House Democrats block tax cuts for job creators

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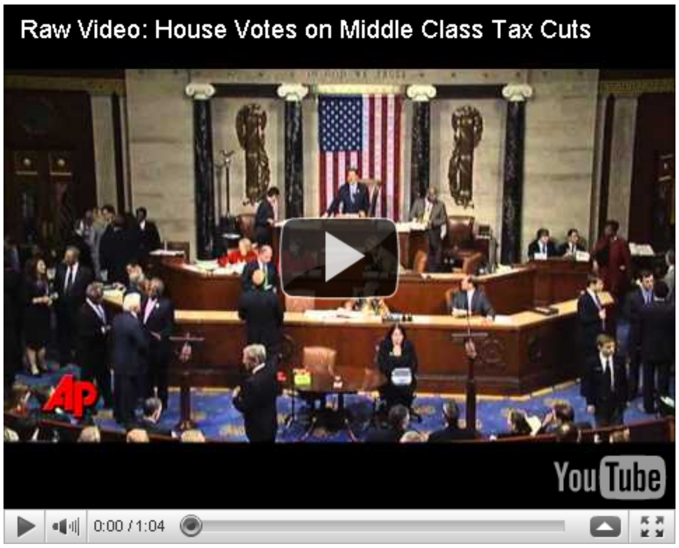
House Democrats did what they could yesterday to ensure that the Obama Tax Hikes take place without a hitch on January 1, 2011. They passed a rule, by a vote of 213 to 203, that blocked attempts by House Republicans to amend the bill to add extension for cuts for income earners making over $250,000, though 33 Democrats voted against the rule.

The extension of tax cuts passed by a vote of 234 to 188. All but three Republicans voted against the measure, as they said they would if cuts for higher income earners weren't include. Twenty Democrats joined them, mostly those who lost on election day.

Speaker-to-be John Boehner (R-OH) called the tactics by outgoing Speaker Nancy Pelosi and her Democratic colleagues "chicken crap" (we all know what he really meant):



There are still rumors of a possible deal between President Barack Obama and Republicans, but yesterday's vote is a signal that Democrats may not be willing to go along with whatever agreement is worked out. Though it should be noted that Senate Minority Leader Mitch McConnell says he has the votes to kill what passed the House. We will find out for sure as Senate Democrats have scheduled a vote for this Saturday.

Worsening the situation, Obama is facing calls from the left to withstand making a deal. And on the right, Republicans are being urged not to trade passage of the START treaty in trade for temporary extension of the cuts.

In the meantime, businesses are unsure as to what economic climate they will face next year, and could cause the stock market to crash:

> *Failure by Congress to extend the Bush tax cuts, especially locking in the 15 percent capital gains tax rate, will spark a stock market sell off starting December 15 as investors move to lock in gains at a lower rate than the 20 percent it would jump to next year, warn analysts.*
> *[...]*
> *"Capital gains tax rate will increase from 15 to 20 percent if the tax cuts are not extended. The last time the capital gains tax rate increased—on Jan. 1, 1987 from 20 to 28 percent—investors realized their gains at the lower tax rate," said Daniel Clifton at a Washington partner at Strategas Research Partners. "We would expect a similar effect this time around as investors see the tax rate going up and choose to realize their gains and incur the 15 percent tax."*
>
> *In a memo to clients, Clifton says that the date most clients are focused on is December 15th for a deal in Congress before beginning to sell. One reason: Many stock options expire that*

> *day and investors have to act.*
> *[...]*
> *Worse, talk that Congress will simply pass retroactive fixes to the tax system won't help, since investors will take the sure thing and sell rather than rely on Capitol Hill. "Fixing the issue next year will not negate these negative impacts," said Clifton.*
>
> *Ditto for a retroactive fix to the alternative minimum tax, he writes in the client memo. "The talk of retroactively fixing the tax cuts ignores the fact that the AMT patch cannot be retroactively fixed and is the largest component of the tax increase. Hence, in March and April, 27 million taxpayers will be facing an additional $70 billion in tax payments. The hit to consumer spending would be particularly significant," he writes.*

Over at Cato @ Liberty, David Boaz writes that a temporary extension isn't going to do much to alleviate fears of job creators:

> *Let's hope Congress and the Obama administration soon learns that higher taxes, more regulation, a larger share of GDP shifted to government, fears of Fed monetization of soaring debt — not to mention newspaper reports of Obama budgeteers "flipp[ing] through the tax code, looking for ideas" and threats of "an array of actions using his executive power to advance energy, environmental, fiscal and other domestic policy priorities" — can only discourage employers, investors, and entrepreneurs. Robert Higgs has cited the role of "regime uncertainty" in prolonging the Great Depression, as investors worried about what FDR might do next. Will Wilkinson points to Treasury Secretary Tim Geithner's saying "businesses want certainty. They need certainty so they can make long-term plans today." Unfortunately, Will says, "Creating completely irresponsible, economically chilling regime uncertainty would appear to be the basic modus operandi of the Obama administration." A temporary extension of today's tax rates, with a continuing threat of a rate hike in a year or two, is entirely in keeping with a regime of uncertainty.*

As the drama unfolds in Congress, businesses and investors will keep watching, waiting and wondering while the clock continues to countdown to one of the largest tax hikes in American history.

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The only thing that's chicken crap is the idea that the s er-rich deserve more tax cuts. We've had these rates for almost 10 years now and the job cr tion record has been pathetic. You and othe ve failed to make any case that this would so how magically change if we extended them. Also, how do you pay for it? Remember the defic which you've said is one of the biggest concerns we should have? What you are advocating a s almost another trillion to the deficit. I guess your concern for the deficit is also chicken crap.

reply

Anonymous on *Fri, 12/03/2010 - 12:43pm.*

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