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Fiscal dramas a cause for concern

The recurring Washington, D.C. soap-opera, “As The Debt Grows,” is gearing up for its fall debut, with old and new “fiscal dramas” to follow.

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The U.S. government risks a continuation of the first shutdown in 17 years, with potential insolvency related to our national debt and a new health care law that has its own economic challenges. With Washington running steep budget deficits and a debt-to-Gross Domestic Ratio over 100 percent, the Affordable Health Care Act (ACA) is adding to the fiscal dilemma of the U.S., as of Oct. 1, despite its intended goals.

According to Michael Tanner, a senior fellow at the Cato Institute, the effects of the ACA will cost more than an estimated $2.7 trillion, add at least $1.6 trillion to our national debt and institute more than $1.2 trillion in new or increased taxes over the next decade. While of the nearly 1 million new hires this year, 75 percent are part- time or low-pay, due to businesses’ concern over slow economic growth in the U.S. and abroad, and the questionable costs of the ACA.

The unemployment rate fell to 7.3 percent in August, its lowest since December 2008. This was not necessarily for positive reasons. Around 312,000 people left the labor force, causing the labor force participation rate to fall to 63.2 percent, its lowest level since August 1978. Personal income rose 0.4 percent in August, but has overall remained anemic, partly due to the rise in lower paying, part-time jobs. September U.S. consumer sentiment plunged to its lowest level in 5 months, to 77.5 from 82.1 in August. The U.S. savings rate stood at 4.6 percent, the highest since January 2013, which could be the reason why consumer spending has been weak for most of 2013.

The Case Schiller Home Price Index rose by 12.4 percent in August, its fastest pace in more than seven years, while new home sales grew by 7.9 percent, one of its lowest readings for 2013. The ISM’s August PMI reading shows a 0.3 percent increase to 55.7 percent in U.S. manufacturing, signaling expansion. Auto sales were impressive, up 17 percent in August, the fastest pace since October 2007, yet less impressive in September. The August Conference Board’s Leading Economic Index (LEI) for the U.S. increased 0.7 percent driven by the improved labor market and financial markets. The Eurozone LEI grew by 0.9 percent due to growth in consumer and business sentiment, while fiscal and economic uncertainty persists. China’s LEI grew by 0.7 percent, with increased caution in its real estate sector. For September, the Dow Jones Industrial

Average grew 3.02 percent, the NASDAQ increased 5.34 percent, and the S&P 500 grew 3.60 percent. At the end of September, the national average for gasoline is $3.47 per gallon, down 12 cents from July. The price of oil fell 5.59 percent to $102.87 in September. Gold suffered in September with a 4.64 percent decline to $1,332 and Silver followed with a 7 percent decline to $21.75.

The U.S. is becoming less competitive for a number of reasons. The U.S. does not have a tax structure that promotes invention and innovation with the highest corporate tax rate in the industrialized world. Government expenditures at all levels now consumes more than 40 percent of GDP and growth in the U.S. national debt has gone from zero in 1776 to $17.3 trillion today with most of that occurring since 1981. The above validates an inability to cut spending and balance annual federal budgets while aiding a growing presence of government in the economy, fueled by our current income tax system. The U.S. is becoming less competitive on a global basis and our corporate and capital gains tax rates combined are among the highest in the industrialized world.

Many critics would argue with loop holes and write-offs the U.S. corporate tax system has an effective U.S. corporate tax rate that is very competitive. According to the Tax Foundation this is not true. A current Tax Foundation study concludes that the effective U.S. tax rate is 27 percent on U.S. corporations, while the world average effective tax rate is just 20 percent. A recent study by PriceWaterhouseCoopers analyzed the tax impact by country using the following industries: automobiles, aerospace and defense, chemicals, engineering and construction, industrial manufacturing and metals and transportation and logistics ... it shows the U.S. has the second highest effective corporate tax rate at 30.9 percent, trailing only Japan at 36.7 percent, while the industrialized world's average effective tax rate on these industries is 28.3 percent.

Over the last few years, the top tax rate for the personal income tax in the United States has gone from 35 percent to 39.6 percent. It is important to note that according to the accounting firm, KPMG, the average North American top tax bracket on personal income is 34.3 percent, the average for Asia is 28.24 percent, the average for the whole of Europe is 34.28 percent while the global average top personal tax bracket is 31.91 percent.

In 1913 the total IRS tax code consisted of 400 pages. By 2012, the IRS tax code was 73,608 pages. We have gone from a simple tax system with a low rate in 1913 to a complex, burdensome, unfriendly and uncompetitive tax system in 2013. In 1913 the U.S. was not a major player in the global economy, nor was there a high level of international trade. Today, the U.S. is part of a complex global economy and is burdened by its tax code and competitively disadvantaged.

It seems to us 100 years of our current system of taxing income (Oct. 4) is enough. It is high time the U.S. Congress consider a fair tax (national sales tax) or a flat rate tax. Both would reduce the complexity and burden of our current tax system with the fair tax providing the opportunity to abolish the IRS and with it more than 73,000 pages of onerous tax code.