

Today's Notes:

1. The New Industrial State

1. A NEW INDUSTRIAL STATE

*John Kenneth Galbraith redefined America's perception of itself in **The New Industrial State**, one of his landmark works. **The United States is no longer a free-enterprise society, Galbraith argues, but a structured state controlled by the largest companies. Advertising is the means by which these companies manage demand and create consumer "need" where none previously existed. Multinational corporations are the continuation of this power system on an international level. The goal of these companies is not the betterment of society, but immortality through an uninterrupted stream of earnings.***

*First published in 1967, **The New Industrial State** resonates today. It is to become, instead, a new "Socialist" State.*

New industrial society indeed! With the blizzard of pronouncements coming out of Washington – almost all of which involve hyper spending – it is evident that this new young, loquacious president is rapidly attempting to transform US society. His 2009 budget deficit will amount to \$1.75 trillion. These decade-long transformations requested by the White House will indeed serve as a knock out to corporate America. American corporations are already taxed at the second highest rates in the OECD. The Democratic Congress sent an 8.7% increase in spending for 2009 loaded with 8,000 “earmarks.” Fourth Quarter GDP was now revised down from -3.8% to -6.2%; Consumer spending fell -4.3%. The US economy is weak and getting weaker. The US \$ is stronger.

As we have suggested, consumer spending has declined as growth has fallen. Now the era of hyper-taxation is upon us – all of us. Mr. Obama indicates that “not one single dime” of increased taxations will be taken from Americans earning under \$250,000 per year. Chris Low of FTN Financial says that limit is actually \$208,000. In addition dividend and capital gains tax rates will increase. Has anyone in Washington heard of double taxation?

The seeds are sown, are they not? Government, not mom and pop, is now to be the “investor” in this new industrial state. It is government that will tax the wealthy and redistribute income. But it is also government that will eventually be forced to increase tax rates on almost everyone in the country. The Reagan Revolution is not only over but it is now being reversed – with prejudice. One of the major platforms, I call them legs of the stool, is to raise budget monies from a carbon capture (cap and trade) strategy. While this issue is hotly debated in science, it is most definitely in our future. This form of taxation will raise the cost of our energy future and raise it significantly. This then will be a tax on every American who uses energy, not only those earning more than a quarter of a million dollars but EVERYONE.

The FT, in an article titled, “**Gambling on a Chance to Change America**” notes,

“Thursday’s 10-year budget document breaks pretty much every political rule in the book. By asking Congress to enact healthcare reform and an economy-wide carbon cap and trade system within two years, Mr. Obama is attempting to pull off two feats that have eluded his Democratic predecessors.”

The utopian view (in this budget) put forward by Mr. Obama and supported by his Democratic and Republican cohorts of a “green society” where everyone’s America is re-invigorated and every American’s quality of life is bettered is of course, impossible. Galbraith’s view of a industry-dominant free-enterprise society is now just a mirage that will fade from view for decades to come.

It was discouraging to see that this budget omits funding for nuclear and off-shore / domestic drilling, both of which we urgently need. China, India, Russia and the new Asian-Sphere are moving ahead expeditiously on these fronts.

Relative to taxes we all know they are as certain as death. Everyone has to pay their fair share of taxes. No one minds that – as long as the taxation policy is considered “fair.” The WSJ reports, this AM, that the new Obama budget will be paid for

“Merely by ending tax breaks for the wealthiest 2% of Americans,” (those earning over \$250,000).

According to the IRS in 2006 7% of Americans (3.8 million filers with gross incomes above \$200,000) paid 62% of all income taxes. The rest of us (93%) paid only 32% of tax revenues. How can I get into that group?

This tax plan is not a fair proposition and hypertaxation on the top 2% (or 7%) will stifle growth. By the way Mr. Obama is expecting 6% GDP growth in 2010/ 2011 to support this trillion plus budget deficit. This is unlikely bordering on the impossible – especially under hypertaxation. What is hypertaxation, as proposed by Mr. Obama?

- 1) 39.6% on income plus 2% on deduction phase outs – 41%.
- 2) Remove housing and other deductions - this will really help the home builders!
- 3) Increase capital gains rates to 20% and dividend taxes – the capital markets will really like this one! Double taxation is alive and well.
- 4) Death taxes increased to 45% for estates over \$7 million.

But the WSJ points out some interesting facts. This specific plan will not close the 2010 deficit gap of \$4 trillion. The WSJ notes, ***“Even taking every taxable “dime” of everyone earning more than \$75,000 (50% of taxpayers) in 2006 ... would have barely yielded enough to cover that \$4 trillion.”*** As the FT suggests this is truly a prolific “Gamble on a Chance to Change America.” By 2010 there may be fewer taxpayers, lower dividend income, fewer hedge funds to tax, and slower growth. Small businesses will also be hit hard by this tax plan. Small business growth is crucial for employment and of course tax revenue.

This is much more than a rescue plan. It is a plan to reach into the pocket of every American which, by itself, would not be so bad if it were truthfully explained to mom and pop. But universal health care and a green energy society under the current circumstances

are a reach too far. But much more poisonous to our future Quality of Life is the fact that government will redistribute income as it sees fit. Free market economics may have failed in many respects. But free market capitalism, properly regulated, is by far the best path to growth and prosperity. Taxation destroys prosperity.

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