The Obama vs. Romney Debate on Economic Growth: A Citizen’s Guide to the Issues¹
August 29, 2012

An Overview

Samuel C. Thompson, Jr.,*

ARTHUR WEISS DISTINGUISHED FACULTY SCHOLAR, PROFESSOR OF LAW, AND DIRECTOR OF THE CENTER FOR THE STUDY OF MERGERS & ACQUISITIONS

PENN STATE LAW

¹This approximately 500 page book will be published in mid-September 2012 by iUniverse and will be available through Barnes & Noble.

*Professor Thompson would like to thank his research assistants at Penn State Law for their help: Stephen Anderson, Marc Boiron, Philip Farwell, and Stephanie Wilhelm.
What is in the Obama vs. Romney Debate?
(1 of 4)

There are 22 Chapters (One or more slides address each of the chapters, and chapters dealing with the debate are in blue.):

- Chapter 1, What is this Book About?
- Chapter 2, What is the Intuition Behind the Demand and Supply Curves of Microeconomics?
- Chapter 3, What Determines Economic Growth?
- Chapter 4, What is Gross Domestic Product (GDP) and How is it a Measure of Economic Growth?
- Chapter 5, How is GDP Tracked and Projected?
- Chapter 6, What is the Link Between the Demand and Supply Curves of Microeconomics and the Aggregate Demand (AD) and Aggregate Supply (AS) Curves of Macroeconomics, and How is the AD-AS Model Used in Analyzing Economic Growth?
- Chapter 7, What is the Relationship Between Economic Growth and Employment? Cont’d
What is in the Obama vs. Romney Debate?

(2 of 4)

- Chapter 8, What is the Relationship Between Economic Growth and Inflation?
- Chapter 9, What are the Tradeoffs Among Economic Growth, Inflation, and Employment?
- Chapter 10, How Does the Expenditure Multiplier Impact Economic Growth?
- Chapter 11, How Do International Trade and Investment, and the Euro Crisis Affect Economic Growth?
- Chapter 12, Financial Crisis: How is Economic Growth Impacted by the 2007-2008 Financial Crisis with the Attendant Bust in the Housing Market, and the Federal Government’s Responses to the Crisis; and How Would the Policies of President Obama and Governor Romney on this Crisis Affect Economic Growth?
- Chapter 13, Monetary Policy Building Blocks: What is Money and How Does the Treasury Finance Itself? Cont’d

(c) S. C. Thompson, Jr., August 27, 2012
What is in the Obama vs. Romney Debate?

(3 of 4)

- Chapter 14, Monetary Policy: How Does the Fed’s Control of Monetary Policy Affect Economic Growth and How Would the Policies of President Obama and Governor Romney on Monetary Policy Affect Economic Growth?
- Chapter 15, Fiscal Policy: The Great Deficit Debate Between President Obama and Governor Romney: How Does the Federal Budgetary Policy Affect Economic Growth?
- Chapter 16, Fiscal Policy: First, How are Social Security and Medicare Structured, and Second, How Would Proposals by the Deficit Commission, President Obama, and Governor Romney Affect the Impact of These Programs on Economic Growth?
- Chapter 17, Fiscal Policy: Obamacare: How is it Structured; What was the Supreme Court’s Decision on It; What is Governor Romney’s Position on It; and What Impact Will It Have on Economic Growth? Cont’d
What is in the Obama vs. Romney Debate?
(4 of 4)

- Chapter 18, Fiscal Policy: How Would Various Tax Policy Proposals of President Obama and Governor Romney Affect Economic Growth?
- Chapter 19, What are the Approaches of President Obama and Governor Romney to the Use of Regulation to Address Negative Externalities Like Pollution?
- Chapter 20, Why is There a Preference Under the Antitrust Laws for Competitive Markets Over Monopoly Markets and What are the Antitrust Enforcement Policies of President Obama and Governor Romney?
- Chapter 21, How Can the Principles and Policies Discussed in This Book, Together with Basic Principles of Finance, Assist a Person in Making His or Her Investment Decisions?
- Chapter 22, What are Some of the Major Principles Covered in This Book?
How is the Obama vs. Romney Debate Structured?

- Chapters 12 through 18 of Part III are the heart of the book, and they focus principally on the financial crisis, the great deficit debate, monetary policies, and fiscal policies, including fiscal policies on Medicare, Social Security, and the Federal tax system.
  - The chapters in Part III discuss the views of President Obama and Governor Romney on the issues addressed and also give my own views.
- For ease of reference, the book is written in a question and answer format, with questions building on prior questions.
- Although the book focuses principally on macroeconomics, it also addresses microeconomic issues, including antitrust policy.
- The book refers to several governmental documents addressing various economic issues, including Economic Reports of the President for both the Obama and Bush Administrations.
- Although I am a Democrat and support President Obama, I have tried to be balanced in my analysis. The views expressed are my own and have been cleared by no one.
Chapter 1
What is this Book About?

This chapter discusses:

- Several fundamental economic concepts, including:
  - A brief discussion of the differences between microeconomics and macroeconomics.

- The relationship between (1) Democratic and Republican presidencies, and (2) economic growth and employment.
  - The economy seems to perform better under Democratic administrations.


- Two proposals I made in that book regarding tax policy (which also were made by others) have been enacted into law:
  - Anti-inversion legislation now curtails U.S. companies from avoiding U.S. tax by becoming subsidiaries of foreign holding companies.
  - The codification of the Economic Substance Doctrine now curtails tax shelters.

In addition to discussing the positions of President Obama and Governor Romney on the issues, I also give my views on many of the issues.
Chapter 1: Unemployment Rates and GDP Growth under Republican and Democratic Presidencies

The following tables show how (1) GDP growth rates, and (2) unemployment rates have varied by the political party of the president; the data covers the years from 1949 to 2011.

<table>
<thead>
<tr>
<th>Party</th>
<th>Num. of &amp; % of Yrs with Negative Growth</th>
<th>Num. of &amp; % of Yrs with Positive Growth</th>
<th>Num. of &amp; % of Yrs with 1%-2% Growth</th>
<th>Num. of &amp; % of Yrs with 2%-4% Growth</th>
<th>Num. of &amp; % of Yrs with Over 4% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dem</td>
<td>3 - 11.1%</td>
<td>24 - 88.9%</td>
<td>1 - 3.7%</td>
<td>8 - 29.6%</td>
<td>15 - 55.6%</td>
</tr>
<tr>
<td>Rep</td>
<td>7 - 19.4%</td>
<td>29 - 80.6%</td>
<td>5 - 13.9%</td>
<td>14 - 38.9%</td>
<td>10 - 27.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Party</th>
<th>Num. of &amp; % of Yrs with Unempl. under 4%</th>
<th>Num. of and % of Yrs with Unempl 4%-5%</th>
<th>Num. of &amp; % of Yrs with Unempl. 5%-6%</th>
<th>Num. of &amp; % of Yrs with Unempl over 6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dem</td>
<td>5 - 18.5%</td>
<td>5 - 18.5%</td>
<td>8 - 29.6%</td>
<td>9 - 33.3%</td>
</tr>
<tr>
<td>Rep</td>
<td>2 - 5.6%</td>
<td>8 - 22.2%</td>
<td>13 - 36.1%</td>
<td>13 - 36.1%</td>
</tr>
</tbody>
</table>

As you can see, on average Democratic presidents have achieved greater GDP growth and lower unemployment.
Chapter 2
What is the Intuition Behind the Demand and Supply Curves of Microeconomics?

This chapter discusses:

- The normal behavior of demand and supply curves and the role of these curves in a competitive market.
- The difference between a movement along a demand or supply curve and shift of that curve.
  - These ideas are illustrated with an example of falling oil prices in early 2012.
Chapter 3
What Determines Economic Growth?

The chapter discusses:

- The differences between nominal, real, and potential GDP.
- The relationship between the standard of living and GDP.
- The tradeoffs between inflation and unemployment.
- The various aspects of the business cycle.
- The elements of economic growth:
- The benefits of having more federal control over primary and secondary education.
  - I believe that to increase human capital, every child needs to learn how to read, write, and do arithmetic and that this is best governed at the federal level. This position directly opposes that of Congressman Ryan, who’s budget would go in the opposite direction.
- Supply side economics.
- The role of financial markets and inbound foreign investment (that is, investment into the U.S.) in the promotion of economic growth.
The chapter discusses:

- The concepts of gross domestic product (GDP), and the components of GDP, which are:
  - Consumption spending (C)
  - Investment spending (I)
  - Government spending (G)
    - This is the only one of the four that the government directly controls.
  - Net export spending (NX)

- Increasing one or more of these four components (C, I, G, NX) is the only way to increase economic growth.

- Diagram 4-A in the book provides a circular diagram of the elements of GDP, with an explanatory chart.

- The behavior of each of the components of GDP for the past several years and reports on a forecast of future movements in GDP and its components.

- Various aspects of the concept of GDP per capita, which is probably the best macroeconomic measure of the standard of living.
Chapter 5
How is GDP Tracked and Projected?

This chapter discusses:

- How GDP is tracked and projected by, *inter alia*, the following governmental entities:
  - The Bureau of Economic Analysis
  - The Council of Economic Advisors
  - The Federal Reserve Board
  - The Congressional Budget Office

- Leading, coincident, and lagging indicators of the growth of GDP.
Chapter 6
How Is the AD and AS Model Used in Analyzing Economic Growth?

This chapter discusses:

- The aggregate demand (AD) and aggregate supply (AS) model.
- Basic principles underlying the model and explores how the Potential GDP concept fits within the model.
- The role of inventories in signaling whether the AD-AS model is in equilibrium.
- The manner in which monetary and fiscal policy can shift the AD curve, thereby increasing or decreasing the rate of economic growth. This topic is considered in greater detail in later chapters.
- The factors that can cause the aggregate supply curve to shift (i.e., supply side economics).
- A recessionary gap, which is when potential GDP exceeds equilibrium GDP as in this graph (which is similar to our current situation):
Chapter 7
What Impact Does Economic Growth Have on Employment?

This chapter discusses:

- Various aspects of the labor market, such as the unemployment rate, the number of jobs created or lost in the economy, and the relationship between the unemployment rate and growth of the labor market.

- The different types of unemployment, the unemployment rates for various racial groups, and the relationship between the unemployment rate and crime.

- The behavior of the unemployment rate when Actual GDP is both above and below Potential GDP.

- The relationship between the rate of growth of GDP and the level of employment, which is set out in Okum’s law (which posits that there will be a decrease in unemployment when economic growth is above the trend rate of approximately 2.25%).

- Three important policy issues: outsourcing (that is, moving jobs overseas), the impact of the minimum wage law, and the impact of unemployment insurance.
Chapter 8
What Impact Does Economic Growth Have on Inflation?

This chapter discusses:

- Various aspects of inflation and the related concepts of deflation and disinflation.
- The manner in which inflation is measured.
- The economy’s recent experience with inflation and the concerns economists have with both inflation and deflation.
- Why the Fed wants some, but not too much, inflation, and no deflation.
- The difference between real and nominal interest rates.
- Inflation in the context of the AD-AS model.
Chapter 9
What are the Tradeoffs Among Growth, Inflation, and Employment?

This chapter discusses:

- The relationship between employment and inflation, which are examined in the preceding two chapters.
- Two policy tools that can be helpful in determining the trade-offs between employment and inflation:
  - The Phillips curve
    - This predicts an inverse relationship between unemployment and inflation.
  - The nonaccelerating inflation rate of unemployment, NAIRU
    - This predicts that if the unemployment rate decreased below a certain level, prices would not only increase, but the increase itself would accelerate.
    - This is currently centered on a range of about a 5.3% unemployment rate.
Chapter 10
How Does the Expenditure Multiplier Impact Economic Growth?

This chapter discusses:

- How an increase or decrease in spending on any of the components of GDP can have a multiplying effect on GDP.
  - Without an increase in the spending on at least one component of GDP (i.e., C, I, G, and NX), there will not be any increase in growth.
- Marginal propensity to consume (MPC).
- How changes in (1) consumer spending, (2) tax rates, or (3) the wealth effect can affect aggregate demand.
- Various aspects of the expenditure multiplier or what is referred to as the multiplier effect, and illustrates the impact of the multiplier effect on the aggregate demand curve.
Chapter 11
How Does International Trade and Investment Affect Growth?

This chapter discusses:

- The benefits of international trade, including U.S. activities in promoting international trade.
- Exchange rates and their impact on international trade and investment.
- The balance of payments, which is the method of accounting for international trade and investment.
- The determinants of the net exports component of GDP and the role of this component in promoting economic growth.
- The impact of the 2012 Euro Crisis on U.S. economic growth as well as the results of the Euro Summit in June 2012.
  - According to the Office of the United States Trade Representative, the percentage of the U.S. exports that go to the E.U. was 21% of overall U.S. exports in 2008.
  - As economic activity in Europe slows, U.S. exports likely will slow significantly.
Chapter 12
How is Economic Growth Impacted by the 2007-2008 Financial Crisis? (1 of 5)

The chapter discusses:

- The causes and consequences of the 2007-2008 Financial Crisis including regulatory failure and certain subprime mortgage lending practices involving, *inter alia*, residential mortgage backed securities (RMBSs), collateralized debt obligations (CDOs), and credit default swaps (CDSs).
  - A CDO is like a securitization of a securitization (e.g., an RMBS). Bankers would take low investment-grade tranches from many mortgage-backed securities and repackage them into new securities where most of the new securities would get a higher credit rating.
  - A CDS transfers the credit exposure from fixed income sources (such as mortgages) to another party, such as AIG, which for a fee, takes the risk of default.
- The government’s short-term response to the crisis through TARP and long-term response through *Dodd-Frank Act*.
  - TARP (the Troubled Asset Relief Program) gave the Treasury the ability to provide some liquidity to the markets by purchasing or guarantying up to $700 billion in troubled assets and providing financial assistance to GM and Chrysler.
  - The Dodd-Frank Act greatly reforms the regulation of financial institutions by adopting the Volcker Rule (discussed later) and regulating, *inter alia*, consumer protection and systemic risks in banking and shadow banking.
Chapter 12
How is Economic Growth Impacted by the 2007-2008 Financial Crisis? (2 of 5)

-President Obama’s Position on TARP:
  - President Obama views TARP as a success.
  - A September 30, 2011 Treasury report states:
    - “Since TARP’s inception and through September 30, 2011, Treasury has collected approximately $258 billion through repayments, sales, dividends, interest, and other income – approximately $13 billion more than disbursements – under these initiatives. Treasury continues to recover additional investments.”

-Governor Romney’s Position on TARP:
  - Governor Romney’s has generally supported TARP in the past. However, he argued against using TARP funds to assist GM and Chrysler in a 2008 opinion in the NY Times:
    - “Without that bailout, Detroit will need to drastically restructure itself. With it, the automakers will stay the course – the suicidal course of declining market shares, insurmountable labor and retiree burdens, technology atrophy, product inferiority and never-ending job losses. Detroit needs a turnaround, not a check.”

(c) S. C. Thompson, Jr., August 27, 2012
My position on TARP

- TARP appears to have been a successful program.
  - Most of the funds have been repaid.
- However, the help given to AIG was questionable. Most of the investment in AIG went right back out the door to sophisticated institutions like Goldman Sachs that had purchased Credit Default Swaps (CDSs) from AIG.
  - The U.S. government committed more than $180 billion to AIG, which had issued large amounts of CDSs, because of a fear that AIG’s collapse would cause cascading losses around the global financial community.
- If these sophisticated institutions invested in AIG’s CDSs with some “willful blindness,” then it would have been better to:
  - Force AIG into bankruptcy, and
  - Deal with the repercussions of that bankruptcy.
President Obama’s Position on Dodd-Frank:
- President Obama has been a strong supporter of this law since it was moving through Congress.
- At the signing of the *Dodd-Frank Act*, President Obama said:
  - “In the end, our financial system only works – our market is only free – when there are clear rules and basic safeguards that prevent abuse, that check excess, that ensure that it is more profitable to play by the rules than to game the system. And that’s what these reforms are designed to achieve – no more, no less.”

Governor Romney’s Position on Dodd-Frank:
- While acknowledging that the financial system could use some work, Governor Romney has generally been opposed to Dodd-Frank.
- In his book “Believe in America,” Governor Romney wrote:
  - “The Consumer Financial Protection Bureau (CFPB) that Dodd-Frank sets up is a prime example of the kind of uncertainty the law introduces.”
  - “Dodd-Frank represents a massive overreach of the federal government into private markets.”
Chapter 12
How is Economic Growth Impacted by the 2007-2008 Financial Crisis? (5 of 5)

My view of the Dodd-Frank Act:

- It gives the Federal government the tools needed to prevent another financial crisis similar to the one we just went through.

- The Consumer Financial Protection Bureau should do an effective job in ensuring that consumers are aware of:
  - The terms and conditions of contracts they enter into, and
  - The financial and economic impact thereof.

- The Financial Stability and Oversight Council (FSOC) should be effective in controlling systemically negative practices of the shadow banking system (this involves firms performing unregulated activities that are similar to regulated activities performed by banks and other regulated financial institutions).

- The Volcker rule (this rule, not yet adopted, generally prohibits banks from proprietary trading and having certain ownership positions in hedge funds or private equity funds) is a positive by limiting the ability of large banks to enter into risky proprietary trading activities.
  - According to Federal Reserve Chairman Bernanke, if this rule had been in place, it may have avoided the billions in trading losses at JP Morgan.
Chapter 13
What is Money and How Does the Treasury Finance Itself?

The chapter discusses:

- The meaning of “money” by analyzing fiat money.
- The manner in which the U.S. Treasury finances the government by looking at Treasury bills (T-bills), Treasury notes, and Treasury bonds.
- Interest on Treasury obligations with a look at yield to maturity and the yield curve.

(c) S. C. Thompson, Jr., August 27, 2012
Chapter 14
How Does Monetary Policy Affect Economic Growth? (1 of 3)

This chapter discusses:
- The manner in which the Federal Reserve Board (Fed) conducts monetary policy.
- The scope of monetary policy and the structure of the Fed.
- The various policy tools employed by the Fed in the conduct of monetary policy, principally:
  - Open market purchases
  - The discount rate
  - The required reserve ratio
- How the Fed and its Federal Open Market Committee (FOMC) conduct stabilization policy, that is, anti-recessionary and anti-inflationary policy within the aggregate demand, aggregate supply model.
- The Fed’s response to the Financial Crisis of 2007-2008 including:
  - QE-1 (this quantitative easing focused on preventing large banks on other financial institutions, like AIG, from failing),
  - QE-2 (this involved the purchase of long-term Treasury securities and other government backed debt instruments), and
  - QE-3 (this has not yet been implemented).
Chapter 14
How Does Monetary Policy Affect Economic Growth? (2 of 3)

President Obama’s view of the Fed and Chairman Bernanke:
- When President Obama re-nominated Mr. Bernanke (who was originally appointed by President George W. Bush) in 2009 to be Chairman of the Fed, President Obama said:
  - “…I’m sure Ben never imagined that he would be part of a team responsible for preventing another [Great Depression]. But because of his background, his temperament, his courage, and his creativity, that’s exactly what he has helped to achieve. And that is why I am re-appointing him to another term as Chairman of the Federal Reserve.”

Governor Romney’s view of the Fed and Chairman Bernanke:
- Larry Kudlow, speaking about Romney’s statements made during a debate, said:
  - “…Romney…said he would not reappoint Bernanke in the last debate.”
  - “…Romney made it clear that ‘the Federal Reserve has a responsibility to preserve the value of our currency, to have a strong American currency, such that investors and people who are thinking about bringing enterprises to this country have confidence in the future of America and in our currency.’”
My opinion of the Fed and Chairman Bernanke:

- In view of the inability of Congress and the President to agree on additional fiscal stimulus for the economy, it is particularly important for the Fed to continue to pursue its monetary stimulus.
- The Fed should not keep money tight like it did in 1932.
- The Fed should implement a QE-3 program if:
  - Economic growth continues to slow,
  - Unemployment does not decline, or
  - Interest rates begin to increase, thus curtailing purchases by consumers and investment by businesses.
- Without short term fiscal spending, monetary policy is the only game in town.
  - President Obama should not be criticized for passing the stimulus; if anything, he should be criticized for not having a large enough stimulus.
Chapter 15
The Great Deficit Debate: How Does Federal Budgetary Policy Affect Economic Growth? (1 of 8)

The chapter discusses:

- The role of the U.S. Treasury in financing the Federal government and examines:
  - The differences between deficits and debt.
  - The concepts of budget deficits and budget surpluses.
  - The level of Federal government spending & receipts generally.
  - How the Fed can monetize the deficit (i.e., the Fed purchases directly or on the market debt instruments issued by the Treasury).

- The CBO’s budget projections, the 2013 “fiscal cliff” (this refers to the tax increases and spending cuts set to occur in early 2013 unless U.S. lawmakers change the law) and various relationships, such as the level of debt and GDP.
  - I believe the fiscal cliff will be avoided after the election. The time for playing “chicken will be over. Spending increases and a short term deficit are not big problems in the long run. In light of the current condition of the economy, we should be concerned with long-term, not short term, deficits.

- The budgetary impact of the 2009 Stimulus Act.

(c) S. C. Thompson, Jr., August 27, 2012
Chapter 15
The Great Deficit Debate: How Does Federal Budgetary Policy Affect Economic Growth? (2 of 8)

The bottom left table shows the differences between the actual budget deficit for the years from 2007-2010 and what the CBO projected the budget deficit to be, based on pre-financial crisis projections.

The bottom right table shows that much of the increase in the budget deficit was due to a decrease in tax revenues, a result of the post-crisis economy.

The next slide digs more deeply into the causes of the 2010 budget deficit and addresses the question: Can the Obama Administration be blamed for the deficit?

<table>
<thead>
<tr>
<th>Year</th>
<th>CBO's Projected Budget Deficits as of Jan, 2007</th>
<th>Actual Budget Deficit</th>
<th>Change in Budget Deficit from Adjusted Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>-172</td>
<td>-163</td>
<td>9</td>
</tr>
<tr>
<td>2008</td>
<td>-98</td>
<td>-455</td>
<td>-357</td>
</tr>
<tr>
<td>2009</td>
<td>-116</td>
<td>-1,414</td>
<td>-1,298</td>
</tr>
<tr>
<td>2010</td>
<td>-137</td>
<td>-1,294</td>
<td>-1,157</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>CBO's Projected Total Revenues as of Jan, 2007</th>
<th>Actual Total Revenues</th>
<th>Change in Revenues from Projected Revenues</th>
<th>Change in Revenue as a Percentage of Actual Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2,542 B</td>
<td>2,568 B</td>
<td>26 B</td>
<td>NA</td>
</tr>
<tr>
<td>2008</td>
<td>2,720 B</td>
<td>2,524 B</td>
<td>-196 B</td>
<td>-43.1%</td>
</tr>
<tr>
<td>2009</td>
<td>2,809 B</td>
<td>2,105 B</td>
<td>-704 B</td>
<td>-49.8%</td>
</tr>
<tr>
<td>2010</td>
<td>2,901 B</td>
<td>2,162 B</td>
<td>-739 B</td>
<td>-57.1%</td>
</tr>
</tbody>
</table>
The Great Deficit Debate: How Does Federal Budgetary Policy Affect Economic Growth? (3 of 8)

Table 15-L in the book shows that for 2010, the following items accounted for 112% (that is, more than 100%) of the Budget Deficit that was not anticipated by the CBO prior to the Financial Crisis:

1. Decreased tax revenues (see preceding slide);
2. Increased spending on the following mandatory programs (over which the President had no control): Medicare, Medicaid, Unemployment Compensation, and Social Security;
3. Spending by the Bush and Obama administrations on the following Financial Crisis programs: TARP, Fannie Mae and Freddie Mac; and

Thus, apart from the spending on the 2009 Stimulus Act, which virtually all mainstream economists agree has helped the economy to recover, the Obama Administration has not been on some spending binge, but rather has cut-back (that is, 12% of the budget was cut elsewhere) on other spending that prior to the Financial Crisis, the CBO projected would take place in 2010.

Thus, the following assertion by one of my Republican friends is just not true: “The Obama Administration has been spending money like a drunken sailor.”
Governor Romney’s views on the 2009 Stimulus Act:

- Governor Romney has criticized the Stimulus Act because it has not kept unemployment below 8%, which he says President Obama predicted when he was urging enactment of the Stimulus Act.
  - President Obama denies making this claim, but the claim was apparently made by top economists in his Administration.
  - As noted elsewhere, I believe that President Obama can be criticized for not making the Stimulus larger. But he could not do so because of lack of Republican support for the Stimulus in the Senate.

- Governor Romney wrote in *Believe in America*, that “Despite the [Obama, claim that] the “stimulus would be ‘timely,’ ‘targeted,’ and ‘temporary,’ the program was poorly conceived and managed.”

- Also, regarding stimulus money for “green jobs,” including the Solyndra loan, discussed in the next slide, Romney wrote:
  - “The ‘green’ jobs segment of the stimulus, however much it appealed to environmental activists, was not an efficient instrument for job creation.”
  - But, the CBO found that this type of spending would “provide the maximum possible stimulus.” The Economist, September 15, 2012.
Chapter 15
The Great Deficit Debate: How Does Federal Budgetary Policy Affect Economic Growth? (5 of 8)

Stimulus Spending on Solyndra: The Basic Facts:

- As part of the Stimulus Act, Solyndra received a $535 million Department of Energy loan guarantee for its solar panel business.
- The Solyndra loan was about 2% of total federal loan guarantees.
- Shortly after receiving the loan, Solyndra went bankrupt.
- In June 2012, Governor Romney claimed that an “independent inspector general [IG] . . . concluded that the [Obama Administration] had steered money to friends and family and campaign contributors.” 0  Fortune, June 4.
- Romney was “wrong on [his] Solyndra facts.”  The IG had made no such claim.  Id.
- Solyndra had filed for a loan with the Bush Administration and Solyndra’s investors included investment firms with ties to both Democrats and Republicans. Wikipedia, June 26.
- After Governor Romney made his IG claim, Konarka, a solar technology company that had “received a $1.5 million [loan from Mass] when Romney was governor filed for bankruptcy.”  Boston Globe, June 5.
- Although in criticizing Solyndra, Governor Romney has said “governments should not pick winners and losers,” he apparently did so when he was Governor.  Id.

(c) S. C. Thompson, Jr., August 27, 2012
President Obama’s response to Governor Romney’s concerns with the 2009 Stimulus Act:

- President Obama responds by pointing out that since the Stimulus Act was signed, there has been either:
  - A decrease in the number of jobs lost from the jobs lost in the month before the enactment of the Act, or
  - An increase in the number of jobs created.
- To this point, the Obama/Biden Reelection Campaign has said that:
  - “When President Obama took office, the economy was losing more than 700,000 jobs per month. … Through April 2012, the economy has added more than 4.2 million private sector jobs over 26 consecutive months of job growth.”

Summary of Jobs Gained (Lost) and Unemployment Rate for Selected Months Since January 2009

<table>
<thead>
<tr>
<th>Month</th>
<th>Jobs Gained (Lost)</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2009 (before enactment of the 2009 Stimulus Act in February 2009)</td>
<td>(839,000)</td>
<td>7.8%</td>
</tr>
<tr>
<td>July 2009</td>
<td>(296,000)</td>
<td>9.5%</td>
</tr>
<tr>
<td>January 2010</td>
<td>(40,000)</td>
<td>9.7%</td>
</tr>
<tr>
<td>July 2010</td>
<td>92,000</td>
<td>9.5%</td>
</tr>
<tr>
<td>January 2011</td>
<td>119,000</td>
<td>9.1%</td>
</tr>
<tr>
<td>July 2011</td>
<td>175,000</td>
<td>9.1%</td>
</tr>
<tr>
<td>January 2012</td>
<td>277,000</td>
<td>8.3%</td>
</tr>
</tbody>
</table>

(c) S. C. Thompson, Jr., August 27, 2012
The following table shows Congressman Ryan’s plan for discretionary spending.

- The “other discretionary” spending category includes non Medicare or Social Security Spending, such as spending on student loans. Medicaid and CHIP are health care programs for the poor and children:

<table>
<thead>
<tr>
<th>Category of Spending</th>
<th>Present Spending as a Percentage of GDP</th>
<th>Ryan Proposal for Spending as a Percentage of GDP in 2030</th>
<th>Ryan Proposal for Spending as a Percentage of GDP in 2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid and CHIP</td>
<td>2%</td>
<td>1.25%</td>
<td>1%</td>
</tr>
<tr>
<td>Other Discretionary</td>
<td>12.5%</td>
<td>5.75%</td>
<td>3.75%</td>
</tr>
</tbody>
</table>

The Ryan Plan would make significant cuts in discretionary spending.

In contrast, the Obama and Deficit Commission plans would not decrease Medicaid or CHIP, and would decrease other discretionary spending, but not as drastically as the Ryan plan.
My views of the 2009 Stimulus Act:

- There are legitimate criticisms for this Stimulus Act:
  - As President Obama has acknowledged, there was a failure to ensure that a sufficient number of projects were “shovel ready.”
  - It should have focused more on infrastructure where the economic effects of the spending would be more long lasting, and
  - There may have been an over-allowance of funding for green projects.

- However, on an overall basis, the Act has been a success.
- Keynesian pump-priming works in addressing a slowing economy, and the Stimulus Act should have been larger.
- There is an overemphasis on deficits and debt; we are not becoming another Greece.
- Social Security and Medicare (addressed next) are not going “bankrupt,” but as I will discuss, changes are needed.
Chapter 16
How Are Social Security and Medicare Structured
and How Do They Impact Economic Growth? (1 of 5)

This chapter discusses:

- **Social Security’s** tax structure; its benefits structure; whether it is in a “lockbox,” and how the government will finance the coming Social Security deficit.

- **Medicare’s** tax structure as well as how Medicare benefits are divided into Parts:
  - Part A (this is a type of hospital insurance);
  - Part B (this includes medically necessary doctor’s services and outpatient care);
  - Part C (this includes Medicare Advantage plans, which combines both Part A and Part B); and
  - Part D (this includes a prescription drug benefit which is designed to lower the cost of drugs for Medicare recipients).
Social Security and Medicare under the Ryan-Romney proposal:

- Governor Romney has endorsed the Ryan Budget (Ryan Proposal), which has been passed by the House. He called it “marvelous.” The Ryan Proposal would partially privatize Medicare for people who are now 55 or under.

- On Medicare, for those 55 or younger, the Ryan Proposal shifts a significant portion of the cost of Medicare to the retired and therefore erodes its “safety net” function.
  - CBO estimates that as compared with the current Medicare benefit, the cost the individual would be required to bear would be on average $6,400.

- The Ryan Proposal does not change Social Security payments, but suggests that the long-term funding needs of Social Security be addressed.
Social Security and Medicare under the Obama Proposal:

- President Obama rejects the Ryan Proposal to move to a voucher system and does not want to fundamentally alter Medicare’s benefits.
- While acknowledging the long-term problem with Social Security, President Obama does not put forth any concrete proposals to address the problem.
- The President has seemed willing to consider “means testing” for these programs.
To address the coming deficits with both Medicare and Social Security, I have proposed a phasing out of these benefits for high-income taxpayers.

- This is done in Canada with Social Security.

Under my proposal, income is broadly measured and includes income excluded from gross income under the Federal income tax. This phase-out would take place as broadly measured income went from $75,000 to $150,000 as set out in the table below:

<table>
<thead>
<tr>
<th>Broadly Measured Income</th>
<th>Broadly Measured Income between $75,000 and $175,000</th>
<th>Broadly Measured Income &gt; $175,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Benefits</td>
<td>All Medicare benefits available to taxpayer</td>
<td>Taxpayer is responsible for more Medicare payments as their income moves from $75,000 to $175,000</td>
</tr>
<tr>
<td>Social Security Benefits</td>
<td>All Social Security benefits available to taxpayer</td>
<td>Taxpayer receives fewer Social Security benefits as their income moves from $75,000 to $175,000</td>
</tr>
</tbody>
</table>

This phase-out decreases the deficit and prevent high income taxpayers from passing to heirs (1) Social Security payments and (2) savings from receipt of Medicare.

(c) S. C. Thompson, Jr., August 27, 2012
Chapter 16
How Are Social Security and Medicare Structured and How Do They Impact Economic Growth? (5 of 5)

The chapter then discusses:

- The budgetary effect of adopting my proposed phase-out of Social Security and Medicare benefits.
- Why my phase-out is likely to be opposed by both:
  - Left leaning Democrats (who want everyone included in these programs so the rich will not object), and
  - Right leaning Republicans (who want everyone included because everyone paid into it and everyone deserves to be in it).
- The economic argument against means testing like my proposed phase-outs, because means testing is the same as raising the marginal tax rates and higher marginal tax rates are a disincentive to work. This point is addressed in Chapter 18, which deals with tax policy.
Chapter 17
Obamacare: How is it Structured; What was the Supreme Court’s Decision on it; and How Will it Impact Economic Growth? (1 of 7)

This chapter discusses:

- Obamacare, which refers to the 2010 Health Care Legislation made up of the Patient Protection and Affordable Care Act of 2010 (PPACA) as amended by the Health Care and Education Reconciliation Act of 2010 (HCERA).
- The U.S. Supreme Court’s 5-4 decision ruling that Obamacare is constitutional.
- How Obamacare affects the 5 P’s of the health care industry: (1) Patients; (2) Providers; (3) Pharma; (4) Producers; and (5) Payors.
- The change in health care coverage among the population, the budgetary effects of Obamacare, and the potential budgetary effects of repealing Obamacare.
  - The CBO estimates that:
    - Obamacare will reduce the federal deficits by $132 billion over the 2012-2019 period.
    - Repealing Obamacare (as Congressman Ryan and the Republican controlled House of Representatives have voted to do) would increase the federal deficit by $119 billion over the 2012-2019 period.

(c) S. C. Thompson, Jr., August 27, 2012
My views on the economic effects of Obamacare:

- There is a powerful economic justification for Obamacare:

<table>
<thead>
<tr>
<th>% of Americans That Will Be Covered by Health Care over the 2012-2019 Period:</th>
<th>The Effect on the Budget Deficit over the 2012-2019 Period:</th>
</tr>
</thead>
<tbody>
<tr>
<td>With Obamacare</td>
<td>$132 billion deficit decrease</td>
</tr>
<tr>
<td>Without Obamacare (i.e., pursuant to the Republic</td>
<td>$119 billion deficit increase</td>
</tr>
<tr>
<td>repeal bill)</td>
<td></td>
</tr>
</tbody>
</table>

- A healthier population will increase the human capital component of economic growth.
- There is a moral case in support of Obamacare.
- Republicans originated the ideal of the individual mandate; now oppose it. Why?
Chapter 17

Obamacare: How is it Structured; What was the Supreme Court’s Decision on it; and How Will it Impact Economic Growth? (3 of 7)

President Obama’s reaction to the Supreme Court upholding Obamacare:

- When speaking to the meaning of the decision, on June 28, 2012, President Obama said:
  - “If you’re one of the more than 250 million Americans who already have health insurance, you will keep your insurance.”
  - “The Supreme Court also upheld the principle that people who can afford health insurance should take the responsibility to buy health insurance.”

Governor Romney’s reaction to the Supreme Court’s decision:

- On June 28, 2012, Governor Romney made the following comments about the decision:
  - “I disagree with the Supreme Court’s decision and I agree with the dissent.”
  - “What the court did today was say that Obamacare does not violate the Constitution. What they did not do was say that Obamacare is good law or that it’s good policy. Obamacare was bad policy yesterday. It’s bad policy today.”
  - He will “repeal and replace,” but does not say how or the cost of replacing.
Chapter 17
Obamacare: How is it Structured; What was the Supreme Court’s Decision on it; and How Will it Impact Economic Growth? (4 of 7)

My reaction to the Supreme Court decision:

- The Supreme Court made the correct decision from a legal standpoint.
- However, not only should the individual mandate have been ruled constitutional under the taxing power, but also under the Commerce Clause.
- As Governor Romney recognized in arguing for Romneycare, free-riders should not be allowed to be free-riders, and the individual mandate prevents the free-ride.
- The broccoli argument is not applicable to healthcare.
- Obamacare will contribute to long-term growth.

(c) S. C. Thompson, Jr., August 27, 2012
In this White Board, I address the claim that Obamacare reduced Medicare by $500/$700 billion.

The following table shows the effect that various proposals would have on Medicare.

<table>
<thead>
<tr>
<th>Year</th>
<th>Law</th>
<th>Medicare Savings on Overpayment Spending</th>
<th>Change in Medicare Spending on Benefits</th>
<th>Change in the Years of Financial Viability of Medicare</th>
<th>Impact on Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>Obamacare</td>
<td>Reduces Overpayment Spending by $575B</td>
<td>Makes no change in benefits, fills the Donut Hole in Prescription Drugs Part D, and provides other benefits worth $20B</td>
<td>Extends the financial viability of MC by 12 Years</td>
<td>Decreases the deficit by $210B</td>
</tr>
<tr>
<td>2012</td>
<td>House Republican Passed Bill that would repeal Obamacare</td>
<td>Increases Overpayment Spending by $700B</td>
<td>Reverses the filling of the Donut Hole and the other benefits provided by Obamacare</td>
<td>Has an uncertain effect</td>
<td>Increases the deficit by $109B</td>
</tr>
<tr>
<td>2012</td>
<td>House Republican Passed Ryan Budget, Pathway to Prosperity</td>
<td>Reduces overpayment Spending by $475B. Unlike Obamacare, the Ryan Budget does not direct the saving to additional health care benefits.</td>
<td>Decreases Medicare benefits by approximately $6,400 per year per beneficiary starting 2022</td>
<td>The Ryan Budget apparently says Medicare would be financially viable</td>
<td>Does not specify, but would likely decrease the deficit</td>
</tr>
</tbody>
</table>
Both Obamacare and the Ryan Budget, which the Republican-Controlled House passed, reduce Overpayment Spending on Medicare, including Medicare Advantage, somewhere between $500B to $700B.

Obamacare plows the savings into healthcare, including closing the Donut Hole in the Medicare Part D prescription drug benefit and providing Wellness checkups.

Obamacare cuts the deficit by $210B; extends Medicare by 12 years.

The Repeal of Obamacare bill, which has been passed by the House:

- Increases the budget deficit by $109B;
- Eliminates the Medicare Overpayment savings in Obamacare, which the CBO estimates at around $700B; and
- Eliminates other spending of around $40B in Obamacare for new Medicare benefits, that is, the closing of the Donut Hole and elimination of doctor Wellness checkups.

**In summary**: the Repeal Bill, repeals Obamacare’s (1) Medicare Overpayment Savings, and (2) Medicare benefit increases. (cont’d)
While Obamacare does not cut benefits except for Overpayments for high cost private Medicare Advantage plans, the Ryan Budget not only cuts the Medicare Advantage Overpayments, but it also:

1. Repeals the closing of the Donut Hole and Wellness checkup benefits, and
2. Imposes an average of $6,400 in benefit cuts per beneficiary for those who are at least 10 years away from becoming eligible for Medicare.

The House passed Ryan Budget does not contain the election-out of Ryan’s voucher program, an idea discussed in a Ryan/Wyden op-ed, which was written before the Ryan Budget was passed in 2012.

The Bottom Line: In voting for the 2012 Ryan Budget, the Republican controlled House voted to eliminate the same Medicare Overspending that they chastise President Obama for eliminating in Obamacare.

- This criticism of President Obama is the height of hypocrisy and untruthfulness:
- To Repeat: The Ryan Budget passed by the Republican-controlled House:
  1. Approves essentially the same Medicare Spending Decreases included in Obamacare, so the President, Congressman Ryan, and the House Republicans all are in basic that Medicare Overpayment spending must be eliminated;
  2. Takes away the Donut Hole and Wellness benefits granted by Obamacare; and
  3. Cuts benefits for those 55 and younger by an average of $6,400.
Chapter 18
How Would the Tax Policies of Obama and Romney Affect Economic Growth? (1 of 13)

- President Obama and Governor Romney have set forth many tax proposals; this chapter focuses only on the major proposals of these two candidates with which the other disagrees.
- Thus, this chapter does not address the proposal of President Obama to make various middle class tax cuts (enacted during George W. Bush’s administration) permanent, because Governor Romney agrees with these proposals.
- On the other hand, this chapter examines President Obama’s proposals (and Governor Romney’s opposition) to:
  - Increase the current 35% maximum rate to the pre-Bush maximum marginal rate of 39.6% for high-income taxpayers, and
  - Increase the maximum rate of taxation of capital gains from the current 15% to the pre-Bush 20%.
  - Treat “carried interests” (that is, profits earned by owners of Private Equity (PE) firms, like Bain Capital, the PE firm Governor Romney previously ran) as ordinary income taxed as high as 39.6%.
  - Increase the taxation of dividends from the current maximum 15% rate to the pre-Bush maximum 39.6% rate.
Chapter 18

- After examining the merits of the bracket increase debate outlined on the previous slide, the chapter discusses the appropriate manner of taxing the foreign business income of U.S. controlled foreign corporations and makes a proposal for reducing the U.S. corporate tax rate from 35% to 28% or lower.

- Next, this chapter looks at the proposals of President Obama and Governor Romney on the Estate Tax, which Governor Romney refers to as the “death tax.”

- Finally, the chapter covers the positions of President Obama and Governor Romney on a National sales or value added tax (VAT).
Chapter 18

President Obama’s tax policies on marginal rate structure include:

- Increasing the top rate for married couples making $250,000 a year from 35% to 39%.
- Proposing the adoption of a “Buffett Rule” which is defined on the White House’s Web site as:
  - “The Buffett Rule is a simple principle that everyone should pay their fair share in taxes. No household making more than $1 million should pay a smaller share of their income in taxes than middle-class families pay.”
  - Specifically, “the Buffett Rule would limit the degree to which the best-off can take advantage of loopholes and tax rates that allow them to pay less of their income in taxes than middle-class families.”

Governor Romney’s tax policies on marginal rate structure include:

- Keeping the Bush rate structure in place rather than raising rates.
My tax proposal on the marginal rate structure include:

- I argue for an increase in the progressivity of the Federal Income Tax going beyond the Buffett Rule.
- The starting point for imposing the 39.6% rate should be $400,000 of taxable income (rather than the $250,000 proposed by the President).
  - This threshold would apply to married taxpayers filing jointly.
  - The 39.6% rate was first enacted in 1993 at the threshold of $250,000. Accounting for inflation, that cutoff would be around $400,000 today.
- In addition, the tax code should add a 45% and a 50% marginal rate for super-high levels of income which should raise significant revenues. Raising rates to this level would have a significantly negative impact on economic growth or job creation.
- Also, raising rates will help bring the U.S. taxes more in line with other OECD countries.
The following table shows the tax revenue as a percentage of GDP for OECD countries; the U.S.’s tax revenue as a percentage of GDP is well below the OECD average.

<table>
<thead>
<tr>
<th>Years/ Countries</th>
<th>U.S.</th>
<th>Canada</th>
<th>Germany</th>
<th>U.K.</th>
<th>Mexico</th>
<th>Chile</th>
<th>OECD Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>24.7</td>
<td>25.7</td>
<td>31.6</td>
<td>30.4</td>
<td>NA</td>
<td>NA</td>
<td>25.4</td>
</tr>
<tr>
<td>1995</td>
<td>27.8</td>
<td>35.6</td>
<td>37.2</td>
<td>34.0</td>
<td>15.2</td>
<td>19.0</td>
<td>34.6</td>
</tr>
<tr>
<td>2009</td>
<td>24.1</td>
<td>32.0</td>
<td>37.3</td>
<td>34.3</td>
<td>17.4</td>
<td>18.4</td>
<td>33.8</td>
</tr>
</tbody>
</table>
Positions on the tax rate for capital gains:

- President Obama would restore the maximum capital gains rate from the current 15% to the pre-Bush maximum 20% rate.
- Governor Romney, in *Believe in America*, wrote: “As with the marginal income tax rates, Mitt Romney will seek to make permanent the lower tax rates for investment income [capital gains and dividends] put in place by President Bush.”
- President Obama proposes that carried interest (profits from PE investments) should be taxed as ordinary income rather than capital gain. Governor Romney as a former PE investor has significant carried interest (as seen in a subsequent slide). Interestingly, Bill Kristol, head of the conservative *Weekly Standard*, has said that the rate on carried interest should go up.
- I agree with the President that the 20% tax rate for capital gains should be reinstated because:
  - Individual capital gains tax rates do not affect corporations investment decisions.
  - It would help reduce the deficit.
  - It would not deter individuals from making financial investments.
    - As Warren Buffet has said: “I have worked with investors for 60 years and I have yet to see anyone – not even when capital gains rates were 39.9 percent in 1976-77 – shy away from a sensible investment because of the tax rate on the potential gain. People invest to make money, and potential taxes have never scared them off.”
Positions on the tax rate for dividends:

- President Obama, in the Treasury’s *Green Book*, has proposed to allow “the current reduced tax rates on qualified dividends to expire [in 2012] for income that would be taxable in the 36 percent or 39.6 percent brackets.”
- Governor Romney would retain the current 15% maximum tax rate on dividends.
- Like President Obama, I believe Congress should reinstate the taxation of dividends as ordinary income for taxpayers in the 35% and higher brackets. However, for taxpayers in brackets lower than 35%, Congress should provide some relief, such as a flat $200 exclusion, which would further the idea of progressivity in the tax code.
- My proposal can be summarized as follows:

<table>
<thead>
<tr>
<th>Taxpayers in the 35% and higher tax brackets</th>
<th>Classification of Dividends</th>
<th>Other Tax Relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary Income</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>Taxpayers under the 35% tax bracket</td>
<td>Ordinary Income</td>
<td>$200 flat exclusion on dividend income</td>
</tr>
</tbody>
</table>
The following table shows how Governor Romney’s 2011 taxes would have changed as a result of President Obama’s tax policy.

- **Current Rate 19.9%; Post Change Rate 32.7%**
- **Current Liability $3M; Post Change Liability, $4.9M**

<table>
<thead>
<tr>
<th>Income Category</th>
<th>Amount</th>
<th>Current Rate</th>
<th>Post '12 Rate</th>
<th>Current Tax</th>
<th>Post '12 Tax</th>
<th>Change in Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualified Dividends</td>
<td>$1,905,753</td>
<td>15%</td>
<td>39.6%</td>
<td>$285,863</td>
<td>$754,678</td>
<td>$468,815</td>
</tr>
<tr>
<td>Capital Gains (regular)</td>
<td>$5,300,179</td>
<td>15%</td>
<td>20.0%</td>
<td>$795,027</td>
<td>$1,060,036</td>
<td>$265,009</td>
</tr>
<tr>
<td>Capital Gains (carried interest)</td>
<td>$5,400,000</td>
<td>15%</td>
<td>39.6%</td>
<td>$810,000</td>
<td>$2,138,400</td>
<td>$1,328,400</td>
</tr>
<tr>
<td>Rental Real Estate, Royalties, etc</td>
<td>$2,599,564</td>
<td>35%</td>
<td>39.6%</td>
<td>$909,847</td>
<td>$1,029,427</td>
<td>$119,580</td>
</tr>
<tr>
<td>Alternative Minimum Tax</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>$224,425</td>
<td>$224,425</td>
<td>NA</td>
</tr>
<tr>
<td>Total</td>
<td>$15,205,496</td>
<td></td>
<td></td>
<td>$3,025,162*</td>
<td>$4,982,541</td>
<td>$1,957,379</td>
</tr>
</tbody>
</table>

*These are rough estimates based on Gov. Romney’s 2011 tax return.*

(c) S. C. Thompson, Jr., August 27, 2012
Positions on the taxation of U.S. Controlled Foreign Corporations (CFCs):

- 3 general options:
  - The current deferral system,
    - A U.S. company does not pay taxes on business income generated abroad until it is repatriated to the U.S.
  - A territorial system, or
    - The U.S. taxes companies on business income generated in the U.S. and never taxes business income generated abroad, even when repatriated.
  - An imputation system
    - The U.S. would impute to a U.S. parent company income earned abroad by foreign subsidiaries at the time the income is earned. It would provide for a tax credit to offset the foreign taxes paid by the foreign sub on that income.

- As explained in his 2012 *Framework for Business Tax Reform*, President Obama would modify the current deferral system: “Under the President’s proposal, income earned by subsidiaries of U.S. corporations operating abroad would be subject to a minimum rate of tax.” President Obama also suggests “Goodbye Tax Penalties” and “Welcome Back Tax Benefits” for companies that leave or return to the U.S.

- Governor Romney, in *Believe in America*, explains that he “supports the recommendation of the Bowles-Simpson Commission (the Deficit Commission) to make the switch to a territorial system.” The Republican controlled House Ways and Means Committee has proposed a territorial system.
My position on the taxation of U.S. Controlled Foreign Corporations (CFCs):

- I believe that Congress should reject a territorial system and adopt a full imputation system.

- While the President’s minimum tax on deferral goes in the right direction, an imputation system, as President Kennedy once proposed, would more completely eliminate the tax benefits realized from moving a U.S. business abroad.

- I would use the substantial tax revenues that would be generated from the adoption of an imputation system to reduce the corporate tax rate from the current 35% to 28% or lower.
Positions on the Estate Tax:

- President Obama would reinstate the estate tax and the generation skipping tax at their 2009 levels. As explained in the Treasury’s *Green Book*: “The top tax rate would be 45 percent and the exclusion amount would be $3.5 million for estate and GST taxes, and $1 million for gift taxes.”

- Governor Romney would repeal the Estate Tax. In *Believe in America*, he explained: “Government should not tax the same income over and over again.”

- In my opinion, there is no sound argument for repealing the estate tax and President Obama is correct on this issue. Repealing the Estate Tax would:
  - Add to the deficit,
  - Decrease the overall progressivity of the tax system, and
  - Be a substitute for not taxing capital gains at death, which is the current rule.
Chapter 18

Positions on a National VAT (i.e., a value added tax, which is similar to a sales tax):

- Although the President’s position on a VAT does not seem to be clear, a 2010 article entitled *Barack Obama Leaves the Door WIDE Open for a VAT Tax* asserts that the President is considering the idea.
- According to the Wall Street Journal, Governor Romney has not ruled out a VAT.
- In my opinion, a National VAT should be rejected for a number of reasons:
  - Proponents of a VAT have overstated the potential benefits.
  - Replacing the Income Tax with a VAT would decrease the overall progressivity of the tax system.
  - No major country has a VAT without an Income Tax.
  - Most states have a retail sales tax, and a National VAT would simply add to this burden on average consumers.
The chapter then discusses:

- The situation involving Americans for Tax Reform and Grover Norquist’s attempts to get government officials to sign pledges to not raise taxes.
  - Governor Romney and Congressman Ryan have both signed this pledge.
  - In my opinion, these “Grover pledgers” have in substance converted the Pledge of Allegiance to America into a pledge to “one nation under Grover, indivisible with liberty and justice for the Rich Class.”

- The “Fiscal Cliff” that is set to occur in January 2013.
  - The “Fiscal Cliff” would be from the increase in taxes as a result of the full repeal of the Bush Tax Cuts and the implementation of spending cuts.
  - As previously indicated, I do not think this should or will happen.
Chapter 19
What Are the Approaches of Obama and Romney to the Use of Regulation to Address Negative Externalities?

This chapter discusses:

- The concepts of externalities and the market failure that can arise from negative externalities, such as pollution.
- President Obama’s “benefit-cost” approach to “Smart Regulation,” which was described as follows in the 2012 Economic Report of the President:
  - “Smart Regulations…seek to use the best information available in order to maximize net benefits by setting regulatory stringency at the most efficient level – the point at which the incremental benefits are equal to the incremental costs.”
- Governor Romney has seemed less concerned with negative externalities. He has said:
  - “Regulatory costs must be treated like other costs: that is, firm limits must be established for them. … A Romney administration will act swiftly to tear down the vast edifice of regulations the Obama administration has imposed on the economy.”
- My view is that regulation is an important factor in combating negative externalities.
- I agree with Ron Pearlman, the Assistant Secretary of Tax Policy in the Reagan Administration, who said: “It is unrealistic to think that simple corporate tax principles can properly address complex business transactions.” The same is true for other regulatory areas.
This chapter presents a brief analysis of the economic models of the competitive market and the monopoly market and then briefly examines the role of the U.S. antitrust laws in protecting competition and competitive markets.

In this connection, a brief analysis is presented of the Department of Justice’s anti-monopoly case against Microsoft.

This chapter elaborates on the general principles of supply and demand by focusing on a hypothetical market for PCs with a simple set of price/cost and quantity numbers illustrating the demand and supply sides of the market. These numbers are used first to construct a model of a competitive PC market and then to construct a model of a monopoly PC market. The models are used to compare the price and output decisions under competition with such decisions under monopoly.

The models show that in a competitive market, output is significantly higher and prices significantly lower than in a monopoly market.

Finally, this chapter addresses the impact competitive and monopoly markets may have on economic growth.
Positions on antitrust enforcement:

- **President Obama:**
  - When running for the presidency, then Senator Obama promised antitrust enforcement that would be more vigorous than the antitrust enforcement in the Bush Administration.
  - The American Antitrust Institute, an advocacy group for tougher antitrust enforcement, gives the Obama Administration high marks on its antitrust actions.

- **Governor Romney:**
  - Although Governor Romney’s *Believe in America* does not explicitly mention antitrust, because of his generally restrained view on regulation, it is reasonable to expect that the enforcement of the antitrust laws under Governor Romney would be less vigorous than under President Obama.

- **My Views:**
  - I agree with the more vigorous approach of the Obama Administration. Also, too many in the judiciary and in the antitrust agencies are too inclined to accept questionable economic arguments as grounds for not applying the antitrust laws to questionable business practices and mergers.
Chapter 21
How Can the Material Discussed in This Book Help a Person Making an Investment Decision?

This chapter starts with a discussion of the three principal financial statements (the balance sheet, income statement, and statement of cash flows) utilized by all forms of business and then discusses the types of business organizations, focusing on closely-held corporations and publicly-traded corporations.

- The IPOs of both Google and Facebook are examined as illustrations of how closely-held corporations may become publicly-traded corporations.

The chapter discusses how a company can be valued using the comparable companies method. As an example, the Facebook IPO is examined.

The chapter then turns to the discounted cash flow (DCF) model and the Capital Asset Pricing Model (CAPM), which are generally used by businesses in making decisions to invest in new plant and equipment.

The chapter then examines some of the economic principles involved in investing in bonds.

Finally, the chapter focuses on the main points to be taken from this chapter – (1) the link between the performance of the economy and the performance of stocks, and (2) the need to diversify one’s investment portfolio.
Chapter 22
What are Some of the Major Principles Covered in This Book?

This chapter provides a summary of some of the major concepts covered in this book.
Conclusions (1 of 6)

President Obama’s Growth Policies. From the perspective of promoting economic growth, President Obama was correct in supporting both TARP and the 2009 Stimulus Act, which should have been larger, not smaller. He is also correct in supporting at this time both (1) more Government spending, and (2) the current actions by the Federal Reserve Board in stimulating the economy through its Quantitative Easing, which is designed to increase the Investment Component of GDP by keeping interest rates low.

- Thus, to address the Financial Crisis and its aftermath, President Obama supports both expansionary fiscal policies and expansionary monetary policies.

Governor Romney’s Growth Policies. From the perspective of promoting economic growth, although Governor Romney supported the spending of TARP funds on the Wall Street bailout, he opposed (1) spending TARP funds on GM and Chrysler, (2) the 2009 Stimulus Act, (3) the Fed’s Quantitative Easing, which has kept interest rates low, and (4) government regulations, including the Dodd-Frank Act, which addresses the causes of the Financial Crisis. He has also supported Congressman Ryan’s Proposed cuts in government spending.

- Thus, Governor Romney supports both tight fiscal policy and tight monetary policy, the same policies that led to the Great Recession.
In my view, if Governor Romney had been successful in his run for the presidency in 2008, and he had

1. Blocked TARP funds for GM and Chrysler;
2. Blocked the 2009 Stimulus Act; and
3. Replaced Fed Chairman Bernanke, as he has said he would do, with a person who would have led the Fed not to adopt its Quantitative Easing stimulus action,

Then, in responding to the Financial Crisis, our country would have followed the same economic policies that led to the Great Depression and we likely would have had Great Depression II.

This view is consistent with the views of Nobel Prize-winning economist, Joseph Stiglitz who said:

- The election of Governor Romney as president “would ‘significantly’ raise the odds of a recession because it would herald a shift to a much tighter budget. History shows that the adoption of fiscal austerity when an economy is weak can have disastrous consequences, as happened in the U.S. in 1929 on the eve of the Great Depression.” Bloomberg, June 5.
In view of anemic Consumption (C), Investment (I) and Net Export (NX) spending on those components of GDP, to spur economic growth, we need more, not less, short-term Government (G) spending to stimulate the economy.

With more short-term fiscal stimulus through Government spending, the Fed could cut back more quickly on its Quantitative Easing, because the Fed would no longer be the only game in town addressing the anemic economy.

- With this action, interest rates would return to normal levels more quickly.

Obamacare reduces the deficit by $210B and the Republican-controlled House passed Obama Repeal bill increases the deficit by $109B, a $319B swing to the negative.
Conclusions (4 of 6)

With regard to Medicare:

- In voting for the 2012 Ryan Budget, the Republican-controlled House voted to eliminate essentially the same $500B/$700B of Medicare Overspending that they chastise President Obama for eliminating in Obamacare. This criticism of President Obama is the height of hypocrisy and untruthfulness.

- For those 55 or younger, the House passed Ryan Budget would convert Medicare into a voucher system that would cost the average beneficiary $6,400 per year.

We need to adopt long-term policies, like the phase-outs for high income retirees I have proposed, to address the long-term budgetary challenges presented by our Social Security and Medicare entitlement programs.
Conclusions (5 of 6)

In addressing our tax system we should

1. **Increase the progressivity** of the individual Federal income tax, which President Obama supports and Governor Romney opposes;
2. **Broaden the tax base** by eliminating many tax expenditures, which in principle both President Obama and Governor Romney support;
3. Adopt an **imputation system** for taxing foreign business income; and
4. Use the revenue generated from the imputation system to **lower the U.S. corporate tax rate** from the current maximum 35% to 28% or lower, and thereby increase the Investment component of GDP.

As was the case with the 1993 Clinton tax hikes, which raised the top marginal rate from 35% to 39.5%, our economy would not be harmed by increasing the progressivity of the system.

- On the other hand, the Republican Platform says: “The last thing Americans need right now is tax hikes.”
- In addressing this concern, the Congress should consider avoiding, on a short-term basis, the raising of the aggregate amount of taxes collected, while at the same time increasing the progressivity of the system. This could be accomplished, on a temporary basis, by (1) giving low and middle-income taxpayers a tax cut that in the aggregate would equal (2) the aggregate amount of the increase in taxes generated from high-income taxpayers as a result of the increased marginal tax rates.
- This would give a boost to the **Consumption Spending** component of GDP because lower income taxpayers are more likely than high income taxpayers to spend any tax savings they receive.

(c) S. C. Thompson, Jr., August 27, 2012
Finally, My views on the Class War Issue and Grover’s Pledgers.

- Increasing progressivity of our tax system would begin to turn the tide in what Warren Buffett describes as a “Class War” by the rich class against the lower and middle income classes. Buffett also says that “his” rich class is “winning” the Class War.

- One way of helping to turn the tide in this class war is for members of the low and middle income classes and publicly spirited members of the rich class, like Buffett, to vote out of office, and not vote into office, any person who has signed the pledge to Grover Norquist’s organization “to not raise taxes.” These Grover Pledgers have subverted their own Pledge of Allegiance to the United States. Unfortunately for the U.S., both Governor Romney and Congressman Ryan are Grover Pledgers.

- I might add that I wrote about the un-Americanism in these Grover pledges long before learning that Governor Romney and Congressman Ryan are Grover Pledgers.

THANK YOU!