# Table of Contents

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Revolution 5</td>
<td>1</td>
</tr>
<tr>
<td>#121 Do They Really Understand? (Part 1)</td>
<td>2</td>
</tr>
<tr>
<td>#122 Do They Really Understand? (Part 2)</td>
<td>7</td>
</tr>
<tr>
<td>#123 Do They Really Understand? The Impact of Accounting on Federal Deficit</td>
<td>11</td>
</tr>
<tr>
<td>#124 Do They Really Understand? Federal Deficit. (Part 4)</td>
<td>19</td>
</tr>
<tr>
<td>#125 Do They Really Understand? Federal Deficit con't (Part 5)</td>
<td>25</td>
</tr>
<tr>
<td>#126 Do They Really Understand. Federal Deficit con't (Part 6)</td>
<td>29</td>
</tr>
<tr>
<td>#127 Do They Really Understand? Federal Deficit con't (Part 7)</td>
<td>35</td>
</tr>
<tr>
<td>#128 Do They Really Understand? Federal Debt con't (Part 8)</td>
<td>42</td>
</tr>
<tr>
<td>#129 Do They Really Understand? Federal Debt con't (Part 9)</td>
<td>50</td>
</tr>
<tr>
<td>#130 Do They Really Understand? Flat Tax Fallacy. (Part 10)</td>
<td>58</td>
</tr>
<tr>
<td>End of Section</td>
<td>65</td>
</tr>
</tbody>
</table>

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#121 Do They Really Understand? (Part 1)

**Scene:** Jordan runs into former work colleague at coffee shop near office.

Jordan: "Sandy, great to see you. What brings you to Washington?"

Sandy: "Not here by choice. You know how I hate this place. And, yes, nice to see you, too, Jordan."

Jordan: "Well, why are you here? Gun show?"

Sandy: "You’re funny. Or at least you attempt to be funny sometimes. You know there are no gun shows in DC. Would make it too easy to wipe out stupid legislators. I’m here to testify why a new drilling technique for oil and gas is not harmful to the environment."

Jordan: "Sounds like fun to me. You’re the right guy to be testifying."

Sandy: "Testifying will be about as much fun as going to the dentist. Remember when I had two root canals and a bunch of other work done?"
Jordan: "How can I forget? You were not a happy camper."

Sandy: "Think I would rather go back to the dentist than testify. Most of the people in Washington are idiots...at least the dentist is reasonably smart."

Jordan: "Glad to see you haven’t lightened up, even after the Revenge Revolution."

Sandy: "Another smartass comment. Well, these people are idiots. Most of them have no idea what they’re talking about."

Jordan: "OK, I agree many legislators are not well versed on some key topics but give me some of your examples."

Sandy: "Let’s start with the budget. Why does the Federal budget always have to be in the red? The budget should be balanced, just my household budget is balanced...or our company budget is balanced."

Jordan: "What else?"
Sandy: "Why can the government print money without any backing? US currency is like vaporware – nothing there."

Jordan: "One more."

Sandy: "Only one? I could go on for weeks. Why do we still have Obamacare? The Democrats rammed that down our throats."

Jordan: "Alright, let’s start with Obamacare. You realize that Obamacare...really the Affordable Care Act...was designed by and implemented first by Republicans."

Sandy: "What? Obamacare was designed by Republicans? And implemented where by Republicans?"

Jordan: "Designed by Republicans to ensure private insurance companies continued to receive premiums and continued to operate. The Republicans plan was implemented by Mitt Romney when he was governor of Massachusetts."

Sandy: "Really? I did not know that." (BTW, actual quote.)
Jordan: "Sandy, you’re a smart guy. I can’t believe you did not know that. Where are you getting your information? Fox News and the internet?"

Sandy: "Both sources, but mostly the web."

Jordan: "If you are still looking at some of those sites you used to send me links to, I suggest you rethink your sources. You need more credible information."

Sandy: "Like that liberal rag you read, the New York Times?"

Jordan: "Sandy, Sandy, such venom. You might not like some of the Times’ editorials...if you’ve ever read any...but unlike some of your sources, the NYT has a clear separation between reporting and editorials."

Sandy: "It’s all the same to me."

Jordan: "And I think not understanding or appreciating the distinction is a major problem. People seem to have a hard time...or maybe refuse to separate reporting and editorial comments."
Sandy: "What’s really the difference? I know that might sound stupid but no one ever explained the difference to me.”

Jordan: "Good question. For many years I thought everyone understood the difference…but obviously not.”

Sandy: "Ok, so tell me.”

Jordan: "The staff reporting the news is separated from the editorial staff. In large papers...New York Times, for example...the management of the news reporting is completely separate from the editorial side. Really two separate organizations. The editorial board has no control over what is reported in the news section.”

Sandy: "As simple as this sounds, you're saying the news is reported by, well, reporters. What about the articles on the editorial page? Don't the reporters write those?”

Jordan: "Reporters do not write stories on the editorial page or the Op-Ed page...you know, the page opposite editorials. Many of those articles are written by what you might call free-lance writers.”
Sandy: "You mean like that Paul Krugman guy? He’s a reporter for the NYT, right?"

Jordan: "No, Paul Krugman he is a professor of economics. In fact he was a graduate student at MIT when I was there. He then taught at Princeton. By the way, he also won the Nobel Prize in economics."

Sandy: "You listen to too many of those Northeast liberals. Those guys are all alike. No wonder you’re so screwed up. I need a refill."

#122 Do They Really Understand? (Part 2)

Jordan: "Well, Sandy, feel better now that you have more coffee?"

Sandy: "Yes, but those northeast liberals are still screwed up."

Jordan: "Sometimes you are like a dog on a bone. I thought this conversation was about the difference between reporting the news and writing editorials."
Sandy: "OK, back to that Krugman guy. You’re telling me he is not really a reporter for the NYT?"

Jordan: "Yes, he is not."

Sandy: "Yes, he is not. What kind of statement is that? Can’t you say ‘yes’ or ‘no’?"

Jordan: "If I answered ‘no’ to your question, which is what I think you expected, then he would be a reporter for the NYT. That’s why I answered ‘yes’ he is not."

Sandy: "No wonder I can’t stand Washington. At one time, Jordan, I could understand you. Now you speak in Beltway gibberish."

Jordan: "I’m not trying to be a smartass..."

Sandy: "...for once..."

Jordan: "...but the way you asked the question was backwards. Just trying to make sure I answered the question properly."

Sandy: "OK, pardon me for my limited English skills. Hey, I’m a science guy, not some pointed-headed liberal arts major."
Jordan: "Back to the topic."

Sandy: "You’re telling me Krugman and guys like him who write those articles…"

Jordan: "…opinion pieces…"

Sandy: "…opinion pieces…those guys are not really reporters."

Jordan: "Reporters report the news without editorializing."

Sandy: "But doesn’t the NYT have a liberal bias. My sources call it part of the drive-by media."

Jordan: "I’ll ignore the drive-by media comment. Look, everyone and every organization has some bias."

Sandy: "I knew I was right."

Jordan: "Sandy, put on your grown-up pants and think about this. Everyone has some bias but good media organizations work very hard to minimize the bias."
Sandy: "How do you know the NYT is not overly biased?"

Jordan: "Here’s a way to answer that question. Pick a few topics you know something about. And I’m talking about topics you really know and not topics where you got some information off the internet."

Sandy: "I’ve got a couple of topics. Then what?"

Jordan: "Then read some articles about those topics. Articles published by the NYT and articles published by other sources, including some of your internet sources. Then compare the objectivity of the articles."

Sandy: "Mmmm, that’s an approach I never thought about."

Jordan: "Spend some time and dig into the articles. Are the key facts correct? Are the articles objective? One caution."

Sandy: "Of course. What? Some excuse for your liberal sources?"

Jordan: "You don’t quit do you? If you choose topics that you really know...like some of what you..."
studied...then don’t get upset when the reporter doesn’t get all the facts exactly right. Getting key facts correct is critical but being perfect on all the nits and gnats is not so critical.”

Sandy: "I hear you. It’s taken me a long time to really understand this stuff. The reporter can’t be an expert at everything.”

Jordan: "Now, may we take another break? I need to make a quick phone call. Then we can talk about the Federal budget and the money supply.”

Sandy: "OK. But don’t be gone too long.”

#123 Do They Really Understand? The Impact of Accounting on Federal Deficit.

Sandy: "OK, Jordan, we’ve had our break. Now let’s get back to the federal budget. Why can’t we have an amendment to make sure it’s balanced every year?”

Jordan: "You sound like some Tea Party Republican.”

Sandy: "Well, that’s what I am. So why not?”
Jordan: "In an attempt to answer your question, I’m going to tell you a story."

Sandy: "Typical bureaucrat. Never...and I mean never...gets to the point. OK, I’ll be nice and listen. What’s little Jordan’s story?"

Jordan: "You would have enjoyed what happened to me the other day. I was playing golf..."

Sandy: "Excuse me, playing golf is a waste of time. It’s the only game I know where people who play less are happier than those who play more. You’d think if you were spending all that money for a round of golf, you’d want to hit the ball more times, not less. Yes, I’ll be quiet. What’s the story?"

Jordan: "I was playing in a charity tournament and lo and behold, whom do I meet in the locker room afterwards but two of your favorite people."

Sandy: "I cannot imagine since the people I like would be at the shooting range, not the golf course. Who?"

Jordan: "The Speaker of the House and Senate Majority Leader."
Sandy: "You’re kidding. You guys pal around with each other?"

Jordan: "Hardly. Remember, I said this was a charity golf tournament."

Sandy: "That is interesting. What happened?"

Jordan: "Finally, he’s willing to listen. I’ll tell the story as best I remember it. Here goes."

The following is Jordan’s dialogue explaining the encounter. Scene: in the locker room after the tournament.

Jordan: (Addressing the Speaker of the House and the Senate Majority Leader) “Gentlemen, what a pleasant surprise.”

Speaker of the House (aka, John Boy): “Well, well, well, if it isn’t one of POTUS’ lackeys, Jordan Abel.”

Jordan: “Thanks for the compliment, John Boy. Glad you are so supportive of people who try to help.”
Senate Majority Leader (aka, Mackey): Forgive him Jordan, he had a bad round of golf. I’m glad to see you...well, sort of.”

Jordan: "By the way, what I have ever done to you guys?"

John Boy: "It’s not you, Jordan. Your boss is the problem.”

Jordan: "OK, what’s the issue?”

Mackey: "Where do we start? The list if issues is very long.”

John Boy: "First of all, why won’t he cooperate? He’s like a rock.”

Jordan: "What do you mean? Give me an example.”

Mackey: "You buy us a drink and we’ll talk. Deal?”

Jordan: "Deal. (Order drinks.) OK, give me a couple of issues.”

Mackey: "Environmental stuff. POTUS keeps pushing to reduce coal consumption. Why? We need more coal, not less.”
Jordan: "You mean your constituents like coal because they think it means jobs."

Mackey: "Coal equals jobs."

Jordan: "Mackey, you and I both know that the coal industry has far fewer jobs per ton mined than it used to."

Mackey: "But we can’t lose those jobs that are left. And POTUS is a major threat to those jobs. What’s wrong with him?"

Jordan: "What if there were a way to create jobs and reduce coal production?"

Mackey: "Sounds like some liberal gibberish. We need coal."

Jordan: "What about emissions from coal? What about scarring the land?"

Mackey: "More liberal gibberish, Jordan. You just don’t understand. Quit being so rigid and uncompromising."

Jordan: "Think I’ll probably have another drink. John Boy, what’s your issue?"
John Boy: "Budget. We need a balanced budget. In fact, we should have a Constitutional Amendment requiring a balanced budget."

Mackey: "I agree. The country is going to run out of money."

Jordan: "Excuse me? Run out of money? How?"

John Boy: "You know what I mean. The country cannot afford all this debt."

Jordan: "Tell me why not."

John Boy: "The private sector pays its debts. Why shouldn’t the government?"

Jordan: "You really think the private sector pays its debt?"

Mackey: "Of course it does."

Jordan: "Mackey, you’ve been inhaling too much coal dust. Most private debt debt...commercial anyway...is rolled over and new debt issued."

John Boy: "C’mon, Jordan. Stop the BS."
Jordan: "Really, think about this. Do financial institutions ever...and I mean ever...pay off their debt? No. They merely issue new bonds."

John Boy: "But the private sector has collateral backing their debt and the government. So another liberal lie."

Jordan: "So you’re claiming the government has no assets? What about all the land, buildings and equipment it owns? You don’t think those are assets?"

John Boy: "I’ll be honest with you since we are off camera – I never thought about government debt being backed by collateral."

Mackey: "Frankly, I hadn’t either. Wonder why no one explains the debt structure the way you just did?"

Jordan: "Part of it is the problem is the approach to accounting – and I'm not talking about counting beans. Unlike private industry, the government is forced to use what I call “piggy bank” accounting. Piggy bank accounting is just like it sounds – how much cash goes in the piggy bank and how much is taken out. Does not matter that the money went to buy
something that will last say 50 years? You have to account for it all right now.”

John Boy: "Accounting. I almost failed that and I only had one semester.”

Jordan: "Remember debits on the window side and credits on the chalkboard side.”

John Boy: "How’d you know?”

Mackey: "OK, while we’re confessing, I don’t understand accounting either. But what real difference does some accounting system make? A bunch of bean counter stuff. The government should not run a deficit.”

John Boy: "You know, I never thought I would say this but Mackey, let the man explain. We might learn something.”
#124 Do They Really Understand? Federal Deficit. (Part 4)

Jordan: "Waiter, we’d like another round, please."

Waiter: “And whose tab should I put this on?”

Jordan: "Mine, unfortunately."

John Boy: "Jordan, you have no idea how good this drink tastes since you’re paying for it."

Mackey: "You’re not going to charge this to taxpayers, are you?"

Jordan: “No, Mackey. Not to worry. My own money.”

Mackey: "Now, explain all this accounting stuff. What does it really mean?"

Jordan: "Let me ask you. When you were first married did you buy a house?"

Mackey: "Of course...and proud of it."

Jordan: "And did you pay cash for the house?"
Mackey: "Are you kidding? I borrowed all the money I could."

Jordan: "What if you were forced to pay cash for the house rather than borrowing?"

Mackey: "Never could have afforded it. In fact, we’d probably still be renting."

John Boy: "I think I see where you’re headed with this."

Mackey: "I don’t see. Where is this headed?"

John Boy: "Since the government uses ‘piggy bank’ accounting, it appears there is a big deficit when some of the funds are used to buy an asset...something that lasts a long time, like a new house."

Mackey: "I still don’t understand what you guys are talking about."

John Boy: "Why did the bank lend you money?"

Mackey: "Because I had a steady income."
John Boy: "Did the house you bought cost more than your annual income?"

Mackey: "Of course...4-5 times more than my income. What’s wrong with that?"

Jordan: "Nothing wrong. What if you had to make as much money every year as the house cost?"

Mackey: "Already told you. I couldn’t afford the house and probably still be renting."

John Boy: "Well, Mackey, old buddy, I can see we have a problem."

Mackey: "The problem is the federal budget deficit."

John Boy: "It’s not the deficit. It’s the way we calculate it. If your personal household used the same accounting method as the government, you would be in a big hole when you bought the house, or even a new car. If there were a Constitutional Amendment forcing a balanced budget, you never would have bought your house, or even that new car."
Jordan: "And most businesses would never have gotten started."

Mackey: "I think I’m getting this. And boy, am I glad we are off camera. We are off camera, aren’t we Jordan?"

Jordan: "No recording, no notes, no record, just an informal chat."

Mackey: "Quite honestly, I just never appreciated...really never understood...the difference in accounting methods. By the way, what’s the other accounting method called?"

Jordan: "For the record, accrual accounting. And ‘piggy bank’ accounting is really called ‘cash’ accounting but piggy bank is easier to understand."

John Boy: "Jordan, at some point you have to pay off your debts. We paid off the loans on our house."

Jordan: "Are you completely out of debt? I mean debt other than credit cards."

John Boy: "No, not really."
Mackey: "And neither am I."

Jordan: "You’re not alone. Most people, even those who’ve paid off their house, are in the same boat. So, some debt seems OK?"

John Boy and Mackey (in unison): "Of course."

Jordan: "What about the amount of debt? Does that matter?"

Mackey: "All depends on income."

Jordan: "So you think Bill Gates could take on more debt than say I could."

Mackey: "That seems like another stupid question. Of course Gates could handle more debt than you. What’s your point?"

John Boy: "His point, if I understand correctly, is the amount of debt should be measured against income or wealth, not just the amount of debt per se."

Mackey: "So $100 million of debt for you Jordan, might seem like a lot..."
Jordan: "Excuse me Mackey? Me with $100 million debt? That’s a dream. A debt of $1.0 million or even less would seem like a big deal.”

Mackey: "As I was saying, $100 million debt might seem like a lot of debt to Jordan but not to Bill Gates. Is that your point?”

Jordan: "Exactly my point. The measurement should be the amount of debt relative to income or wealth, not just the amount of debt.”

John Boy: "Jordan, the way this discussion is headed you might make meaning less the argument that the federal debt is too high.”

Jordan: "I wouldn’t say ‘meaningless’ but certainly citing the amount of debt as a scare tactic becomes a lot less impactful or rational...if people understand.”

John Boy: "Mackey, why did we agree to talk to this guy? He’s starting to ruin my day...even more than my golf game. But, I really want to learn more about the relationship of debt to income...after a break. Be right back.”
Jordan: "Feel better, John Boy?"

John Boy: "Much. Now, now back to the debt to income discussion."

Mackey: "OK, so we agree Bill Gates can take on a lot more debt than any one of us because his income is much higher. What does that mean for the Federal debt?"

Jordan: "John Boy, you want to explain this to Mackey or you want me to?"

John Boy: "Let me try. The simple answer is we should link the amount of Federal debt to Federal income. The more income the country has, the more debt it can have."

Mackey: "Alright, I understand the concept but what makes up Federal income?"

Jordan: "Two approaches. One measure is revenue collected through taxes. The other
measure is gross domestic product, or GDP. Most measures of debt are against GDP because that represents the income of the country rather than just taxes collected.”

Mackey: "John Boy, you think GDP is a fair measure. You can’t trust these liberals to tell you the truth.”

John Boy: "Relax, both measures have their plusses and minuses but yes, I think debt as percent of GDP is fair. From what I’ve read, the ratio is used by a wide range of economists, including some of our own. Let’s stick with debt as a percent of GDP.”

Jordan: "Here’s a question for both of you. Did debt as a percent of GDP increase more during Bush 43 or Obama?”

Mackey: "That’s a stupid question. Obama, of course. Hands down.”

Jordan: "John Boy, what do you think – Bush or Obama?”

John Boy: "I’m afraid to answer because it seems like a trick question.”
Jordan: "OK, here’s another. Did the Federal deficit as a percent of GDP increase more under FDR – up until WWII – or under Ronald Reagan?"

Mackey: "I’d like to say another stupid question but now I’m not so sure."

Jordan: "We seem to be making progress."

Mackey: "You know, Republicans hold up Ronald Reagan as the paragon for fiscal conservatism. What’s wrong with that assumption?"

Jordan: "Lots wrong. One final question for now. When’s the last time debt as a percent of GDP declined?"

Mackey: "Under a Republican, of course."

John Boy: "Mackey, I think we are in for a rude awakening."
Jordan: "Look at my iPad. Here’s a chart to get us started. It’s from the BLS (Bureau of Labor Statistics).”

John Boy: "Another liberal organization – should be named BS, not BLS. Just kidding. I know BLS has been a credible source of data for decades.”

Jordan: "Look at this chart. Federal debt as a percent of GDP beginning in 1800.”

Mackey: "Now we’re talking. That’s when the US was really a great country – no debt and lots of growth.”

John Boy: "Mackey, you need to take a close look at this chart.”

Mackey: "Whoa. That can’t be right.”
#126 Do They Really Understand. Federal Deficit con’t (Part 6)

Jordan: "A little surprised, Mackey?"

Mackey: "Absolutely. I had no idea. John Boy, did you know about this?"

John Boy: "I’ve heard Democrats talk about it but never really believed them."

Mackey: "Jordan, could you walk us through this chart? I want to make sure I understand it."

Jordan: "Gladly. Let’s start with what is displayed."

John Boy: "Federal debt as a percent of GDP, right?"

Jordan: "Yes, debt as a percent of gross domestic product. Not the absolute level of debt, just the percent."

Mackey: "So the chart really is more like what we talked about re Bill Gates. He can afford to take on a lot more debt than any one of us because he makes a lot more money than any one of us."
Jordan: "True. But we also need to consider wealth in addition to income. A lot of people make a lot of money every year but spend most of it...and therefore really haven’t accumulated a lot of wealth.”

Mackey: "But Gates has income and wealth. In fact, a whole lot more wealth than his annual income.”

John Boy: "As simple as that sounds, talking about the combination of income and wealth really helps me understand. The United States has a lot of assets, really accumulated wealth, which could be used to back-up the debt. What do they call that back-up?"

Mackey: "Collateral. The back-up is like what they do for your mortgage. The bank uses your house as security or back-up for the loan.”

John Boy: "Jordan, you sure no one is recording this discussion? I’d really be embarrassed if someone heard us asking these questions.”

Jordan: "No one is recording the conversation. And I think you hit on a good point.”
Mackey: "You mean that a lot of people, including many of our legislative colleagues, do not understand the basics of finance. And especially how the Federal government is financed. From what you’ve said, financing the government is similar in some ways to your household finances, but there are some key differences."

John Boy: "Let’s get started with the chart, please."

Jordan: "What most people don’t realize, is the US has been in debt since the Revolutionary War."

John Boy: "What? Debt since the Revolutionary War? That seems hard to believe."

Jordan: "Think about it. During the Revolution, the US was really like a start-up company...but really a country. With the Revolution we gave the finger to our biggest trading partner – call it our biggest customer, mother England."

Mackey: "Now what do we do for money? And where do we get some key supplies to fight the motherland?"

John Boy: "We’ve got to import goods."
Jordan: "Goods cost money, which we don’t have. But...”

Mackey: "But like Bill Gates, we have lots of assets that other countries can use.”

John Boy: "So now some countries, notably France, lend us money and also buy some of our products.”

Jordan: "A new country going into debt is not unusual. Really no different than a start-up company going into debt.”

Mackey: "OK, the US has lots of debt but the economy starts to grow.”
John Boy: "Yeah and according to the chart by 1835 or so we paid off the debt. Who was president then?"

Jordan: "Andrew Jackson."

John Boy: "What happened? We were debt free and then we go back into debt again. Seems stupid to me."

Jordan: "Try the Civil War for starters but let’s move beyond that. Think of the US as a fast-growing company. Give me some license in this comparison but I think you’ll get the point."

John Boy: "Many companies have no debt. So why shouldn’t the US operate that way?"

Jordan: "Here’s something I’ll bet you’ve never thought about. Do you own stock in any companies?"

John Boy: "Of course."

Jordan: "Mackey, how about you? Own stock?"

Mackey: "Absolutely."

Jordan: "Many of those larger companies replaced their debts...loans...by issuing stock."
Mackey: "What a minute. Are you saying the people who bought the stock are really financing the company...just like the bank? They’re really loaning it money?"

Jordan: "Yes, but with one difference. The company never needs to pay off the loan."

John Boy: "Aren’t stockholders protected? The company has all the assets."

Jordan: "Stockholders can benefit by having the value of the stock increase and/or by receiving dividends...at least some companies pay dividends. But there is no guarantee of anything. If the company goes bankrupt, stockholders are at the back of the line and hold what is probably a worthless stock certificate."

Mackey: "If there’s no guarantee or no backing to the stock certificate, isn’t the company effectively printing money? All they have to do to get more money is issue more stock, rather than going to the bank and getting a loan."

John Boy: "Mackey, we get all exorcised because the government issues money without backing it up with gold or silver. When you stop and think
about it, the companies that sell stock are, in essence, doing the same thing – printing money.

Jordan: "A real eye opener, eh? But let’s hold the conversation about printing money. Back to the chart and more about when debt as a percent of GDP went up and then came down."

#127 Do They Really Understand? Federal Deficit con’t (Part 7)

John Boy: "Your point about companies replacing debt with stock...equity...is something I never really thought about."

Mackey: "Me either. Wonder what would happen if the US Government issued stock instead of debt?"

Jordan: "Interesting questions but obviously lots of barriers to make it happen."

John Boy: "And highly unlikely...no impossible...given the attitude of many Republicans.

Mackey: "John Boy, I agree the chance of passage is slim to none. But we should bring it up for
discussion. Doing so would at least make people think.”


John Boy: "Alright you guys let’s get back to the issue at hand – debt as a percent of GDP. How ‘bout looking at the 230th Century?"

Jordan: "OK. Debt jumps in the Civil War…”

Mackey: "Excuse me, the War of Northern Aggression.”

John Boy: "Mackey, put that idea to rest. The war was more than 150 years ago. And which side wanted to secede?"
Jordan: "Children, no bickering. Debt as percent of GDP (gross domestic product) jumps during the Civil War, then declines, jumps again in WWI, then declines until the Great Depression."

Mackey: "Yes, and the crazy public elects that socialist, Mr. ‘spend-at-all-costs’ himself, Franklin Delano Roosevelt."

John Boy: "Right. Just look at how much debt jumped under FDR. Mackey’s right. What a socialist!"

Jordan: "And just what happened to the economy?"
Mackey: "The economy recovered...sort of."

Jordan: "Sort of?"

Mackey: "Sort of. The country didn’t need all those socialist program. The country could have saved its way out of the Depression."

John Boy: "You’re right again, Mackey."

Jordan: "And just what do you think drives the economy?"

John Boy: "Tax cuts. Incentives to invest."

Jordan: "Here’s a simple question. For someone out of work...through no fault of their own...what good is a tax cut?"

Mackey: "An incentive to work. Go find a job."

Jordan: "And just who is going to hire that unemployed worker?"

John Boy: "Create your own job."

Jordan: "Let’s put politics aside and think this through."
(John Boy and Mackey both sigh.)

Jordan: "You own a business. Why would you hire someone? Just because the person needs a job?"

Mackey: "Of course not. Jordan, where do you come up with these stupid questions?"

John Boy: "Mackey, I think we’re about ready to have another ‘ah ha’ moment."

Mackey: "Whadda mean?"

John Boy: "As much as I hate to admit it, Jordan’s right. Why would you hire someone?"

Mackey: "Because you were busy and needed more help."

John Boy: "You got the right answer – because you need more help."

Mackey: "Simple isn’t it. People want to buy your product, eat at your restaurant, whatever. You need help. What’s wrong with you guys?"

John Boy: "And where did the tax breaks fit into that decision?"
Mackey: "The tax breaks didn’t. Oops. What made the difference was demand."

Jordan: "Waiter, may we have some more snacks and another round? Time to celebrate."

Mackey: "What are we celebrating?"

John Boy: "Our enlightenment…at least enlightenment according to Jordan. OK Mr. Know-It-All, what’s next?"

Jordan: "Look, all I’m trying to do is present some basic economic principles. Not left, not right, just basic economics."

Mackey: "So you’re claiming…"

Jordan: "I’m not claiming anything. I’m just stating."

Mackey: "OK, since you’re buying…you’re stating. And you’re stating the only real way out of a recession is to stimulate demand."

Jordan: "Yes, that’s exactly what I am stating. Talk about all the other theories you want. When you
do, you have to go back to one basic question? Is a company going to hire another employee...or even retain existing employees...if enough people are not buying the company’s products?”

John Boy: "Why do you make economics so simple?"

Jordan: "The fundamentals of economics are simple...but not always intuitive.”

John Boy: "Next you are going to tell Mackey and me that if the private sector is not hiring people...or laying off people...then the government needs to stimulate the economy.”

Jordan: "You’re on a roll. I told you most of economics was simple.”

Mackey: "Wait, you’re saying the government should do the exact opposite of what a household should do? I mean, rather than cut back on spending when times are tough like real people do, the government should spend more?”

Jordan: "See how easy this lesson is?”
John Boy: "I don’t believe it. If it’s bad for business it’s bad for government."

Jordan: "I’m going to show you why business benefits and makes more money by supporting a Federal deficit when in a recession."

#128 Do They Really Understand? Federal Debt con't (Part 8)

John Boy: "Let me repeat the questions. ‘What was wrong with tax cuts under Bush 43?’"

Mackey: "Yes, Jordan, what was wrong with them?"

Jordan: "Two fold. First, Bush 43’s economic policy created huge deficits. Remember CBO (Congressional Budget Office) had predicted budget surpluses for a number of years into the future. Rather than reducing Federal debt...as many Republicans are wont to do...the tax cuts make the debt much worse."

Mackey: "And what was the second reason?"

Jordan: "Let me add to the first. Remember guys the US was at war with Iraq so military
expenditures are starting to soar…and we’re cutting taxes. Doesn’t seem very Republican-like to me.”

John Boy: "OK, Jordan, what was the second reason?"

Jordan: "You guys always interrupt someone when they are speaking?"

John Boy: "Yes, just finish and quit evading the question."

Jordan: "The tax cuts were weighted heavily toward upper income."

John Boy: "Everyone...well most everyone...got a tax cut. So the middle class benefitted. Why are you always so worried about the middle class? The wealthy pay way more than their fair share of taxes."

Mackey: "Right. What’s your problem?"

Jordan: "Just how short is your collective memory? We just talked people needing money to buy things. No money, no purchases, no demand and no new jobs. And, therefore less income for the wealthy. Remember?"
Mackey: "You keep trying to convince us the Republicans economic theory..."

Jordan: "...Trickle-Down theory. And pardon me for interrupting."

Mackey: "Trying to convince us the Trickle Down theory doesn’t work. You know, like a waterfall, those at the bottom benefit from the work done at the top. You know, workers at the top of the income scale and moochers at the bottom.”

Jordan: "I'll ignore your last comment. You guys are old enough to remember the 1980 presidential campaign."

John Boy: "Unfortunately, we are old enough. And so are you."

Jordan: "George Herbert Walker Bush, eventually #41, was running against Ronald Reagan to be the Republican presidential nominee. And what label did Bush put on his fellow Republican's economic policy? The Trickle Down theory."

Mackey: "He called it 'voodoo economics' or something like that.”
Jordan: "Voodoo economics...and truer words were never spoken."

John Boy: "The voodoo economics label was campaign talk."

Jordan: "Spoken during the campaign, yes. But merely ‘campaign talk’ as you claim, no. The label was spot on."

Mackey: "But the economy expanded under Reagan. Proves he was right."

Jordan: "One more time, let’s look at the Federal debt as a percent of GDP. Under Reagan what happened?"

John Boy: "I know, I know. Under Mr. Conservative, Ronald Reagan, the Federal debt nearly doubled as a percent of GDP. That’s still hard for me to believe."

Mackey: "Seems as if someone is cooking the books."
Jordan: "Forget the conspiracy theories about distorting the data. Remember the data were gathered when Reagan was president."

Mackey: "But all those liberal bureaucrats in Washington hated Reagan and they fudged the data to make him look bad."

Jordan: Guys, whether you like it or not, economic growth under Reagan was a case of Keynesian economics at its best. Reagan, the great communicator, roped you in to believing it was Trickle-Down economics."

Mackey: "Why doesn’t Trickle-Down work. Seems as if it should."

Jordan: "Let's go back to basics. Add $1,000 to the income of someone making say $20,000-$30,000 per year. What will they do with the money?"

John Boy: "Spend it all."

Jordan: "What about $1,000 to people who make say $100,000 per year?"
Mackey: "Might spend some of it. Same with people making more than $100k. But most over $100k won’t even notice.”

John Boy: "Mackey, we keep falling into Jordan’s traps.”

Jordan: "John Boy, these aren’t traps. Just facts."

John Boy: "I know but your approach is frustrating.”

Jordan: "Truth is sometimes frustrating.”

John Boy: "You know it is, especially since we’ve been preaching the opposite for so long.”

Mackey: "Preaching what?"

John Boy: "That Keynesian economics does not work and the most effective way for economic growth in a recession is to cut back on Federal spending, not increase it."
Jordan: "Maybe it’s time to put away the ideologue rhetoric and start focusing on solutions. The US had a Revenge Revolution and then threw out many sitting members of Congress. The public said it was time to rethink policies like tax cut that benefit the wealthy and don’t create good jobs."

John Boy: "Alright, we can make some policy changes. But...and I emphasize but...we don’t want another Obama Administration fiasco."

Jordan: "What was the alleged fiasco?"

Mackey: "Alleged? The fiasco was huge deficits. Wild spending on health care. The Administration was absolutely out of control. Obama ruined the country. He caused the Revenge Revolution."

John Boy: "Mackey, raise your right hand and repeat after me. ‘Beginning now and henceforth I will think before making what are really outrageous political statements.’"
Mackey: "OK, no more statements without thinking first. What’s the issue in telling the truth about Obama? His fiscal deficits made Bush look like a piker."

John Boy: "Mackey, Mackey. Look at Jordan’s charts. Then get ready to eat some crow."
#129 Do They Really Understand? Federal Debt con't (Part 9)

Mackey: "Alright, I agree that the Federal debt as a percent of GDP (Gross Domestic Product) was up less under Obama than Bush 43 but…"

Jordan: "We're making real progress."

Mackey: "Jordan, please, let me finish. The debt percentage was less under Obama because Republicans forced him to cut back on his ridiculous expenditures."

John Boy: "That’s right. And Republicans deserve all the credit for the economic recovery."

Jordan: "I must say, you guys have real chutzpah."

Mackey: "Jordan, just what is chutzpah?"

Jordan: "For the average Joe, I would say, having a set of you know what...kahunas. But ‘chutzpah’ is Yiddish and is best described with a story."
John Boy: "This should be interesting, but just don’t take too long.”

Jordan: "The short version is this. A hoodlum kills his mother and father, then begs for forgiveness from the court because he is an orphan. That’s chutzpah.”

Mackey: "The kid was disingenuous to say the least.”

Jordan: "That’s why I said you guys had chutzpah.”

John Boy: "You think we’re being disingenuous?”

Jordan: "Look, Republicans tried to block nearly every program Obama proposed to stimulate the economy. The Republicans mantra was ‘we need to save our way into prosperity.’ And, by the way, John Boy, how many times did the House vote to overturn the Affordable Care Act, aka Obamacare?”

Jordan: "I quit counting after 50.”

Mackey: "But Obama’s stimulus programs would have raised the debt?”
Jordan: "True, but raised it only temporarily. Mackey, if you’ve learned nothing else from this little session in the club house, I hope you’ve learned that one cannot save their way into prosperity."

John Boy: "Are you saying if I don’t spend money – or if someone doesn’t spend money – then demand will not increase?"

Jordan: "Yes...and?"

John Boy: "And without consumer demand there will be no additional jobs and no additional income...maybe no income for me, or most anyone."

Jordan: "And no income means no tax revenue from those unemployed."

Mackey: "But why doesn’t business spend more?"

Jordan: "If you owned a business and demand for your product was flat to down, would you hire more people?"
Mackey: "No, of course not."

Jordan: "Which leaves government to get the economy started again."

Mackey: "If I hear you correctly, in a recession since business is not spending, government needs to spend more money. If government cuts back also, it makes the economy worse. Kinda creates a spiral downward."

Jordan: "You're on a roll, Mackey."

Mackey: "But what about paying back the debt?"

Jordan: “Pay it down when the economy is stronger. Then you can raise taxes.”

John Boy: "You’re giving me apoplexy. Raise taxes? That’ll kill everything!"

Jordan: "OK, Mr. No-Tax-Increase-Ever, what was the maximum marginal tax rate at the end of the Reagan Administration?"

John Boy: "25%...and that was still too high."
Jordan: "Mackey, want to guess?"

Mackey: "25% seems low but I’ll stick with it."

Jordan: “How ‘bout the maximum tax rate under Clinton?”

John Boy: "Clinton got lucky. Reagan and Bush created the environment and he benefitted. Clinton probably raised it to 35%. I really don’t remember."

Mackey: "Agreed."

Jordan: "Good guesses. Reagan was 28% and Clinton was 35%. But the 28% was short-lived. The max rate was raised to 31% under Bush 41."

John Boy: "That’s why the economy went in the tank and he didn’t get reelected. Taxes went up. Proves my point."

Jordan: "Just what is your point?"

John Boy: "Like I said earlier, Reagan deserves all the credit for the economic recovery."
Jordan: "And what about all the deficits under Reagan and the voodoo economics? And, oh yes, when was the last time there was a budget surplus? C'mon, John Boy, take a guess."

John Boy: "OK, you made your point. There was a budget surplus under Clinton, not Reagan. We went through that a few minutes ago."

Jordan: "At least one of the lessons stuck. John Boy...and you, too Mackey...if someone offered you $1.00 but said that you had to pay $0.35 tax, you would turn down the $1.00 and have nothing or pay the tax and have $0.65 left?"

John Boy: "No, I’d take the $1.00 and pay my $0.35 tax."

Jordan: "What if the deal was you could keep $0.61. Would you still take it?"

Mackey: "Of course, take the $1.00."

John Boy: "Mackey, be careful. Jordan is setting up another one of those intellectual traps."
Jordan: "Look, I agree there is some point at which you would not take the $1.00. You might reject it because of the risk involved, the amount of money you already make, the time involved...whatever. But for most everyone except the very wealthy, would take the $1.00. Taxes would need to be higher than 35% before they stopped seeking the extra $1.00."

Mackey: "Are you saying we should raise taxes?"

Jordan: "I’m saying it is OK to raise taxes when the economy is strong, maybe even raise them a bit while the economy is starting to recover. Then use the extra taxes to pay down the debt. But people need to have income in order to generate tax revenue."

John Boy: "Jordan, why do you keep making such logical statements?"

Jordan: "Comes with the territory. I just wish we...collective we...would spend more time thinking through and talking through issues rather than throwing ideologue bombs at one another."
Mackey: "Listen, we need to get out of here. But I want to make one final comment. You know I can never admit to this publicly, but I very much appreciate the lessons in economics."

John Boy: "Hear, hear. A toast to our host, Jordan Abel."

Jordan: "Thanks. Glad I could be of help."

Waiter: “Mr. Abel, the check.”

(Back to the conversation with Sandy.)

Sandy: "Wow, Jordan that was quite a story. Have you got a few more minutes? Have a couple of questions."

Jordan: "Yes, Sandy, but let’s take a break first."
Sandy: "That conversation with the Speaker of the House and the Senate Majority Leader sounds fascinating. How often do you get private time with those guys?"

Jordan: "First time in my career."

Sandy: "Maybe the three of you should play golf more often."

Jordan: "Not sure they need to be around me very often but your point is well taken. They need to be around some people who can really help them understand the issues."

Sandy: "From what my parents tell me, Washington used to be more like what you guys did. Sort of informal where people actually talked to one another."

Jordan: "Your parents are right. Guys from both parties...it was mostly men then...used to play golf, play poker and
whatever. The families used to socialize and the kids knew one another.”

Sandy: "You mean they acted like real people?"

Jordan: "Good way to put it. Yes, they acted like real people. And, frankly, a lot more got done in Washington then, too.”

Sandy: "You think the Revenge Revolution will bring back the old Washington? How can we make that happen?"

Jordan: "Shorter political campaigns and public funding of campaigns would be a good start.”

Sandy: "You mean no more PAC’s (Political Action Committees)?”

Jordan: "No more PAC’s. Every candidate gets so many dollars for his or her campaign…and that’s it. No transferring money to other candidates. No money for personal expenses.”

Sandy: "How would that really work?"

Jordan: "Sandy, let’s save that conversation for another day. Before the break you said you had a couple of questions. What were they?”
Sandy: "One big question really. Why doesn’t Congress implement a flat income tax?"

Jordan: "What’s the appeal of the flat tax?"

Sandy: "Two reasons. One, a flat tax would be much easier to calculate. Two, and more important, everyone would then pay taxes."

Jordan: "I agree a flat tax would be much easier to calculate. But when you say everyone would pay taxes, exactly what do you mean?"

Sandy: "A lot of people pay no tax. And that’s not fair. They’re free-loaders."

Jordan: "You mean some people don’t pay any income tax or not pay any kind of tax?"

Sandy: "Never really thought about taxes other than income. I guess I mean pay no income taxes."

Jordan: "And you think it’s not fair that some people don’t pay income taxes. Right?"

Sandy: "It’s not fair. Those of us who work hard pay all the taxes."
Jordan: "You mean, pay all the income taxes."

Sandy: "What’s the difference? If someone doesn’t pay income tax, that’s not fair. Period."

Jordan: "First, let’s talk about different type of taxes. Name a few taxes."

Sandy: "Income tax, sales tax, property tax."

Jordan: "What about FICA?"

Sandy: "You mean Social Security...and Medicare?"

Jordan: "Yes, Social Security and Medicare. While not a big amount, another one is excise tax? Check your phone bill every month and see what you pay."

Sandy: "OK, there are lots of different taxes. What’s your point?"

Jordan: "If I showed you credible data that people who do not pay income tax still pay 15-20% of their income in taxes, would you stop calling these people free-loaders?"
Sandy: "Yes...but I don’t believe you."

Jordan: "The same reason people don’t look at debt as a percent of GDP. They either do not understand percentages...or more likely, the data destroys their argument."

Sandy: "The data makes the case for a flat tax almost moot. While the tax burden is not flat across the board, it’s a lot flatter than I thought. But what about the argument that higher income people pay all the taxes...and lower income
people don’t? That still seems like a fair argument.”

Jordan: "I agree higher income people pay a lot more tax. But, Sandy, higher income people also make a whole lot more money.”

Sandy: "That seems so obvious when you say it like that.”

Jordan: "OK, here’s a chart that shows the percentage of income by group and the percentage of taxes paid by group. See much difference?”

![Chart showing the percentage of income and taxes by income group in 2013.](chart.png)
Sandy: "Not really. The lowest 20% income group pays a little less tax than their share of income and the highest income group pays a little more tax. But, overall income and taxes look pretty balanced to me.”

Jordan: "So I ask you. Would you rather be in the highest income group and pay a little more tax or the lowest income group and pay a little less tax?

Sandy: "Another one of those trick questions? Put me in the highest income group any day. I’ll gladly pay a little more tax.”

Jordan: “Feel better that the tax burden is spread evenly among all groups? Think we need a flat tax?”

Sandy: "No we don’t need a flat tax. We have one already. We need a simpler tax code but we don’t need a flat tax. Just baffled why no one really talks about the tax burden this way.”

Jordan: "Welcome to Washington, the land where objective and fair arguments have been gobbled up by self-interest and greed.”
Sandy: "Let’s hope the revenge Revolution changes that. Jordan, you’ve converted me. I’ll help tell the story."

Jordan: "Great. Really enjoyed seeing you again."

End of Section

More entries and more about author and how the blog came about at www.usrevolution5.com.