

Real Money: 'From shirtsleeves to shirtsleeves in three generations'

Ron Rikoon | Posted: Monday, April 1, 2013 11:26 pm

Last month, I wrote about how to make our tax system fair, simple, and productive. The other side of our national debt dilemma is government spending. In many of our own lives and most of America's well-managed companies, we have had to downsize and make choices about where and when to spend our hard earned cash. Studies show that American families and businesses are well into a long-term trend of deleveraging, i.e., reducing our debt level. The question remains, how can we get government to take the same kind of difficult step and just say "No" to nonessential expenditures. This is where our political system falls short.

At the present time, Congress is deadlocked, unable to come up with a long-term plan to solve the nation's runaway spending problem. The problem is on both sides of the aisle. Everyone involved acknowledges the need to spend less but there seems to be no politically acceptable way to consciously downsize the number or size of government programs.

Take spending on medical care, which consumes 26 percent of America's gross national product. A March 4, 2013, article in *Time* magazine by Steven Brill titled "Bitter Pill: Why Medical Bills Are Killing Us" pinpoints hospitals, labs, drug companies, medical device makers and insurance charge masters as the source of the problem of runaway spending on health care. "Obamacare," while achieving some worthy social goals, does nothing to address the fundamental out-of-control spending dictated by the structure of America's current medical system. How do we say "no" to the exorbitant prices levied by companies for products deemed essential to health?

Gridlock in Washington over the last two years on making decisions has resulted in across-the-board cuts to federal spending, which is not going to bring the budget deficit under control as the debt ceiling was just raised again to avoid a government shutdown. It also does not set the stage for an honest discussion of who is going to suffer the effects of the inevitable hard choices that need to be made. We know that an increase in the retirement ages along with an across-the-board reduction in benefits and services to most Americans are necessary steps. Once we are informed of the truth, we can adjust and move ahead with the business of trying to grow the economy.

Interestingly enough, it has made no difference to the markets how much debt we have taken on as a nation because investors worldwide continue to flock to the United States to invest their capital in our stocks, bonds and real estate. Assets on paper have increased in value, which has helped buoy investor confidence, but young people trying to deal with the uncertainty of their financial

futures are increasingly putting off starting families or buying homes. This is only part of the price we are beginning to pay for our collective cowardice.

Another consequence of our country's inability to deal with its out-of-control spending is the prospect that most people working now will not be able to afford to retire, ever. Older people are taking on more debt while younger people, faced with student loans that are becoming increasingly difficult to pay off, have to take lower-paying jobs because baby boomers cannot afford to retire.

As a nation, we continue to spend money that we don't have. Under the present regime, we act like we can simultaneously fix our highways and utility infrastructure, fund public health and education, pay those lucky enough to already have retired with their full pensions and maintain an effective military presence. Continuing on this path means mortgaging the nation's future to our creditors, whoever they may be.

As with our personal spending, common sense dictates that we raise the revenues needed to meet government spending levels for essential services and reduce everything else. What is essential and how does this happen? We start a comprehensive public debate that results in a binding, long-term plan to specify who is going to get what amount of support from the public coffers. Poor people usually bear the brunt of the pain when the government cuts spending, and this is not right. Wealthy individuals, highly paid government officials including members of Congress, and youthful retirees from all forms of government jobs at all levels, including the military, need to give up some of their nonessential benefits. Government subsidies of all kinds can be curtailed as the business of deciding winners and losers in business should not rest in bureaucratic hands.

The "shirtsleeves to shirtsleeves in three generations" saying usually applies to individuals. It means that people who are lucky, smart or industrious can make a great deal of money, but their children, who struggle to preserve that money, and their grandchildren, who end up with far less than their parents or grandparents, are somehow incapacitated by their inheritances. National fortunes, created by fortunate geography, ample natural resources and hardworking citizenry, can similarly be squandered.

Maybe technological breakthroughs in medicine, energy or agriculture will obviate the need to tighten our collective belts, but I doubt it. The character of a nation is built upon its willingness to sacrifice, a term often used in connection with military efforts but equally relevant today to our fiscal behavior. I hope that we can talk about these issues and decide collectively to share the pain of downsizing in time to help the many species and ecosystems that presently suffer under the weight of our excesses. We do have the ability to change course, as individuals, families and as a country. It's up to those who are most fortunate to bear the greatest share of the burden.

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