

## Everything We Need, Not Everything We Want

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There is not enough. When a budget shows that expenses are greater than income, resulting in a deficit, it simply means that there is not enough. So why do people spend more than they have? Obviously, someone else is willing to lend to them at a profit, but why would someone willingly go into a deficit without a good cause?

The problem is a belief that spending less than you earn – saving – somehow cheats you out of something you deserve. And, conversely, that spending more than you earn – debting – can somehow get you something you cannot pay for on your own.

Debting is therefore a great big contradiction. It allows you to have something you cannot have. Contradiction is a state of stress for human beings. We are most comfortable and happy when our actions and words, beliefs and behaviors, are in alignment. When we have something we cannot have, when we are contradicting ourselves, we end up with stress. Stress over a house we cannot afford, credit card bills that we cannot pay, business loans we should not have taken out.



We can always choose to stop contradicting ourselves, but change can be hard. It sometimes means temporarily reducing our standard of living, or changing habits, or both. Sometimes it means a short sale or even a bankruptcy. It often means accepting less, when we have no desire to accept less.

Our leaders do not provide much leadership in this department. For example, our government, aware of its own budgeting contradictions, recently hired a financial advisor. This advisor, a bi-partisan committee of political and economic experts, recommended that Uncle Sam cut Social Security and Medicare spending, among other things. Almost every single politician, on both sides of the aisle, responded with ‘no way.’ Change can be difficult.

Let us review the same numbers that this committee reviewed. After all, the arithmetic of budgeting is not hard, simply adding up income and expenses. On the following page is the projected 10-year federal budget. I have circled several numbers for discussion.



**Table S-4. Proposed Budget by Category**  
(In billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Totals		
													2011-2015	2011-2020	
<b>Outlays:</b>															
Appropriated ("discretionary") programs:															
Security .....	782	855	895	827	811	825	845	862	885	907	931	955	4,203	8,743	
Non-security .....	437	553	520	475	456	457	465	475	486	497	511	529	2,373	4,871	
Subtotal, appropriated programs .....	1,219	1,408	1,415	1,301	1,267	1,283	1,310	1,337	1,371	1,405	1,442	1,484	6,576	13,614	
Mandatory programs:															
Social Security .....	678	715	730	762	801	845	893	945	1,002	1,064	1,130	1,201	4,030	9,373	
Medicare .....	425	451	491	501	556	623	652	724	757	791	881	953	2,822	6,927	
Medicaid .....	251	275	297	274	292	313	336	362	389	419	451	487	1,512	3,619	
Troubled Asset Relief Program (TARP) <sup>1</sup> .....	151	-73	11	10	7	6	3	1	*	*	.....	.....	37	39	
Allowance for jobs initiatives .....	.....	12	25	8	3	2	.....	.....	.....	.....	.....	.....	38	38	
Allowance for health reform <sup>2</sup> .....	.....	6	-7	-17	2	30	72	101	100	100	104	106	80	590	
Other mandatory programs .....	607	737	619	570	547	546	544	563	567	568	616	637	2,826	5,775	
Subtotal, mandatory programs .....	2,112	2,123	2,165	2,107	2,208	2,364	2,500	2,696	2,815	2,942	3,182	3,384	11,344	26,363	
Net interest .....	187	188	251	343	436	510	571	627	681	733	786	840	2,110	5,777	
Disaster costs <sup>3</sup> .....	.....	1	3	4	4	4	5	5	5	5	5	5	21	46	
Total outlays .....	3,518	3,721	3,834	3,755	3,915	4,161	4,386	4,665	4,872	5,084	5,415	5,713	20,051	45,800	
<b>Receipts:</b>															
Individual income taxes .....	915	936	1,121	1,326	1,468	1,604	1,733	1,856	1,980	2,102	2,223	2,338	7,253	17,752	
Corporation income taxes .....	138	157	297	366	393	445	411	449	463	473	486	502	1,913	4,285	
Social insurance and retirement receipts:															
Social Security payroll taxes .....	654	635	674	720	766	809	856	911	954	1,000	1,044	1,084	3,825	8,819	
Medicare payroll taxes .....	191	180	192	208	223	237	251	267	280	293	307	318	1,112	2,578	
Unemployment insurance .....	38	51	60	67	73	77	79	79	78	77	76	77	357	743	
Other retirement .....	8	9	8	9	9	9	9	9	9	9	9	10	43	89	
Excise taxes .....	62	73	74	81	85	87	88	89	90	90	91	92	415	867	
Estate and gift taxes .....	23	17	25	23	24	26	28	30	32	35	37	40	124	298	
Customs duties .....	22	24	27	32	35	37	39	42	44	47	49	52	170	404	
Deposits of earnings, Federal Reserve System .....	34	77	79	67	59	52	48	50	52	55	57	59	305	578	
Allowance for jobs initiatives .....	.....	-12	-25	-8	-3	-2	.....	.....	.....	.....	.....	.....	-38	-38	
Allowance for health reform <sup>2</sup> .....	.....	.....	16	18	39	58	74	86	93	101	110	119	204	712	
Other miscellaneous receipts .....	18	18	17	17	17	18	18	18	18	19	19	19	87	180	
Total receipts .....	2,105	2,165	2,567	2,926	3,188	3,455	3,634	3,887	4,094	4,299	4,507	4,710	15,771	37,268	
Deficit .....	1,413	1,556	1,267	828	727	706	752	778	778	785	908	1,003	4,280	8,532	

Before we look at these numbers, remember that planned deficit spending is not the same thing as a good financial plan. The deficit numbers mean one thing. There is not enough.

**BLUE.** This is the spending on 'discretionary' spending. 'Discretionary' items like our Army. And 'discretionary' items like education for our children. I will not argue that the word 'discretionary' is accurate, but the numbers seem reasonable. It looks like they grow over the next 10 years, perhaps in the single-digit percentages.

**YELLOW.** These numbers look less believable. Consider that income tax receipts can only go up if incomes are going up, or if income tax rates go up. With persistent unemployment and outsourcing of jobs overseas, I do not believe it is reasonable to think that the average American's salary will double in the next 10 years. Nor do I think that federal income tax rates can double in that period without devastating our economy. So why is the federal government planning on more than doubling its income tax receipts? Anything is possible, of course, but from a planning perspective this seems to be a very hopeful number for actual revenue.

**RED.** These are the numbers that really illustrate the contradiction in the federal budget. The costs of Social Security, Medicaid and Medicare are at least doubling. FYI, the doubling of Medicare expenses has already taken into account the \$500 billion in Medicare cuts as part of 'Obamacare.' Further, look at the interest expense on our national debt going from \$187 to \$840 billion per year. None of this is speculation: this is the actual plan. We've had a deficit for years, and the plan is to keep on borrowing.

Without any additional stimulus or spending from the Federal Reserve or federal government, we are already planning to borrow in the neighborhood of \$1 Trillion dollars annually indefinitely. As Alan Greenspan mentioned a few days ago, eventually something will give.



There is not enough. There is not enough tax revenue from American companies and workers to maintain baby boomers' standard of living in retirement. There are not enough doctors, nurses, home health care aides and nursing homes to give every single baby boomer the care that they want.



Further, since we live in a global economy, there is not enough energy for emerging middle classes in Africa and South America to buy cars and modern homes unless Americans also use less energy. There is not enough beef for the growing middle class in China to eat unless Americans eat less beef.



So the good news is that there is always enough. There is always enough for everyone to share. There is never enough for one group to have it all, not without creating extremely high standards of living in one country and poverty in many others.

I imagine that our politicians will keep their words, refuse to change, and plan to keep borrowing to fund our budget contradictions. The stress will be passed onto the rest of us. Most of my clients, wealthy baby-boomers, could be hurt the most by this inaction without proper planning on their own. The real dollar value of Social Security and Medicare will be going down over the next 10 years. Not because the federal government will explicitly tell you, but because there is not enough, which we all know. There is enough for everyone in America and the world to share, but there is not enough to continue on without change.

As individuals, we can follow Uncle Sam's lead and keep our heads in the sand. We can refuse to change, and let change be forced upon us. Or we can plan for increased expenses, and modify our investing and spending plans to account for the real decline in federal benefits that is inevitable.

*FIAT Wealth Management is located in Long Lake, Minnesota. It is a boutique financial planning company owned by Matt Stahl and Greg Naylor. We especially enjoy working with people who live within their means so that they can give back to their families and communities. We specialize in retirement income planning and asset management, and are currently taking on new clients.*

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