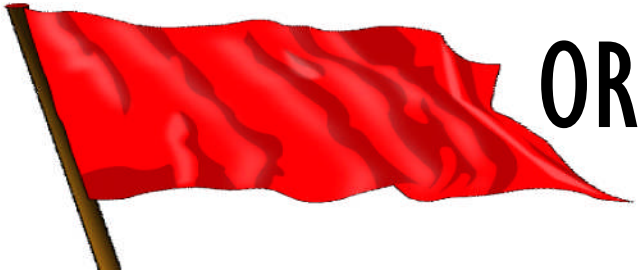


# RED FLAG



OR

# SILVER BULLET



KARL B. FRIEDMAN

Focusing on one single major problem at a time can be very helpful. The knowledge and understanding of the federal government's finances, budget, and expenditures can remain a mystery even to the finest mathematicians and financial experts. There are simply too many zeros in the numbers, making the gross number unreal or unfathomable. So, let's look at the practicalities of the financial affairs of the United States of America, and the critical issues that lie ahead.

We owe foreign nations approximately \$2,225 trillion, over half of which is owed to Japan and China. Those are treasury bills, bonds and notes, all with maturity dates, for which there is absolutely no cash on hand to pay. Four years ago, the debt of the United States was \$4,000 billion. That debt has increased substantially in the last four years. Assuming, by way of example, that it takes \$5 trillion a year to run the United States government and all of its activities, the optimistic anticipation is in this current fiscal year, the deficit will increase by over \$400 billion.

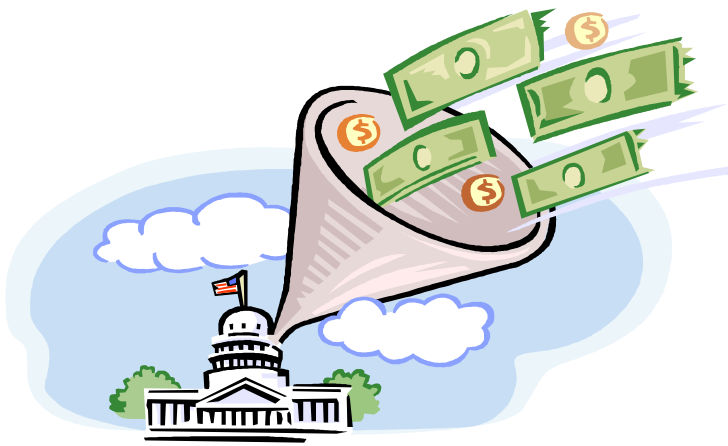
Yet even that number is a fake. It is a sham created by the administration and the congress. Another illustration to prove that, in mathematical theory, is the costs of annual welfare programs, including Medicare and Social Security. Just for example, let's assume that it takes \$3 trillion to

pay all of those entitlements. Then, we know that \$4 trillion comes in from the taxes, which gives us the availability of an extra trillion dollars for those programs, a very positive cash flow. However, that extra trillion is not invested or in reserve ~ it is just more debt that the United States borrows from these funds for other, current operations.

The gap is closing quickly ~ some think as long as 18 or 20 years; some as short as 10 or 11 years ~ when we reach a year that the total amount of receipts is equal to the total amount of payments made. When the year after that arrives, the government will have entitlements of a greater sum than it will have receipts, and the difference will have to come from the then-current operating budget. Reality will set in when there is no longer a source to tax and it becomes a general obligation of the treasury. In effect, the promises ~ the bonds ~ that the government has posted to cover this excess will become due.

There are solutions, all of which are painful. The current budget deficit can only be eliminated by increasing taxes or decreasing benefits and expenditures. Both avenues have far-reaching consequences. It is easy to increase taxes, but some of our citizens are already taxed more than they can handle. It was not long ago that the income tax was 90% for certain taxpayers. For many years, the top bracket was 50%. We managed to survive those years, but it is difficult to raise the money from taxes, so where do we cut the expenditures? Obviously, the end

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of the war in Iraq would be a benefit financially. Additionally, we have hundreds of thousands of troops all over the world, unrelated to Iraq. If those soldiers came home, we would reduce those expenses, but would then have an increase in unemployment and a decrease in our international image and presence. There are always trade-offs.

Suppose we simply cut down on social security for those who have little need of it? Congress will not do that because each member counts so heavily on the votes of senior citizens for re-election, so while it makes sense conceptually, it will never be. What about terminating all of this money that we spend on scientific research? Does that research, and its attendant benefits, go away? What about the money we pay to operate the highway system? Does that go away? What about the interest on the public debt, which is increasing geometrically. Does that go away? That is impossible. You cannot wish your debt away, so debt service is going to continue to grow if we do nothing. What about veterans' benefits? There are a lot of veterans out there now who need help, and that number is increasing daily. No congress would ever pass a statute retrenching in that area; to the contrary, many believe more should be spent in this area. What about foreign aid?

Aha! All those nations that have budgets depending upon our largesse would become angry, and we would lose our influence and our presence throughout the world. Some of that money invested as foreign aid is not a giveaway. A substantial portion of it is used for scientific enhancement, weapon design and production and defense mechanisms, as exemplified in the joint relationship between the United States and Israel.

Of course, we could temporarily improve our situation by stopping international trade so that we do not buy from other countries, and they cannot buy from us. We did that once in the 1920s and 1930s, and the whole world collapsed financially. So, isolationism is out the question.

It is hoped that this analysis will frighten some people into action. It is easy for a congressman with a two-year term, or even a senator with a six-year term, to say that it is a problem for the future, but that comfortable "future" has already passed, and today there does not appear to be the kind of statesmanship required to make the tough decisions.

There is an answer, a very simple one. The thinking citizen who votes must specify economic soundness as a criterion before a candidate is entitled to support. Even that is not an instant cure, but it is a move in the right direction. If you are really mad, scream at somebody.

**KARL B. FRIEDMAN**, a senior member of the law firm, is involved in structuring financial, real estate, personal property, and other types of funding transactions, providing collateral and security and selecting investment entities for such activities and in workouts for clients with financial problems. He is involved in estate planning and administration. Friedman is the recipient of the highest rating attainable by *Martindale-Hubbell*, a reflection of having achieved preeminent status in the areas of professional skill and integrity. He served as an organizing director of the American National Bank of Birmingham and as a special assistant to the Attorney General of the State of Alabama. He received his law degree from the University of Alabama. Friedman has recently authored and published a novel, *The Professor*. Friedman was the Commencement speaker at the 2006 Graduation Ceremonies of the UAB School of Optometry.