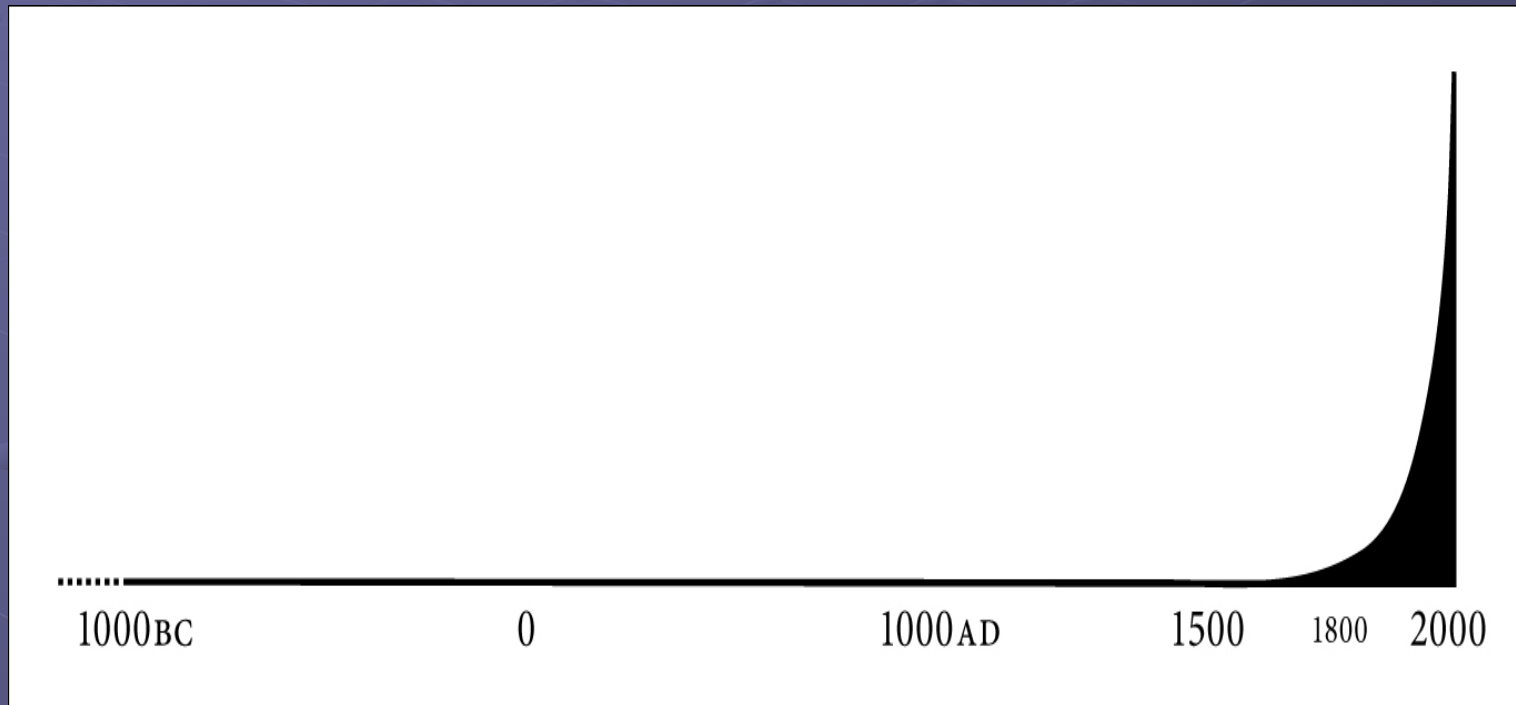


What it Took to Found the Country and What it Will Take To Address Current US Debt Levels and Grow the Economy

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American Capitalism: Transformation of Human History



Radicalism of American Revolution

- Concept of progress/technology advances
- Democracy & republican virtue vs. monarchy/feudalism/anarchy
- Equality/advancement by merit
- Egalitarianism: rise of common man
- Growth: expand pie & work is good
- Vibrant civil society
- Individualism & freedom
- Common language
- Overthrow habits, customs and traditions

Political Will

Gutenberg's Printing Press



Political Will: Global Changes

- Information Revolution (1455-1700)
- Scientific Revolution (1462-1733)
- Global Exploration (1492-1650)
- Reformation (1515-1563)
- Renaissance (1379-1615)
- Age of Enlightenment (1650-1790)

Political Will: American Civilization

- Political Will (Culture, values, habits, practices of a free society)
- Free Markets (Private property, technological progress, economic growth, and entrepreneurship)
- Government (Lean but effective - expansive role for education)
- Civil Society (Individual responsibility, civic associations, family, and religion)

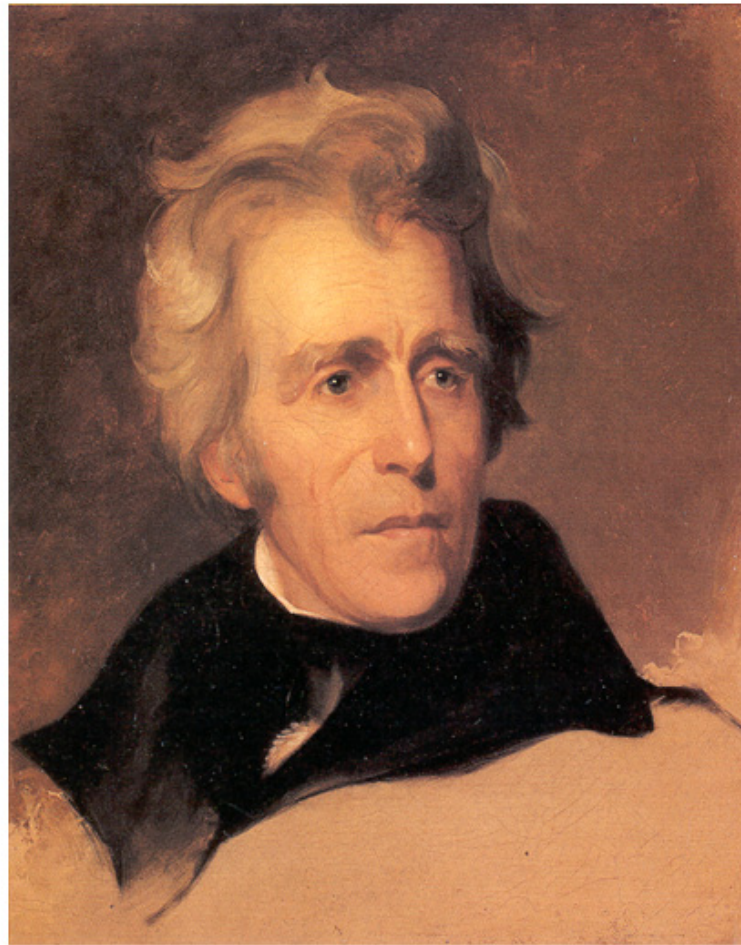
Alexander Hamilton



Thomas Jefferson: Second Revolutionary Wave



Andrew Jackson: Third Revolutionary Wave



John Marshall: Defining America



Culture of Innovation

- Agriculture
- Land
- Transportation
- Manufacturing
- Financial

Key Financial Historical Events

- Alexander Hamilton's financial system
- The National Bank and monetary policy
- Accounting and the Industrial Revolution
- Federal Reserve Bank/Progressive Era

Revolutionizing Business

- Electronic communications
- Computerized financials
- Enterprise and business management software
- Management theories

Total Government Expenditures as a Percentage of GDP

Country	1880	1913	1938	1950	1973	1992	2010
France	11.2	8.9	23.2	27.6	38.8	51.0	52.3
Germany	10.0	17.7	42.4	30.4	42.0	46.1	45.1
Japan	9.0	14.2	30.3	19.8	22.9	33.5	36.0
Netherlands	10.0	8.2	21.7	26.8	45.5	54.1	54.7
U.K.	9.9	13.3	28.8	34.2	41.5	51.2	45.8
U.S.A.	7.3	8.0	19.8	21.4	31.1	38.5	43.3
Average	10.0	11.7	27.7	26.7	37.0	45.7	46.0

Government Successes

- Victory in three world wars
- Clean air and water
- Progressive Education/GI Bill
- Extension of suffrage
- Workplace safety and equality
- Infrastructure: interstate highway system

America's Pivotal Election: 1912

- Popularity of progressive issues
- First use of electronic mass media
- Income tax/Expansion of government
- Conversion of Theodore Roosevelt
- Lackluster Republican campaign

Progressive/Socialist Era: Dysfunctional Political Will

- Change in development of public opinion
- Domination of mass media
- Monopoly culture/political correctness
- Leadership: Character vs. personality
- Trash culture – individual viewing
- Literary culture vs. texting/video
- Advertising/commercialization
- European failures

Causes of Great Depression

- Failure of capitalism/stock market crash
- Monetary policy
- Government debts
- Welfare state
- Protectionist trade policy
- Hoover Interventionism/high taxes
- Specific industry regulation
- Immigration restrictions

Global Financial Meltdown: Kids Blow Up World's Financial System Using Computerized Trading



Global Financial Meltdown

- Decline in confidence in institutions and capitalism
- Key role of growth in derivatives:
 - Creation of new financial instruments to corner markets such as oil and commodities and for hedging
 - Ability to bet on downturn/failure without any equity
 - Virtually limitless leverage allowed: no measurement
 - Repo market can cause instant insolvency
 - Legislative incompetence: regulatory conundrum; lack of private sector leadership: New Deal model /consequences
 - Too connected to fail; exemption from bankruptcy laws

America: Consumers not Producers

- Percentage of economy devoted to consumer goods: 70% - highest since 1920s
- Savings rate: fell below zero
- Loss of key industrial sectors
- Growth after 9/11: residential housing and credit card debt
- Cold War vs. war on terrorism

Financial Meltdown: Other Causes

- Overall government policy: S-curve
- Monetary policy: two wars/deflation
- Fiscal policy: government debt
- Commercial banks: shadow banking
- Investment banks
- Baby boomer retirement
- Failed economic models

Global Financial Meltdown: Housing

- Housing derivatives: safety
- Sub-prime mortgages
- Financial Crisis Inquiry Commission
- Housing policy since New Deal
- Housing strategy: U.S. vs. Other Countries
- Real cause of housing implosion: jobs

America's Superior Ability to Compete Is Challenged

● Ready availability of competitive tools:

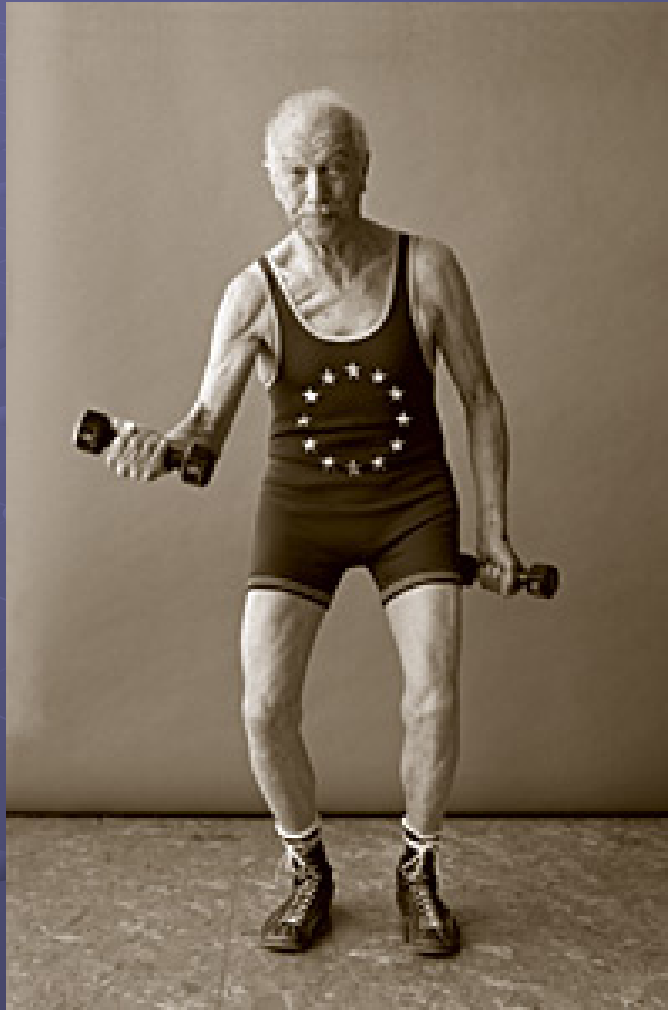
- Management: Drucker and Deming
- Information: television and Internet
- Technology: industrial vs. information

Competitive advantage can disappear overnight

● Forty years of trade deficits – index of competitiveness

● Asia ascendant vs. Euroclerosis

Eurosclerosis



	Factor	America	Europe	Asia
1	Education	7	4-6	4-5
2	Energy			
3	Public security	6-8	2-5	2-5
4	Retirement	5-8	5-10	2-10
5	Health care	16-18	5-10	4-8
6	Welfare	2-4	2-12	0-2
7	Tech strategy			
8	Regulations	2-5	2-5	1-2
9	Litigation	1-2	0-1	0-1
10	Open borders			
	Taxes/costs	35-50	35-60	15-30
	Econ. growth	2-4%	1-3%	6-10%

Size of Government

- Up 100-fold in last century
- 3 out of last 5 presidents: accumulated more deficits than all predecessors
- George W. Bush: projected \$500 billion surpluses became \$1 trillion deficit
- U.S. government takes greater percentage of the economy than Communist China
- America consumes entire world surplus

Competition Among States

- Tax burden: North vs. South/Georgia
- Income vs. consumption taxes
- N.Y., Mass. & Cal. Vs. Tx, Ga, and Fla.
- Infrastructure: airports/railroads/roads
- Perdue legacy: transportation/water/real estate

Failed Energy Strategy

- Since Santa Barbara oil spill: every war and recession directly related to energy price hikes
- U.S. had world surplus for 100 years; headed towards 50% imports in 2025
- No new refineries or new offshore exploration for 35 years: \$150/barrel
- Energy price hikes triggered meltdown
- Total U.S. financial drain for energy and other deficits: more than \$2 trillion

Health Care Costs: Tax on Jobs

- Double digit increases for 45 years
- U.S. costs twice as high as competitors
- Americans are not any healthier, don't live longer & infant mortality highest in world.
- Half of health care costs: lifestyle
- U.S. vs. Japan – health care three times as costly, usage one-third as much, obesity ten times higher in America

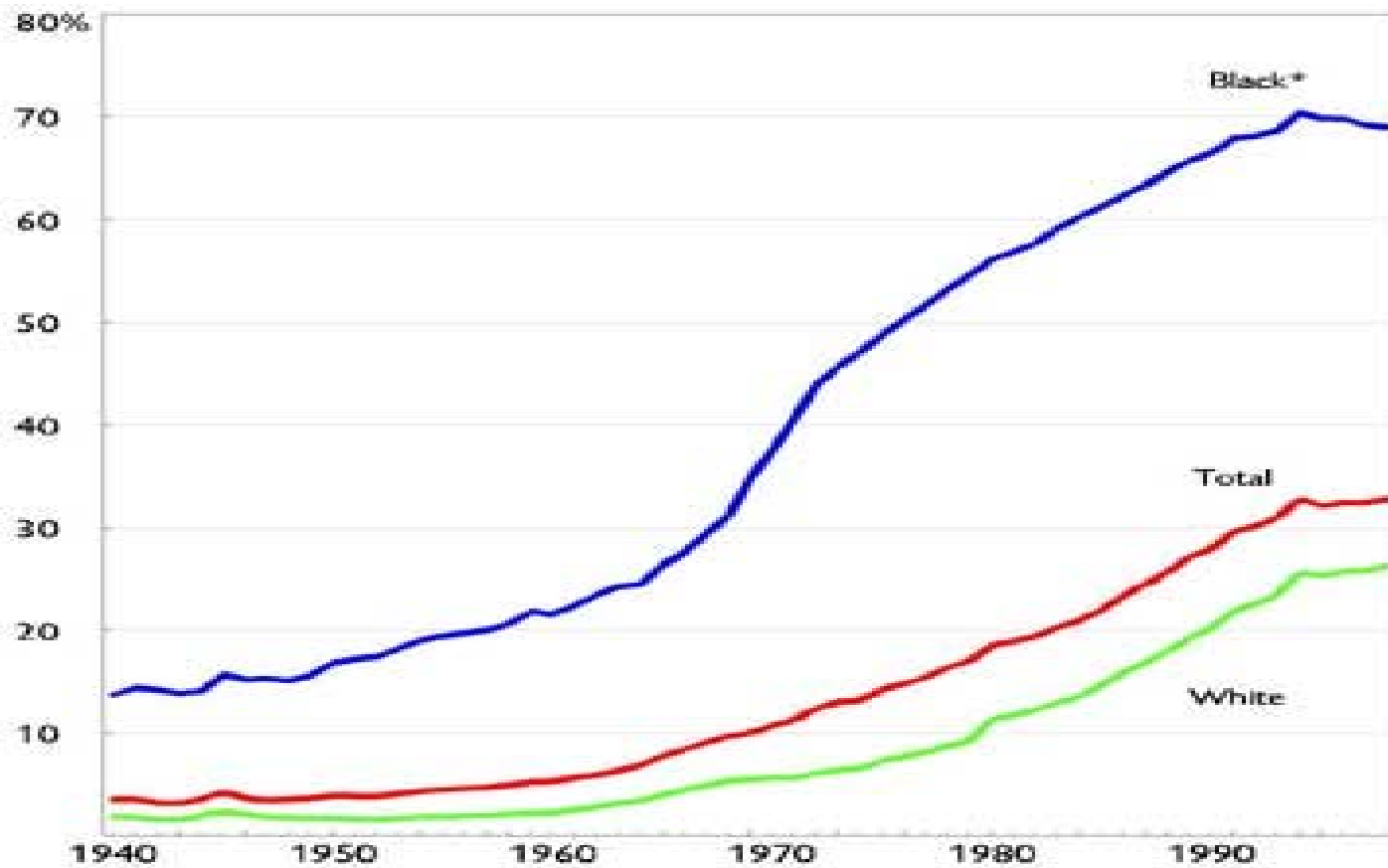
Retirement costs: promising more than can be delivered

- Unfunded liability of retirements costs is greater than total net worth of Americans
- FICA: tax on middle-class jobs
- Automobile bankruptcies: retirement costs
- Impact of baby boom retirement on stocks
- Outcome of retirement and welfare costs: liquidation of 500 years of U.S. wealth

Technology Regulation

- Change in governance
- Electronic manufacturing
- Broadband deployment
- Wireless penetration
- Security
- Intellectual property
- Changes in nature of technology

Out-of-Wedlock Births as a Percentage of All Births: 1940–1998



Notes: * 1968–1995 data represent black births; 1940–1968 data represent very similar figures for non-white births.
Source: Centers for Disease Control, National Center for Health Statistics, Division of Vital Statistics.

Social Disintegration

- Half of children don't live with both parents
- 100 million illegitimate children within generation
- Weakening of civil society
- Moral relativism: Asian and Islamic fundamentalist criticism of U.S. leadership
- Competitiveness costs

Cultural Dysfunction

- Drug use, alcoholism, mental illness at near record highs
- Inequality near all time high
- Crime rate down, but still high compared to Asia
- Networking vs. merit: judgmental
- Impact on competitiveness



Failure of Political Will

- Breakdown in development of public opinion: one-way broadcast media
- Presidential leadership: modern media is personality not character-driven
- Focus on entertainment and two failed wars instead of business and innovation
- Information overload: political debate truncated by television, Internet, wireless
- Role of special interests: New Deal
- Core issue: decline in public confidence/trust

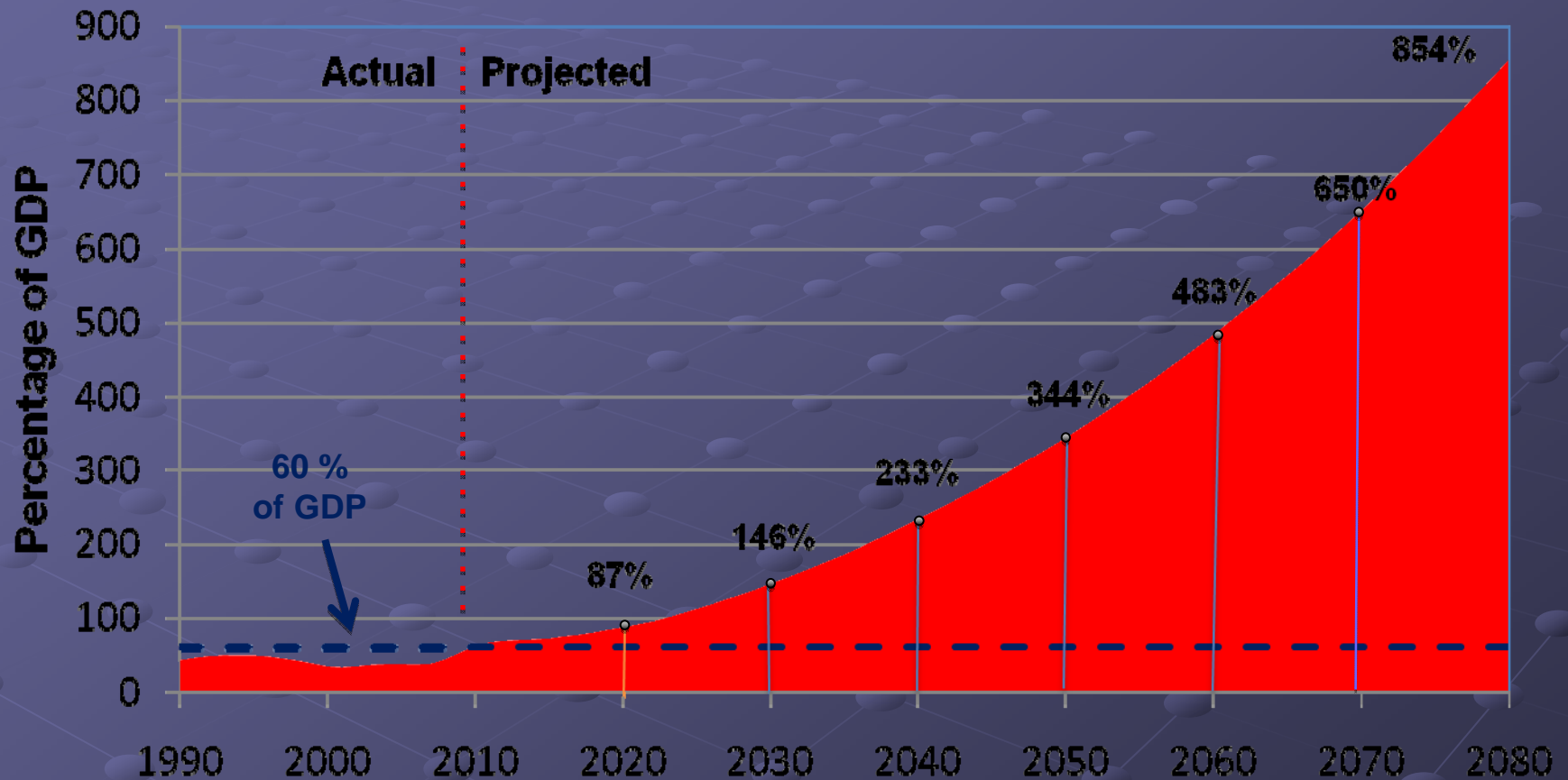
Leadership

- Presidential: Founding Fathers vs. modern
- Private Sector
- Federal Reserve Bank

Public Debt Ceiling

- Federal budget process
- Authorization Bill
- Appropriations Bill
- Continuing Appropriations Bill
- Supplemental Appropriations Bill
- Public Debt Ceiling Legislation
- Federal treasury bills
- Government shutdowns: 1980s & 1990s

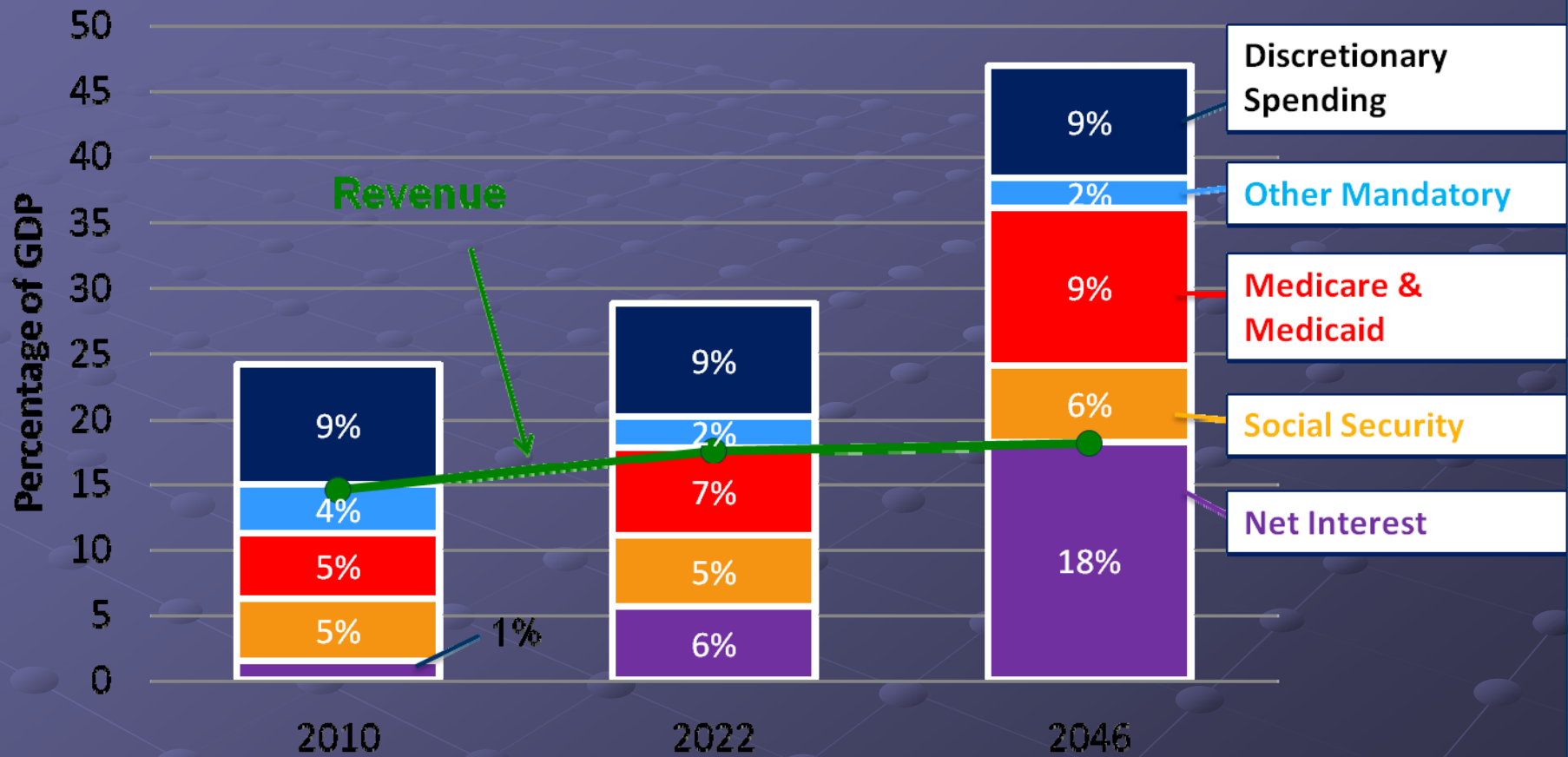
Future U.S. Debt Held by the Public is projected to soar if current policies remain unchanged



SOURCES: Data from the Congressional Budget Office, *Long-Term Budget Outlook: June 2009*; *Long-Term Budget Outlook: June 2010*, alternative fiscal scenario. Compiled by PGPF.

NOTE: Debt held by the public refers to all federal debt held by individuals, corporations, state or local governments, and foreign entities. The alternative fiscal scenario includes several changes to current law that are widely anticipated to occur (i.e. adjustments to Medicare payment rates).

Without reforms, by 2022, future revenues will only cover Social Security, Medicare, Medicaid, and interest on the debt. By 2046, revenues won't even cover interest costs.



SOURCE: Data from the Government Accountability Office *The Federal Government's Long-Term Fiscal Outlook: January 2010 Update*, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.
 NOTE: Baseline interest rate is assumed to be 5.0 percent.



*American
Spirit*

Recovery Program

- Through changes in public opinion, America can change faster than any civilization in human history
- Internet and wireless communications speed this process: virtual town meeting
- Addressing special interest influence and crony capitalism: turnover in Congress and private sector

Restoring Confidence and Trust

- Return to New Deal investment regulation: expand transparency and oversight
- Require volunteer services for government entitlements
- Consumption-based tax system
- Decentralize welfare state
- Require reimbursement for security costs
- Benchmark all government programs
- Base leadership on experience not personality
- Change focus to business and innovation

