

THE CHANGE CHALLENGE.....A Newsletter About Change

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Welcome to the Change Challenge Newsletter

This month's feature article titled "*The Fiscal Time Bomb*" suggests that our current spending decisions and tax policies may be pulling us out of one crisis by creating the next crisis. The *On the Personal Side* article titled "*Boiling a Frog*" recommends that we take action while our challenges are relatively small, rather than tolerate creeping compromise. And the *Future Changes* article titled "*Rampant Social Change*" asserts that social change is spreading at a rate that is roughly equal to the proliferation of business changes - and for the same reasons.

Your feedback and recommendations to improve this e-letter would be appreciated via return email or The Change Blog at www.dickstieglitz.com.

Sincerely,
Dick Stieglitz, PhD

Feature Article

THE FISCAL TIME BOMB

The fiscal direction of the U.S. is a ticking time bomb that seems to be pulling us out of the banking and personal debt crisis by pushing us into an explosive government debt crisis. The potential for disaster is widely discussed, but the same spending decisions and tax policies continue. Three years ago economists warned about a collapse in sub-prime mortgages, but we ignored that warning and are paying for it with bailouts, unemployment, and a housing industry on life-support. Who will bailout Washington when this bomb explodes - the Chinese?

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**Looking to have your
organization embrace**

The fiscal year 2009 deficit skyrocketed to a record \$1.4 trillion, larger than the last four years of deficits combined. In 2009 the government spent \$3.5 trillion, but collected only \$2.1 trillion in taxes. The \$1.4 trillion gap would have been a few hundred billion dollars more, except several large banks repaid their bailouts rather than face punitive salary cuts by Obama's Compensation Czar. The river of red ink jeopardizes the awakening economy and the long term outlook for more jobs.

Future deficits look equally bad. The Congressional Budget Office (CBO) forecasts another \$1.4 trillion deficit in 2010, and annual deficits of a trillion dollars each year through 2019. To reduce those numbers, the CBO and the President are doing what naïve business leaders do to justify overspending: they inflate projections of growth and revenue. The world (particularly China) is still willing to buy treasury bonds and, at today's historically low rates, the interest is affordable. But when the ballooning national debt spooks foreign and domestic lenders into fears about rising inflation and defaults, soaring interest rates will divert tax revenues into interest payments.

Last June, President Obama said: "*Paying for what you spend is common sense. Perhaps that's why here in Washington, it's so elusive.*" But instead of choosing among social programs, tax cuts, and war in Afghanistan, he wants all three and more. Congress is debating a health-care bill that would add billions to the federal budget. The only recent idea that has bipartisan support is giving \$250 checks to seniors (total cost of \$14 billion) because the Consumer Price Index fell 1.3 percent and they weren't entitled to cost-of-living increases in Social Security. Actions also are in progress to extend unemployment payments and the \$8,000 tax credit for first-time home buyers. No one disputes that Obama began his presidency in a difficult economy, but its problems are being exacerbated by a spending binge like a teenager at the shopping mall with her parent's credit card - eventually we must pay the bill.

Obama steadfastly repeats his "*clear promise that families earning less than \$250,000 will not see taxes increase by one single dime.*" But the CBO has issued data showing that income taxes are already near a historic low for all but the wealthiest Americans. The CBO says that the average American family paid about 9 percent of its earnings to the IRS in 2006, the latest year for which data are available. Middle-class families have fared especially well. In 2006, the middle fifth of taxpayers (those earning about \$60,000 per household annually) paid 3 percent in federal income taxes, down from a high of 8 percent in 1981. In a recent Gallup poll, 54 percent of the respondents said their federal income taxes were either "*too low*" or "*about right*," the highest percentage since Gallup began that poll in 1956.

One frightening trend in tax policy is fewer and fewer people are paying any income tax at all. According to the IRS, 45 million households (38 percent of taxpayers) paid no income tax in 2006. This year, because of tax credits in the stimulus bill, 43 percent of all households are likely to pay no income taxes. Obama wants to keep his no-tax-increase promise and is reluctant to tell us the truth: *if you want a bigger government, you must pay for it.* Unfortunately, with the percentage of non-taxpayers nearing 50 percent, the balance between those who receive government benefits and those who pay for them is being obliterated. Non-tax paying voters are the majority that elects candidates who promise new spending.

The keys to restoring the budget surpluses we enjoyed during the dot-com era are more jobs and more innovative businesses. Since the recession began, 8 million jobs have been lost. Total employment is lower today than ten years ago - a 10-year decline in employment hasn't occurred since the Great Depression. But what can the government do to produce jobs and business growth? The answer isn't clear. If the economy rebounds and unemployment drops, tax revenues could increase and narrow the budget gap. However, if the economy recovers more slowly than after past downturns (as many expect), deficits could easily double. Economic projections are guesswork, of course. For example, the new health-care plan could cost more or less than expected. The cap-and-trade system for carbon emissions is another wildcard. Congress seems intent on passing a bill that essentially gives carbon credits away, while President Obama is counting on a bill that will generate hundreds of billions in new revenue. Many economists are afraid the exploding federal debt will trigger a new crisis that destroys jobs.

There appear to be three alternatives: (1) higher taxes, (2) program cuts, and (3) changes in the structure of social security and Medicare. If we do nothing, the U.S. might default on debt payments and all three things will be forced on us. For me, the most palatable is higher taxes. Taxes on the wealthy must increase the most, but the revenue required to expand social programs is far too much for high earners to pay. There just aren't enough of them. To pay for a trillion dollar health care program and keep the national debt from destroying an already weakened economy, federal income tax rates and the number of people who pay them must increase. The government spread the burden across hundreds of million taxpayers. A viable alternative to income tax increases is a European-style value-added tax (VAT) that would raise the price of everything from cars to clothes. But Congress has shunned the VAT idea along with other usage-based taxes like the gasoline tax which hasn't been increased since 1993. The fuse on the fiscal bomb continues to burn while Congress and the president spend.

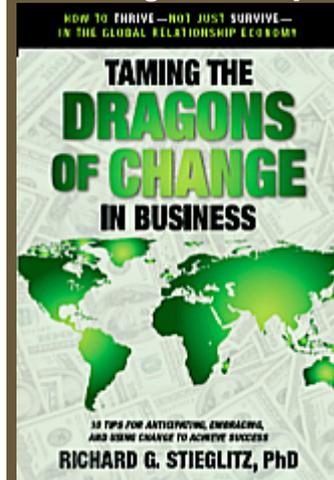
This type of fiscal blindness is not limited to government. Business executives face similar challenges when the basics of their industries change:

- Conflicting priorities from doing too much. (Which is the government's highest priority: the economy, unemployment, health care, global warming, or Afghanistan?)
- Lack of Focus. When multiple priorities collide, worthwhile efforts fail.
- Unrealistic expectations: Yes we *can!* But what if we can't or shouldn't?

We all want things to change, but change doesn't mean doing everything. Effective change means we must be willing to give up the old and embrace the new even when the leap from the old to the new is uncomfortable. To be successful in times of rampant change, anticipate what the changes will be, embrace the changes, and use them to produce renewed success -

change?

Taming the Dragons of Change can help!



The recession, layoffs, budget changes, new technologies, acquisitions, and out-sourcings have produced a world of constant change. Today, ideas travel at the speed of light. You can communicate with anyone, anywhere, at any time, on any subject. To stay on top, you must do more than react. You must anticipate, embrace, and use change to your advantage.

THAT'S WHAT THIS BOOK IS ALL ABOUT!

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QUICKLINKS

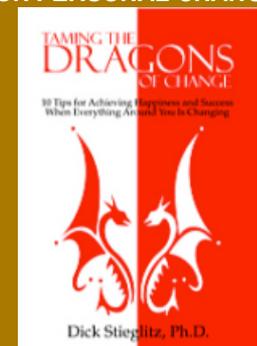
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Leading Change BOILING A FROG

If a frog is dropped into a pot of boiling water, it will jump out. But, if the same frog is immersed in comfortable water that is gradually heated, it will accept the rising temperature and be boiled to death. But humans are smarter than frogs. Our power of choice enables us to escape from creeping compromises (like rising water temperatures) before a bad situation becomes a disaster. Most of the time, we use that power effectively.

Neurologists estimate that our brains receive several million stimuli every second. However, our brain can process only 100,000 stimuli per second. How do we choose which to process and which to ignore? Clearly, something is a filter that passes some stimuli and blocks others. For example, the big toe on your right foot has been sending stimuli to your brain as you read this article. The stimuli probably are saying that everything is okay with your toe, so they are filtered out of your consciousness. You don't think continuously: "*My toe is okay. My toe is okay.*" However, if you drop a book on your toe, the stimuli would get through your filter and the toe would hurt in your consciousness.

The filtering occurs in the lower part of our brains. We have taught that part of our nervous system which stimuli to ignore and which to process. After choosing which physical stimuli to process, we also choose how to combine them with emotional and intellectual stimuli to make choices. But who creates the criteria for choice? Each of us do individually, of course. We can be passive and ignore the stimuli; be reactive and let the stimuli produce knee-jerk reactions; or be proactive and use long term goals and values to make choices. We choose the quality of our lives by which stimuli we process and which we ignore, and how we chose to respond to the stimuli.

In times of rapid change and recurring crises like we are experiencing today, the stimuli are more intense than ever before. There is little doubt that the water is heating up around us - the fiscal time bomb discussed in the previous article is an example. We can chose to simmer in the pot as the temperature increases, or chose to jump out! Seems to me it's best to take action before the water reaches the boiling point!

Future Change RAMPANT SOCIAL CHANGE

Social change is spreading at an unprecedented rate that is nearly equal to the spread of business change, and for the same reasons. Communications enable champions of social change around the globe to unify their message and share their resources - unfortunately, that includes terrorists too. So, in addition to a never-ending stream of new technologies and intensifying global competition, we must deal with social changes like global warming, public health care, gay marriages, DNA manipulation, and others. Our ability to cope with change is stretched close to the breaking point - everything is changing at once.

Social change thrives today for four reasons. The first, of course, is that technology touches every area of our life, even how religious services are conducted. The second is that ubiquitous communications connect like-minded people no matter where they live or work. Third is a growing awareness of how much we depend on planet Earth for life, and a realization that we may be destroying it. The fourth is an increase in privately-funded social initiatives driven by a frustration with the ineptitude of the government. The wonderful news is that, not only are social changes a boon for society, they are also a growing source of exciting business and career opportunities.

People think differently today. The fall of communism has encouraged historically repressed peoples to seek freedom and participate in the global economy. New-age thinking, the ecological movement, and a growing interest in understanding other cultures have helped us to see how tightly people, animals, and our earth are connected. Industry's contribution to social change, especially in ecological areas, has expanded to the point where industry soon may be as important as governments in the preservation of our planet.

No matter what your line of business, you probably are already seeing signs of this future change. For example, even the Defense Department is becoming concerned about conservation. Maybe you have achieved breakthrough successes by incorporating social awareness into your daily operations. Or, while you were steadfastly using techniques that were successful in the past, some unknown may have passed you by with an innovative social slant on its products and services. You are likely to see a lot more social awareness in your industry in the future. Social awareness is the new norm, and organizations must be managed from that perspective. How can you and your organization use social change to expand your contributions to society, and solidify your revenue growth and profits at the same time?



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