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DCBULL by ARTHUR L. EKREM

THE OBAMA HOLE

March 15, 2010

If you think we are in the crap house now, wait until you see a \$1.6 trillion deficit for 2010.

The budget!! - The deficit!!!

I am asked each and every day what all of this endless budget and deficit talk by President Obama really means to America?

Well I will get to that in just a minute.

First off, to my loyal readers, friends, and associates, you already know where I stand as a true bi-partisan in Washington DC – so no disclaimer for the regulars.

I have spent most of my adult life in and around national politics in Washington DC, and I am weary of the deterioration of the two party system. I am the truest definition of an independent - seeking a common good regardless of party affiliation. For those of you who do not know me, please note that I am not an anti Obama pundit, nor do I wish to see our President fail. He stepped into a very deep pool where I firmly believe that his lack of navigational experience is creating lasting problems for the United States. He has chosen the wrong battle with healthcare, at least for now – and our once great economy is slowly dying under his watch.

So, with that little bit of my brain matter disposed of, lets look at the budget and the deficit in laymen terms.

Let me lay it out in simple english - it goes something like this:

A well-prepared and realistic national budget needs to be highly credible and offer a plan to reduce future deficits. This is of extreme importance for the stability of U.S. government debt – and applies to both Americans and foreign investors. If we fail in this effort, we will see heightened fears of rising inflation in the coming years, which leads to higher interest rates in the near future - translation, it sucks for all of us.



The U.S. will be \$1.6 trillion dollars in the hole for 2010 alone - that is this year folks, and worse yet - these figures are coming from the government. That number represents almost 11% of the U.S. gross domestic product (GDP) – “DEAR LORD” we have not seen numbers like this since Adolf Hitler was passing gas in his hey day - we are talking great depression type stats here.

President Obama hopes and suggests that the deficit will fall in coming years. The White House has projected a \$3.8 trillion dollar budget for fiscal year 2011. The deficit for 2011 is looking to be in the neighborhood of \$1.3 trillion dollars - which will be down from the record high of \$1.6 trillion dollars this year. So far so good, and let it be noted in defense of President Obama - the federal government has run a consistent deficit since Nixon was in office in 1970.

If the big boss is right, the deficit should fall to \$830 billion dollars by 2012 - and continue to drop to a new decade low of \$710 billion dollars by 2014 - at that low number, Bill Gates could pay off our entire deficit - but then he would be broke - it works for me!



But wait a cotton-picking minute; this sounds too good to be true. You mean President Obama and his budget-cutting plan have permanently reduced the deficit??? NO, not so fast kids - because his reductions are only short term - simply band-aids, and the deficit will then start to rise again in the years ahead to over \$1.0 trillion dollars. Oh snot, here we go again!!!

So then, what is causing this huge deficit increase this year? Most Americans firmly believe that the government bailout and economic stimulus spending are the culprits behind the increasing deficits. However, they only represent a very small percentage of the pothole we call our economy. The main issues to blame are long standing imbalances between the sum total of our taxes and total spending. In addition, we now have to deal with our frozen economy of the last two years, which has further reduced tax revenues, only to then be burdened with massively increased unemployment benefits, unpaid healthcare, and food stamps.

Now throw in a couple of wars in Afghanistan and Iraq (see my article about Afghanistan in the DCBULL archives), where spending for national defense has increased by over 140% since 2000 to a staggering number of \$723 billion for 2010 alone - HOLY COW, I could almost buy the New York Yankees with money like that.

We cannot forget about government spending for Medicare, which has increased, even faster than our military spending at a cost of \$460 billion in 2010. During this same time, personal income taxes were cut by President George W. Bush and his crew, which reduced revenue versus the gross domestic product - bottom line, more expenses than income. The same problem faced by almost every hard working citizen in our great country - too many bills and not enough cash-olla.

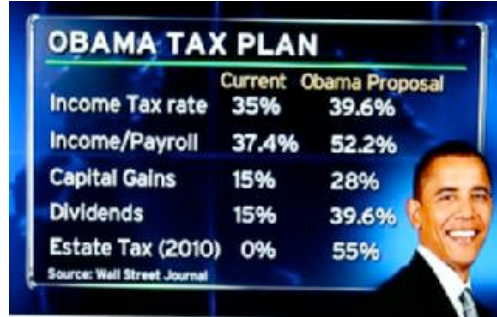


Most economists worth their weight in salt agree that deficits in excess of 3% of a nation's annual economic output or gross domestic product are in a position of being unsustainable. Now the really bad news, we are well above that 3% cushion and The White House projects the deficit to stay above the 3% comfort zone for the rest of this decade - that means we most likely will stay in the crapper until after 2020!!! The economists that agree that 3% is a max stress load on our economy, also now agree that our present deficit is too large to sustain.

What will President Obama do now? It is my humble belief that when the government spends more money than it collects in tax revenues and other fees - that it is just a matter of time before the Obama White House will start quite literally **printing more money** to finance the debt. The average Joe cannot resort to such measures, but Barack and company can and most likely will use this tact - although they say they will not. I think I will win this one - lets watch and see.

If more money is in fact printed, this in turn fixes a short-term issue of paying bills in the here and now, but ultimately weakens the dollar and creates higher inflation once again. In addition, money borrowed or leveraged from the private sector by the folks in Washington DC via Treasury Notes and the likes at

higher interest rates, steals money directly out of our economy that could be used for business expansion and the creation of jobs for sustained economic growth - so a crappy deal all the way around.



	Current	Obama Proposal
Income Tax rate	35%	39.6%
Income/Payroll	37.4%	52.2%
Capital Gains	15%	28%
Dividends	15%	39.6%
Estate Tax (2010)	0%	55%

Source: Wall Street Journal

So here are the nuts and bolts of this mess, the current direction is a crisis in the making. The economic recovery is still uncertain and unemployment remains in double digits. President Obama needs to redirect his focus away from healthcare, and shift the attention to providing enough government support to make certain that the gross domestic product grows at a steady pace for several years at a minimum. This will create immediate jobs, tax revenue and overall stability. Simply continuing to cut the federal budget at this time will almost certainly lead the country back into a deep recession or worse - and we certainly **cannot** fund a

sweeping healthcare initiative at this time.

(Please note that I do in fact want to see healthcare for every American citizen - my article on this topic will coming in the weeks ahead)

Do you remember that the top private economists use a dipstick of 3% as the top number for our domestic survival? Well, the Obama White House projects 3.8% for 2011 - not good - and they also project that unemployment will remain at 10% or more this year. So it is quite clear where our focus needs to be, and more so where President Obama needs to focus his efforts.

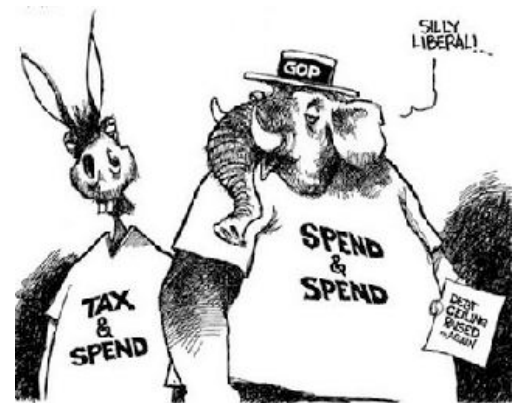
So based on The White House numbers and projections, the President has validated that the only real win for our country at this time is to fix the economy, thereby freeing up the funds to discuss healthcare in the years ahead - stay tuned.

PLEASE LET IT BE NOTED THAT CERTAIN SEGMENTS OF OUR ECONOMY WILL CONTINUE TO PROSPER.

SOME INDUSTRY STAPLES WITHIN THE U.S ECONOMY HAVE SHOWN EARLY SIGNS OF ECONOMIC GROWTH, EMERGING NEW MARKET SHARE AND INCREASED REVENUE.

THIS IS LARGELY DUE TO SPENDING STOPS AND FREEZES IMPLEMENTED IN THE PAST TWO YEARS WHICH ARE NOW BEING RELAXED BY MAJOR CORPORATIONS AND INVESTORS.

THESE FACTORS ARE THE LARGE UNKNOWNNS IN THE RECOVERY OF THE ECONOMY - WHICH IN TURN CAN POSITIVELY IMPACT THE NEGATIVE OUTLOOK AS OUTLINED ABOVE.



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bless the good people of Haiti - Amen

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