Watchdog of the Taxpayer's Dollar Since 1956

The Fairfax County Taxpayers Alliance
Bulletin
2010 FEDERAL ELECTION ISSUE

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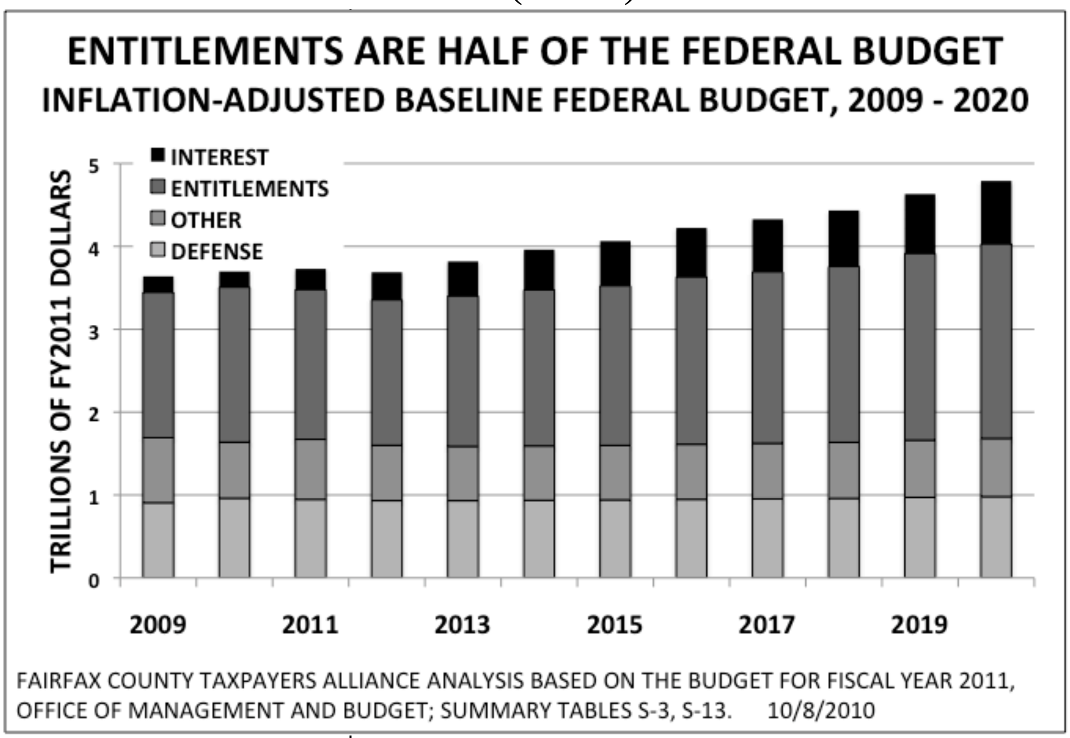
The issue candidates are dodging:
Cutting the deficit without tax hikes requires large cuts to Social Security, Medicare, Medicaid
The real issue: Enact a Value-Added Tax (VAT) or cut entitlements?



Entitlements, Inc.

Entitlements, primarily Social Security, Medicare, and Medicaid, now comprise about half of federal spending (see adjacent chart).

The major role of the Federal government has evolved from defense to the redistribution of wealth.

Trillion-Dollar Deficits

With the Federal budget approaching $4 trillion and the annual deficit projected to be around $1 trillion for the next ten years, eliminating the deficit without a tax hike would require cutting all Federal programs, including defense, Social Security, Medicare, and Medicaid by about 25 percent.

If defense were cut less than 25 percent, then entitlements would have to be cut more.

The trillion-dollar deficits cannot continue. The *Citizen's Guide to the 2009 Financial Report of the U. S. Government*, states, " … current policies are not sustainable." It predicts that with current policies interest on the national debt would become the biggest item in the federal budget.

Therefore either entitlements must be cut or substantial tax hikes enacted. However, neither party acknowledges this.

Attend the Fairfax County Taxpayers Alliance annual membership meeting, Oct. 23, 2010, 11:30 a.m. – 2 p.m. at the Marco Polo Restaurant in Vienna. Speakers are Supervisor Pat Herrity and State Senate Candidate Scott Martin. Details on page 7 and the back cover.

Irrelevant Congressional Campaigns

Both parties have good reason to hide the tax-hike vs. entitlement-cut issue from the voters.

Republicans fear that Democrats would accuse Republicans of intending to cut entitlements to eliminate the deficit without a tax hike.

Democrats fear that Republicans will accuse Democrats of intending to enact a Value-Added Tax (VAT) to preserve entitlements, especially more government-subsidized health insurance.

Yet, this is exactly the debate that should be taking place this election season. When going to the polls, voters will be oblivious to the momentous question facing the lame-duck session of Congress.

The Unaffordable Heath Care Act

President Obama promised to rein in deficits through health care reform, since health care is a major cause of the deficit. His *Patient Protection and Affordable Care Act* does reduce the deficit but only by a token amount.

In a March 20, 2010, letter to House Speaker Nancy Pelosi, the Congressional Budget Office stated that the final version of the *Affordable Care Act* would reduce the deficit by $143 billion over ten years. That averages to a $14.3 billion reduction per year, which reduces the trillion-dollar deficit by only one percent.

The *Affordable Care Act* is unaffordable without substantial tax increases, in addition to the $525 billion ten-year tax increase already included in the *Act*.

Obama's Two-Trillion-Dollar Tax Hike

Including the $525 billion tax hike in his health care legislation, President Obama has proposed an additional $2 trillion dollars of tax hikes over the next ten years.

He proposes rescinding the Bush tax cuts for those with incomes over $250,000, which raises $700 billion over ten years.

His budget also proposes an additional ten-year $700 billion tax hike, described as "Other revenue changes and loophole closers".

Democrats Floating the VAT

Since President Obama recognizes that his $2 trillion tax hike reduces the deficit by only 20 percent, he has appointed an 18-member "National Commission on Fiscal Responsibility and Reform" to "achieve fiscal sustainability over the long run." The commission has seven Republicans, seven Democrats, and four additional members appointed by the President. The Commission is to report by December 1, 2010, after the elections but in time for the post-election lame-duck session of Congress.

The Obama administration has been floating the idea of a Value-Added Tax (VAT), also called a consumption tax. Common in Europe, the VAT adds a tax at every stage of a product's development. Since each one percent of a VAT raises $50 billion, a 20 percent VAT would eliminate the deficit.

The VAT is a hidden tax. Unlike the sales tax, the amount of which is printed on every sales receipt, with the VAT you do not know how much tax you are paying.

Republicans Not Floating Entitlement Cuts

Meanwhile, the Republican *Pledge to America* does not acknowledge that entitlement cuts are necessary to end the deficit and appears to rely mainly on reducing discretionary (non-entitlement) spending. Eliminating the deficit by reducing discretionary spending would require nearly eliminating all government agencies, including the Department of Defense

While Obama was floating the VAT as undesirable but maybe necessary, Republicans should have been doing the same with raising retirement ages or increasing Medicare deductibles. They have not.

If the Fiscal Commission proposes a VAT, or any other tax increase, Republican opposition will crumble because Republicans are not developing public support for entitlement cuts, which are the only alternative to higher taxes.

Entitlements compared to the Constitution, Article 1, Section 8

The proposed FY2011 Federal budget is $3.7 trillion of which about $2 trillion is entitlements and $1 trillion is for defense. Were massive entitlements what the framers of the Constitution intended when they defined the powers of Congress in Article 1, Section 8:

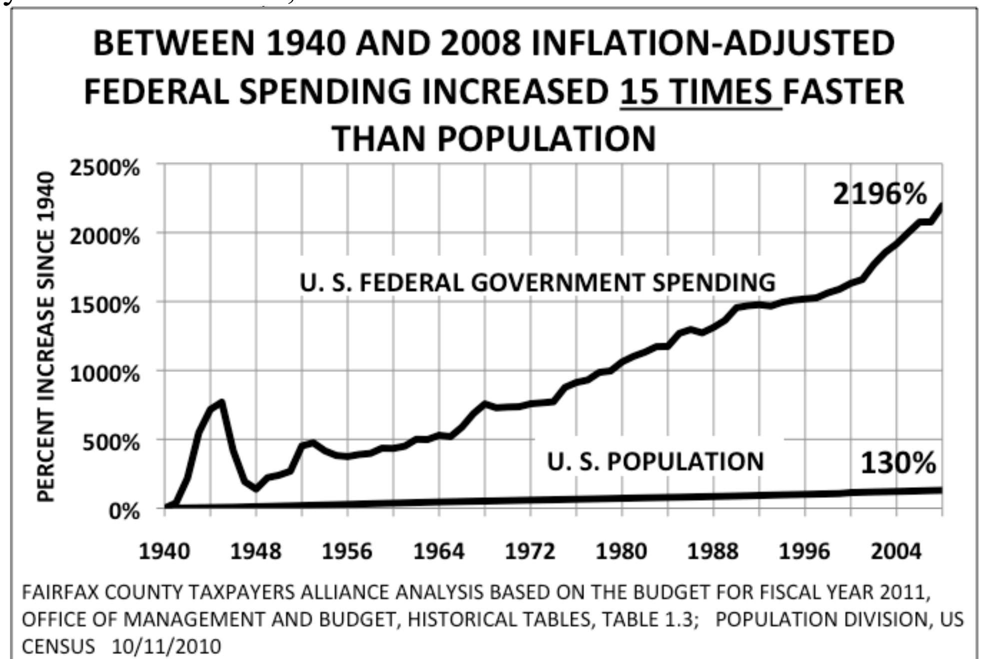
The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States;

- *To borrow money on the credit of the United States;*
- *To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes;*
- *To establish an uniform Rule of Naturalization, and uniform Laws on the subject of Bankruptcies throughout the United States;*
- *To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures;*
- *To provide for the Punishment of counterfeiting the Securities and current Coin of the United States;*
- *To establish Post Offices and Post Roads;*
- *To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;*
- *To constitute Tribunals inferior to the supreme Court;*
- *To define and punish Piracies and Felonies committed on the high Seas, and Offenses against the Law of Nations;*
- *To declare War, grant Letters of Marque and Reprisal, and make Rules concerning Captures on Land and Water;*
- *To raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years;*
- *To provide and maintain a Navy;*
- *To make Rules for the Government and Regulation of the land and naval Forces;*
- *To provide for calling forth the Militia to execute the Laws of the Union, suppress Insurrections and repel Invasions;*
- *To provide for organizing, arming, and disciplining, the Militia, and for governing such Part of them as may be employed in the Service of the United States, reserving to the States respectively, the Appointment of the Officers, and the Authority of training the Militia according to the discipline prescribed by Congress;*
- *To exercise exclusive Legislation in all Cases whatsoever, over such District (not exceeding ten Miles square) as may, by Cession of particular States, and the acceptance of Congress, become the Seat of the Government of the United States, and to exercise like Authority over all Places purchased by the Consent of the Legislature of the State in which the Same shall be, for the Erection of Forts, Magazines, Arsenals, dock-Yards, and other needful Buildings; And*
- *To make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers, and all other Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof.*

Cost of Entitlement Programs in the FY2011 Federal Budget ($ Billions)			
Social Security	$730	Child Tax Credit	$23
Medicare	491	Making Work Pay Tax Credit	21
Medicaid	271	Foster care/adoption assistance	7
Unemployment compensation	103	Housing Assistance and Other	16
Food and nutrition assistance	95	Education, training, employment	33
Supplemental Security Income	49	Other health	33
Family Assistance	29	Agriculture	19
Earned Income Tax Credit	47	Health Reform and Jobs Bill	18

Entitlement cuts or a Value-Added Tax? What the Republican Pledge should have said

By Arthur G. Purves, FCTA President



A Pledge to America

In September, Republicans offered *A Pledge to America* for the congressional elections. The *Pledge* misleadingly implies that the budget can be balanced by reducing "discretionary" (non-entitlement) spending.

Unlike Congressman Paul Ryan's (R-Wisconsin) *Roadmap to America's Future*, the *Pledge* does not build a mandate for eventual entitlement cuts. With no alternative to a Value-Added Tax, should the Democrats propose one, Republican opposition will crumble.

Between 1940 and 2008, Federal inflation-adjusted spending increased 15 times faster than population. Defense spending may have caused the increase initially. Today entitlements drive the increases.

The Choice

According to the Treasury's *2009 Financial Report*, as baby-boomers retire, interest on the debt will eventually dominate the budget.

Reducing the debt requires spending cuts, tax hikes, or both.

Inflation-adjusted budget projections through 2020 indicate that Federal annual deficits will be a trillion dollars and that Federal spending will be about $4 trillion dollars.

Eliminating the deficit without tax hikes would require cutting all Federal spending, including defense, Social Security, Medicare, and Medicaid by about 25 percent. If defense and other government agencies were cut less than 25 percent, entitlements would have to be cut by more than 25 percent.

Grandfathering Entitlements

However, the U. S. Treasury's credit rating is not in imminent danger, so entitlement cuts could be deferred for say five years. Benefits received by those currently or soon to be enrolled in entitlement programs could be preserved. Entitlement cuts could occur for those enrolling in these programs starting five years from now.

Never Enough Taxes

Tax hikes are the alternative to cutting entitlements. Eliminating all of the Bush 2001 and 2003 tax cuts would reduce the deficit by only half in 2020. So the Obama administration is conditioning the public to accept a European-style Value-Added Tax.

European countries have found that Value-Added Taxes are insufficient. A May 11, 2010, *Washington Post* article, "Europe rewrites its rule book in creating fund to contain financial crisis" states that Europe's post-World War II social contract " … has been generous to workers and retirees but has become increasingly unaffordable for an aging population."

Reining in Health Care Costs

President Obama's promise to reduce the deficit through health care reform collapsed: *The Patient Protection and Affordable Care Act* reduces the Federal deficit by only one percent. The *Act* is itself unaffordable without another major tax hike.

To reduce medical inflation and hence the deficit:

-Increase deductibles and co-pays for government and private health insurance so that consumers shop for the best value, check their bills, and live healthy lifestyles. A major cause of medical inflation is that consumers' out-of-pocket costs for health care have decreased from 47 cents on the dollar in 1960 to only 12 cents in 2006.

-Increase competition among health insurance companies by providing the same tax treatment for employer-provided and privately-purchased health insurance.

-Consider that EMTALA, the 1985 Federal law requiring Emergency Departments (EDs) to treat all patients, has resulted in ED overcrowding and closures, especially in cities. Instead of making the purchase of health insurance a Federal law, rescind EMTALA to encourage the purchase of insurance for emergencies. With more patients paying their own way, government could gradually return charity care to the private sector.

Stop Exporting Jobs

President Obama's budget forecasts unemployment at or above 5 percent through 2020. Some unemployment is due to the off-shoring of jobs.

High corporate taxes, excess regulation and paperwork, uncertainty over healthcare mandates, and the possibility of new carbon taxes all drive jobs overseas and should be rectified. Taxes should not be increased on foreign profits; they should be decreased on domestic profits.

Off-shoring may be necessary to compete with products that other countries can manufacture.

However, the United States is still the world's leading innovator. Technology that only the U. S. owns should be manufactured by U. S. workers. Production costs may be higher, but the workers would become consumers.

Henry Ford paid his employees well enough so they could afford to buy his cars. If U. S. companies want U. S. consumers, then these companies have to hire U. S. workers.

Schools

High taxes assume permanent dependence on government entitlements. Why can't Americans be self-supporting and earn a little extra to help those in need?

Welfare, Medicaid, and criminal justice spending climb when schools fail to teach low-income students to become self-supporting adults.

On October 10, 2010, the *Washington Post* published a manifesto by 16 school superintendents responsible for 2 ½ million children. They state, "The glacial process for removing an incompetent teacher … has robbed millions of children of a real future."

These superintendents urge making charter schools "a viable option" to help prevent a widening gap "between the haves and the have-nots."

Family

Married couples now head less than half of American households. Family breakdown increases dependency on government. Also driving up the per-capita cost of Social Security, Medicare, and Medicaid is the decrease in the ratio of workers to retirees from 16:1 in 1950 to 3: today.

The ideals of marriage and child-rearing to build families able to care for children and parents and help each other during times of hardship are important.

The Government or the Family?

Paternalistic government spirals into debt. However, when given the opportunity, families can become self-sufficient and prosper. Self-sufficient families do not need entitlements. When families fail, government cannot succeed.

U. S. Federal Debt at highest point since World War II

Foreign countries now own 30 percent of the Federal debt

By the end of the current fiscal year, which started October 1, U. S. Federal debt is expected to increase to $15 trillion, from $10 trillion in FY2008. This is a $5 trillion increase in three years, the steepest increase since World War II.

FAIRFAX COUNTY TAXPAYERS ALLIANCE ANALYSIS BASED ON THE BUDGET FOR FISCAL YEAR 2011, OFFICE OF MANAGEMENT AND BUDGET; HISTORICAL TABLES, 7.1. (2016-2020 ARE ESTIMATES) 10/8/2010

By the end of the current fiscal year, the debt is also expected to equal the United States Gross Domestic Product (GDP) for the first time since World War II. The GDP is the final value of all goods and services produced in a year.

The surge in the Federal debt prompted Moody's Investor Service to warn last March that the United States Treasury bond ratings might drop. A lower bond rating would force the U. S. Treasury to sell bonds and notes at higher interest rates.

A March 15, 2010 *New York Times* article, "Moody's Says U. S. Debt Could Test Triple-A Rating", reported, "Growth alone will not resolve an increasingly complicated debt equation …" and that the U. S. required "… fiscal adjustments of a magnitude that, in some cases, will test social cohesion."

The surge in debt was the result of three major factors:

- A substantial decline in government revenue
- Welfare costs due to higher unemployment
- Increased government spending to stimulate the economy ("stimulus" package).

The full impact of the baby-boomer retirement on Federal debt begins after 2020. Treasury Secretary Geithner estimates that, absent policy changes, the Federal debt will be twice the GDP around 2040.

U. S. individuals and institutions used to own all of the Federal debt. However, as of June, 2010, the Federal debt was $13 trillion, of which $4 trillion or 30 percent was owned by foreign countries. Countries holding the most debt in June were Mainland China at $844 billion, Japan at $804 billion, United Kingdom at $362 billion, and oil-exporting nations at $223 billion.

As of June, 2010, the Federal Reserve Bank owned $776 billion of the debt.

U. S. government agencies own $4.6 trillion of the debt. The agency owning the most debt is the Social Security administration, which owns about $2.4 trillion. For years Social Security payroll tax revenues exceeded Social Security expenses. The surplus was "lent" to the Treasury, which spent it. Now that Social Security expenses exceed payroll tax revenues, the Treasury will have to start paying back the $2.4 trillion to Social Security. To do so the Treasury will have to raise taxes, borrow, or cut spending elsewhere.

(Re)Join the FCTA and invite a friend to join too!

The Fairfax County Taxpayers Alliance analyzes Fairfax County, Virginia, and Federal budgets. Twice a year you receive the FCTA Bulletin, which summarizes budgets, exposes excesses, and offers solutions. We also maintain a website (www.fcta.org), testify at county and school budget hearings, and attend budget town halls. The Superintendent of Schools, the Chairman of the Board of Supervisors, and Governor McDonnell know who we are! **Use this form or join online at www.fcta.org**. **Please encourage your family and neighbors to join. We need your help to reach more taxpayers. For additional memberships, simply enclose a check with the new member's name, address, and email.**

Current members: Please renew if the date on your mailing label is before November 1, 2010 Thank you!

_____Enclosed is my annual FCTA membership dues of $15
_____I'm enclosing an extra contribution of $_______
_____I would like to volunteer. Please contact me.

Name(s)_____________________________________ **Mail To: The Fairfax County Taxpayers Alliance**

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Email____
To receive FCTA press releases and tax alerts, please provide your email address.

Supervisor Pat Herrity to address FCTA luncheon, Oct. 23

Also speaking: Scott Martin, Candidate for State Senate – 39th District

A major reason for high real estate taxes is the cost of county pensions. Supervisor Herrity successfully sponsored a resolution to have the County Executive study defined contribution plans for new county employees. **Please RSVP by Tuesday, Oct. 19. See back cover of this Bulletin for details**. The FCTA President, First and Second Vice-Presidents and At-Large Directors (names in **bold**) are up for election at the meeting. To vote, members must be Fairfax County residents and have dues paid up.

Officers

President:	***Arthur G. Purves***	*Treasurer:*	*Arthur Purves (acting)*
First Vice President:	***Alexander Romero***	*Secretary:*	*Perry Young*
Second Vice President:	***Bill Peabody***		

At-Large Directors

Arthur Purves	***Bill Peabody***	***Alexander Romero***
The Hon. David C. F. Ray	***Fred Costello***	*(two vacancies)*
Perry Young	***Gary Koerner***	

District Directors

Braddock:	*Tom Blau*	*Mount Vernon:*	*vacant*
Dranesville:	*vacant*	*Providence:*	*vacant*
Hunter Mill:	*David Swink*	*Springfield:*	*Bradford Butler*
Lee:	*vacant*	*Sully:*	*Chuck McAndrew*
Mason:	*Jim Turbett*		

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Fairfax County Taxpayers Alliance
Annual Membership Meeting

SPEAKERS

Supervisor Pat Herrity (R – Springfield District)
Also, Scott Martin (Candidate for 39th Senate District)

Saturday, October 23, 2010 – 11:30 a.m. to 2:00 p.m.
Marco Polo Restaurant – 245 Maple Avenue West (Rt. 123) Vienna VA
Menu Selections –– London Broil – Chicken Cordon Bleu
Vegetarian and special diet requests also available
Cost: $20 per person (includes tip and 8% sales tax)
Please RSVP by phone (703-646-2428) or email (wpeabody@verizon.net)
No later than Tuesday, Oct. 19
Please provide names and menu selections … *SEE YOU THERE!*