

Eliminate the Corporate Tax

✘ We received another disappointing jobs report Friday, which now continues an annual pattern of 'jobs report' disappointments in the beginning of Spring. Some will blame the sequester, some will blame the tax increases, and some still will find a way to blame George Bush. It is obvious, however, that four years into our "recovery" a different idea than government spending is needed to create jobs, and get the kind of growth in our economy that we used to get after recessions. This is why the best jobs program would be to eliminate the tax on Corporations, and move to a simpler system where all taxes are paid at the individual income level. This idea solves two problems with our tax code: a perception of fairness; and slow jobs & economic growth.

Thanks to Warren Buffet and Democrats, there is a complete misunderstanding of why the individual capital gains and dividend rates are lower than those for regular earned income. Those who understand that these earnings have already been taxed at the corporate level, and involve risk taking, have chosen not to explain it. The President has used the fact that these rates are lower as a battering ram to mislead people into believing the system is set up against them and unfair. Stories such as 'Mitt Romney not paying as high a percentage as someone who works', helped steer this perception.

The United States has the highest corporate tax rate in the industrialized world at 35%. Politicians have talked of corporate tax reform that would bring this rate down to 25%, while eliminating loopholes. Even with this idea many countries will still be below ours, such as Ireland whose rate is 12%. Going to zero would end the competition, since other countries could only match us. There do need to be safeguards put in place so that C-Corporations are not individuals masquerading as a company (perhaps a 50 person minimum for a

C-Corp). The other types of companies (LLC's, Sole Proprietor, Partnerships, and S-Corps) are already taxed as personal income. The revenue loss would be made up by taxing dividends and capital gains at the individual earned income rates. In other words, rather than having a different (lower) tax on these types of income, the rate would be the same regardless of how your income was earned. Imagine the flood of companies that will want to relocate to the United States to get the zero rate, and the jobs that will accompany these moves.

When you hear people from all sides of the political spectrum playing the blame game for continued anemic growth and jobs creation, listen if anyone has a solution. You will hear ideas from the administration with words like investment, infrastructure, education, etc. Just remember that we have never had a recovery lead by government spending. Since 1978 there was an understanding among the parties in Washington D.C. that a lower Capital Gains rate spurs investment, which helps the economy. The current crop of Democrats led by the President would rather engage in class warfare than solve problems. The idea of eliminating the corporate tax will spur growth, create jobs, and make sure that Warren Buffet the same percentage as his wealthy secretary.

What Cyprus Portends for America

☒ Cyprus is a small island country in the Mediterranean. Their government did something last week that should be a wakeup call to all citizens of debtor nations. In order to continue to receive support in the form of loans from the

European Union, they agreed to tax 10% of all bank deposits. They later withdrew this idea after public outcry, and it is not clear what their ultimate solution will be. The reason it is important is that it shows what governments will do when they are desperate. When the U.S. debt crisis comes, and there are no more buyers of our bonds, our government will take a similar step.

There are many particulars to the problem in Cyprus that are not the same as the United States' debt problems. The problem there was caused by the banking system making bad bets on Greek debt. These differences are important, but it really doesn't matter how a debt crisis begins they all lead to similar decisions. What is instrumental is that when confronted with a crisis, the first reaction was not to slash costs, cut employee benefits, or lay people off. There are no calls to cut retirement programs, or shrink the government. The reaction was to go get money from those who have it.

Those media outlets that chose to cover this story were quick to put analysts on the air to remark about how FDIC insurance and personal property rights in the Constitution would not allow this type of step to happen here. FDIC deposit insurance is only a protection in the event that your bank becomes insolvent or declares bankruptcy. There is nothing in our Constitution that prevents the implementation of an Asset tax. The Congress can pass a law that grabs a certain % of all deposits in lieu of a later tax return (think withholding). When the United States cannot sell bonds in order to borrow more than it spends every year, the budget will need to be balanced immediately. The total assets of the United States amount to roughly \$188 Trillion, is it so inconceivable that a future government faced with this situation will just tax assets 1% every year, thus solving their problem?

How this look into the future relates to the current budget standstill is an interesting exercise. Republicans are very

concerned about the country's current and mounting debt. The recent budget put out by the Republican Party gets the budget to balance within ten years. They also address the future drivers of our debt, namely the entitlement programs of Medicaid and Medicare. Democrats are not all that concerned about the debt, and have put out a budget that proves this. They are not that concerned about getting the budget to balance, nor do they choose to address any of the unsustainable entitlement spending. In a recent interview with ABC news, the President said, "My goal is not to chase a balanced budget just for the sake of balance." Is it just a coincidence that the party which does not want to raise taxes makes hard decisions to bring the budget into balance, while the party that seems to relish raising taxes doesn't think that balancing the books is all that important?

We have been given a look into how government leaders react to a debt crisis with the events in Cyprus. They go after who has the money for immediate relief. Why will our politicians be any different in a debt crisis? When you need to balance the budget immediately, taxing assets will be sold as the only solution. This is why Democrats don't really care if the debt keeps going up, or if we ever solve the long term unfunded liabilities. They look at America as one giant piggy bank, and when the crisis hits they will be all too happy to act as a hammer to crack it open.

An Unbalanced President

✘ President Obama has probably repeated the phrase "balanced approach" when talking about budget and deficit solutions, over 100 times at this point. If you just listen to him saying that phrase over and over, you probably think

that he is interested in raising some taxes, as well as cutting spending to solve our country's debt problem. Perhaps he should play the tape back to himself, so that he can be convinced that the country needs a balanced approach to the problem that we find ourselves in. Fresh off getting a deal with Republicans around New Year's that was exclusively tax increases, you would think that in order to obtain "balance", spending cuts would be front and center. Instead this unbalanced President seems to have a case of amnesia, or worse, when it comes to the tax increase deal. He wants to act as if it never happened, and start with a "new balance". The good news is Republicans can remember three months back.

When you want people to come your way in a negotiation, you try your best to be reasonable before the negotiations begin. Talk in generalities, and say things like "I know we can make a deal". You don't want to impugn the motives of your adversaries, because it will be that much harder to make a deal. This is vital in a public negotiation in order for all parties to claim victory, and not get resentful of the person they must strike a deal with. Then if discussions break down, you can claim that you were looking for a deal, and were reasonable all throughout the process. This approach allows you to claim credit for being honorable, and if you disparage your opponents, others will understand.

This President takes the exact opposite approach to what should be done. First, he makes his position public. This leaves little room for compromise without someone looking like they've lost. He then publicly attempts to bully his opponents into changing their stance. If that doesn't work he goes out on the campaign trail to try to get the public to push his agenda. After this scorched earth policy doesn't work, he resigns himself to trying to appear reasonable. This is completely unbelievable to his negotiating partners after they have been raked over the coals. Either he is the worst negotiator to ever sit in the White House, or he is unstable.

This past week there was the reconciliation phase of this reverse negotiation. The news was lit up with Presidential meetings and dinners with Republicans. Did any of those Republicans ask the President during dinner why he accused them of not caring about: children's daycare; women's mammograms; or seniors' healthcare? Did they mention that they didn't appreciate being blamed for the sequester (spending cuts), which was his idea? Did they ask why he demonizes their point of view that less government helps those in need? Probably not. They also probably weren't forced into another tax increase just because they received a nice dinner.

If we combined the agreements over the fiscal cliff and the sequester, there would be no doubt that a balanced accord was reached. Somehow separating these two events by a mere 60 days has created a lack of balance in the President's mind. Mr. Obama is not only dishonest, he is a dishonest broker.

NYC Nanny

✘ This is not the latest Lifetime TV reality show, but the state of affairs in the nation's largest city. The past few years New York City has taken some pretty big "Nanny State" steps. They have eliminated smoking indoors and at outdoor stadiums, stopped the use of Trans fat, reduced salt in cooking, and most recently cracked down on the dreaded "Big Gulp." In all of the reporting about these steps, you would think there would be more analysis as to why. There are those who think this is just the natural progression of the liberal mindset, and NYC is certainly controlled by liberals, but there is a bigger issue at play here. The overriding reason for all of this intervention in the free lives of New Yorkers

is that near 40% of the population of NYC is on Medicaid. The decisions in regards to health, by the people of New York, have a tremendous financial impact on the city. How long before more city and state governments come to this conclusion?

Medicaid was a program developed for the poor, but do-gooder lawmakers with an entitlement mentality have increased the coverage from the truly needy to as many as possible. The funding for Medicaid is shared by the City, the State, and the Federal government. The State of NY has capped its contribution, and the feds are an unreliable future source of money, so the funding going forward will increasingly fall on the City. Faced with these facts what would a forward thinking executive do? Try to reduce costs.

As more and more people are enrolled on Medicaid, there develops a parent-child relationship between the government and the people. These citizens have no incentive to keep themselves healthy, because they do not pay for the consequences of their bad decisions. Mayor Bloomberg has decided that he will reduce the cost to NYC by eliminating unhealthy choices for all New Yorkers. His steps, even with all of the collateral damage, are reasonable when viewed in this light.

One of the major provisions of Obamacare is to cover more Americans through a further expansion of Medicaid. This allows people at 133% of the poverty level to be covered by Medicaid. This is akin to the policies of New York being spread nationwide. Is New York City just the first place to make the preemptive decision to force healthy decisions on its citizens?

This is a look into the future for all Americans. With the government increasingly picking up the tab for healthcare costs, it will create an excuse for control over all citizens' daily life. The feared implementation of a "Twinkie tax" (a

tax on fatty foods) is nothing compared to the elimination of the unhealthy choices. Now that the government is covering so many, this will be justified. If all states accept the new Obamacare Medicaid expansion, America will end up like New York.

The President Can't Govern

✘ The President's history of negotiations with Republicans has led to the remarkable feat of making Washington DC even more dysfunctional. The President has behaved as if the country is split roughly 80-20 in his favor. Through his negotiations and public pronouncements he has exploited every opportunity where he has had even the slightest advantage. This has led to the Republicans slowly but surely coming to the conclusion that they can't trust him and almost can't work with him. This is the man we have just elected for 4 more years.

Politics is like a sporting event, but governing is more like a business. Much like sports, winning by 1 point (or getting 50.6% of the vote in the recent election) gets the victory. After the campaign the dynamics change almost immediately. The winner needs to start working with the party that he just defeated in order to govern. The rare exception to this rule came in 2009 when Mr. Obama was working with a majority in the House, as well as a filibuster-proof majority in the Senate of his own party. This allowed him to govern without regard to the Republican point of view. This situation lasted for 2 years, and the country received Obamacare as a gift from one party rule. The next election in 2010 was historic in sweeping Republicans back into power in the House, and restored the balance that requires governing like a business.

In a company there are always conflicts between competing ideas or departments. It is through the negotiations over these competing ideas that people learn about their ability to deal with those who oppose them. Does the person push every advantage they have or do they realize that a win-win on an idea will help the company? Unless someone is fired over the disagreement, these two parties must figure out how to work with each other. This is not that different from the negotiations that must take place in Washington over completely different ideas of how government should work. This is not new, but the inability of the current President to seek win-win scenarios is.

A perfect example of this is the recent negotiations over the fiscal cliff, which occurred at the beginning of the year. This was a scenario where the President had the most leverage, in that, if nothing was resolved every person who paid taxes was going to see an increase. In the run-up to the final deal there were many ideas floated to cut spending. Replacing the sequester with other cuts, changing the rate of increase for entitlements, means testing Medicare, or raising the eligibility age for Social Security were all possible. The President, however, used the fact that he had all of the leverage, and allowed none of it. He made the Republicans swallow hard on a deal that only contained tax increases, extending unemployment, and with zero cuts in spending. He won.

There is a different dynamic now in place with the sequester. If nothing is done, spending will be cut, so the leverage is now with the Republicans. Has the President acknowledged that he needs to deal with the republicans, and been humbled by his lack of leverage? No. He has decided that he likes it better when the negotiations are winner-take-all, like an election. This is why in recent weeks, rather than negotiating, he has been campaigning. These campaign stops have been just like an election with staged events, human props, and scare tactics.

He is doing this even though the most recent election results show that we are roughly a 50-50 country, and his opponents can't be fired for nearly 2 years.

The President enjoys sports, and as proof we will soon be subjected to the Presidential Bracket with the start of the NCAA Basketball Tournament (a tradition he began). He, however, has almost no experience dealing with coequals in business. He was elected to govern, and he simply can't do it. To come to this conclusion a little over a month into his second four year term is a bit disconcerting. Years from now, perhaps when the looming debt crisis is upon us, people will look back on this time and say that we should have solved the problem of our mounting debt. Perhaps with the passage of time the people will finally point the finger at this President.