

The Tax "Deal": Unless aliens abducted you to their planet this week, you are probably aware of the "deal" struck between the President and Congressional Republicans and Democrats to extend the 2001/2003 tax cuts for 2 years for everyone. However, it is not just an agreement to extend current tax rates. The plan pegs the death tax (currently at zero) at 35% for estates over \$5 million. It also includes a one year reduction in the employee's share of the social security tax by 2%; a 13 month renewal of unemployment benefits, which maintains the 99 week total cap; a 2 year extension of most of the tax provisions from the 2009 stimulus bill, including the earned income tax credit which gives people a "tax rebate" when they have not paid any taxes; and various other provisions, like a 100% write-off for business equipment for one year.

As I write this, the bill to reflect this agreement has just come out. But, of course, no one has read it yet. So, all analysis of this bill must necessarily be an estimate. It appears, though, that the "cost" of this bill will be close to \$1 trillion over the next 2 years. Some of this is the "cost" of letting you keep some of your own money. To me, that is not a "cost" to the government, unless you believe that all money you earn belongs to the government and you are simply allowed to keep some. However, the unemployment and earned income payments plus the 2% social security tax reduction appear to cost hundreds of billions of dollars over the 2 year period in actual, deficit creating cash going out.

Considering that summary, here is what may (or may not) surprise you: I vigorously oppose this deal. This is why:

1. No Certainty: People and markets need some certainty if we are to see the investment that will result in economic growth. There is much uncertainty out there in general. The government has made this problem worse recently by means of regulatory uncertainty and health care uncertainty. And, no one knows what taxes they will have to pay on economic activity after January 1st, 2011. But, nothing in this bill lasts for more than 24 months. So, while that may be better than 24 days, you really cannot do any long or medium term planning with only a 2 year tax law. How can you make investments, buy property, decide on a dividend strategy, or plan an estate when everything could change in 2 years? Instead of giving some certainty in this area, this deal ensures that current tax uncertainty will persist for at least 2 more years, and probably beyond. That will retard growth.

2. No Sustained Growth: This bill is essentially Stimulus II. It has a great deal of temporary spending in it, which may provide some short-lived GDP bump. But, this growth will peter out when the spending does and leave us with nothing except a new and larger mountain of debt. It

drives me nuts when I hear the President's surrogates out there proclaiming that to get needed growth, people and government need to spend. No, we don't. We need people and businesses to invest and save. It is that which provides the capital for long term growth. This is just another bill all about the government and people spending to put the economy on a temporary sugar-high. And, after an artificial high not based on any economic fundamentals, there will inevitably be a hard crash.

3. Massively Increased Debt and Deficit: Regular readers of this missive know how serious and precarious a situation I think our debt and deficit presents. We are currently not that far behind Greece and Ireland in approaching judgment day. This bill will hasten that judgment day dramatically. To put this "deal" in perspective, if we cut all federal discretionary spending (that means everything – including defense - except entitlement programs) by 10%, it will not completely make up for the cost of just the unemployment insurance, the extension of expiring Stimulus I provisions, and the social security tax reduction. So, if we pass this deal, we could make some pretty big cuts in other spending next year, and the deficit will still continue to go up because of the spending in this bill alone. We must reverse the trajectory of our deficits soon, or the holders of our debt will reasonably question our ability to pay it back, thereby triggering a major crisis. This deal will make it immeasurably harder to achieve that reversal.

Oh, and for the class warriors amongst you, please know that the "tax cuts for the rich" in here represent less than 10% of the total cost of the bill. So, as much as one might like to blame those horrible, awful people and miserable, successful businesses and employers, they are but a small part of this bill.

This sort of deal making is unfortunately not new. In the past, negotiations on spending bills involved all sides clamoring for the inclusion of their own spending. The "compromise" has always been, "Let's spend all of it!". That way, you get what you want and I get what I want and only the deficit loses! That, clearly, is how this deal was struck. Everybody got everything they wanted and the result is a fiscal train wreck. Instead, how about none of us gets all of anything and we together make sure we move the economy up and the deficit down?

Look, if I were king of the forest (*not queen, not duke, not earl - from the Wizard of Oz from any of you who think I have sniffed too much car exhaust*) I would extend all the current tax rates permanently and do nothing else. That would remove uncertainty and be one part of a number of things we need to do to spur economic growth. Then, I would get on with creating regulatory certainty by cutting spending and other things. But, I am not king of the forest...nor queen, nor duke, nor earl. And, the president of the forest has a much different view than I do. The only thing he and I agree on is that letting all the tax rates go up will

seriously risk a double-dip recession, and thereby will likely not result in much more, if any, government revenue.

I hope this deal falls apart and it might. That may not be the Republican consensus, but it's neither the first time nor will it be the last time I disagree with my party. I'd like to convince some of my colleagues to change their position. Liberal Democrats in the House hate it as much as I do, albeit for different reasons. If it does come apart, we need to restart negotiations immediately with the understanding that none of us will get to hang every ornament we want on this Christmas tree. In fact, maybe it's just a bare tree with no ornaments. But, that is much better than not having another Christmas at all.

I remain respectfully,

Congressman John Campbell
Member of Congress