

>: Part II: Why Picking the President Is A Lot Like Picking a Stock...

Thursday, September 4, 2008 / Dylan Jovine

Correction: The link to Teeka's weekly phone call in yesterday's Tycoon Report was incorrect. We apologize for the inconvenience. [Go here now to listen >>](#)

LAST WEEK WE DISCUSSED THE RELATIONSHIP BETWEEN U.S. GDP AND THE U.S. BUDGET.

As you may recall, GDP, or Gross Domestic Product, is the total amount of goods and services that every working person produces in this country each year.

In 2007, GDP was \$13.671 trillion dollars. That means that all of our efforts - yours included - produced \$13.671 trillion dollars worth of output.

We also discussed the historic relationship between the U.S. Budget and GDP: Since 1970 (or the "modern financial era" of record keeping) Uncle Sam has taxed its citizens and corporations an amount that averages out to 18.2% of GDP each year.

That means the annual haul from income taxes, corporate taxes, estate taxes, sin taxes (and every other tax you could think of) that Uncle Sam takes from us each and every year adds up to roughly 18.2% of GDP.

But before we go forward, let me emphasize an important point here: Our economy is able to grow at the fastest rate of any mature, industrialized economy (even with cyclical hiccups every four years or so) because every party that has held power for the past 40 years - whether Democrat or

Year	Ind. Inc. Taxes	Corp. Taxes	Social Sec Tax	Other Taxes	Total Rev. as % of GDP
1980	9.0%	2.4%	5.8%	1.9%	19.0%
1981	9.3%	2.0%	6.0%	2.3%	19.6%
1982	9.2%	1.5%	6.2%	2.1%	19.2%
1983	8.4%	1.1%	6.1%	2.0%	17.4%
1984	7.8%	1.5%	6.2%	1.9%	17.3%
1985	8.1%	1.5%	6.4%	1.8%	17.7%

Revenues by Major Source, 1980 to 1985, as a Percentage of Gross Domestic Product (Sources: C.B.O.: Office of Management and Budget)

For those of you old enough to remember, in 1982 Democrats and Republicans joined forces to lower taxes for all Americans. The net result was that taxes as a percentage of GDP fell from an average of 19.26% to 17.4%, a drop of almost 10% for American taxpayers. And as many of you also know, Americans spent the extra cash well, propelling the economy to its greatest expansion in the post-war period.

One of the biggest knocks many people have with this economic period of time is that we as a country weren't as disciplined on the spending side of the equation. I couldn't agree more. Instead of cutting taxes and spending, we just cut taxes and maintained, if not increased, our spending.

How? Through borrowing insane amounts of money which increased our national debt to obscene proportions. Unfortunately for our grandchildren they will have to pay that money back one day.

And that brings me to my main point today: How to pay for the things we want as a nation while giving a stronger country to our children than we inherited from our parents.

Let's assume that we are disciplined enough to not allow Uncle Sam to take more than 18% of GDP in taxes on any given year. And because of that discipline we are able to maintain the growth of GDP at a 3% rate, a decent growth rate for any mature, industrialized economy.

By 2010 our GDP would have grown to \$14.938 trillion from \$13.671 trillion in 2007, an increase of \$1.2 trillion dollars. Having our GDP grow by \$1.2 trillion dollars over the next four years would mean that we would increase the amount Uncle Sam takes in taxes by a whopping \$216 billion dollars (assuming Uncle Sam taxed our citizens at 18% of the increase in GDP).

My point is that to actually give a stronger nation to our children than the one we inherited from our parents, we're going to have to be disciplined about taxation and borrowing.

If we want our economy to grow at the best rate possible (to create the most amount of jobs possible), we're going to have to limit the amount that

Uncle Sam taxes from its citizens to no more than 18% of GDP each year.

Furthermore, whatever programs we want to initiate, we're going to have to be disciplined on the spending side of the equation. That means that to add any program we decide as a nation we want to add, we're not going to be able to borrow money from China to add it - we're going to have to make the kinds of choices and sacrifices that every working American family makes each year when living on a budget.

(This isn't a Republican thing or a Democrat thing. This is a grandchildren thing. This is an American thing. This is a "greatest-generation" type of

Year	Social Sec.	Medicare	Medicaid	Unemployment	Disability	Other	Offsetting Receipts	Total
2007	\$968.8	\$348	\$157	\$24.7	\$158.7	\$60	\$178.8 B	\$1,451.4
2005	\$881	\$177	\$106	\$202	\$125.8	\$60	\$184.0	\$2,472.20
2006	\$1,016.7		\$1,552.7		\$-140.6		\$226.6	\$2,655.40
2007	\$1,041.8		\$1,630.1		\$-178.8		\$237.0	\$2,730.20

As you can see from the table above, our government has total outlays of \$2,730.2 trillion in 2007. Here's a breakdown of exactly where it went:

2007 Discretionary Spending Outlays, in Billions of Dollars (Note: Discretionary Spending is the amount of money that can be spent at the discretion of our government each year. This includes defense, domestic and international programs; Sources: C.B.O.; Office of Management and Budget)

Outlays for Mandatory Spending in 2007, in Billions of Dollars (Note: Mandatory Spending is the amount of money that cannot be touched by our government each year. This includes spending for Social Security, Medicare, Medicaid and other social safety net programs; Sources: C.B.O.; Office of Management and Budget)

As you can see from the table above we're going to have to cut from our existing programs to pay for the kinds of things we want to pay for. And that's cool - it's just a function of deciding what type of nation we want to be.

But make no mistake about it - decisions must be made.

For example, the easiest thing to cut would be defense spending. Trimming that down by 50% would give us roughly \$274 billion dollars in extra money. But remember - last year, we borrowed almost \$170 billion dollars. And if we are truly disciplined about leaving our grandchildren a better nation than the one we inherited, we wouldn't borrow money. That means that even if we cut our defense spending by 50% we would only free up \$100 billion dollars if we agreed not to borrow any more money.

(As one of you pointed out, we do not like a "guns and butter" policy. I couldn't agree more - we simply couldn't afford it).

So it's tricky, but like I said we can do it. We're Americans. We can do anything.

Now that you have some facts in front of you, I'd love to hear your thoughts on what programs mean the most to you (universal health care, free education, etc.) and where you would like to cut from the budget above to pay for them.

Feel free to have fun with this while you're thinking about it. The coolest thing about this is that we could all play President without ever having to run for office and deal with living life in a fishbowl.

You can post your article here >>> tycoonreport.tycoonresearch.com/u/post_article.php

Have a great week!



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