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Cato Institute on the Tax Deal

December 12th, 2010 · [No Comments](#)

[Daniel J. Mitchell](#) of Cato likes the tax deal for the obvious reason:

There are [plenty of reason to like and dislike the tax deal between President Obama and congressional leaders](#). On the plus side, we dodge a big tax increase for the next two years. We also replace a goofy and ineffective “make work pay” tax credit with a supply-side oriented reduction in the payroll tax rate (albeit only for one year, so there probably won’t be much economic benefit).

And for the not-so-obvious reason:

But here’s one bit of good news that has not received much attention. The tax deal ends the “Build America Bonds” tax preference, which was one of the most destructive provisions of Obama’s so-called stimulus. Here’s an [excerpt from a Bloomberg report](#).

Senate Democrats backing the subsidy, which has helped finance bridges, roads and other public works, fell short in a bid to get the program added to a bill extending the 2001 and 2003 income-tax cuts. That failure was the latest in efforts to keep the Build America program alive beyond its scheduled end on Dec. 31. ... While Obama and Democrats have supported prolonging the program, they have run into opposition from Republicans critical of the stimulus package. Extensions have twice passed the Democratic-controlled House only to stall in the Senate, where the Republican minority has sufficient power to block legislation. The U.S. government pays 35 of the interest costs on Build America bonds. ... State and local governments, the U.S. Chamber of Commerce and representatives of the construction industry are among the program’s advocates.

[Build America Bonds](#) are a back-door handout for profligate state and local governments, allowing them to borrow more money while shifting some of the resulting interest costs to the federal government.

But states already are in deep trouble because of too much spending and debt, so encouraging more spending and debt with federal tax distortions was a very bizarre policy.

Moreover, the policy also damaged the economy by creating an incentive for investors to allocate funds to state and local governments rather than private sector investments. That’s a very bad idea, unless you somehow think ([notwithstanding all the evidence](#)) that it is smart to make the public sector bigger at the expense of the private sector.

In one fell swoop, Build America Bonds increased the burden of the federal government, encouraged a bigger burden of state and local government, and drained resources from the productive sector of the economy.

That’s stupid, even by Washington standards. So whatever we think of the overall package, let’s savor the death of this destructive provision.

Likewise, Mitchell dislikes the tax deal for the obvious reason:

On the negative side, the deal extends unemployment benefits, which has the perverse effect of subsidizing unemployment. The deal is also filled with all sorts of corrupt provisions for various interest groups such as ethanol producers.



And for the not-so-obvious reason:

Then there are provisions such as the 35 percent death tax. Is this bad news, because it is an increase from zero percent this year? Or is it good news because it is much lower than the 55 percent rate that was scheduled to take effect beginning next year? That's hard to answer, though I know [the right rate is zero](#).

Regarding the extension of unemployment benefits, the Democrats have succeeded in doing what they often do: Fashion a measure that on its face appears compassionate, generous and caring, but that in reality is bad for both the intended benefactors and the country as a whole.¹

Mitchell is right. Extending unemployment benefits incentivizes unemployment and does nothing whatsoever to create jobs. If the Democrats felt compelled to spend taxpayers' money on helping the unemployed, they would have done better to give every currently unemployed American who gets a job and keeps it for a year a \$ 5,000 tax rebate.

Reward *employment*, not unemployment.

Duh!

Footnotes:

¹ *Bill Clinton moved to the right to reform America's welfare system. It was one of the best pieces of legislation enacted in the last 50 years and effectively killed the word "welfare" and replaced it with the word "workfare." Every able-bodied American citizen who is currently receiving unemployment benefits should be required to volunteer his services to the government. It's a crime that 10% of Floridians are getting taxpayer money for sitting on their couches while just a few feet outside their homes the streets are filled with litter.*

Alternatively, instead of granting "unemployment" benefits to citizens, we should offer them short-term employment. This will make them feel better about themselves because they will, at least in part, earn the assistance they get. Haven't we learned by now that we don't do anybody a favor by merely giving them money and when we do we run the risk of creating a revolt-of-the-entitled like those we've seen in [Greece, France and England](#).*

** Even moderately responsible parents know enough to make their children do chores for their allowances and the parents who don't should be arrested for criminally unleashing upon society the likes of Paris Hilton, Charlie Sheen and Lindsay Lohan.*

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