

## **The Debt Crisis: Facts and Actions.**

It is of key importance to understand the facts of the situation we are facing and to discriminate between these facts and the spin that the media and the administration are using in order to pressure the American People to allow Obama to push his agenda for purely political purposes and with complete disregard for the consequences. Allow me to state the facts followed by suggested actions. The current political environment is highly polluted and got this way from the moment that Obama chose to take the debt ceiling debate and use it as an excuse to push for tax increases. This is the real crux of the situation. It was Obama the one who politicized the situation to such an irresponsible level that has created economic damage beyond anything that any previous president (even Carter) did.

Here are the facts:

**FACT 1.- The United States *will* be downgraded:** The President's policies have deteriorated the country's economic situation so much, that if ratings agencies were to assess our credit worthiness solely on the basis of our credit metrics, we should be a AA sovereign at best and could even be a BBB credit. Obama has tainted the main element that allowed us to enjoy the AAA ratings despite less-than-perfect credit metrics. That element was (and can be again under the right leadership and with the right policies) what I will call the "United States Brand". By increasing debt levels, demonstrating a deficit-driven policy for the foreseeable future, and increasing the size, scope, and funding needs of unviable social projects, the US Brand is now being questioned and its soundness is now being put to the test.

### **Action:**

The action to be taken by us Republicans is to start explaining these facts in simple, clear terms to the American People, and for our Republican House to insist in the approval of a plan similar to "Cut, Cap, and Balance", this plan (and most Americans do not know or have yet to understand):

- a) Effectively and immediately forces this administration to stop financing overgrown bureaucracies, non-productive give-aways, duplicities, waste, and programs that in their current shape are unsustainable,
- b) Allows for future spending increases but only and always as a function of economic growth. This guarantees that no government will be able again to try to live beyond our means and will avoid future crises like the one we face today, and
- c) Makes a balanced budget a Constitutional requirement, effectively eliminating this and future administrations' possibilities to run deficit-driven governments and putting the country on a real path to reducing our indebtedness.

We must take the almost-certain ratings downgrade as the main argument to push for a responsible plan that addresses the issues stated above. Once again, a plan similar to CCB appears to be the soundest solution and it is our job now to explain its benefits and the negative implications of the status quo to the American People.

**FACT 2.- We have a spending problem, not a taxation problem:** The reason why we face an almost certain downgrade is not that the United States government collects an insufficient amount of tax revenues (as is the case in other sovereigns where fiscal revenues are the problem). What have brought us to the current situation are this president's policies of expanding government (with the corresponding expenses) in non-productive areas. This means that this administration wants a larger and growing portion of every tax dollar it receives to go to non-productive and regressive spending instead of to productive, economic-growth-promoting activities.

For example, this administration's policies are designed to use an increasing portion of every tax dollar to continue to fund the imbalance between inflows and outflows in programs such as Medicare and Medicaid. Rather than adjust and restructure the programs in order to make them viable in the long-term, this administration's policies are to increase taxes in order to continue to fund their inefficiencies for the only sake of political expediency. This is one of many fundamentally flawed policies where tax dollars are used to spend wastefully (throwing the proverbial good money after bad) rather than invest in economic-friendly initiatives such as efficiency programs, reductions in red tape and elimination of excess regulations.

Our fiscal revenues are plentiful. What creates the imbalance is unwise and excessive spending where the government has unviable influence over business dynamics and constrains economic freedom to allow for appropriate conditions to hire and grow.

**Action:**

A plan such as the one put forward by Representative Paul Ryan addresses precisely this problem. By far, the largest government outlays go to the Medicare, Medicaid, and Social Security entitlement programs. Rep. Ryan's plan implements reforms that reduce their cost while maintaining the benefits to Seniors and Retirees and modifies their structure to account for the changing demographic and economic conditions in America.

We must retake the Plan and explain its mechanics to the American People so as to dissipate the fears that this administration has injected into the debate. We must make sure that the People understand that no senior will be affected and that the plan in fact guarantees that these programs will be there and will be viable for future generations, avoiding the economic failure that the programs would suffer if no reforms are made.

**FACT 3.- The statement that "raising the debt ceiling is necessary to pay for debt that has already been incurred" is only half true. It omits the fact that it will also be used to continue to fund excess spending and waste from this administration:** It is true that the debts currently on our books need to be paid, and that revenues from additional debt will be used for this purpose. This in economic terms is called "rolling over the debt". However, the real reason why the debt ceiling needs to be raised is because the current levels of allowed indebtedness are insufficient to pay for all of the government expenditures. That is, the current debt plus other expenses that are never mentioned in the presidential discourse.

The best way to explain this is through an analogy, an example:

Suppose that you earn \$50,000 a year. That is your income (equivalent to the government's tax revenues). Your necessary, non-discretionary expenses (these are the ones that you cannot avoid) include in this example and only for illustration purposes, \$10,000 in mortgage payments (equivalent to say, the country's debt), \$5,000 in health insurance (equivalent to Medicare and Medicaid payments), \$10,000 in property taxes (equivalent to say, government's expenditures in education, defense, and other services), \$10,000 in groceries, utilities, and general cost of living (equivalent to the government's spending in basic services), and finally \$5,000 to your IRA (equivalent to the government's Social Security). That leaves you with \$10,000 in "disposable income" that you can use for "discretionary spending". That is, spending you can make at your discretion and where you have the choice to pick where and how you will use this money.

Suppose that with that "extra" \$10,000 you choose to take a \$2,000 vacation, make a \$5,000 remodeling of your home, spend \$1,000 in recreation and entertainment, \$1,000 in gas and transportation expenses, and \$2,000 in clothes, toiletries, and other general expenses. Now you are "balanced". You live within your means and you spend what you can, based on what you make.

But now suppose that you take out a home equity loan (equivalent to additional government debt) for \$15,000 in order to buy a new car. Suppose that you like a car that is priced above what you can spend and you get a \$20,000 vehicle (equivalent to government's excess spending in non-productive areas). On top of that, you send a check for \$1,000 to your favorite public radio station. Suppose that although you are young and healthy, you double-up on health insurance that you don't really need and spend an additional \$1,000 on the premium (equivalent to the government paying for superfluous things). Now you are \$7,000 in the red. So you have three options:

- i. You can ask for a \$7,000 raise (equivalent to raising taxes) but you know that your employer is going through a rough economic patch so it is highly unlikely that you will get it; or
- ii. You can go to the bank and ask for the equity loan to be increased by \$7,000 (equivalent to raising the debt ceiling) effectively putting yourself in a position to borrow more); or
- iii. You can stop sending those checks to the radio station, you can modify your health insurance plan to adapt to your true needs, and you can go for the kind of car that you can really afford (effectively adjusting your expenditures, or in other words, cutting and capping) to live within your possibilities (balance).

Now that this is clear, the proposed way to go is:

**Action:**

Demand from the administration a plan where it will clearly show what payments need to be made from the proceeds that would result from the additional debt when the ceiling is raised. Then, demand that the government immediately cuts unnecessary expenditures, waste, duplicities, and funding to non-productive items; Demand the government to show its spending priorities and to state which are truly necessary and which are the superfluous items to be managed under a discretionary spending structure; Demand that the government budgets in line with its possibilities and commits to avoid future wasteful and unnecessary spending while adjusting onerous and unviable programs.

In other words, demand from the government a combination of transparency in correctly informing the American People what is really at stake and most importantly, support and push for the Ryan's Plan or a similar policy that addresses the issues in the same fashion.

**In Sum:**

These are just a few of the half truths and misconceptions that the administration intends to pass as factual in order to push their agenda of continued excess spending and increased taxes. Now that you better understand the facts, you will also be better-able to navigate the spin waters that the president and the media are using solely for political purposes.

Please, pass this along and make sure to support those representatives in the House and the Senate that understand these facts and are working to get America back on the right track, and call on those who insist in spinning and disseminating false talking points and expose them in any way you can. (Letters, emails, social networks, traditional media outlets).

The Republican Party continues to demonstrate that it is the only responsible party in this country and continues to work towards solving the fundamental problems created or exacerbated by the current administration despite its efforts to block our actions and hide the facts.

The GOP needs you to show your support and your understanding of the facts.

They need our help, and I trust that you will be eager to lend it.

Thank you, and please get into action as soon as you can.

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