

NEWS RELEASE

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Our Response to Michael Boskin's Five Deficit Busters appearing in the Opinion Page of Today's WSJ

Geneva - A big chunk of academic work on this page has demonstrated U.S. tax revenue runs around 18% of GDP. Further, it has been shown this ratio is - to a degree - independent of tax rates. As any good budgeter knows you must have an idea of what income will be before spending can be set. To do this, Congress can simply multiply our economy's \$15 trillion in gross income by 18%. So doing yields a product of \$2.7 trillion of estimated tax income. Therefore, Congress can spend \$2.7 trillion annually and maintain a balanced budget.

Now take \$2.7 trillion in tax revenue and subtract required spending to find what Congress really has to spend on discretionary items. Required spending includes entitlements like Medicare of \$820 billion and Social Security of \$720 billion. They also include \$700 billion for Defense and \$210 billion for both Federal Pensions and Net Interest on Debt. The difference between available tax revenue and required spending is \$40 billion.

That's right, given the sum total of required spending, if Congress wants to keep the budget in balance they currently and collectively have \$40 billion to spend on discretionary items. For perspective, Congress is currently spending \$1.3 trillion on a discretionary basis...so not even close.

Discretionary spending of \$40 billion translates to \$800 million per state or around \$75 million per congressman...hardly enough to bring home the bacon. Put another way, compare \$40 billion to an estimated \$6.0 billion that will be spent to finance the 2012 federal elections and things start to look a little silly.

A spending cap is the only credible solution to our Country's fiscal debacle. Set government spending at 18% of GDP. A cap is transparent and will work over the

long run. A cap keeps the budget in check, prevents further crowding out of private investment by the Government and importantly, it eliminates our dependence on foreign credit. Under a cap, Congress will be forced to either figure out a way to grow the economy or cut entitlement spending if they want more money to spend.