ACCESS

Access Investment Advisors Inc.
4400 Calumet Avenue, Suite 201
PO Box 697
Manitowoc, WI
54221-0697

920 683 9901
Fax 262 364 2147
www.accessinvestmentadvisors.com

January 2013

Cliff Diving

"The combination of power, optimism and abstract thinking makes powerful people more certain. The more cut-off they are from others, the more confident they are that they are right." – Margaret Heffernen

As our politicians pat themselves on the back for victory in avoiding a "fiscal disaster", I believe it important to take a look at what really was accomplished. The "fiscal cliff" was of Congress's making. You may recall that on August 2, 2011, Congress passed the Budget Control Act of 2011(BCA) as part of an agreement to resolve the debt ceiling debate. The Act provided for a Joint Select Committee on Deficit Reduction (the "Super Committee") to produce legislation by late November of that year that would decrease the deficit by $1.2 trillion over ten years. When the Super Committee's recommendations were ignored, another part of the BCA went into effect. This directed automatic across-the-board spending cuts ("sequestrations") split evenly between defense and domestic spending, beginning on January 2, 2013. These cuts would have amounted to $1.1 Trillion spread over 10 years ($550 billion each for defense and discretionary spending).

Without proper context, this sounds like a lot of money (it is). Our current national debt stands at roughly $16 Trillion. Assuming no growth in that debt over the next 10 years (a highly dubious assumption) these "draconian" cuts would knock our debt down by a whopping 7% (and yes, for those doing the math, I rounded up). This, however, doesn't begin to tell the whole story. Our government does not live by accounting standards that they foist on all US corporations and non-profit organizations.

In addition to the current national debt of $16 Trillion plus, we have a present value liability for Social Security and Medicare of $86.8 Trillion (according to a November 27, 2012 article in the Wall St. Journal by Chris Cox and Bill Archer: *Why $16 Trillion only Hints at US Debt*). This future obligation is completely unfunded (no Virginia, there is no Santa Claus). This is the kind of accounting that landed more than a few in the hoosegow after the ENRON debacle. These obligations were known at the time as "off balance sheet liabilities". Unfortunately for the stockholders of ENRON and the citizens of the US, just because you don't carry these liabilities on your balance sheet doesn't mean they don't exist.

So far, our "balanced approach" has meant raising taxes on the top 1% of our citizens who currently are not paying their "fair share" while currently footing the bill for 37% of the taxes raised each year (the bottom 50% pay just 4% of the total). This is, by the way, while we are projected to run an additional $1Trillion deficit in 2013. No meaningful current spending cuts have been adopted, and the last guy who was brave enough to talk about reforming our future liabilities in Medicare and Social Security was portrayed in a commercial pushing granny off a cliff.

A cynic (OK, me) might suggest that the same elected officials who don't participate in either Medicare or Social Security don't really have much incentive to fix them. Also, the disaster looming (when other countries refuse to lend us money at ridiculously low interest rates) will undoubtedly happen in the future under someone else's watch, long after these folks have been lavished with lifetime pensions and fully funded private health care. We still have time to fix this mess, but do our elected officials have the courage to make the hard choices? I'd suggest you keep score on this one.

Will

P.S. We have completed the move into our new space. Our phone and internet address remain the same, but please note our new address is 4400 Calumet Ave., PO Box 697 Manitowoc, WI 54221-0697