The Federal Deficit and How it Impacts You

June 9, 2010 - Two weeks ago the US federal deficit surpassed $13 Trillion. That number is expected to jump by a whopping $700 Billion between now and the November elections; just 146 days away. There are several ways to look at that number. You could say that this amounts to $2,413 per man, woman and child in this country. Or you could say that this amounts to $4.8 Billion per day in red ink. But any way you look at it, government spending is out of control and now even FED Chief Ben Bernanke is saying that current spending is "unsustainable". Of course, in nearly the same breath, he told Congress not the cut spending just yet. Apparently, we're not "broke enough" yet!

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Congress and the White House appear to be addicted to spending. Unfortunately their spending is going to eventually cause a tail spin fall in the value of the dollar, spiraling inflation, or both. In either case, the outcome is likely to be and even deeper recession and high unemployment rates for years to come.

The combination of government overspending and bad tax policy is going to affect everyone in the country. Perhaps, sooner than you think. According to economist Arthur Laffer, the United States is heading towards an market collapse sometime in 2011. This is going to be cause by high deficits and lower tax revenues.

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If Laffer is correct, and there is evidence to support his claim, today's unemployment numbers could look like the good old days in less than a year. Today, he was interviewed by Neil Cavuto and explained that because Congress and the White House are letting the Bush tax cuts expire at the end of this year there will actually be a significant fall off in tax revenues next year.

Laffer used an example that is easy to understand. If you know that a store is holding a sale that will expire next week, then you are more likely to go to the store today. Essentially, that is the same thing that is happening with federal tax law. Because taxes are going to increase across the board next year, you could say that the government is holding a "tax sale" right now. The way that you can take advantage of that tax sale is to accelerate your income in 2010 and pay at today's lower tax rate. That may sound complex but it is really not.

For instance, if you own stock that is worth more today than when you bought it, then you will be better off selling it in 2010 than if you sell it next year. Every accountant and tax attorney in the country is going to give that advice to their clients this year.

In the end, Laffer expects federal tax revenues next year to fall off a cliff. If the government doesn't curtail spending, then the deficit will skyrocket at an even more rapid pace, the market will get very nervous and you could easily see it collapse. It is a chain reaction scenario with no good outcome.

Unfortunately Congress, the FED and the White House don't appear to have the stomach to cut spending just yet. They continue to insist that the economy is recovering in spite of evidence to the contrary. Personally, if the government insists on continuing with unfettered spending, I'd rather just have them write me and every member of my family a check. While I'd really rather just see a halt in spending, I can guarantee you that I can manage my tax dollars in a way that is a lot more fiscally responsible than they seem to be able to manage.

byJim Malmberg

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