

**The Need for Reason and Bi-Partisan
Cooperation to
Ensure the American Dream**

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Executive Summary

During these turbulent times in today's complex global economy it is important we not lose sight of what made this country great. This paper suggests American politicians, business leaders and citizens in general look both inward and outward as to the nature and causes of the problems we face in Washington, on Wall Street, and on Main Street. Beyond our current difficulties, this paper calls for unprecedented bi-partisanship in addressing the growing problem U.S. federal spending, tax, and energy policy presents to the future of American competitiveness. America's national debt as a percent of GDP and corporate income taxes are among the highest in the world and our energy policy is disjointed with no obvious strategic direction. America must address the issues outlined in this paper with urgency and resolve or the American Dream may not be realized by her next generation.

The Need for Reason and Bi-Partisan Cooperation to Ensure the American Dream

**Dr. Timothy G. Nash and
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Introduction

More than 232 years ago, on December 23, 1776, American statesman Thomas Paine's American Crisis Volume I was published. The work opens with his now famous words, "These are the times that try men's souls. The summer soldier and the sunshine patriot will, in this crisis, shrink from the service of their country, but he who stands now, deserves the love and thanks of man and woman." Also during this time, Paine authored a series of pamphlets entitled, Common Sense, through which the American colonists and the Continental Army could in clear and thoughtful terms understand the issues and difficulties facing a new nation just into revolution. Our current economic problems are not yet "trying our souls" but certainly this is a time that calls for "common sense" and for clear and thoughtful reasoning, justification, statesmanship and long-term solutions to the challenges we face today and into the future. It is time for bi-partisan action, for solutions that emanate from the White House and Congress and relate to both Wall Street and Main Street. The Democratic Party will realize a super majority on many issues with the transfer of party affiliation by Senator Spector and the inevitable swearing in of Senator Franken. It is perhaps more imperative than ever before that Washington focuses on sound and rational bi-partisan economic and political policy solutions rather than political solutions if America is to remain the world's beacon of freedom, hope and prosperity. Today, the need for statesmanship is at a premium rarely seen in the history of this country!

One simply needs to watch the Sunday news shows on television or read a wide range of internet, newspaper or magazine articles to find that there is no "common sense" agreed to explanation for the root cause of the "crisis" burdening Wall Street or the recession gripping this. and world economies. There are numerous 'causes' of our ills, including some that point to

the failure of capitalism or even more disturbing pronouncements that capitalism has simply run its course in economic history. Capitalism is not nor has it ever been positioned by its champions to be a perfect economic system. It is simply the best that humankind has been able to devise to date. Nobel Laureate Friedrich von Hayek saw the truth of this when he observed, "I very seriously believe that capitalism is not only a better form of organizing human activity than any deliberate design, any attempt to organize it to satisfy particular preferences, to aim at what people regard as beautiful or pleasant order, but it is also the indispensable condition for just keeping that population alive which exists already in the world. I regard the preservation of what is known as the capitalist system, of the system of free markets and the private ownership of the means of production, as an essential condition of the very survival of mankind."

This great country and free economies throughout the world are the product, if you will, of the Capitalist System. Molded largely by the actions of free people, entrepreneurs – calculated risk-takers who see opportunities that few can, and have the courage and wisdom to create a business and bring these opportunities to fruition, and intrapreneurs (individuals with the courage, wisdom, and vision to bring about entrepreneurial change within an established business) who took risks and forged new ideas, systems and products to better themselves, customers and their communities.

It is unfortunate that, after more than two centuries of practice and results, entrepreneurs and intrapreneurs are still misunderstood rare and vital leaders who are often over-criticized for their actions and then under-rewarded for their successes. The bold actions of entrepreneurs and intrapreneurs have structurally changed our economy time and again, bringing dramatic improvement to life expectancies and our standards of living. For example, roughly 90% of Americans earned their primary income from farming in 1776. As a result of centuries of open competition in agro science and farm technology, roughly 1% of today's population feeds the

entire nation and exports food across the globe, while the rest of us produce automobiles, computers, and millions of other goods and services. Truly, the collective vision of countless entrepreneurs and intrapreneurs has created millions of businesses, jobs, and a tax base which allowed for our high standards of living and truly made this world a better place!

American political and economic history rarely recorded a smooth road or a straight and unbroken trajectory to success. In fact, most businesses, organizations and political parties have had to endure turbulent times more often than they would like to admit - times that tried their very foundations, tested their organizational mettle, vision, and strategy, bringing out the best and worst in their leadership and challenging their moral fabric. During those times, as today, leaders of free societies have righted wrongs, taken corrective actions with whoever and/or whatever needed to be changed, relentlessly recalibrating the compass of human progress back to its "true north."

During these times one can benefit from revisiting the best-selling book, Managing In Turbulent Times, by Peter Drucker. It's lessons are certain to be helpful in bringing clarity to past and current issues of national and global concern. Drucker was prophetic in his prediction that an integrated world economy would offer great opportunities for managers who could see the need for change and lead their organizations through the turbulent times such an economy would surely present. Drucker noted that leaders in turbulent times would need to ensure that their organizations have: a) the capacity to survive, b) structural strength and soundness, c) the ability to survive a "blow" and adapt to sudden change, and d) the ability to capitalize on new opportunities.

We are concerned over the shortage of common sense in Washington during these turbulent times. We believe this country lacks a fundamental understanding what made America great. Many Americans are instead making our capitalist system the scape goat for problems with

roots in other gardens. We believe it is an excellent time for our new administration and Congress to lead us through these turbulent times and restore to greatness these United States.

To do this, Washington must prosecute those in the private sector whose criminal actions caused harm to individuals and the market. However, government must also own up to the fact that a.) the Clinton and Bush administrations regulators condoned questionable lending practices allowing unsound sub-prime practices to fester, b.) Federal Reserve Bank monetary policy under Mr. Greenspan allowed for indefensibly low interest rates in the recent past, triggering the mal-investment of the last year, c.) Fannie Mae and Freddie Mac were allowed to engage in questionable loan practices that fueled much of the subprime meltdown. Why did Congress not pass proposed 2005 Senate legislation designed to reform Fannie Mae and Freddie Mac due to concerns voiced three years ago? We must not abandon our Capitalistic roots for government ownership and/or control of the market economy. It has failed in the past and is being rejected with great success in countries from Ireland to India and Russia to China.

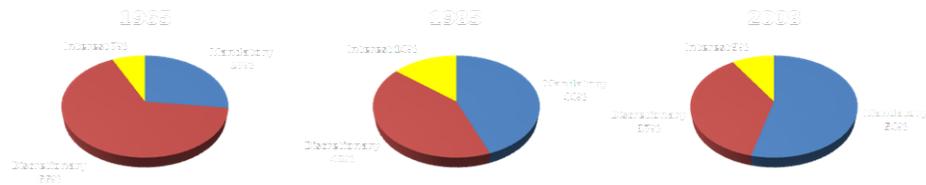
Beyond the above, government must address the following issues that stifle our ability to compete in today's complex global economy and hinder the functioning of the market. If they are not resolved, America will cease to be the well spring of human progress now and for the future.

I. Reduce the Percent of Mandatory Government Spending

From 1965 to 2008 the budget percent of U.S. Federal mandatory government spending has gone from 27% in 1965 to 54% in 2008 (see Exhibit 1). The explosive growth in government mandated programs such as Medicare, Medicaid, Social Security retirement and others, has made the federal budget much more cumbersome and far less flexible during difficult economic times. Households and businesses must often make great sacrifices through cuts in spending, people, and programs during revenue shortfalls. Why should the government via increased mandates be immune from many of these difficult choices that often drive efficiencies and create leaner more competitive organizations in the private sector?

Exhibit 1

Categories of Federal Spending for Selected Years



The portion of the budget devoted to mandatory spending has doubled in 44 years

Source: Congressional Budget Office

II. Federal Government Spending Must Be Brought Under Control

During the first 205 years of the existence of the United States, our government ran an accumulated national debt of just under \$1 trillion dollars. In the last 28 years (1981-2009) or so, the U.S. national debt has soared to \$11.19 trillion dollars (see Exhibit 2). Our national debt is now just under 80% of our annual GDP or 80% of the value we as a nation produce annually (Exhibit 3). This is the highest level of U.S. national debt to GDP since 1950, which included the accumulated cost of the New Deal, World War II, and post war reconstruction programs. This is almost \$37,000 per American or \$148,000 for an American family of four as of April 28, 2009. Today, our national debt as a percent of GDP is roughly 4 times larger than China. It should also be noted that from 1965 to 2008, U.S. Federal government spending increased by 435% while government tax revenues increased by only 406%. This trend will only worsen in the future if we do not bring the two in line. Sound accounting and budgeting principles and practices must drive the management of government at all levels from this point forward.

United States Debt and GDP

Fiscal Year			
1940	0.043	0.082	52.40%
1950	0.2574	0.274	94.10%
1960	0.2902	0.517	56.10%
1970	0.3892	1.035	37.60%
1980	0.9302	2.793	33.30%
1990	3.233	5.784	55.90%
2000	5.674	9.783	58.00%
2005	7.933	12.280	64.60%
2007	9.008	13.753	65.50%
2008	10.699	14.286	74.89%
2009	11.18	14.172	78.89%

Source: U.S. Department of Treasury and CIA Fact Book

III. Reduce the U.S. Corporate Income Tax

Over the last 23 years, corporate tax rates in Organization for Economic Cooperation and Development (OECD) countries went from 45% to less than 30% on average. The OECD represents thirty of the largest, freest and most productive economies in the world. Recently with the increased mobility of multinational corporations, tax competition has intensified leaving businesses operating in the United States at a competitive disadvantage, and with the second highest corporate tax burden in the world (39.27%), slightly lower than Japan (39.54%). From 2000 to 2008, 25 out of 30 OECD countries cut their corporate tax rate, 4 left it unchanged and Hungary increased its rate from 18% to 20%. The result is that the average rates in OECD countries dropped from 33.69% in 2000 to 26.60% today (See Exhibit 4). The average OECD rate is nearly 13 percentage points below the U.S. tax burden on corporations, making it difficult for America to compete at a corporate tax rate 50% higher than the OECD average. Even more so, it is difficult to understand U.S. corporate tax rates given the lower corporate tax rates in former communist countries like Russia (24%), China (25%) and India (33%).

Exhibit 4

U.S. Corporate Tax Among OECD Members

2000 Combined Federal and State Rate	2008 OECD Overall Rank	Country/State	2008 Federal Rate Adjusted	2008 Top State Corporate Tax Rate	2008 Combined Federal and State Rate	Percent Change
40.9	1	Japan	30	11.56	39.54	-33%
39.3	2	United States	35	6.57	39.25	-.1
37.8	3	France	34.43	0	34.43	-9%
40.2	4	Belgium	33.99	0	33.99	-15.45%
44.6	5	Canada	N/A	N/A	33.5	-25%
37.5	6	Luxembourg	22.88	7.5	30.38	-19%
52.0	7	Germany	N/A	N/A	30.18	-42%
34.0	8	Australia	30	0	30	-11.76%
33.0	9	New Zealand	30	0	30	-9.1%
35.0	10	Spain	30	0	30	-14.29%
35	11	Mexico	28	0	28	-20%
28	12	Norway	28	0	28	0%
28	13	Sweden	28	0	28	0%
30.0	14	United Kingdom	28	0	28	-6.7%
41.3	15	Italy	27.5	0	27.5	-33.4%
30.8	16	South Korea	25	2.5	27.5	-10.72%
35.2	17	Portugal	25	1.5	26.5	-24.72%
29	18	Finland	26	0	26	-10.3%
35	19	Netherlands	25.5	0	25.5	-27.14%
34	20	Austria	25	0	25	-26.47%
32	21	Denmark	25	0	25	-21.88%
40	22	Greece	25	0	25	-37.5%
24.9	23	Switzerland	N/A	N/A	21.17	-15%
31	24	Czech Republic	21	0	21	-32.26%
18	25	Hungary	20	0	20	+11%
33	26	Turkey	20	0	20	-39.4%
30	27	Poland	19	0	19	-36.7%
23	28	Slovak Republic	19	0	19	-17.4%
30	29	Iceland	15	0	15	-50%
24	30	Ireland	12.5	0	12.5	-47.9%

Source: Tax Foundation

Summary of Federal Individual Income Tax Data for 2006

Group Category						
Percent of Adjusted Individual Gross Income Earned by Group In 2006	22.06%	36.66%	47.32%	68.16%	87.49%	12.51%
Percent of Individual Federal Income Tax Paid By Group in 2006	39.89%	60.14%	70.79%	86.27%	97.01%	2.99%
Average Tax Rate Paid By Group in 2006	22.79%	20.69%	18.86%	15.95%	13.98%	3.01%

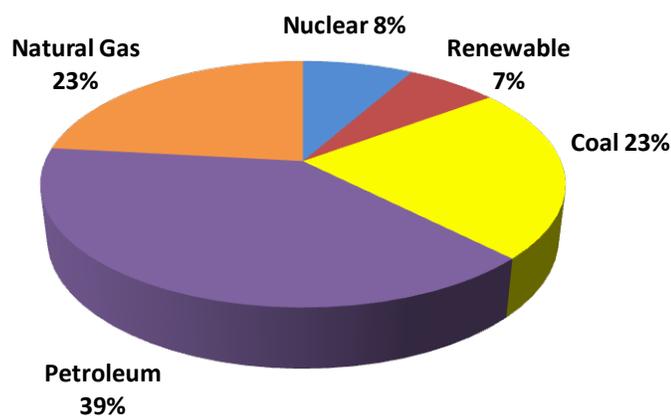
Source: Tax Foundation

entertaining proposals from U.S. manufacturing to allow for “rights to pollute” or pollution permits as to not adversely impact American manufacturing as U.S. companies attempt to compete against countries that have exemptions (China and India) or structural advantages (France, Japan, Germany) relative to CO² emissions. Countries like France, Japan and Germany have allowed for a more inclusive and rational energy policy with greater use of nuclear power which produces almost no CO² emission (See Exhibit 6 and 7).

A more rational and evenly distributed U.S. energy policy which should also consider drilling off its west coast (Norway does), shale oil recovery, additional drilling in Alaska and greater use of nuclear power will make the U.S. less energy dependent on those who may seek to do us harm, while reducing CO² emissions and allowing for the timely and rational transformation of our automobile industry.

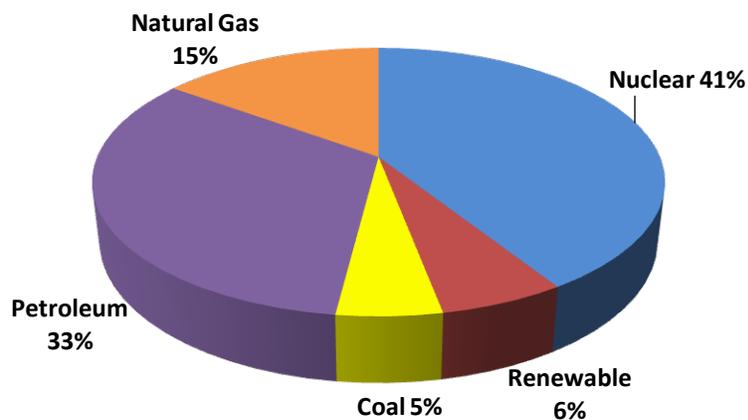
Exhibit 6

U.S.:Primary Energy Consumption by Source and Sector, 2007



Source: U.S. Energy Information Administration

France: Primary Energy Consumption by Source and Sector, 2009



Source: U.S. Energy Information Administration

Conclusion:

We ask our president and congress to carefully consider and debate the proper role and size of government in light of the concerns voiced in this paper and the strain on today's economy. We also hope the following suggestions will resonate as possible solutions to the many questions said debate will leave Americans to resolve.

1. Create a bi-partisan commission to investigate the reform of our federal corporate and individual tax systems and report back to the American people in one year. Strong consideration of a proportional or flat rate tax or a narrow tax range based on the research of Arthur Laffer should be made. Countries such as Ireland and Hungary seem to have had great success recently with lower, more incentive-based tax systems.

2. Create a bi-partisan commission to investigate a federal “Balanced Budget Amendment.”
As of 2002, forty nine states have balanced budget requirements, most of which are written into their constitutions. Over the years, the total combined expenditure made by all fifty states annually is just under 50% of federal spending annually. Yet, the cumulative total of state debt realized over time is roughly one-tenth of the U.S. national debt...mandated budget constraints seem to work.
3. Create a bi-partisan commission that would study the opportunity to reduce the size, scope and cost of government by considering the privatization of programs such as social security, VA Hospital Administration, maintaining and building roads and space exploration. Many countries such as Germany, Chile, Mexico and Japan are experimenting with privatization with great success.
4. 29.6% of all land in the United States is owned by the federal government. If a constitutional constraint on government spending were adopted it should force an end to the out of control government spending of the last thirty years. Then the federal government could consider the sale of some land and mineral rights to raise dollars to retire a significant portion of our national debt.

America has always risen to the occasion and met her challenges with principled solutions and a belief that her greatness and longevity were predestined. We believe in America and hope that our leaders in Washington will hear our call and address the concerns contained in this paper now and for our posterity.

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