

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

June 1, 2012

Issue: 48



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Welcome to the Change Challenge Newsletter

Welcome to June's issue of The Change Challenge. Putting off essential changes often means paying a higher price later. Certainly that's true relative to the decisions Congress and the White House have been making - which the topic for this month's feature article titled "**Procrastination.**"

The *Results Through Relationships* article titled "**Rising Taxes**" asks why Maryland, my home state, needs yet another tax increase when it isn't delivering more or better services - in fact, they are being cut. The Leading *Change* article titled "**The Smorgasbord**" challenges leaders to make choices in a world where we cannot have or do everything we would like.

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

Dick Stieglitz

Feature Article

PROCRASTINATION

Everyone is watching austerity wash over Greece and other European countries, but few realize the U.S. economy could see a similar train wreck

THIS MONTH'S ARTICLES

Procrastination

Rising Taxes

The Smorgasbord

Buying & Selling a Company

Organizational Change

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

seven months from today. As a result, trillion-dollar deficits and political procrastination will hit the U.S. on January 1, 2013, just eight weeks after the Presidential election. The theatrics would be a smash hit on Broadway if the impact wasn't so potentially devastating to U.S. families and businesses. How will the crisis impact you personally? Possibly in more ways than you realize.

Taxmegeddon. New Year's Day 2013 seemed a long way off when Congress extended various tax cuts and the Super-Committee gave up in dealing with the deficit. Pundits calling it *Taxmegeddon* - a perfect economic storm that includes:

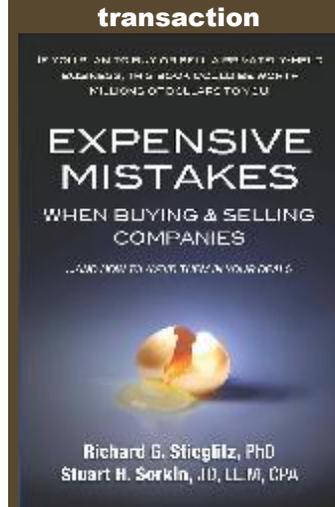
- A 3.8% Medicare tax on capital gains in Obama's health-care bill,
- A 10-year sequester that cuts FY13 spending by \$110 billion,
- Social Security taxes that jump back to 6.2% for 160 million workers,
- Twice-extended Bush tax cuts expire raising taxes for everyone,
- 25 million more families paying Alternative Minimum Tax on April 15th,
- Unemployment benefits reverting to 26 weeks from 99 weeks, and
- The end of the stimulus programs funded in the 2009 Recovery Act.

Every American will be affected by these changes. The Congressional Budget Office says the combined effect would be 3.6% of the U.S. GDP in 2013. Since the economy is struggling to grow at a 2.4% annual rate, economists say this could push the U.S. into another recession.

Two Not-So-Super Committees. Two golden opportunities to deal with this festering problem were squandered. First, in 2010 the bipartisan Bowles-Simpson Committee provided recommendations that were roundly ignored by the White House and Congress. More recently, the failure last November of Congress' select committee to produce a deficit plan was disappointing but not surprising. Voters have become accustomed to Congressional procrastination, and the stock market had already priced the Committee's failure into the Dow Jones average. Nevertheless, these missed opportunities were significant because they cemented Democrats and Republicans into antagonistic positions and left long-term issues unresolved.

Posturing for the Election. Election years often trigger financial crises because politicians are reluctant to take controversial but necessary actions. That is certainly true in 2012. Both parties seem willing to let stimulus programs fade away, but they have drastically different strategies for dealing with the sequester and renewing the Bush tax cuts. Those questions won't be settled until after the election when a lame-duck Congress must address them. Meanwhile, both parties are using legislative meetings to broadcast political messages rather than to create jobs and solve the debt crisis. On the other hand, President Obama will be in a no-lose situation. After the election, he will be reelected or on his way out - either way he will be free to take a hard line with Congress.

The Greatest Risk. The greatest risk is that a gutless Congress will apply a political band aid after melodramatic brinkmanship that undermines business and consumer confidence. That would pass the problem to the new Congress (and maybe a new president) and fuel international fears that the U.S. can't control its deficit. Compounding the problem, Federal agencies will be operating under yet another continuing resolution and the U.S. may bump up against the debt ceiling again. With so many hand grenades to juggle, it's not hard to see the situation exploding into an international financial crisis bigger than the Greek crisis. With such a wide chasm between the two parties, businesses are hesitant to make bold investments without knowing who will win the White House. That

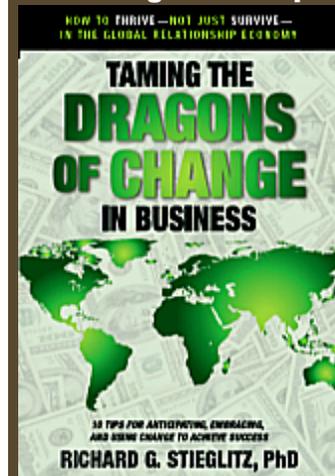


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The recession, layoffs, budget shortfalls, new technologies,

uncertainty is causing them to quietly cut costs, limit hiring, and curtail investments until the direction of the Country becomes clear.

A Better Choice. There's a better choice for 2013 than extreme cuts or no cuts at all - and it's not just splitting the difference between two extremes. The Country needs a fiscal strategy rather than the patchwork stimuli and temporary tax cuts Congress has been feeding us, Trillion-dollar-a-year deficits, skyrocketing debts, and unsustainable entitlements obviously must be brought under control. But equally obviously, budget-cuts could push the economy into a double-dip recession and demoralize millions of unemployed Americans. A sensible strategy would couple short-term stimuli with phased-in spending cuts, entitlement reforms, and higher tax revenues. Enacted with the *taxmeggedon* fixes, modest stimulus spending to produce jobs and rebuild infrastructure would be dust in the wind compared to trillion-dollar annual deficits we've seen recently. The better choice is stimulus now, cuts later.

What's Needed. To recover economically and control the deficit, the White House and Congress must address four policy challenges:

- First, abandon unsustainable policies by announcing to the world and adhering to a 10-year fiscal strategy with annual milestones.
- Second, enhance U.S. competitiveness and create new jobs through investments in airports, highways, energy sources, electrical grids, broadband access, and other infrastructure.
- Third, build the U.S. workforce with K-12 education improvements, training for the unemployed, and immigration policies that attract the best and brightest workers on the planet.
- Fourth, simplify the tax code to generate revenue for critical programs and eliminate loopholes to make it more progressive.

Savvy business leaders know organizations don't cut their way to prosperity - they invest to produce growth. So buckle your saddlebags for the rough economic ride that lies ahead. Hopefully, the new Congress will make it easier on us rather than harder.

Results Through Relationships **RISING TAXES**

Maryland, my home state, just passed its second large tax increase in four years. Why? Not because we're receiving more or better services - in fact, services are being cut. The reason is that the state's payroll (and retirement role) expands continuously to operate a cornucopia of programs each designed to address perceived social needs oblivious, for the most part, to other programs. Since programs are rarely terminated, taxes must rise and rise and rise. Similar overlaps exist among federal programs; and across federal, state and local programs.

The argument for integrating government programs is old. For decades, governments have sought a holistic approach to law enforcement, social services, education, transportation, the environment, and land use. But integration is more urgent and feasible today where everything is globally connected. Some agencies have won "Innovation in Government" awards for holistic thinking. They deserve our congratulations and thanks! But such innovations are rare because of the special interest groups, employee unions, and politicians who protect inefficient and marginally useful programs at the expense of the common good.

Governments must operate more like businesses. Businesses have three large advantages over governments. First, they are adept at joint ventures. Second, they terminate unsustainable products and services in order to survive. And third, businesses face a brutal performance test. Before

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!

QUICKLINKS

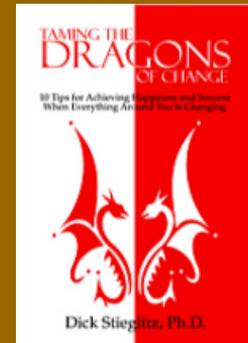
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making a purchase, consumers ask "Is this worth what I'm paying?" When the answer is "No" we buy it elsewhere. But here is no alternate supplier for government services, so government agencies can routinely ignore feedback about performance and results. If you're in the business of government, make joint programs part of your plan for success. If you're in business, are you using your three major advantages effectively?

Leading Change

THE SMORGASBORD

One Sunday morning, my family gathered at an aristocratic hotel to enjoy the grand buffet. We walked down the palatial staircase into a sprawling smorgasbord. Waffles and omelets on one wall; appetizers on a second wall; meats, seafood and vegetables on the third wall; and pies, cakes and ice cream sundaes in the middle of the room. Thinking "Wow, what a spread," I eagerly picked something from every table and ate so much that I felt uncomfortable. Other people reacted differently. One thought the spread was shamefully wasteful. Another ate almost nothing at all. Some had just seafood, and others focused on dessert. One voiced a fear that she would eat too much, and proceeded to do exactly that. Amid such a smorgasbord, which choice was best? Of course, the answer is: "It depends."

That smorgasbord was like today's government programs - a feast for everyone - except the hotel charged us enough to pay for the food and the service. Like a smorgasbord, governments cater to a wide range of demands from citizens some of whom contribute little, and do things that damage their health and everyone else's welfare. The White House, Congress and local governments must make choices to prioritize the desires of its citizens. In a world where we cannot have or do everything we would like, our desires compete with one another. But which are really essential rather than just good to have?

The results we are experiencing today - such as trillion-dollar annual deficits - are the karmic rewards (karmic debts to be more precise) today for past choices. Similarly, the future success of the U.S. can be only as big as the goals we set and the actions we take to reach them. The good news is that governments, like each of us individually, can make new choices at any time. To the extent our choices are different today than yesterday's, our lives tomorrow will be different than they are today - for better or for worse depending on our choices.

Friends & Colleagues,

If your organization is struggling to make the choices necessary to be successful in the future, contact me to discuss the possibilities. If you found this e-letter to be interesting and useful, send it to a friend. If not, let me know at dick@dragonsofchange.com.

Until next month,

DICK



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