax law, these clients will pay only 15% tax on the majority of their income. If they wanted to help the middle class they could have merely permitted the first $1,000 of dividend income to be excluded from tax. They could do the same for interest income. By excluding the first $1,000 of dividend income and excluding the first $1,000 of interest income from tax, they would encourage savings by the middle class.

Alternative Minimum Tax: This is a special tax that was established in 1969 to ensure that wealthy taxpayers pay their fair share of taxes, without sheltering their income thru tax loop holes. This "stealth tax" is making its way down to the middle class tax brackets. It would cost around $300 billion dollars to fix this problem over the next 10 years. But instead of fixing the problem by merely raising the exemption floor to exclude the middle class, the Republicans want to eliminate it altogether. This would add $600 billion to our debt and clearly benefit only the higher income brackets by allowing certain types of income to pay less tax.

These are just a few examples of the direction that the tax cuts are taking. Other proposed tax cuts include Lifetime Savings Accounts, but not based upon earned income such as an IRA or 401(k) requirements, but merely on your overall income. This would permit wealthy clients to shelter income that was derived from passive or unearned income sources (dividends, interest and capital gains). If they wanted to help the middle class they should raise the IRA and Roth IRA contribution floors and provide a greater tax credit to assist in saving for retirement. Studies have shown that a federal tax credit paid now to a younger worker to enhance his retirement savings will more than offset the government's future Social Security obligation to be paid later. This is because of the theory of time value of money. Simply stated, an incentive to invest a dollar today could grow to $32 over a 40 year period. This provides that same worker more funds at retirement and lessens the obligation from Social Security.

Regressive Taxes: Flat Tax, National Sales Tax and Add-On Taxes

Our tax system, established in 1913, was founded on two principles; 1) that the burden of taxation is distributed according to the ability to pay - a progressive tax system and 2) capital and labor carry their fare share of the tax burden. The Bush Administration is changing these two principles into one overall theme, *create a tax system that benefits the wealthier class and shift the resulting tax burden unfairly onto the middle class.* Let's take a look at a few examples.

Flat Tax: The Republicans have been pushing for a flat tax for years, lead by Steve Forbes of Forbes Publishing. Unless this flat tax takes into consideration the need to offset those revenues with progressive income tax brackets, then it will be nothing more than a regressive tax. This would affect the lower income brackets that would otherwise not pay any taxes, or disproportionately shift more overall taxes to the middle class, over the effective tax rates that they should fairly pay.

National Sales Tax: Any discussion of a national sales tax clearly benefits the wealthier tax brackets. All of this is under the guise of "tax simplification". To tax consumers on food, clothing and other commodities is a regressive flat tax. Let's assume that instead of having an income tax, we have a national sales tax of 20%. This would greatly benefit the upper tax brackets that are paying at a marginal tax rate of 35%. There is no way that the upper income brackets could consume enough food, clothing and other commodities taxed at 20%, to make up the difference in lost revenues taxed at 35%. But the middle class and especially the lower incomes that would not otherwise pay an income tax would then wind up paying much more total tax. This would stifle any hope of saving a portion of their disposable income for retirement or education.

Add-On Tax: This is an important issue that requires more public awareness. Given the current Social Security problem and the inability of this administration to leave the social security surplus alone, workers may be faced with an "add-on" tax. This is an amount in addition to the current FICA taxes (paid by both the employee and employer). The current FICA tax, which is a regressive tax, will be accompanied by yet another regressive tax. Some research has shown that this add-on tax could be 1.9% to 2.5% of the current wage base. This add-on tax would increase the existing Social Security surpluses, but would be sold to the public as a necessity to partially privatize Social Security for younger workers. Every worker should ask the following question, "why do we need to pay more FICA taxes when the program is currently producing substantial surpluses" and "why don't you roll back your tax cuts or cut spending so that these surpluses can be used for the purpose as originally designed, to solve Social Security". Leave Social Security alone.

But George W. Bush can't leave the Social Security surplus alone, he needs these surpluses to mask the huge budget deficits that we have experienced over the last 4 years and which are projected well into the future. The deficits are going to get worse in the next decade. This is when the bulk of the baby boomers retire and the Social Security program can no longer produce surpluses, instead it will go negative by 2018. Once the Social Security program goes negative, we will be faced with a financial crisis without the ability to correct it. Any correction at that time will undoubtedly be at the expense of future retirees and the middle class.

Under President Clinton we had achieved On-Budget surpluses, meaning that the Social Security surplus could be left alone. We need to return to that same fiscal discipline and tax policies before it is too late.

A Moral & Ethical Question

In the discussion thus far, I think we can establish two principles; 1) a tax cut that results in deficits is not a bona fide tax cut, but rather a "tax loan", and as with any loan it will have to be repaid with interest, and 2) are we adhering to the basic principles of a progressive tax system, or are we unfairly shifting the tax burden to the middle class. This becomes a fundamental question of our moral and ethical responsibility to future generations. Let me quote a passage from President Eisenhower's farewell address (January 17, 1961):

> *Another factor in maintaining balance involves the element of time. As we peer into society's future, we – you and I, and our government – must avoid the impulse to live only for today, plundering for, for our own ease and convenience, the precious resources of tomorrow. We cannot mortgage the material assets of our grandchildren without asking the loss also of their political and spiritual heritage. We want democracy to survive for all generations to come, not to become the insolvent phantom of tomorrow.*

It is hard to believe that this warning was delivered in 1961. But it is true; we are mortgaging our future by incurring huge deficits and increasing the national debt at an exponential rate. Is it right that our leaders have the arrogance to think that our interests are so important today, that we deprive future leaders and future generations the resources that they will need to address the problems of their time? We are depriving our federal government the financial ability to undertake needed programs, such as rebuilding our infrastructure, modernizing our communication systems, finding cures for diseases, fully funding stem-cell research, investing in renewable alternative energy sources that protect the environment, and so on. The federal government is able to utilize its large economy of scale to achieve great things that no individual, or group, organization, city, or even a state can accomplish on its own. For example, look at the federal highway system that President Eisenhower supported. That project could only be possible at the federal level. If it were left to the individual states, for example Montana, the federal highway system would not be possible because there is not enough of a population base in Montana to provide their share of the tax funds needed to complete the federal highway system. This is why we need a responsible federal government, than can undertake needed programs that improve the overall quality of life, which create jobs in the process. This is certainly good for business. Everyone benefits in our society when the "playing field' is elevated.

This country was founded in 1776 and has operated for 228 years now. Our national debt had accumulated to around $1 trillion dollars when Jimmy Carter left office in 1981. Now that national debt has grown to more than $7 trillion dollars and counting, in less than 25 years. More than one-half of our national debt has been accrued under two Presidents, President George Bush, Sr. and his son, President George W. Bush. Our economic outlook is dismal at best and the financial markets reflect that uncertainty today. Now, this President Bush is seeking to be re-elected, to continue the same tax policies of the last 4 years. There have been many political slogans aired during this election year. One slogan that rings out loud and true is that, **"WE CAN NOT AFFORD ANOTHER 4 YEARS OF PRESIDENT GEORGE W. BUSH".**

Sincerely,

William E. Bryant

William E. Bryant, CPA, CVA