

Old Country Lawyer, December 12, 2010  
Job Creation and Tax Policy  
Special Tepeyac Edition

Half a millenium ago, a Nahua former public official known to the conquistadores as "Juan Diego", announced to the Bishop of Mexico that a vision of of the beautiful lady who was a central figure of that bishop's religion, had appeared to Juan Diego on Tepeyac Hill. That grass-roots leader, since 2002 Saint Juan Diego, gave Bishop Juan de Zumarraga the message that Our Lady of Guadalupe pledged to protect the indigenous people of the Americas. Thus began the political negotiations between, on one side the owners of productive assets, the military organization, and the conservative religious establishment, and on the other side the large population of low-income workers, which negotiations now continue well into their fifth century.

In the United States at the end of 2010, President Obama tries to implement federal policies that will encourage job creation and put unemployed workers back into productive work on the payrolls of private enterprises. The Prez generally promotes policies intended to increase demand for goods and services, in the hope that the businesses which supply those goods and services will hire more workers to produce more goods and services to meet that increased demand. Extending unemployment compensation, so that presently-unemployed persons can continue to purchase goods and services, is one such policy.

Tax policy gets the media attention. The Prez has proposed a reduction in the employee share of Social Security tax, which results in an increase of after-tax wage income of 2% for all employees with wages up to \$106,000.00 for tax year 2011. The dollar amount is a \$200.00 spendable income increase for folks making \$10,000.00 and a \$2,120.00 spendable income increase for folks making \$106,000.00 or more. This is one of several of the President's tax reduction proposals that have been held hostage by the Party of Forty-One Votes in the Senate.

The Democratic majority in the House of Representatives passed an extension of the reduced personal income tax rates for the first \$250,000.00 of family income. This tax reduction was stopped by the Party of Forty-One Votes in the Senate. The Democratic majority in the Senate then offered a substitute bill which would have reduced personal income tax rates for the first One Million Dollars of family income. This tax reduction was also stopped by the Party of Forty-One, which has declared its intention to not let any tax relief for any Americans become law until it gets More Money for Millionaires.

The cover story that the Party of Forty-One is using to deceive American taxpayers while the P-41 holds American taxpayers hostage to extort more benefits for the supporters of the P-41 whose incomes are greater than One Million Dollars per year, is, "Not giving more tax reductions to millionaires kills jobs." This is a LIE.

The P-41 claims that folks who own businesses that make lots and lots of money, invest that money in expanding those businesses so as to employ more people, so a reduced tax rate on incomes over a million dollars per year will result in more money to invest in businesses to create jobs. The great deception in this argument is that the income tax is paid on PROFITS, meaning the money that is LEFT OVER after the employees and other expenses of the business have been paid, NOT on gross receipts. If an employer hires more employees, the

money spent to hire those employees is NOT TAXED. The only money on which an employer PAYS income taxes, is money that is NOT paid out to hire employees and business expenses.

This leads to the conclusion that a lower tax rate on profits is a DISINCENTIVE to creating jobs. If the tax rate on profits, the earnings left over after the employees and expenses have been paid, is low, the business owner / employer can keep those profits for personal use at a low cost. If the tax rate on profits is high, the business owner faces a high cost of keeping profits for personal use and has an incentive to instead use those available funds to HIRE MORE EMPLOYEES so the funds will not be taxed as profits.

This conclusion is supported by the experience of the past two years. The American economy crashed in the last year of President Bush's administration, and hit bottom in March, 2009, about six weeks after President Obama took office. Business has consistently picked up since then, as President Obama's programs to increase demand have taken effect. But, the holdover from President Bush's Tax Holiday, which minimized the cost to business owners of sitting on their assets rather than spending their increased revenues to hire more Americans, has resulted that, in December, 2010, businesses have lots and lots of cash but continue to not call back laid-off employees.

This situation is just fine for the folks who own the Party of Forty-One. This situation is death for unemployed Americans. President Obama believes his obligation to protect Americans requires that he negotiate with hostage-takers, that in order to secure thirty-five billion dollars of life-sustaining unemployment benefits for nine percent of the workforce, he has to accept seven hundred billion dollars of tax giveaways to two percent of the taxpayers. The President will make that twenty-to-one payoff to the Party of 41 to keep millions of American families alive. If that payoff is made, there will continue to be no incentive for business owners to hire more employees, and the Party of 41 may succeed in keeping the American economic recovery "jobless" for long enough to defeat President Obama for re-election.

This writer urges the Prez, and the Democratic leadership in Congress, to continue to bring to a vote at every opportunity the legislation to implement President Obama's proposals to reduce taxes for American incomes under \$250,000.00, so as to make it undeniable that the Party of 41 is only interested in its millionaire supporters. One hopes that the voters of the United States will remember, this time, who stopped their tax relief.

One also hopes that, on this Feast of Our Lady of Tepeyac, the low-income working population will not be forgotten.

- Christopher J. Mallin, Old Country Lawyer