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Welcome to the Change Challenge Newsletter

Welcome to the August issue of *The Change Challenge*. If you're like me, you are frustrated and angry about the debt ceiling fiasco. Leaders on both sides have squabbled like children in their "terrible twos." They don't seem concerned about causing a second self-inflicted disaster on the U.S. economy. That's the subject of this month's feature article titled "**What's Next?**"

This month's *Results Through Relationships* article titled "**The Perfect Solution**" suggests that in a global economy driven by unpredictable and rapid change, cooperation is essential to deal with market and technological change. This month's *Personal Change* article titled "**Boiling a Frog**" warns that in times of crisis like today, it's best to jump out of the pot before the water boils!

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

Dick Stieglitz

P.S. August is a vacation month, so there won't be a Change Challenge newsletter on September 1st - the next issue will be out on October 1st.

This Month's Articles

[What's Next?](#)

[The Perfect Solution](#)

[Hard Choices](#)

[Organizational Change](#)

**Buying or selling a
business can be a
lucrative but risky**

Feature Article

WHAT'S NEXT

Last week, my lifetime retirement savings fell nearly 5% when the stock market reacted to the debt ceiling stalemate. Leaders on both sides are being as stubborn as children in their "terrible twos." In the next election, my intention is to put them in a corner for a permanent time-out. The world's largest economy, struggling to recover from one self-inflicted financial disaster, is racing toward another. Unless Congress and the White House agree on spending cuts and increase the debt ceiling by tomorrow (August 2nd), the U.S. could default on its debts. Some freshman Congressmen aren't sure there's a problem. They don't remember September 2008 when the market dropped 777 points after the House defeated the Troubled Asset Relief Program (TARP) - hopefully, they won't get to be sophomores.

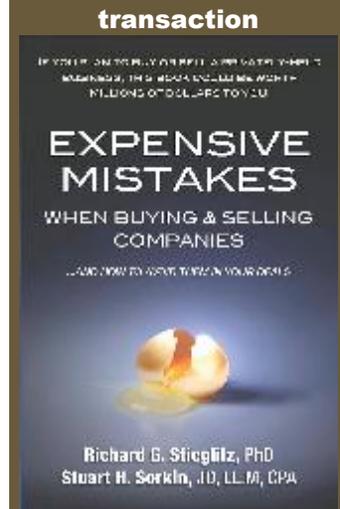
Facts of the Matter. It's politics as usual in Washington, but with higher-than-usual stakes. The debt ceiling, now \$14.3 trillion, has been raised 39 times since 1980 including three times under President Obama, the last in October 2010. The Treasury Department says it will run out of cash August 2nd unless the ceiling is raised. In reality, the debt ceiling has nothing to do with budget deficits. Congress determines tax and spending levels during the annual budget process. For them to refuse to let Treasury borrow to pay for spending that Congress itself has authorized is ludicrous. Furthermore, even \$3 trillion in cuts over 10 years is just a band aid - that's only \$300 billion per year when the 2010 deficit was \$1.6 trillion!

Political Rhetoric. President Obama himself is an example of the rhetoric that always surrounds debt ceiling debates. In 2006 then Senator Obama voted against George W. Bush's request to raise the debt ceiling saying: *"The fact that we are here today to debate raising America's debt limit is a sign of leadership failure. Increasing America's debt weakens us domestically and internationally. Washington is shifting the burden of bad choices today onto the backs of our children and grandchildren."* Apparently, Obama has acquired new insights now that he is the president.

The Sky Won't Fall. The odds of the U.S. actually defaulting are small. Facing the deadline, Congress will find an awkward compromise (to do otherwise would be irresponsible), but don't expect a grand solution. Instead, they will leave the core problem to be solved another day, and the economic and employment damage of their bickering will stay with us. Even if they don't raise the ceiling, there are two strategies that would prevent the sky from falling. First, don't be surprised if Treasury Secretary Geithner miraculously finds new ways to juggle cash flow and delay default by several days. And second, Obama could avoid a meltdown by using the 14th Amendment which says: *"the validity of the public debt of the United States...shall not be questioned"* to justify ordering Treasury to pay the bills regardless of the debt ceiling. Republicans would howl about the president deciding which law to enforce, but the debt ceiling crisis would be over. Unfortunately, it's likely the U.S. will begin fiscal year 2012 on October 1st with a big debt and no budget because Congress failed to do its job - again.

Cyclical and Structural Deficits. The annual budget deficit is the sum of two parts: cyclical and structural. At low points in the business cycle (like today), unemployment is high, tax revenues are down, and entitlement spending rises. The reverse happens in cyclical peaks like the *Dot-Com* boom during Clinton's presidency. By definition, cyclical surpluses during peaks entirely offset cyclical deficits in bad times. In 2010, the U.S. government had a \$1.6 trillion deficit. Economists say \$900 billion of that deficit was cyclical, and \$700 billion was structural. Core spending exceeded core revenues by \$700 billion *even after the recession and the Stimulus Act were excluded.*

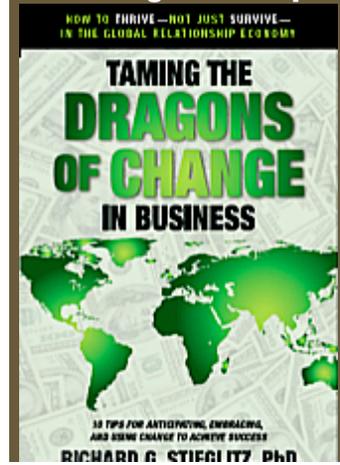
How Did We Get Here? In 2001, just 10 years ago, the U.S. had a budget surplus of \$127 billion, and the Congressional Budget Office projected a surplus of \$2.3 trillion in the years 2002-2011. How did a \$2.3 trillion surplus become a \$10.4 trillion deficit? The New York Times attributed the \$12.7 trillion swing about equally to the recession, President Bush's policies, and policies enacted or



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specific drivers were:	
- Revenue decline during recession	\$ 3.6 trillion (28%)
- Defense spending increases	\$ 1.9 trillion (15%)
- Bush tax cuts in 2001 and 2003	\$ 1.7 trillion (13%)
- Increased interest on national debt	\$ 1.4 trillion (11%)
- Non-Defense spending increases	\$ 1.3 trillion (10%)
- Obama tax cuts	\$ 1.0 trillion (8%)
- Obama stimulus spending	\$ 0.8 trillion (7%)
- Medicare Part D spending	\$ 0.3 trillion (2%)
- Other factors	\$ 0.7 trillion (6%)
Totals	\$12.7 trillion (100%)

Interestingly, the TARP bailout of banks and automakers isn't on the list since it produced a profit for the government. The ugly truth is nearly three-quarters of the representatives and senators who are bickering about the debt ceiling voted for one or more of the legislative actions that contributed to the \$12.7 trillion swing.

Governing Through a Rearview Mirror. The U.S. is having a tough time today because Congress governs through a rearview mirror. They debate things that have already happened (e.g., 9/11, a huge windfall, or a severe economic downturn) instead of using foresight to avoid such situations. Politicians are swayed by special-interest demands like the feel-good (but unrealistic) pledge not to raise taxes and the Tea Party's ranting about excessive spending instead of building the foundation for a strong economy. Today, congressional leaders are addressing huge deficits, high unemployment, and a moribund housing industry in ways that are likely to exacerbate the jobs deficit. What they should do is make cuts and investments that stimulate growth and provide clear policies for education, energy and immigration.

Conclusion. The problem we have today isn't too much government - it's too much **bad** government! There's no doubt that budget-cutting is tough - it forces choices no one likes. Mindless across-the-board cuts kill innovation, diminish the effectiveness of government, damage the morale of public servants, and erode citizens' confidence. Such cuts produce a bunker mentality where spending for management reform, new technologies and training is considered a luxury. Identifying potential savings through policy changes and process improvements is the easy part. The challenge is to generate the collaboration and creativity to transform ideas into results. Successful businesses use budget cuts as a catalyst for change. They invest to promote growth, eliminate program overlaps, share back-office services, simplify the organization, reduce energy usage, and monetize assets. It will be interesting to see how this all plays out over the next two years. Will the eventual budget agreement include investments that promote growth and cut the job deficit; or will the cuts increase unemployment, retard economic growth, and adversely affect the performance of government agencies?

Results Through Relationships **THE PERFECT SOLUTION**

Arguably, the world changed more on September 11, 2001 than on any other day in history. Everyone felt the urgency of change. In less than a year, the President and Congress cooperated to produce increased airport security, the Patriot Act, a jail for terrorists in Guantanamo Bay, and the Department of Homeland Security. None of these were *perfect solutions*, but they got the job done - there hasn't been a major terrorist attack on American soil since. But recently Congress has fallen prey to the *perfect-solutions* dragon, a paralyzing monster that allows otherwise brilliant people to disguise lack-of-action as a righteous search for the perfect answer. Since each person's definition of *perfect* is different, people must compromise to make progress. Action or inaction by any organization, especially one as complex as Congress, is merely a reflection of its members' willingness to compromise.

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Today's global economy is driven by rapid and unpredictable change. The only strategy that can consistently succeed in such an environment is one that senses and adapts quickly to market, technological and relationship changes. Adaptation, however, is more than just flexibility - it requires action. If change is unpredictable, it follows that our actions should not be predictable either - at least from the perspective that responses that worked in the past may not work today. When the fundamental reality is unpredictability, we must re-examine habitual, comfortable responses to ensure they are still appropriate.

In today's changing world, you don't need more data or more analysis to succeed, you need more action. Don't wait for the *perfect* response or the *perfect* time. Now is the time to respond to the changes you are seeing. Make a small response at first, and follow it with another. The first response may not work very well, but you will have avoided the paralysis of the *perfect-solution* and can learn from results of your first action. Don't waste opportunities looking for the perfect solution because it doesn't exist. Even if you found what seemed like the ideal solution, it probably would be less-than-ideal when it was implemented because the world changes so quickly. Sense the changes around you, and respond with decisive action.

Personal Change **BOILING A FROG**

When 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 allow itself to be boiled to death. But humans are smarter than frogs. Our power of choice enables us to escape from escalating problems (like rising debts) before a bad situation turns life-threatening.

Neurologists estimate that our brains receive several million stimuli every second, but can process only 100,000 stimuli per second. How do we choose which to process and which to ignore? 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 weren't thinking "*My toe is okay...My toe is okay,*" at least not until I mentioned it. However, if you drop a book on your toe, the stimuli will get through your consciousness filter and you would be aware that your toe hurts.

The filtering takes place in the lower part of your brain. Over the years, you have taught your nervous system which stimuli to ignore and which to process. After choosing which physical stimuli to process, you also choose how to combine them with emotions and intellectual data to make choices. But who creates the criteria for choice? You do, of course. You can be passive and ignore the stimuli; be reactive and let the stimuli produce knee-jerk reactions; or be proactive and choose your reaction based on your goals. You choose the quality of your life by which stimuli you process and which you ignore, and how you respond to those stimuli.

In times of recurring crisis like we are experiencing today, the stimuli are intense. There is little doubt that the water is heating up around us - the fiscal pressure-cooker discussed in the featured article is just one example. We can choose to simmer in the pot as the temperature increases or jump out. Seems to me it's best to get out quickly before the water boils!

Friends & Colleagues,

If you are wondering how you and your organization can succeed in today's rapidly changing world, contact me to discuss the possibilities. If you found this e-letter to be interesting and useful, please send it to a friend. If not, let me know why at dick@dragonsofchange.com.

Until October 1st,