April 18, 2012

**Jennifer Rubin** posts on how good Romney's prospects are for 270 electoral votes. Pickerhead thinks if Obama continues to sink in the polls, we can expect him to dump Biden and put Hillary on the ticket.

*The electoral map reveals how perilous is President Obama's grip on the White House. Let's start, as RealClearPolitics does, with a base of 170 electoral votes for Mitt Romney. It's hard to imagine that Obama could win any of even the less-red states that comprise that batch (e.g. Georgia, Indiana, South Carolina, Montana). To get 100 more and seize the presidency, Romney only needs some states that routinely went Republican before the 2008 race (Nevada, Ohio, Florida, North Carolina, Virginia) and needs to hold on to a few that Sen. John McCain (R-Ariz.) managed to win (Arizona, Missouri). This gets Romney to 273.*

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**Peter Schiff** worked his way to commenting on the president's legal scholarship.

*Last week, responding to President Obama's latest populist assault on the wealthy, I issued a commentary in which I explained why his ideas about American economic history were fundamentally flawed. As dangerous and erroneous as those views are, at least I can cut the President some slack for commenting on a subject in which he really has no basis for expertise. Hailing from academia and local community organizing, Barack Obama likely did not spend huge amounts of time boning up on economic history. However, there are other subjects where he should find firmer footing. Constitutional law certainly comes to mind. After all, Obama rose to national prominence based on his status as a legal scholar. He graduated magna cum laude from Harvard Law School, where he was elected president of the prestigious Harvard Law Review. He went on to teach constitutional law at the University of Chicago Law School, one of the top ranked schools in the country.*

*Based on these achievements, it is simply stunning that he made so many fundamental errors last week in his analysis of the Supreme Court's review of his sweeping health care legislation. Not only did he make grossly inaccurate statements with regards to the health care legislation, and the history of Supreme Court decisions that relate to it, but he also showed little understanding of the very purpose that the Court serves within the constitutional framework of the U.S. government. These remarks either indicate that a Harvard degree isn't worth the paper it's written on or that there is nothing Obama won't say to advance his political agenda.*

*In his apparently off-the-cuff remarks he stated that "I'm confident that the Supreme Court will not take what will be an unprecedented, extraordinary step of overturning a law that was passed by a strong majority of a democratically elected Congress." Before even turning to the more nuanced parts of that statement, I would ask the President what he considers to be a "strong*

*majority?" His health care legislation (dubbed "Obamacare" by Republicans), passed the House of Representatives in March 2010 on a nearly party line vote of 220-215 (some would call this result "a squeaker.") What's more, just six months later, the slim majority that voted to pass the legislation was voted out of existence. Not only would the law stand no chance of passage in the current Congress, the majority of Americans still show misgivings about the expansion of federal power that the law involves. So much for a groundswell of national support. But that's just the appetizer. ...*

And **Peter Ferrara** notes the community organizer's understanding of taxation.
*President Obama has a community organizer understanding of America's taxes. His rhetoric doesn't recognize that under our tax system the earnings from capital investment are taxed not once, but multiple times.*

*First, by the corporate income tax, then again by the individual income tax through the tax on dividends, then if you sell the capital investment, through the capital gains tax, then when you die, by the death tax. When he complains that the rich are not paying their fair share, he is just looking at the rate on any one of these taxes, and not considering all of the others. So he wants to raise them all for those making over $1 million per year to what he considers the tax rate paid by the middle class, which he calls the Buffett rule.*

*As a result, Obama would increase the top capital gains tax rate by 100%, increase the top tax rate on dividends by 100%, increase the top two income tax rates by nearly 20%, and increase the death tax rate by nearly 60%, while the corporate tax rate remains the highest in the industrialized world. The capital gains tax rate under the Buffett Rule would be the fourth highest among OECD nations, as the Wall Street Journal noted on Wednesday.*

*The Heritage Foundation explained it like this on Wednesday. The taxation of capital is like a trip on a toll road, where you have to pay $3.50 to get on the road, then $3.50 at a toll booth on the road, then a $1.50 toll to get off the road. Obama's understanding of the tax code is like saying the toll for this trip is $1.50, which is somehow unfair to those who take the bus on the same route for a $3.50 total fare (assume the bus is exempt from the tolls). So he thinks the toll to get off the road should be $3.50 as well.*

*But Warren Buffett is more than happy with Obama's proposals. That's because his Berkshire Hathaway is effectively the largest tax shelter in the nation, partially shielding its investors precisely from the multiple taxation of capital. So raising tax rates sharply to make that multiple taxation far worse will just mean more customers for him. Buffett's company is like a subway next to the road that only charges $1.50 total fare. ...*

**WaPo OpEd** calling for $10 million loans for everyone shows how ridiculous our situation has become.
*Are you concerned about growing income inequality in America? Are you resentful of all that wealth concentrated in the 1 percent? I've got the perfect solution, a modest proposal that involves just a small adjustment in the Federal Reserve's easy monetary policy. Best of all, it will mean that none of us have to work for a living anymore.*

*For several years now, the Fed has been making money available to the financial sector at near-zero interest rates. Big banks and hedge funds, among others, have taken this cheap money and invested it in securities with high yields. This type of profit-making, called the "carry trade," has been enormously profitable for them.*

*So why not let everyone participate?*

*Under my plan, each American household could borrow $10 million from the Fed at zero interest. The more conservative among us can take that money and buy 10-year Treasury bonds. At the current 2 percent annual interest rate, we can pocket a nice $200,000 a year to live on. The more adventuresome can buy 10-year Greek debt at 21 percent, for an annual income of $2.1 million. Or if Greece is a little too risky for you, go with Portugal, at about 12 percent, or $1.2 million dollars a year. (No sense in getting greedy.)*

*Think of what we can do with all that money. We can pay off our underwater mortgages and replenish our retirement accounts without spending one day schlepping into the office. With a few quick keystrokes, we'll be golden for the next 10 years.*

*Of course, we will have to persuade Congress to pass a law authorizing all this Fed lending, but that shouldn't be hard. Congress is really good at spending money, so long as lawmakers don't have to come up with a way to pay for it. ...*

Even the **NY Times** understands we're heading for serious problems.

*ON Jan. 1 of next year, the federal tax bill for a typical middle-class household — making in the neighborhood of $50,000 — is scheduled to rise by about $1,750. This increase, which would come from the expiration of both the Bush tax cuts and the Obama stimulus, would follow a decade of little to no income growth for many people. As a result, inflation-adjusted, after-tax income for the median household could fall next year to its 1998 level, in spite of the continuing economic recovery.*

*The middle-class tax increase is just the beginning of budget changes set to take effect at the start of 2013. Poor families would see their taxes rise somewhat, too. Total federal taxes for top-earning families would rise by tens or even hundreds of thousands of dollars a year. Spending cuts would also take effect, squeezing domestic programs — education, transportation, scientific research — and the military.*

*All in all, the end of 2012 will be unlike any other time in memory for the federal government.*

*The tax increases and spending cuts are the result of Washington's having previously kicked the can down the road, to use a phrase that is popular here. Rather than pass a plan to cut the deficit, policy makers have put off tough decisions. With the Bush tax cuts, lawmakers deliberately made them temporary, to avoid running afoul of budget rules intended to hold down the deficit.*

*Not surprisingly, leaders of both parties now say they are opposed to letting the changes happen on Jan. 1. Economists are also frightened of what such a sharp shift in government*

*policy might do to a still fragile economy. Ben S. Bernanke, the Federal Reserve chairman, has referred to the various expirations as "a massive fiscal cliff." Congressional aides, quoted in The Washington Post, call it "taxmageddon."*

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## Right Turn

## Romney's bright electoral landscape

by Jennifer Rubin

The electoral map reveals how perilous is President Obama's grip on the White House. Let's start, as RealClearPolitics does, with a base of 170 electoral votes for Mitt Romney. It's hard to imagine that Obama could win any of even the less-red states that comprise that batch (e.g. Georgia, Indiana, South Carolina, Montana). To get 100 more and seize the presidency, Romney only needs some states that routinely went Republican before the 2008 race (Nevada, Ohio, Florida, North Carolina, Virginia) and needs to hold on to a few that Sen. John McCain (R-Ariz.) managed to win (Arizona, Missouri). This gets Romney to 273.

In other words, Romney doesn't need to win (but he might) in New Hampshire or New Mexico. He would love to, but isn't required to, break through in states like Pennsylvania, Iowa, Wisconsin or Michigan. (The first and last would seem the most likely.)

It may come as a shock to liberals when you break it down by the only measure that matters (electoral votes), but Romney can do worse that George W. Bush did in 2004 (when he won Iowa and New Mexico) and still win the White House.

This doesn't mean Romney will have an easy time of it, but it does suggest that Romney doesn't need to twist and turn on policy, or throw the longball for VP to win the race. If he runs better than McCain and worse than Bush, then he's very likely to win.

Of the states critical to Romney, it is not hard to see how important Ohio, Florida and Virginia are to his prospects. These states have a cumulative total of 60 electoral votes. Romney won all three in the primaries, and each has large urban and/or suburban areas of the type Romney has won all across the country. All three states have GOP governors. In 2010, Ohio and Florida each elected a conservative senator in part due to a backlash against Obama.

All of this leads us to a couple conclusions. First, a popular VP pick from one of them would be a smart thing indeed. Jeb Bush, Sen. Rob Portman (R-Ohio) and Virginia's Gov. Bob McDonnell would qualify and please the base without turning off swing voters.

Second, if you think of some of the issues that matter in these states (trade, Cuba policy, jobs) Romney is well positioned. Virginia (in part from government-related hiring in Northern Virginia) is the only one of the three with unemployment below 7 percent. Florida's is over 9 percent.

Romney need not rethink or restyle his agenda, nor (as liberals keep arguing) move "to the center." He simply has to communicate over and over again why his middle-of-the-road Republican policies and his background in the private sector would be better for those states and the country.

Republicans should be relieved, but not cocky, about the electoral landscape. The states most at risk will very likely be close. But Democrats' confidence at this point seems unwarranted. It is very easy to spot Romney's path to 270 electoral votes.

## EuroPacific Captial

## Unprecedented Presidential Posturing

by Peter Schiff

Last week, responding to President Obama's latest populist assault on the wealthy, I issued a commentary in which I explained why his ideas about American economic history were fundamentally flawed. As dangerous and erroneous as those views are, at least I can cut the President some slack for commenting on a subject in which he really has no basis for expertise. Hailing from academia and local community organizing, Barack Obama likely did not spend huge amounts of time boning up on economic history. However, there are other subjects where he should find firmer footing. Constitutional law certainly comes to mind. After all, Obama rose to national prominence based on his status as a legal scholar. He graduated *magna cum laude* from Harvard Law School, where he was elected president of the prestigious Harvard Law Review. He went on to teach constitutional law at the University of Chicago Law School, one of the top ranked schools in the country.

Based on these achievements, it is simply stunning that he made so many fundamental errors last week in his analysis of the Supreme Court's review of his sweeping health care legislation. Not only did he make grossly inaccurate statements with regards to the health care legislation, and the history of Supreme Court decisions that relate to it, but he also showed little understanding of the very purpose that the Court serves within the constitutional framework of the U.S. government. These remarks either indicate that a Harvard degree isn't worth the paper it's written on or that there is nothing Obama won't say to advance his political agenda.

In his apparently off-the-cuff remarks he stated that "I'm confident that the Supreme Court will not take what will be an unprecedented, extraordinary step of overturning a law that was passed by a strong majority of a democratically elected Congress." Before even turning to the more nuanced parts of that statement, I would ask the President what he considers to be a "strong majority?" His health care legislation (dubbed "Obamacare" by Republicans), passed the House of Representatives in March 2010 on a nearly party line vote of 220-215 (some would call this result "a squeaker.") What's more, just six months later, the slim majority that voted to pass the legislation was voted out of existence. Not only would the law stand no chance of passage in the current Congress, the majority of Americans still show misgivings about the expansion of federal power that the law involves. So much for a groundswell of national support. But that's just the appetizer.

Obama claimed that it would be "unprecedented" for the Supreme Court to overturn a law passed by Congress. Is he kidding? Every seventh or eighth grader who has taken a civics

course knows that the Supreme Court acts as a check on the executive and legislative branches of government (who can often disregard the Constitution in their quests for votes and power). The intent of the framers of the constitution was affirmed in 1803 by the landmark case *"Marbury vs. Madison"* in which Chief Justice John Marshall established the doctrine of "judicial review," whereby the Court can strike down any law that it feels to be unconstitutional. Is it possible that they never got around to that case at Harvard?

Since *Marbury* the Supreme Court has undone sweeping economic policies many times. Perhaps the most significant example was in 1895 when the Income Tax Act of 1894 was undone by *Pollock v. Farmers Loan and Trust*. By ruling that the new income tax did not conform to the taxing powers delegated in the Constitution, the Supreme Court derailed the revenue seeking agenda of the federal government. Proponents of the tax had to revert to the constitutional amendment process, a workaround that took 18 years and ultimately resulted in the 16th Amendment.

40 years after *Pollock* the Supreme Court struck again when it invalidated the National Recovery Act (NRA), Franklin Roosevelt's signature piece of Depression Era legislation. The NRA was truly an "unprecedented" intrusion into the commercial lives of Americans which injected U.S. government micromanagement into almost every facet of commercial activity. It told merchants and industries how much they could charge for particular products, how much they should pay workers, how long workers could work, how employers could negotiate with unions, and established "codes of fair competition" for all business to follow.

In a unanimous decision in the 1935 *Schechter Poultry Corp v. United States*, the Supreme Court threw out the NRA. The Court ruled that the Act's draconian economic engineering was too broad an interpretation of the Constitution's infamous "commerce clause." After the ruling, Justice Louis Brendeis (not known for his strict adherence to conservative constitutional interpretation) famously remarked to a presidential aide, "This is the end of this business of centralization, and I want you to go back and tell the President that we're not going to let this government centralize everything." Wow, President Obama, now that's a whole lot of precedent.

What is perhaps even more shocking than Obama's ignorance on these subjects is the media's reluctance to really hold his feet to the fire. Imagine if Sarah Palin had made similarly ignorant statements during the presidential campaign of 2008. She would have been absolutely crucified in the press for her lack of understanding of the basics of federal checks and balances. But Sarah Palin would have had an excuse, she was a sports reporter, turned small town mayor, turned one-term governor of Alaska. She never taught a class in constitutional law at an elite law school.

Although subsequent statements by the President and his spokespeople have attempted to "clarify" (and soften) his originally indefensible remarks, the impression he made will be hard to erase. My hope is that his attempt to intimidate the court into upholding his law will backfire, and what is left of judicial independence will save us from Obama's impractical health care plan. If so we will have John Marshall to thank.

**Forbes**

# The Buffett Rule: Obama's Community Organizer Understanding of Taxation

by Peter Ferrara

President Obama has a community organizer understanding of America's taxes. His rhetoric doesn't recognize that under our tax system the earnings from capital investment are taxed not once, but multiple times.

First, by the corporate income tax, then again by the individual income tax through the tax on dividends, then if you sell the capital investment, through the capital gains tax, then when you die, by the death tax. When he complains that the rich are not paying their fair share, he is just looking at the rate on any one of these taxes, and not considering all of the others. So he wants to raise them all for those making over $1 million per year to what he considers the tax rate paid by the middle class, which he calls the Buffett rule.

As a result, Obama would increase the top capital gains tax rate by 100%, increase the top tax rate on dividends by 100%, increase the top two income tax rates by nearly 20%, and increase the death tax rate by nearly 60%, while the corporate tax rate remains the highest in the industrialized world. The capital gains tax rate under the Buffett Rule would be the fourth highest among OECD nations, as the *Wall Street Journal* noted on Wednesday.

The Heritage Foundation explained it like this on Wednesday. The taxation of capital is like a trip on a toll road, where you have to pay $3.50 to get on the road, then $3.50 at a toll booth on the road, then a $1.50 toll to get off the road. Obama's understanding of the tax code is like saying the toll for this trip is $1.50, which is somehow unfair to those who take the bus on the same route for a $3.50 total fare (assume the bus is exempt from the tolls). So he thinks the toll to get off the road should be $3.50 as well.

But Warren Buffett is more than happy with Obama's proposals. That's because his Berkshire Hathaway is effectively the largest tax shelter in the nation, partially shielding its investors precisely from the multiple taxation of capital. So raising tax rates sharply to make that multiple taxation far worse will just mean more customers for him. Buffett's company is like a subway next to the road that only charges $1.50 total fare.

As the *Journal* further observed on Wednesday, however, "IRS data show that middle-class workers on average pay just under 15% of their income in federal taxes, while the richest 0.1% pay almost twice as high a rate on average, or 26%." That's for all federal taxes.

Indeed, for 2007, before President Obama was even elected, official IRS data shows that the top 1% paid more in federal income taxes than the bottom 95% combined! The top 1% that year paid 40.4% of all federal income taxes, almost twice the share of income they earned. Sounds like "the rich" are already indisputably paying their fair share, at least.

Moreover, Obama's own Treasury Department projects that the Buffett Rule tax would raise only about $5 billion a year, less than one half of one percent of the deficit for this year. Over the next 10 years, it raises less than 0.1% of the $47 trillion President Obama proposes to spend in his 2013 budget.

But the resulting revenue won't be anywhere near that. Over the last 45 years, every time the capital gains tax rate has been raised, revenues have declined, with neither CBO nor Treasury or Congress's Joint Tax Committee getting it right once. Moreover, when the top tax rate on dividends was cut to 15% in 2003, dividends paid soared thereafter, increasing the resulting revenues. Raising the tax rate on dividends and capital gains back up will result in lower, not higher, revenue, raising federal deficits and debt even more.

Of course it's worse than that. Besides the Buffett Rule tax increases, the Obamacare taxes go into effect next year, with an additional tax on investment income, including capital gains and dividends. In addition, the Bush tax cuts expire, further increasing tax rates for capital gains and dividends, as well as individual income tax rates. With the conflux of all the tax rates of all the layers of the multiple taxation of capital rising towards the highest in the world, along with Obama's regulatory tsunami surging to a crescendo, and causing soaring energy costs, the result will be renewed, double dip recession next year.

That will mean federal revenues further collapsing across the board, with federal deficits and debt soaring even more. Working people will suffer the most, as unemployment skyrockets back into double digits, and real wages fall further with declining labor demand. Most taxpayers earning over $1 million a year are owners of small businesses. In fact, most are the small businesses themselves reporting on individual returns as the individual's business income. But most new jobs are created by small businesses. Raising taxes so sharply on them is just going to kill still more jobs.

Art Laffer predicted the coming crash of 2011 on the basis of the expiration of the Bush tax cuts on the upper-income earners alone. Those tax-rate increases were delayed to 2013 out of fear that the prediction was right. But in 2013, in addition to those tax-rate increases, we will have all of the tax increases of ObamaCare, the further exploding costs of Obama's building regulatory tsunami, including soaring energy costs (effectively another major tax increase), and, if Obama gets his way, the add-on tax rate increases of the Buffett Rule. Unless we reverse course, the result will be another big, bad crash in 2013.

If President Obama wants Warren Buffett to pay the same tax rate as his Secretary, he can support a flat tax, which would promote booming economic growth and prosperity, rather than cratering the economy. But Obama shows no understanding of how the incentives of lower tax rates promote economic growth. The higher the rate, the less the reward, the less the incentive. The lower the rate, the higher the reward, the greater the incentive. Or as the *Journal* further explains regarding Obama's Buffett Rule, "The problem is that this is a tax on capital that is needed for firms to grow and hire more workers. Mr. Obama says he wants an investment-led recovery, not one led by consumption, but how will investment be spurred by doubling the tax on it?"

Obama refuses to even consider that lower tax rates involve pro-growth incentives, because it is against his redistributive religious doctrine. Read the transcripts of his speeches, and you will see that in his mind the engine of economic growth is not pro-growth incentives but government spending, which he calls "investment." He said in Florida this week "we're not going to stop investing in the things that create real and lasting growth in this country just so folks like me can get an additional tax cut." Indeed, people like him should not ever get any tax cut, because he has no idea how to invest to create jobs. But it is the incentives of tax rate reductions for real entrepreneurs that create real jobs and booming prosperity, not government spending. But to

Obama, those rate reductions just involve the loss of more valuable government funds that can be put to truly good use.

So Obama said in Florida, “We’re not going to stop building first class schools and making sure they have science labs in them.” Yes, first class schools with science labs in them perhaps promote economic growth. But how much of the $47 trillion in federal spending over the next 10 years Obama proposes involves paying for school science labs, or even for building the entire schools themselves? A negligible fraction.

He said, “We’re not going to fail to make investments in basic science and research that could cure diseases that harm people….” Yes, but again only a negligible fraction of his $47 trillion in proposed spending goes for basic science and research to cure such diseases.

He said we are not going to cut the federal spending to “create the new technology that ends up creating entire jobs and industries that we haven’t seen before.” But government spending *does not* create such technology or such “entire jobs and industries that we haven’t seen before.” Only private markets can do that. But because Obama is at his core a community organizer, he doesn’t understand that. That is why he is actually unqualified to be President, and unable to lead our country to economic revival and restoration.

Obama cannot even understand the pro-growth tax reform proposed by House Budget Committee Chairman Paul Ryan. He said in Florida, “if Republicans in Congress were truly concerned with deficits and debt, then I’m assuming they wouldn’t have just proposed to spend an additional $4.6 trillion on lower tax rates, including an average tax cut of at least $150,000 for every millionaire in America.” But Ryan’s proposed tax reform is revenue neutral, with CBO projecting revenues will nearly double over the next 10 years under his proposed reforms.

Pro-growth tax reform is supposed to involve, just like Ryan’s proposed reforms, reducing tax rates and closing loopholes. But Obama’s tax policies involve just the opposite, raising tax rates and adopting new loopholes, like his many redistributionist and “green energy” tax credits. Maybe that is why Obama’s budget got exactly zero votes on the House floor, without even one Democrat voting for it, while Ryan’s budget passed.

Finally, Obama claimed in Florida that his tax policies were just following the path trailblazed by Ronald Reagan, who he said also wanted to close “certain tax loopholes [that] make it possible for multimillionaires to pay nothing, while a bus driver was paying 10 percent of his salary.” But Obama’s tax policies are the exact opposite of Reagan’s, who made that point cited by Obama in campaigning for his 1986 tax reforms. Those reforms cut the top tax rate from 70% when he entered office all the way down to 28%, with a 0% rate for the poor and a 10% rate for what Obama calls the working class. Obama in sharp contrast is raising the top tax rate of every federal tax, except the corporate rate which is already the highest now in the industrialized world.

We have a President who is trying to peddle to us here the exact opposite of reality. Could he be that hopelessly confused? Or does he think you can be so easily confused? Either way America cannot be so foolish as to abide a President talking to us so out of touch with the real world.

**Washington Post**

# Fix income inequality with $10 million loans for everyone!

by Sheila Bair

Are you concerned about growing income inequality in America? Are you resentful of all that wealth concentrated in the 1 percent? I've got the perfect solution, a modest proposal that involves just a small adjustment in the Federal Reserve's easy monetary policy. Best of all, it will mean that none of us have to work for a living anymore.

For several years now, the Fed has been making money available to the financial sector at near-zero interest rates. Big banks and hedge funds, among others, have taken this cheap money and invested it in securities with high yields. This type of profit-making, called the "carry trade," has been enormously profitable for them.

So why not let everyone participate?

Under my plan, each American household could borrow $10 million from the Fed at zero interest. The more conservative among us can take that money and buy 10-year Treasury bonds. At the current 2 percent annual interest rate, we can pocket a nice $200,000 a year to live on. The more adventuresome can buy 10-year Greek debt at 21 percent, for an annual income of $2.1 million. Or if Greece is a little too risky for you, go with Portugal, at about 12 percent, or $1.2 million dollars a year. (No sense in getting greedy.)

Think of what we can do with all that money. We can pay off our underwater mortgages and replenish our retirement accounts without spending one day schlepping into the office. With a few quick keystrokes, we'll be golden for the next 10 years.

Of course, we will have to persuade Congress to pass a law authorizing all this Fed lending, but that shouldn't be hard. Congress is really good at spending money, so long as lawmakers don't have to come up with a way to pay for it. Just look at the way the Democrats agreed to extend the Bush tax cuts if the Republicans agreed to cut Social Security taxes and extend unemployment benefits. Who says bipartisanship is dead?

And while that deal blew bigger holes in the deficit, my proposal won't cost taxpayers anything because the Fed is just going to print the money. All we need is about $1,200 trillion, or $10 million for 120 million households. We will all cross our hearts and promise to pay the money back in full after 10 years so the Fed won't lose any dough. It can hold our Portuguese debt as collateral just to make sure.

Because we will be making money in basically the same way as hedge fund managers, we should have to pay only 15 percent in taxes, just like they do. And since we will be earning money through investments, not work, we won't have to pay Social Security taxes or Medicare premiums. That means no more money will go into these programs, but so what? No one will need them anymore, with all the cash we'll be raking in thanks to our cheap loans from the Fed.

Come to think of it, by getting rid of work, we can eliminate a lot of government programs. For instance, who needs unemployment benefits and job retraining when everyone has joined the investor class? And forget the trade deficit. Heck, we want those foreign workers to keep providing us with goods and services.

We can stop worrying about education, too. Who needs to understand the value of pi or the history of civilization when all you have to do to make a living is order up a few trades? Let the kids stay home with us. They can play video games while we pop bonbons and watch the soaps and talk shows. The liberals will love this plan because it reduces income inequality; the conservatives will love it because it promotes family time.

I'm really excited! This is the best American financial innovation since liar loans and pick-a-payment mortgages. I can't wait to get my super PAC started to help candidates who support this important cause. I think I will call my proposal the "Get Rid of Employment and Education Directive."

Some may worry about inflation and long-term stability under my proposal. I say they lack faith in our country. So what if it cost 50 billion marks to mail a letter when the German central bank tried printing money to pay idle workers in 1923?

That couldn't happen here. This is America. Why should hedge funds and big financial institutions get all the goodies?

Look out 1 percent, here we come.

*Sheila Bair is a former chairman of the Federal Deposit Insurance Corp. and a regular contributor to Fortune Magazine.*

**NY Times**

## Coming Soon: 'Taxmageddon'

by David Leonhardt

WASHINGTON

ON Jan. 1 of next year, the federal tax bill for a typical middle-class household — making in the neighborhood of $50,000 — is scheduled to rise by about $1,750. This increase, which would come from the expiration of both the Bush tax cuts and the Obama stimulus, would follow a decade of little to no income growth for many people. As a result, inflation-adjusted, after-tax income for the median household could fall next year to its 1998 level, in spite of the continuing economic recovery.

The middle-class tax increase is just the beginning of budget changes set to take effect at the start of 2013. Poor families would see their taxes rise somewhat, too. Total federal taxes for top-earning families would rise by tens or even hundreds of thousands of dollars a year. Spending cuts would also take effect, squeezing domestic programs — education, transportation, scientific research — and the military.

All in all, the end of 2012 will be unlike any other time in memory for the federal government.

The tax increases and spending cuts are the result of Washington's having previously kicked the can down the road, to use a phrase that is popular here. Rather than pass a plan to cut the deficit, policy makers have put off tough decisions. With the Bush tax cuts, lawmakers deliberately made them temporary, to avoid running afoul of budget rules intended to hold down the deficit.

Not surprisingly, leaders of both parties now say they are opposed to letting the changes happen on Jan. 1. Economists are also frightened of what such a sharp shift in government policy might do to a still fragile economy. Ben S. Bernanke, the Federal Reserve chairman, has referred to the various expirations as "a massive fiscal cliff." Congressional aides, quoted in The Washington Post, call it "taxmageddon."

The problem, as always, is that the two parties cannot agree on what changes *should* take place. The combination — of political stalemate and potential economic cataclysm — will create an extraordinary period after this year's election. A lame-duck Congress and Mr. Obama, either re-elected or defeated, will have less than two months to agree on an alternative plan, or the tax increases and spending cuts will take effect.

Optimists — yes, there are still some — say that the prospect of the tax hikes and cuts could finally nudge the two parties to the kind of deficit solution that many experts prefer. It involves sweeping tax reform that would close loopholes, reduce marginal rates, simplify the tax code and perhaps even lift long-term economic growth. Such tax reform has always been easy to put off, but the compromises it requires may end up being easier to accept than taxmageddon.

YET there is still a basic contradiction with which most politicians and voters have yet to grapple, the same contradiction that has helped create this strange situation in the first place. Talking in exasperated tones about the importance of fiscal responsibility is easy. Cutting the deficit is hard, because it involves unpopular tax increases or unpopular spending cuts — and huge cuts if the solution involves only spending, not taxes, as many Republicans urge.

Either way, the changes will affect the vast majority of Americans, given that the deficit reflects a basic disconnect between the government we have and the taxes we are willing to pay. Social Security, Medicaid and Medicare may become less generous. The Pentagon may no longer be able to get just about whatever it wants. Taxes may have to rise from their recent levels, which have been lower, as a share of the economy, than at any point in 60 years. That could mean higher rates. Or, if tax reform actually happens, it could mean smaller tax breaks for health care, housing and retirement savings.

The looming end of billions of dollars in popular government benefits may seem ridiculous. And the fact that Washington keeps delaying a serious deficit plan until another day may seem equally ridiculous. But they make perfect sense in a country where hypothetical solutions are a lot more popular than any actual ones.

Nothing highlights the paradox quite like tax reform.

Most people seem to want tax reform. In a 2011 Pew Research Center poll, 59 percent of respondents said the tax code was so flawed that Congress should "completely change it."

President Obama and Representative Paul Ryan, the architect of the Republican budget plan, each claim to be more in favor of tax reform than the other one.

The notion of tax reform also has widespread support from economists, liberal and conservative. As they define it, reform would reduce marginal tax rates while eliminating or reducing various tax breaks. The tax code would then be flatter and simpler. Individuals and companies would not have to spend so much time and effort filling out their tax returns and figuring out which provisions helped them — an especially appealing notion this time of year.

Nobody knows for sure, but many economists believe that tax reform could lift economic growth, by freeing people to spend and work in the ways they think make the most sense, rather than in ways that happen to reduce their tax bill. Mr. Ryan's plan would cut the top rate to 25 percent, from 35 percent, and still leave overall tax collection roughly where it has been, by eliminating tax breaks.

What's missing from these plans is any detail on which tax breaks would be eliminated. Corporate lobbyists, like those at the Business Roundtable, offer an especially telling contrast: they urge the government to reform the tax code while continuing to push for loopholes that benefit them and generally refusing to name loopholes they would close.

The tax breaks that cost the government the most money turn out to be overwhelmingly popular. The three largest are those for health insurance provided by employers, mortgage interest and 401(k)'s. Corporate tax breaks are smaller, but the biggest corporate breaks are often popular, too, like the one for research and development.

"Tax reform is vital but difficult," said Lawrence H. Summers, the former economic adviser to Mr. Obama and President Bill Clinton. "When people think of tax expenditures, they think of standing up to the oil industry. But a ton of it is things like I.R.A.'s."

He added: "The moment you start to look at the expenditures you'd eliminate, you're struck by how much pain there is for modest rate reductions."

Optimists who believe tax reform could happen look to 1986, when President Ronald Reagan and a bipartisan Congress lowered rates and eliminated loopholes. However, there are at least two major differences between then and now. Most of the loophole closing in 1986 affected companies, not individuals. And policy makers spent months and months working together to put the law together.

None of that will be possible in the eight weeks between Election Day 2012 and Jan. 1, 2013. "Tax reform is a process, not an event," said Donald Marron, a former aide to President George W. Bush who now runs the Tax Policy Center in Washington. Mr. Marron called full-scale tax reform "really unlikely."

What, then, will happen later this year?

Much will depend on who wins the presidential election. (Neither party is likely to have a filibuster-proof majority in the Senate.) If Mr. Obama wins re-election, he and his aides say, he will not extend all the Bush tax cuts, as they agreed to do in 2010.

They instead plan to insist on a deficit plan that combines spending cuts with higher taxes for the affluent, who have received the largest tax cuts in recent decades. Mr. Obama, according to a senior adviser speaking last week, views taxmageddon as a chance to force the Republicans to acknowledge that even they do not support the spending cuts necessary to balance the budget without tax increases on the wealthy.

For the White House, the best case might pair an extension of the Bush tax cuts for several more months with a legislative framework for a new tax code that reduces tax breaks for the affluent. The top rate might not rise, but taxes on the rich would. Policy makers would work out the details in early 2013.

The so-called Buffett Rule, a focus of Mr. Obama's last week, is a model for such a tax system. It does not specify which tax breaks would shrink for households with more than $1 million in income but rather caps the total value of such tax breaks. Martin Feldstein, a Republican economist, has proposed a similar cap for all taxpayers. The approach is meant to avoid a political war of attrition over every large, popular tax break.

Of course, Republicans have shown scant sign of wanting to compromise on high-end taxes, even after election losses, as in 2008. If they hold firm once again, Mr. Obama will have to choose between standing down (once again) and allowing taxes to rise on every household when the economy is still likely to be weakened.

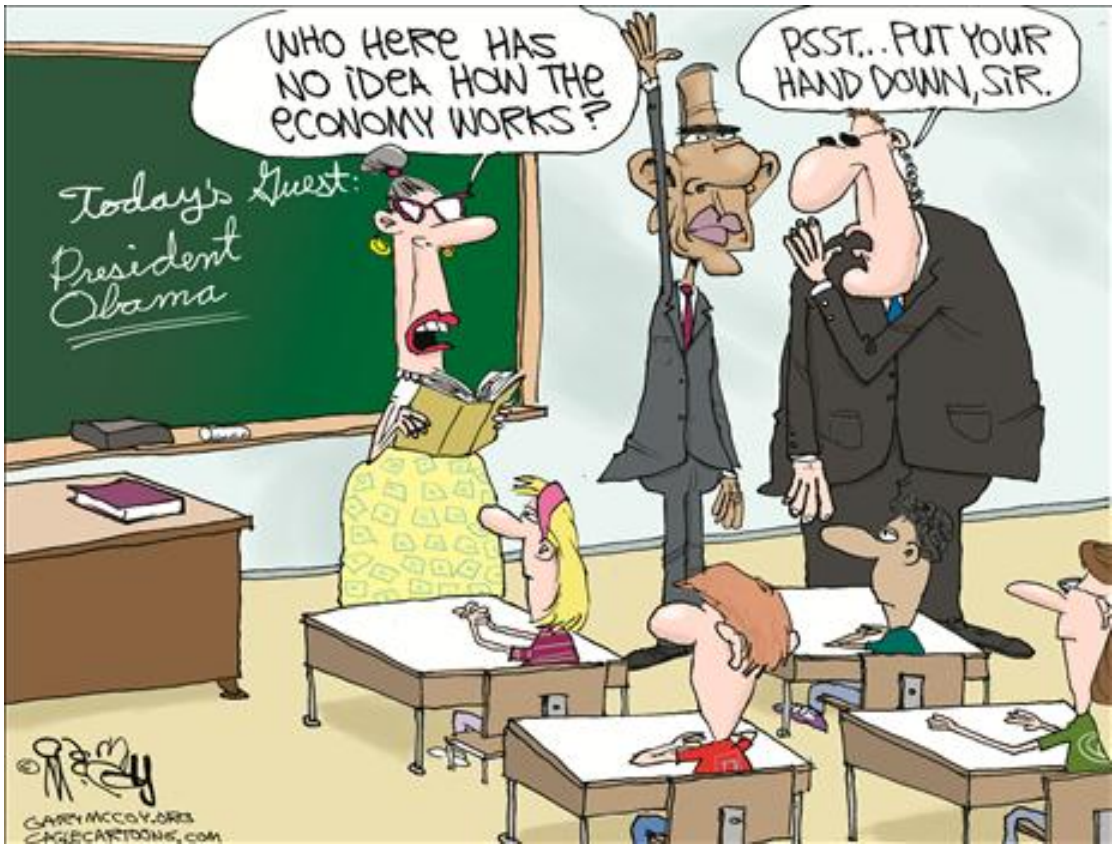
Complete gridlock will include not only the expiration of the Bush tax cuts and the payroll-tax cut from the Obama stimulus but also a sharp increase in the Alternative Minimum Tax and cuts to national-security and domestic programs, prompted by Congress's failure of last summer to reach a deficit deal. Together, the changes would reduce the deficit by more than 60 percent in the 2014 fiscal year, according to the Congressional Budget Office, but would inflict obvious pain.

With Mitt Romney in the White House and a Republican House, the uncertainty might be less. Unless Congressional Republicans and a defeated Mr. Obama somehow came to a deal, they could wait for him to leave town before retroactively extending the Bush tax cuts, so long as they could win over a small number of Democratic senators. Republicans could likewise undo the Pentagon cuts.

To hold down the deficit, Mr. Romney and Congress could then cut domestic programs, including Medicaid, more sharply than Mr. Obama has. But recent history — both Mr. Reagan's administration and the second Mr. Bush's — suggests that Republicans would probably not find enough spending cuts to offset their tax cuts and instead would accept larger deficits.

In the short term, it might not matter. The deficit is falling already, as the economy slowly emerges from the financial crisis, and foreigners remain happy to lend money to Washington at very low interest rates. Many economists think the state of the economy, not the deficit, is the bigger immediate problem.

Eventually, though, the deficit will start growing again, and sharply. The baby boomers are retiring, and health care is getting only more expensive. The era of falling taxes and growing benefits cannot last forever. The fiscal chaos that awaits at the end of this year is a preview of the choices to come.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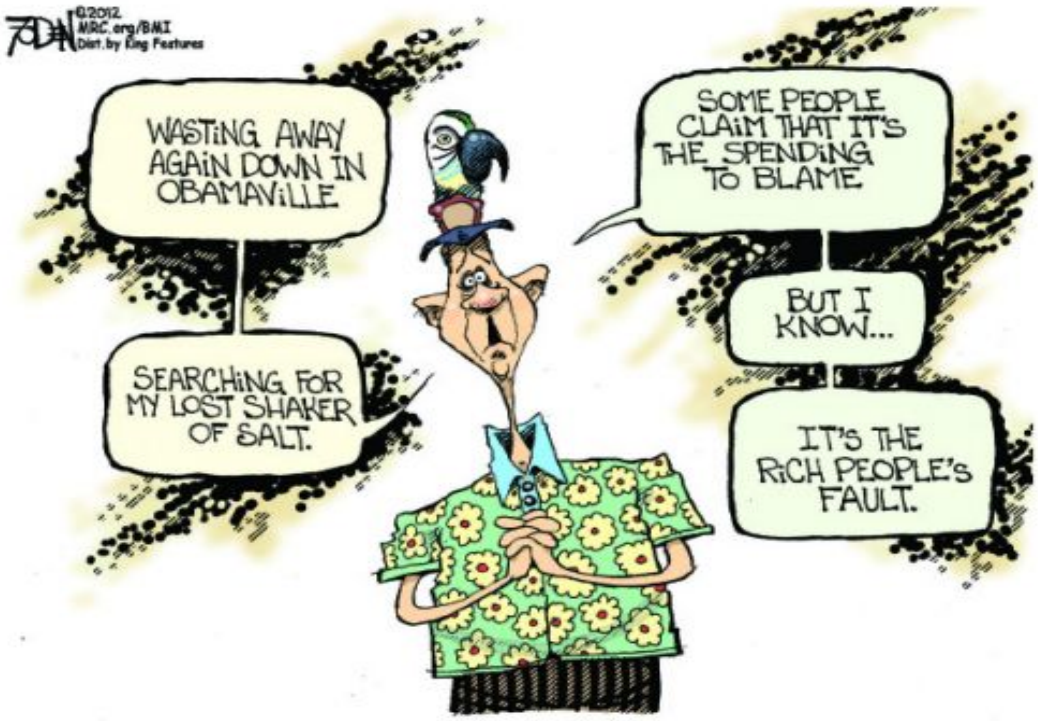


THE BUFFETT RULE