POLITICS



# Deficit Spending Goes Out Of Fashion As House Leaders Slash New Stimulus

By JED GRAHAM, INVESTOR'S BUSINESS DAILY

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Deficit-spending anxiety has gone bipartisan.

House Democratic leaders struggled Thursday to round up the votes to extend stimulus benefits the chamber previously approved in December, with a host of new spending and tax changes on top.

But fiscal solutions remain just as hard to come by.

They pared the bill by $50 billion to $143 billion by phasing out some provisions earlier. Enhanced jobless benefits would lapse Nov. 30, not Dec. 31. Higher Medicare physician reimbursements would last through 2012 — not 2014.

But the odds of these provisions expiring on schedule appear little better than a 4 p.m. sunset in June. But that wasn't enough. Late Thursday, House leaders dropped a provision to give states $24 billion to help cover Medicaid expenses. States already planned to use that aid to help plug huge budget holes for the coming year.

Also dropped: a provision to extend a federal subsidy to help the unemployed keep health insurance under the Cobra program.

House leaders voiced confidence that the pared-down bill would pass. But the Senate might prove to be an even higher hurdle.

**Higher Deficit, Higher Taxes**

The "extenders" bill would still boost the deficit — less than $60 billion over 10 years vs. prior plans of more than $130 billion — even as it raises taxes.

"The symbolism is really important here" for lawmakers, said Greg Valliere, chief political strategist at institutional adviser Potomac Research.

"I think there's been a dramatic shift in public attitudes against government spending," he said. "It has members of Congress spooked about doing any kind of new big stimulus."

The public believes the TARP bailout and stimulus package have failed, Valliere says. His own view is that they kept things from getting even worse.

The anti-spending mood was evident in the recent GOP primary defeat of Utah Sen. Robert Bennett, whose pro-TARP vote was central to the contest.

But if some Democrats are starting to balk at spending, they still seem willing to raise spending by a lot more than they're willing to tax.

The legislation would boost tax revenue by some $60 billion over 10 years, while the extra spending would occur mostly by fiscal 2013. About $19 billion would come from changing the



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Investing Tip

Stop orders can help when you're away.

treatment of carried interest earned by investment fund managers.

**Fund Manager Tax Hike**

Hedge fund managers, for example, typically charge clients 2% of invested assets and 20% of investment profits.

As of now, just the 2% fee is taxed as ordinary income. The House has voted multiple times in recent years to tax the 20% of profits as ordinary income, as well, instead of as (lower-taxed) capital gains.

House Democrats gave a little ground to win over the Senate, but the latest version would still tax this carried interest at a 38.5% rate. That reflects the year-end phaseout of Bush income and investment tax cuts for high earners as well as ObamaCare's 3.8% tax on investment income.

The investment industry argues the compensation depends on results and should be taxed as risk capital. Squeezing fund managers, some argue, could indirectly raise pension funds' investment costs.

But supporters say fund manager income shouldn't be taxed more lightly than that of blue-collar workers.

Cato Institute tax scholar Chris Edwards sees "a gray area" over whether fund manager investment profits are capital or labor income. But the proposed law would likely raise taxes on capital, reduce investment incentives and drive funds overseas.

News reports suggested Democrats were mulling bigger exceptions for investments held for at least eight years. That might help venture capital funds and real estate investment trusts.

Meanwhile, the U.S. Chamber of Commerce has taken aim at a provision ending some tax credits for firms doing business overseas, raising $14 billion. Multinationals have lobbied hard, noting the U.S. corporate tax system already is among the world's most punitive.

The bill also would raise $11 billion with a 32-cent-per-barrel charge on oil companies.

It also would extend several small tax cuts for firms and individuals.



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