



The Entitlement Cliff

"Big government comes at a big cost. This cost most obviously shows in reduced economic growth, fewer jobs, reduced take home pay, and less overall prosperity. In an era of globalization, when Americans must compete on an international bias, taxation and regulation act as anchors on American productivity and competitiveness."

Michael D. Tanner, Cato Institute Senior Fellow

As each day goes by in the fiscal cliff debate, President Obama becomes stronger among the masses that view this as a fight between the "very rich guys" and the "little guys" barely making ends meet. Beyond the public rhetoric fighting over tax policy, there is a battle waging in an area that businesses cherish most of all – the bottom line. It's all about greed and the notion of how much money is enough.

There is a growing consensus amongst average Americans that profits should max out at some point and anything beyond that point is greed – the kind of greed that hurts America. Quite honestly, I am surprised that the polls regarding the efficacy of increasing taxes upon the 2% were only in the 70-80% level, and not in the 98% favour level.

Obviously taxes on the "wealthy" was the hot button issue of the US election, and one of the main arguments against it is the fact that a huge amount of small businesses categorize themselves in that \$250K+ individual bracket. With the President's re-election, higher taxes have virtually become a certainty.

In fact, small businesses' outlook for general business conditions in the next six months fell to an all time low since tracking began in 1986. The National Federation of Independent Business (NFIB) optimism survey in November was nothing short of disaster. The headline number plunged to a reading of 87.5 from 93.1. The main reason for this outlook were higher taxes and the current government policies ("fiscal cliff," higher healthcare costs, endless new regulations, etc.)

The lure of socialism and disdain for even moderate success makes for a lethal cocktail equal to economic Kool-Aid.

I suspect most businesses will just try to weather the public relations and increased regulation storm in a bunker-mode mentality. They will keep their head in the sand, and make nice until something changes. But they will not hire or create jobs; they will not make expansion plans or build new plants or factories. No, odds are they will lay low.

A recent example was the latest earnings report from Darden restaurants, parent company of Red Lobster and Olive Garden. The CEO, Clarence Otis, is an Obama supporter. Mr. Otis announced two weeks ago, that because of all the uncertainty and the impact of

Obamacare, that Darden is going to make more employees part time rather than full time. Other companies are trying to get out in front of challenges like soaring health costs. Darden is just the latest to say it has to make tough economic decisions to combat higher costs levied upon the company by Washington taxes and regulations. Papa John's restaurants and Denny's made similar type declarations.

Citizens, investors, businesses...everyone...are growing weary of the whole notion of the "Fiscal Cliff." We need to understand the "Cliff" the media has so aptly hyped is not a cliff at all. The economy is not going to crash. If congress does not act to change the current tax laws by year end, then taxes will rise for everyone, and spending cuts (sequestration) will go into effect. People will not go hungry, cats and dogs will not suddenly play with each other, nor will locusts fall from the sky. So let's take a deep breath, and maybe a tumbler of eggnog and rum!

We all know Congress has not made a stellar showing of itself in recent years, nor has the Administration. Both parties are bowing to Constituents at the moment, showing they are defending what they were elected to do until the bitter end. I refuse to believe these men and woman are really that stupid that they are willing to send the US economy into a tailspin. They know how serious this is, and they will resolve it, perhaps not in a pretty fashion, or to everyone's satisfaction, but history shows that when Congress is faced by deadlines like this, they usually resolve it.

Federal Reserve Chief Ben Bernanke made it clear in his testimony last week that there is nothing the Fed can do if the country goes off the "Fiscal Cliff."

Everybody's worried about the "Fiscal Cliff" right now, but there's a much bigger cliff coming up, and it's the 'Entitlement Cliff.' I know it's all George Bush's fault, but in the four years since Obama took office, entitlement participants have grown exponentially. Medicaid has grown from 46 million to 56 million people. Disability beneficiaries have grown from 7.5 to 8.8 million people, and Food Stamp recipients have grown from 32 million to 47 million people (The Dow Theory Letters, Dec.5.12)

In the last two months, over 1 million Americans were added to Food Stamp receipts. It is unclear which atmospheric phenomenon will get blamed for this unprecedented surge in poverty, which comes at a time when the pre-election economic data euphoria from the Obama administration was adamant the US economy was on an escape velocity to utopia. It is conceivably possible that by the end of 2012, a mind boggling 50 million Americans will be living in absolute poverty, instead of working (about 15%).

On top of the above, about 40 million Americans age 65 or older on Social Security and Medicare are receiving benefits. Add the numerous smaller entitlement programs to the total and the expenses are over the top. All together, half of the US nation now receives entitlements. Oh, and that doesn't include the interest on the Federal debt, which is currently about \$220 billion per year.

Soon, the "bond vigilantes," like Greece, Spain, etc...as they survey the situation, are going to want higher interest payments, just to buy US Treasury bonds. This will skyrocket the interest cost on the Federal debt and refer to above, which will affect Uncle Sam's credit rating, which will push rates higher, and so on as the snowball builds.

The implications of the entitlements are frightening. Expenses of \$2.2 trillion for 120 million entitlement recipients come down to \$18,000 per recipient. The government's heavily gimmicked cash-based accounting shows Obama's annual deficit at about \$1.1 trillion for

the fiscal year ending Sept 30, 2012. Many have calculated the actual accrual-based GAAP accounting for the governments unfunded liabilities for those programs at \$8 trillion for the year.

That kind of spending cannot be financed by taxes on the wealthy in the USA, or the entire planet for that matter. I think unless some people do an about face, America will one day rue the recent election results.

In the end, it may not matter. According to the Mayan's forecast, Earth only has about a week left before imploding.

Stay tuned,

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