



## Fix the Roof When the Sun is Shining

***“Most of the energy of political work is devoted to correcting the effects of mismanagement of government.”***

***Economist Milton Friedman***

The biggest, single item which will impact the direction of North American markets over the next few years happens in 70 days.....the US Presidential election on November 5<sup>th</sup>.

The US National debt has exploded, doubling over the past seven years. Everyone agrees that this is unsustainable, but the President and Congress has taken the “ostrich approach” and simply bury their heads and hope somehow it will go away.

Meanwhile, interest rates have touched multi century lows with the 30 year treasury dropping as low as 1.4% (now back in the 1.85% range).

Why won't congress deal with the debt? Because they probably know that even if they shut down the entire US Government (remove every department, employee and even the military), they won't be able to balance the budget.

Using the numbers provided out of the Office of management and Budget ([www.whitehouse.gov/omb](http://www.whitehouse.gov/omb)) from this February, the dilemma breaks down as follows:

The President's Budget for Fiscal Year 2013 shows Washington will collect approximately \$2.5 trillion in receipts, the bulk of which come from individual (Approx. \$1.2 trillion), corporate (\$237 billion) and payroll taxes (\$572 billion). Total expenditures/outlays are projected to be \$3.8 trillion, resulting in a deficit of \$1.3 trillion.

Government spending is broken down into mandatory programs (Approx. \$2.3 trillion on social security, medicare, Medicaid, etc.), interest (\$225 billion), and discretionary programs (\$1.3 trillion), which is broken down into security (FBI, CIA, the military, etc) and non-security (education, energy, etc). If you shut down the discretionary programs (which basically closes the government operations), you still end up with a shortfall once the mandatory programs are spent (Which add up to about \$2.5 trillion), which means they do not have a single dollar left for military or any other programs.

To balance the budget therefore, Congress would have to raise taxes about 50% or eliminate the entire federal government. If they cut entitlements and pensions, you know what would happen.

The Gross Federal Debt of the US was approximately \$6.0 trillion when George W. Bush became President. It was approximately \$10 trillion when he left, after two terms as President. President Obama in but 3½ years, without ever even getting a budget passed, has taken it from \$10 trillion to over \$16 trillion, and by their own numbers is projected to be over \$20 trillion by the end of 2016 (bringing the % of Gross Federal Debt to 106% of GDP, versus approximately 70% when he took over), making President Obama the biggest spender in World History.

In President Bush's final year (2008), spending increased 3%. For 2009, with Nancy Pelosi in charge of the House and a total Democratic majority, spending increased 18% (Forbes Magazine, July 16, 2012).

When President Reagan took over the Presidency in 1981, his first budget reduced the prior budget by \$31 billion to \$681 billion. With a total majority, President Obama could have done the same thing, but his first initiative was the so-called stimulus, which increased Federal spending by a trillion dollars, the most expensive legislation in history.....until Obamacare came along.

After just one year of the Obama spending binge, federal spending has already rocketed to 25% of GDP, the highest in US history except for World War II. That compares to 20% in 2008 and an average of 19.6% during Bush's two terms. The average during President Clinton's two terms was 19.8%, and during the 60 plus years from WWII to 2008 – was 19.7%. Federal government spending has increased like never before under President Obama.

So there is no approved budget. They borrow every dollar they spend and yet refuse to act towards it.

Nearly every major item the current US administration has focused on, Cap and Trade, the stimulus, increased regulations, the Keystone Pipeline, Obamacare, the moratorium on drilling.....have failed. It is no wonder they have chosen to resort to class warfare in an effort to get re-elected.

According to the Congressional Budget Office (CBO), Obamacare will cost \$2 trillion, leave 30 million uninsured and siphon almost \$1 trillion from Medicare, while VP-elect Paul Ryan's plan will not end Medicare, or affect anyone over 55 years of age, and save the program for future generations.

Can the problem be fixed before the USA goes the way of Greece?

Of course it can. I remind you Canada was in a similar situation in the mid 1990's. To his credit, Finance Minister Paul Martin made some tough decisions, but cut federal spending \$7 for every \$1 in tax increases. Similarly, Washington needs to first and foremost admit there is a problem.

They then have to explain the problem to everyone, and then must fare the pain of fixing the problem. Everyone will share in the pain as the government will be forced to cut entitlements, pensions, government spending and get a fair tax code.

It is obvious the current administration has no intention of addressing the problem. In fact, like Nero who fiddled while Rome burned, President Obama has chosen to address the lack of job growth by doing more fund raising and playing golf. In fact, as of mid June 2012, President Obama hit a milestone.....he played golf for the 100<sup>th</sup> time of his Presidency (2009-28, 2010-30, 2011-34, 2012-8 so far). Now I am not the most important political figure on earth with all these issues to deal with, but I managed to hit 15 rounds in my best year (this year at 12 rounds, which includes 5 charity tournaments).

The President's average round is about five hours which includes motorcades back and forth, etc....with prep time and showers, etc....its probably fair to say Obama has spent more than three months of his Presidency golfing. It also goes at odds with Obama's image he tried to portray as a defender of the common man, since golf is often perceived as generally unavailable to the poor. Sure, of course he needs relaxation and down time from the extraordinary demands of the office, but from an optics standpoint maybe something other than golf.

I recall reading that the much maligned George W. Bush gave up golfing as President in 2003 because as he explained it, he didn't want a mother who lost a son in battle seeing the Commander-in-Chief playing golf, while they were in mourning. He thought the President playing golf during a war sent the wrong signal.

Golf is not the only thing the President has been doing instead of running the nation. In fact, at a White House briefing on July 18, it came out from a reporter's question that the President had not met with his Job's Council for over 6 months. No, but the President has racked up a record 120 fundraisers in 170 days, so who has time to meet with the Jobs Council (not counting golf of course).

President Obama is setting records for Presidential time devoted to fundraising. He has held more than 200 since launching his re-election bid in April 2011. In contrast, the once again maligned George W. Bush held 86 his entire first term.

Why does Obama spend so much time fundraising? He evidently feels he has to, since the war chest he raised in 2008 is not there. Obama's campaign is behind Romney's at the end of July with only \$124 million cash on hand compared to \$186 million for Romney. (In 2008, Obama has a record haul of nearly \$750 million). And ironically, despite his attacks on the "rich" and wealthy, he is happy to take their money as \$50,000-\$75,000 per plate fundraisers for Obama has become the norm rather than the exception.

Yes, money has become the mother's milk of politics, but those who give a lot of money to candidates are always buying prestige or "goodwill", but for certain access and influence. And it's what got Europe into the mess it's in after electing socialist politicians and their promises for decades, eventually they had to pay the piper.

The USA is headed down that road and that's why this US election is so important to determine direction. As their largest trading partner, Canadians need to pay heed or get caught in the vortex from the fall out.

There's a line going around that "Thirteen years ago the USA had Steve Jobs, Bob Hope and Johnny Cash, now they've got no jobs, no hope and no cash."

There's still time to right the ship, but they need the political will to make the tough decisions required. The Republican National Convention (RNC) is this week in Tampa, followed in a couple of weeks by the Democratic National Convention (DNC). It's in our

interest so keep an open mind and try to catch some of the speakers. It was on that DNC stage several years ago that a young, attractive, unbelievably well spoken young Senator broke onto the scene with a speech and it sent his stock soaring. That senator was Barack Obama.

Once we get through Labour Day, and the Convention's, the rhetoric will heat up.

Stay tuned,

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