Social Justice: a euphemism the real meaning of which is, "You will elect politicians who will forcibly collect from me what you think I owe you, even though you've never provided anything of value to me." —Doug Thorburn

Tax and Financial Strategies

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WEALTH CREATION STRATEGIES

An Outside-the-Box Thinker Gets into the Tax Business

Few of you know how I stumbled into the business of tax preparation and what has evolved into a unique form of holistic financial planning. Because of what I view as an increasingly dangerous role that government has assumed in the economy and its potentially adverse effect on your wealth, it's an appropriate time to share with you a bit of my background. Fair warning: while I've discussed much of my philosophy in previous issues of ***Wealth Creation Strategies*** and its predecessors (see, for example, the summer-fall 2008 and fall 2008 issues), this is more strongly-worded. My hope is that by restating some of the issues and pointing to what I view as ominous precedents, you will see the reasons for my concerns, understand the challenges we all face in preserving our wealth (which becomes far more difficult when lacking free choice) and aspire to become proactive in trying to change the course of events or work towards compromises that will be tolerable for all of us.

I was 16 or 17 when first exposed to free market economics and the freedom philosophy. Essentially, both the economics and philosophy posit that, in the aggregate, the most effective way to increase long term happiness and wealth and decrease incivility and poverty is to narrow the scope of government to protecting us from thugs, foreign and domestic. We should leave others alone so long as they do not infringe upon us. I have no right to tell you how to live your life or to take the product of your effort so long as you do not steal, physically harm, defraud or otherwise coerce me—and vice versa.

96.67% *can* be wrong

I've always been an "outside-the-box" thinker—never allowing myself to be limited by conventional thinking, as evidenced by my various articles, books and counseling over the years. I'm not afraid to take a stand opposite that of virtually everyone else as long as the facts and logic back my position. I recall my earliest experience of this in a debate in 1970 in my high school history class about whether the airline industry should be deregulated. The Civil Aeronautics Board (CAB) controlled air fares, routes and schedules, with the purported objective of insuring "fair" prices and making sure large airlines didn't gobble up little ones, leaving consumers at the mercy of a monopolistic service provider. I argued that in a marketplace free of government control prices would drop, quality would improve and, while big companies might buy out smaller ones, entrepreneurs would always be ready to start up new airlines (and would do so when the big boys got too greedy). My opponent argued that consumers needed "protection" against big companies and only government, not market forces, could provide this. I responded that in truly free markets there are no barriers to entry that would unfairly block new competitors, and that just the threat of such competition serves to reign in large companies. The existing system was a government-created oligopoly in which large airlines used the regulators to block young upstarts.

I'm not sure whether it was a poor ability to communicate, lack of debating skills, or the herding mentality of my classmates following the convoluted thinking of our Marxist history teacher, but by a show of hands I lost the debate 30 to one (me).

Seven years later, however, I was vindicated: the CAB was abolished and airlines were set free to determine their own routes and fares. Since then many of the ***large*** airlines have failed and the inflation-adjusted price of fares has dropped by more than half, with far greater choice and quality for consumers (and less than 1/6th the number of fatal accidents with twice the number of flights). Rather than the CAB playing king, the consumer has become a consumer-king of air travel, as he has in every area in which the market rules and government takes a back seat.

While a number of sectors of the economy have been deregulated since the late 1970s, others have become more heavily regulated. Those in which regulation has lessened or was nonexistent from the start—airlines, commercial trucking, computer technology—have offered consumers continuously better quality at increasingly lower prices. Those suffering under growing regulation or already highly regulated—government ("public") schooling, banking (contrary to popular naïve belief, the most heavily regulated business in the United States with no less than 115 regulatory agencies—***before*** the meltdown) and the entire medical arena—have experienced far higher costs, either to consumers or taxpayers, even if largely hidden by massive government subsidies and bailouts. The inflation-adjusted cost of schooling a child (based on my experience I do not call it "education") has roughly doubled since the 1970s, with an overall decrease in quality as measured by test scores and graduation rates. The costs of regulation in banking will prove to be, via bailouts, the most expensive regulatory debacle in history. The medical industry has been burdened by regulations far greater than most consumers would ever dream and we know what's transpired there, except in those few specific areas that have been the least regulated—LASIK surgery, optometry, cosmetic surgery and dentistry, where prices have dropped or even plummeted and quality has continuously improved.

Government *is* the problem

Which brings me to the reason for telling you all this (stay in there for the "how I stumbled into this business" part!): the grave concern I have about far greater government control over medical care, which will lead to higher ***real*** prices, de facto or actual price controls, shortages and queuing, a reduction in the quality and quantity of medical care, and a dramatic decrease in the rate of medical innovation (if for no other reason innovative types will tend to shy away from medicine). In addition, your taxes will increase in ways you can't even imagine. The words I used in writing about "medical socialism" in articles published in 1992 (in ***The Townsend Letter for Doctors and Patients***, available on request) and again in 2008 (summer-fall 2008 ***WCS*** at http://www.dougthorburn.com/cmsAdmin/uploads/33-ThorburnSummer-Fall_08.pdf) when I saw this freight train coming were mild and compromising compared with the disgust I feel, which is as great or even more so as when Nixon, a nominally Republican President who some would suggest should have known better, imposed wage and price controls (I was a 17-year-old kid who predicted, unlike all-too-many adults, the consequential shortages and disruptions to the economy). Yet, our country, the greatest ever precisely because the Founders figured out a way to protect the individual against the ravages of the totalitarian state at least for a time, survived a Civil War, two World Wars, a Great Depression, Nixon's wage and price controls and the Carter years with 18% interest rates. We'll survive this too, so long as government doesn't completely snuff out entrepreneurial activity and the incentive to save. Fortunately, as a society we've built enough wealth to withstand a lot of governmental destruction (including the so-called "stimulus" packages, which are really bailouts of bondholders) even if it makes us far less wealthy than we would be otherwise. However, the risk is greater than ever that we will become at best Europeanized (which means almost no growth and an overall standard of living 30% lower than we currently enjoy due to stifling taxation and regulation) and at worst suffer the fate of Argentina, which in the late 1800s was among the top ten wealthiest countries on the planet (some sources claim it was 2nd or 3rd) and now languishes at about 50th. Bear in mind, the lower the wealth of a country the less it can spend on things and services, including those that increase longevity such as quality medical care.

Whatever the issue, except arguably in the area of protecting lives and property, government action creates far more problems than it solves. For every action it takes that violates our lives and rights to property and freedom of contract, unintended consequences create far greater problems and a consequential perceived "need" for still more governmental action to correct those new problems created by the preceding action. The interventions in medical care have been for decades monumental and have finally messed things up so badly that many will accept ***anything*** but the status quo. And yes, again contrary to seeming popular belief and mind-numbing lies told by those with an agenda and who think equality is more important than freedom (and who, therefore, think Cuba's system of health care is superior to ours), we have the best health care on the planet. However, that's not going to last if we allow well-meaning people working in the same sort of ineffectual non-market system to exert yet more control who couldn't even bring supplies to New Orleans after Hurricane Katrina (Wal-Mart did by far the superior job) and the same system that couldn't protect investors from a Bernie Madoff despite repeated warnings from the likes of Harry Marcopolos.

So, how and why did I get into the tax business? There were several coinciding events and thoughts. First, I was an accounting major at Cal State Northridge and mistakenly believed accounting was intricately related to taxes (it's not; accounting is keeping books according to rules set forth by the Financial Accounting Standards Board, while taxation involves interpretation of law and, the way I approach it, strategic long-term planning—far more suitable to my personality type). Second, I was having my taxes prepared by a professional whom I figured I could work for and learn from. Third and most important, I asked who better to prepare tax returns and help taxpayers strategize with the goal of minimizing taxes when appropriate and wherever legally possible—which I view as rational property protection—than a free market thinker who believes that your earnings inherently belong to you? I figured I'd be pretty good at it, as long as I stayed within the boundaries of what is allowed under the law, which is the only logical way to approach the subject of government in general unless you happen to live in Cuba. However, as you will see in the next article, if the law stands taxes will increase and our overall standard of living will decrease no matter what we do.

Haven't we Suffered Enough Government Interference?

Statism: a political system in which government has a major role in directing the economy via economic planning and policy

Fascism: a political system that nominally allows private enterprise and property, but which controls and regulates it to insure that owners and entrepreneurs serve the public good rather than their own "selfish" ends

Socialism: a political system that is a bit more honest than fascism in that the government admits to owning your property and, by extrapolation, your life (to the extent that your efforts produced that property)

The most breathtaking public display of political arrogance ever

With apologies to my Democratic friends—and please bear in mind I'm a lifelong libertarian, not Republican—I believe what the Democrats in Congress did earlier this year, with the full support and bully pulpit of the White House behind it, was the most glaring public display of political arrogance ever (at least, in the U.S.). I view the passage of what was ironically named "The Patient Protection and Affordable Care Act" and what I call Obama Anti-Care a (so far) bloodless coup d'etat. Consider: the Dem's lost the seat held for 47 years by Senator Ted Kennedy, whose life-long dream was to control our health care; they promised transparency (there was none); they repeatedly claimed they wanted input from Republicans and would work on health care reform in bipartisan fashion (there were reportedly no less than 35 Republican bills locked in committee and the final bill was passed on a 100% partisan vote); they passed it claiming costs would decrease even though the only incentive to reduce prices is the high-hand of government bureaucrats deciding either they'll pay less for medical services or won't pay at all; heck, they didn't even know what was in the bill when they passed it—there were no hearings and Speaker of the House Nancy Pelosi famously admitted "we have to pass the bill so you can find out what's in it." These are the intellectual heirs of those who in 1965 predicted that Medicare would cost $9.6 billion in 1990 and that actually cost (in equivalent dollars) closer to $100 billion, which anyone who understands the mal-incentives of government could have predicted. This is the same government that initially set the Social Security tax at 1% employer and 1% employee of the first $3,000 of annual wages, with a 12-year phase-in to 1.5% on each. Adjusted for inflation, the tax would be 1.5% on the first $45,000 of wages today, or $1,350. The Social Security component of FICA currently adds up to 12.9% on the first $106,800 of wages, which amounts to $13,244. Based on this track record, those of us who believe in economic freedom can hope the entire health care act will be overturned and that we start over.

Moral and Constitutional objections

Before describing how the law might be stricken from the books, let me briefly respond to the objections that the uninsurable and poor wouldn't be able to get medical care without this law. If we want public funds to pay for the uninsurable and poor whose care is currently limited, there are far more efficient and less draconian and bureaucratic ways to do it than via 2,000 + pages of law written by the same people who write tax law. For example, we could expand Health Savings Accounts, allow plans to be purchased across state lines, encourage the expansion of urgent care clinics by allowing them to do far more and limiting lawsuits against them, provide tax credits for individuals to purchase high-deductible plans—and simply give the very poor vouchers with which to purchase high-deductible insurance and even fund HSAs. I'd suggest two pages would be sufficient (alright, maybe 20—but not 2,000). Bear in mind, a large part of the problem was unintended (but completely predictable) consequences of tax law. Health insurance evolved under a regime in which insurance is tax-free when the employer pays but not when the employee pays, which tied most coverage to employers, creating a deep-rooted obstacle to portability of insurance policies. Another mal-incentive occurred because while the cost of employer-provided insurance was tax-free, out-of-pocket costs generally were not, which created an incentive for employees, especially unionized ones, to demand that insurance cover even little things. How often would you take your car to be cleaned if you had "car-wash" insurance? Do you think the total portion of Gross Domestic Product spent on car washes might rise to multiples of what we currently spend? Of course. In the aggregate we overuse anything we don't directly pay for. There would be a lot of over-eaters and waste at a perpetual all-you-can-eat buffet where no one pays their own bill (even if ***you*** wouldn't be among those who abuse the privilege).

How might the law be overturned? ***Never before has Congress mandated that individuals purchase a service.*** This clearly, to anyone who takes the Constitution at face value (IMO of course), violates the constraints the document imposes on the power of government and could eviscerate whatever freedoms we have left. However, this has never before stopped Congress from making laws and the Supreme Court from agreeing that Congress has not over-stepped its Constitutional limits. Paradoxically, I find the mandate among the least objectionable parts of the law, even if enforcement is via a fee that would cost considerably less than the price of insurance for most. Far worse are the hundreds of new commissions, regulatory bodies and madates that insurers cover this and that (requiring that all plans are Cadillacs), which in a free society would be left to the voluntary decisions of service providers and consumers. However, the Supremes have already found such violations of the Constitution within the powers of Congress (many by 5 to 4 margins under FDR—which a chastened former New Dealer architect, Rexford Tugwell, admitted required a "tortured interpretation" of the Constitution). Still, if the requirement to purchase a service or any other part of the law is ruled to be unconstitutional, the entire Act may be voided. (This is due to the apparent omission of a "severability" clause, which "severs" a bill into components and allows the rest of a law to remain in place even though one part is found to lack Constitutional muster.)

The tax hit

One cannot rationally and without losing every reader try to analyze a 2,000 + page law. There are grandfather clauses, tax credits for employers with low income employees and fines for failing to cover workers that are far cheaper than the coverage itself (so how many will choose to pay the fine rather than provide coverage, regardless of what the law may "require" and for which an additional estimated 14,000 IRS agents will be needed?). There's an expansion of Medicaid and a purported $1 trillion cost over ten years, which really is six years since the spending doesn't occur until after the first four years and spending cuts and taxes begin in year one, which was one of many manipulative gimmicks used to make the bill "revenue neutral." Along these lines, a few Democrats have admitted that subterfuge was required in order to get their "reforms" enacted. One of these deceptions is unfunded state mandates, which shift some of the burden of the costs of treating Medicare patients to the states under Medicaid, which will no doubt be reversed by a future bill separate from the main bill, so they can perpetrate the lie. Another involves reducing payments to doctors treating Medicare patients, since everyone agrees that if this is done there won't be any doctors left to treat patients; therefore, the payments cannot be reduced (and won't be via some future spending bill). Still another is the requirement, beginning in 2012, that business and rental property owners who pay any other entity—incorporated or not, giant or not—for anything—services or goods—must issue 1099s to those it pays $600 or more in a calendar year (currently such 1099s are only for unincorporated entities and for services, not goods). This change purportedly "raises" some $17 billion via increased tax compliance to pay for the law, but the outrage is so deafening (1099 your phone company? utility company?) the odds are it will never happen. Even the IRS admits it will be a waste of the agency's resources to process the billions of additional forms and cost far more than any additional revenue raised, especially when we include the cost of compliance.

Tens of thousand of additional regulators will be required, similar to those who work for the SEC, not one of whom ever asked Bernie Madoff for a record of his purported trades. According to more honest accountants, there is a $460 billion projected deficit in the first ten years of the Act and an additional $1.4 trillion deficit in the next ten; minor when compared with Medicare's actuarial deficit of some $60 trillion, but you know how little that "program" was projected to cost when it was first enacted (how can anyone estimating future costs be off by a factor of 10 in just 25 years without an initial intent to mislead?). It's a replica of the Massachusetts experiment, which after four years has reverted to price controls and de facto rationing of care. Insurers are taxed, but not the big businesses and big unions that self-insure, resulting in more of "all pigs are equal, but some pigs are more equal than others." There are the rule makers who will decide for us which medical approaches "work" and, therefore, which will be paid for (and which will not), even though 17 instances of medical gospel learned while one doctor was in his residency were found only a decade later to be completely false; we all know how flexible government is in adopting and adapting to new realities. Purchases of over-the-counter remedies will no longer be allowed by Health Savings Accounts and Health Reimbursement Accounts beginning in 2011, which will result in increased demand for prescriptions, thereby driving up costs for both meds and doctors' time to prescribe those meds. Beginning in 2013, yearly medical costs will have to exceed 10% of Adjusted Gross Income (AGI) rather than the current 7.5% of AGI to be allowable as itemized deductions (and up from 2.5% back in the mid '80s); this and the disallowance of non-prescription remedies are de facto tax increases even though we were promised there would be no such increases for those earning less than a quarter million (but then we are promised many things by government). It's another way to increase the clamor for a complete government takeover of health care—after all, if I can't deduct it and it's gotten ridiculously expensive because the government has made it so, we may as well have the government pay for it.

An extremely dangerous precedent

But the change in tax law that merits special attention is the one that, for now, only upper-income taxpayers (and those few who understand the economics and importance of private savings in the creation of wealth and maintenance of a high standard of living, a discussion of which can be found in the fall 2008 ***Wealth Creation Strategies*** at http://www.dougthorburn.com/cmsAdmin/uploads/34-ThorburnFall08.pdf, "The Wealth of Individuals Part 2: the Root of Wealth) will complain about: a new 3.8% Medicare tax beginning in 2013 on investment income for taxpayers with AGIs over $200,000 single and $250,000 married (note the unusually blatant marriage penalty). Investment income includes interest, dividends, capital gains ***and net rental income from real estate.*** There's also a related .9% increase in Medicare taxes on wages for these same taxpayers, who are already subjected to a 1.45% employer and 1.45% employee Medicare tax on such wages (2.9% current total, bringing the new tally to 3.8%). This is Ponzi finance at its finest: you take in new "investors" or, in this case, taxpayers by taxing things in new ways (if only government was as good at other things as it is at divining new types of taxes). These thresholds will not, as the law is written, be adjusted for inflation. While I do not expect a great inflation to begin until at least 2015, all you need for a doubling of the price level is a 10% yearly inflation over seven years. (Of course, they could easily enough simply drop the income thresholds.) The massive increase in the number of Social Security recipients who have become subject to the tax on Social Security income since the advent of the scheme taxing "benefits" in 1983 may give us a hint of the true nature of this stealth tax. The thresholds at which Social Security is phased in to taxable income were set at $25,000 for single filers and $32,000 for joint filers, which have ***never*** been adjusted for inflation (and note, too, the obvious marriage penalty). While that seemed like a lot of income for a retiree back in 1983, the equivalent incomes today are barely $11,400 and $14,500. If these thresholds had been adjusted for inflation, Social Security income wouldn't begin to be subjected to tax until other income plus half of Social Security income exceeded $55,000 for single filers and $70,500 for joint filers. This new tax will prove to be insidious and a huge disincentive for the wealthy to save—which will reduce the standards of living for all of us (again I refer to the fall 2008 issue of ***WCS***). This reduction in savings will also serve to reduce government revenues. You need only an 11% reduction in total income for someone in the highest current tax bracket to completely offset a tax increase of 3.8%. (For example, a high income earner needs to reallocate only 11% of an account earning $100,000 to one not yielding current taxable income in order to reduce the tax by $3,850, more than offsetting the $3,800 tax increase on the $100,000.) My prediction: government revenues will not only increase far less than predicted, but will likely decline, as they always do when taxes are increased beyond a certain point (one I think we'll be well past).

I've always told clients they're better off paying whatever taxes are legally due than risking the consequences, and that paying more in tax is often cheaper than paying less via risky tax-favored investments. I've also emphasized that a tax problem is a good one to have. The general idea is, as I learned from a great teacher in the 1970s, to focus on out-producing the destruction of wealth by government. We can only hope this will continue to be possible. We can also hope that the advent of mini-care clinics and other such medical innovations won't be completely stifled and that such ideas will more than make up for the additional burdens of governmental mal-incentives and misallocations of capital.

What is a Libertarian? Part 1

The essay above may raise some questions about just what advocates of free markets believe.

Basic Philosophy

The only purpose of government is to protect us from thugs, both foreign and domestic.

If government becomes too busy with poking into the lives of individuals, it loses focus on its purpose and becomes incompetent at doing what it's supposed to do; instead it becomes the greatest thug.

It is arrogant to think I know what is best for you.

Beyond providing protection, government is a model of arrogance.

No one spends wealth as wisely in the aggregate as its creator and rightful owner.

Those who think differently believe they know what is best for you (see above).

Asking government to solve problems is inherently uncivil.

Voluntary interaction with others is the only civil way by which to resolve problems.

Government is far more likely to enable poor behaviors than to help those truly in need.

Individuals donating their own funds are far more able to help those who truly need and weed out free-loaders.

We cannot help the poor by bringing down the rich.

If you want to help the poor, give them the freedom to get rich by their own efforts.

Coerced equality is the antithesis of freedom.

Freedom is consistent with nature: we are inherently unequal, but we have equal rights under Nature's Law to become all we can become.

What is often referred to as crony capitalism is more appropriately called fascism and is as much an antithesis to freedom and free markets as is socialism.

The less government does and has the power to do the fewer chances business people have to engage in cronyism.

Consumers demand, capitalists provide.

If we limit the powers of government to the bare essentials (protection of lives and property, including enforcement of contractual obligations), capitalists will be relegated to doing what they do best: provide.

An absence of government regulation is preferable because people would pay a lot more attention and think far more clearly before making decisions about their lives and property.

Private regulation already does a great job with electrical components (you don't buy an electrical gadget without the Underwriters' Laboratory seal of approval, do you?) and probably does far more to protect us from bad foods than food and drug regulations—after all, Costco and Shogun Sushi do not make money giving their customers food poisoning.

Do not wage war on things; help to insure that people who do bad things pay the just consequences of their misbehaviors.

Redirect the war on drugs to imposing just consequences on those who act badly.

The bigger the government, the smaller the individual (with thanks to Dennis Prager).
The smaller the government, the more important the individual and greater the personal opportunities.

Big government conservatism may be more dangerous to our liberties than big government liberalism.
The free market is more likely to be blamed for government-created economic messes when big government conservatives like George Bush and Mike Huckabee, the latter of whom appears to understand not a whit of free market principles, are in power.

Our country was founded on the principles of freedom, free markets, protection of property and equality under the law.
Other countries, from which our founders escaped, were founded on the idea of equality, which requires that government coercively violate freedom, free markets, property and equality under the law.

Free markets require only that buyers be free to buy—or not; sellers be free to sell—or not; and producers be free to produce—or not.
There are only two ways to buy, sell or produce goods and services: voluntarily, or not—the latter of which ultimately requires the use of coercion and the barrel of a gun.

Question any and all claims that government can or will solve a problem.
Digging deep, we usually find that any statistics supporting such claims are skewed or worse and that unintended consequences of purported solutions abound.

Rights and Boundaries

To the extent you must spend time working for something that is taken from you without your consent, you are a slave.
I don't believe in slavery and, by derivation, taking from you without your explicit permission what doesn't belong to me.

I do not have a right to the product of your effort, regardless of my need.
I have the right to keep the product of my effort, regardless of your need.

I do not have the right to demand your "charity."
I have the right but not the legal obligation to help others in need and may even take pleasure in doing so.

I have the right to buy your music, if you offer to sell it to me.
I do not have the right to take music off the Internet without paying for it any more than I have the right to walk into a store and pocket a CD.

I have the right to rent my apartment or house to you at any price I want.
You have the right to go next door and get a better deal than I may offer.

It would be arrogant of me to tell you how to live your life.
The reverse is also true.

I'm an adult: let me decide, with full disclosure of the risks, if I want to take Bextra or cyclamates—or heroin.
If misbehaviors result from the use of any substance, make sure I'm subjected to logical consequences and appropriate restitution.

Bailing out teenagers who get DUIs and adults who make bad loans practically guarantees that both will need bailing out again.
If it's my money, I have the right to be stupid and bail them out; if it's your money I have no such perceived right.

It is arrogant for me to tell you "you spend too much on health care" or anything else.
If it's my money, I have the right to spend all of it on health care, toys, or anything else—and bear the responsibility and consequences.

Moral hazard occurs when person A knows that person B is or will be forced to provide A with resources against B's will, creating an incentive for A to use more of those resources than he otherwise would.
To the extent that government transfers money or other resources, it creates moral hazard, which creates an incentive for B to create less of what is being taken—which in the long run makes it so everyone has less than they would otherwise.

It is the height of arrogance for one person, or a mass of persons comprising a government, to say they know how best to run your life.
You have the right to run your life to the ground; if you refuse our suggestions or intervention, the rest of us have an obligation to not forcibly prevent you from doing so, as that is the second best known method by which you can learn how to do the opposite and become all you can become. (The best is learning by example, but not everyone learns that way.)

You have the right to kill yourself.
Libertarians agree to disagree as to whether we have the right to forcibly prevent you from doing so (and it depends on the reason).

To the extent taxation is used for services intended to protect us from thugs, taxation is the price we pay for civilization.
Beyond that, civilization requires a free market—the voluntary exchange of goods and services between willing participants (buyers and sellers) and to the extent it doesn't exist, civilization doesn't either.

Democrats protest when Republicans trample civil liberties. Republicans protest when Democrats trample economic ones.
A belief in freedom requires that we object to the trampling of either.

"What is a Libertarian: Part 2," which will include tax and financial matters, what government does badly and public policy compromises that a realistic and rational free-market advocate could live with, will be forthcoming in a future issue of ***WCS***.

The Arrogance of a Government Economist

In June 2010 Kartik Athreya, PhD (in economics), wrote an essay entitled "Economics is Hard. Don't Let Bloggers Tell You Otherwise" for the Research Department of the Federal Reserve Bank of Richmond, in which he stated:

> "In this essay, I argue that…non-economist bloggers…should be ignored by an open-minded lay public."

In other words, if you're open-minded you should ignore the opinions of all except the self-proclaimed "experts." Rarely do we have the opportunity to see such an obvious public display of grotesque arrogance, but there it is.

In an August 2006 article, "The Great Turn-of-the-Century Housing Boom," published by the Federal Reserve Bank of Chicago in its journal, ***Economic Perspectives***, Jonas Fisher, PhD (in economics) and Saad Quayyum (undergraduate, PhD program, economics) wrote:

> "It appears that the housing boom has not been driven by unusually loose monetary policy….To the extent that house prices have grown considerably in recent years, this is not due to unusually excessive speculation in the housing market, such as would occur in a bubble."

In other words, "It ain't no bubble." (They argued that incomes and household formations were up, which created rising demand that supported absurd prices.) In the meantime, bloggers and non-PhD students of economics and Socionomics like me were calling a spade a spade: "bubble."

The Arrogance of a Government Planner

Here's what we didn't hear from the new head of the Centers for Medicare and Medicaid Services, Donald Berwick, because he was slipped in as a "recess appointment" to the agency (by which even Democratic Senator Max Baucus was taken aback, stating "Senate confirmation of presidential appointees is an essential process prescribed by the Constitution that serves as a check on executive power"):

"I cannot believe that the individual health care consumer can enforce through choice the proper configurations of a system as massive and complex as health care. That is for leaders to do."* (Oh, and you know how to make a pencil, Mr. Berwick? Do you know how complex that is—requiring some 80 different areas of expertise that not one person on the planet has *ever* mastered? Ok, so let's have your "leaders" begin producing pencils and see how well you do—oops! They already tried that sort of thing in the former Soviet Union!)

"Please don't put your faith in market forces. It's a popular idea: that Adam Smith's invisible hand would do a better job of designing care than leaders with plans can."* (The Soviets did a great job of that, didn't they? How condescending of the individual and of individual choice.)

"Health care is a common good—single payer, speaking and buying for the common good."* (Well then, let's have a single provider produce and distribute food—or might you be afraid of eating only beans for the rest of your life?)

"I would place a commitment to…standardization to the best-known method—above clinician autonomy as a rule for care."* (Keith R. Jackson, M.D., wrote in response to this: "Maybe 40% of my referrals were initially misdiagnosed, usually because of misleading symptoms….[and] their treatment plan was not working." This attitude, if put into practice, will stifle innovation, research and development. Committees didn't figure out that doctors should wash their hands between surgeries; in fact, they argued the opposite and made life miserable for the doctor who did, Dr. Ignaz Semmelweis, whose ideas the medical community completely rejected.**)

"Health care has taken a century to learn how badly we need the best of Frederick Taylor."* (Taylor was the father of "scientific management," which is the study of industrial efficiency. Forget about medicine as a combination of art and science. Put me on the assembly line.)

"Young doctors and nurses should emerge from training understanding the values of standardization and the risks of too great an emphasis on individual autonomy."* (March shoulder to shoulder, young soldier.)

"I am romantic about the NHS [Britain's government health service]. I love it."*** (Let's see…British doctors see 50% more patients than American doctors…among people with chronic renal failure, about a third as many Brits as Americans per capita get dialysis…five times as many Americans get coronary bypass surgery per capita as the Brits…they have half the number of CAT scans per capita….at any point in time, about one million Brits are waiting to get into hospitals…what was it you love so much about the NHS Mr. Berwick?)

* These excerpts are from past articles and speeches, cited in "Berwick: Bigger Than Kagan," by Daniel Henninger, ***The Wall Street Journal***, July 15, 2010

** ***Wikipedia*** has a wonderful essay on Dr. Ignaz Semmelweis. I recognize that his alcoholism didn't help him deal appropriately with his opposition, but a parochial outlook by the mass of physicians has been common throughout history.

***Excerpt from a speech to the British National Health Services, July 2008

Dysfunctional Government and Tax Hikes: Planning Gets More Difficult

I've recently received a number of emails from clients concerned over the fact that when the Bush-era tax cuts expire in 2010, we're in for the greatest tax hike in recent history.

It wouldn't surprise me if an outgoing Democratic Congress does something really stupid and actually lets the cuts expire. It also wouldn't surprise me if a Republican Congress tries to extend the tax cuts and Obama says "no!" because it will include tax reductions he doesn't agree with.

However unlikely this scenario may seem, we must bear in mind that when Congress is in session anything is possible in terms of loss of freedoms (which, to the extent taxes increase, is axiomatic).

While I usually prefer gridlock in which government doesn't get anything done and, therefore, doesn't further infringe on your freedom, this is one time I'd prefer that gridlock not occur. Still, a divided government (as we had for six of eight years under the Clinton presidency) may serve to limit further encroachments on our economic freedoms. In case gridlock happens under either scenario and the largest tax hike in history occurs, here's a partial listing of changes. But don't expect to be able to plan for it.

If we go back to pre-Bush taxes

	2010	2011
Regular marginal tax rates	10% 15% 25% 33% 35%	15% 15% 28% 36% 39.6%
Marginal tax rates for qualifying dividends	0% for those in the 10-15% regular brackets; 15% for those subjected to higher regular rates	Same as above: 15-39.6%
Marginal tax rates for capital gains	0% for those in the 10-15% regular brackets; 15% for those in higher brackets	10% for those in the 10-15% regular brackets; 20% for those in higher brackets
15% bracket for married filers goes to taxable income of	$69,300	$57,850 (a potential $1,145 tax increase)
Standard deduction for married filers	$11,600	$9,700 (a potential $190-$685 tax increase)
Child tax credit	$1,000	$500
Death tax	None	55% on estates over $1 million
Alternative Minimum Tax	Indexed, snaring about four million taxpayers	Un-indexed, subjecting some 28.5 million taxpayers to AMT
Business equipment expense allowance	$250,000	$25,000
Itemized deduction phase-out for higher income earners	0%	3% (effective 1% add-on tax rate)
Exemption phase-out for higher income earners	0%	2% (effective .67% add-on tax rate)
Refundable child tax credit	Complicated, but greater	Less
Earned income tax credit	Complicated, but greater	Less