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MANAGING RISK USING OPTIONS: Part III: Limiting the Risks of Equity Positions Using Collars and CSEPs

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## Our Fiscal Cancer

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Erskine Bowles, co-chairman of President Obama's deficit commission, had some very un-Democratic news for the nation's governors on Sunday: "We can't... [View Enlarged Image](#)

combination of that."

How nice it is to hear a Democrat say taxes aren't the answer. But, of course, "increase revenues" in Washington-speak is often code for "higher taxes." We hope Bowles isn't leaving the door open to that. If his group recommends higher taxes in its final report, due in early December, it should be treated as a dead letter.

To be blunt, Americans won't be fleeced for more taxes while government continues to run \$1-trillion-plus deficits into the future.

And, sadly, the outlook is grim. Based on current estimates, today's total federal debt of just over \$13 trillion will hit \$20 trillion by 2020. Beyond that, the coming retirement tidal wave of 65 million baby boomers will push Social Security and Medicare spending to stratospheric levels. America's debts will become crippling.

By some estimates, total U.S. commitments for entitlements total \$107 trillion over the next 75 years or so. That's an unpaid tax bill of \$912,000 per household, or \$351,000 for each child born today.

Besides, raising taxes will do little other than ruin the economy. As noted recently by the Cato Institute's Dan Mitchell, repeated studies over the years have shown that the optimal size of federal government spending to the economy is well below about 20% of gross domestic product. Anything above that kills off economic activity.

Today, the federal government alone is spending around 25% of GDP, compared with its long-term average of 18%. If expected massive deficits are closed with taxes rather than spending cuts, it will require a 25%-plus increase in the real size of government.

That won't be the end of it. Absent serious spending cuts, spending will rise to 32% of GDP by 2030, Congressional Budget Office data show.

**Debtocracy:** As a president, it's one thing to know you have a big fiscal problem. It's quite another when a panel you appointed tells you the policies you have in mind will only make things worse.

That's what happened Sunday, when leaders of President Obama's deficit commission offered up the darkest of outlooks for our financial future — calling current trends in U.S. budgets a "cancer" that will "destroy the country from within" unless halted soon.

Pretty sobering words. Let's hope Rahm "Never Waste A Good Crisis" Emanuel is unable to find something to exploit there. But in case Democrats in the White House and Congress think this is their golden chance to raise taxes and permanently increase the size of government, they should think again.

"We can't tax our way out," admitted Erskine Bowles, co-chairman of Obama's deficit commission and formerly President Clinton's chief of staff. "We've got to cut spending or increase revenues or do some

At current levels, taxes on Americans would have to rise 78% to pay for all that spending. Ready for that?

By the way, when state and local spending are added in, government in a few short years will take up more than half of all U.S. GDP. In short, the U.S. is essentially on the road to becoming just another stagnant, state-run welfare economy.

The only real answer: Shrink government to expand the private sector. Anything else, such as massive tax hikes, is doomed to failure. And when it comes to our fiscal future, failure is not an option.

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