



Inception

July 28, 2010

Over the weekend, our family went to the movies to see a most interesting film. So as not to spoil it for those that have not seen “Inception,” suffice it to say that it questions what is reality and what is a dream. Furthermore, can one dream within a dream, descending levels in the mind so that dreams and reality become all the more confused? The movie has plenty of special effects and is so fast-paced that viewers may need to see the movie twice to comprehend it. A visit to the washroom, a snooze or going for popcorn and all is lost.

The well-written script (reportedly to have taken ten years to write) reminds me of Washington today. The latest missile from the Administration via Timothy Geithner is the proposal that marginal tax rates for the wealthiest American families (\$250,000 or more of adjusted gross income) should rise 12.8% from a top rate of 35% to 39.6%. The Administration “believes” that this will reduce the deficit. Is this reality or a dream?

Is it economic reality or a political dream that a family with an adjusted gross income of \$250,000 is wealthy? A better lynchpin might be “what disposable income does a family earning above \$250,000 have?” As the economy quivers, myriad new taxes at state and local levels add to the inability to right the consumer ship. If we go down a level in the dream, consider the new Medicare tax on all “unearned taxable income” (investment income) that will go into effect in 2013. Is it reality that raising the Medicare tax on wages, combined with the new investment income tax, will raise \$200+ billion to substantially reduce the cost of health care reform? Going another level down, the Qualified Dividend tax will rise from 15% to 28-39.6% depending upon Congressional whims.

Enter David Ricardo, (1772-1823) a more than notable British Economist who developed the “classical” framework of political economy. One of seventeen children, he left school at the age of fourteen to trade on the London Stock Exchange (a father in the business helps) and amassed a fortune by the time he was forty-one. He retired, became a Member of Parliament and a prolific writer of economic theory, including “*On the Principles of Political Economy and Taxation*”.



Inception

July 28, 2010

continued

Ricardo posited that profits are key to enterprise success. As costs rise, profits erode. Since profits lead to reinvestment, rising costs inhibit economic progress. The “Ricardo effect” implies that consumers (taxpayers) will need to save to pay for tax increases and thus consume less.

Administration, Congressional and Keynesian* dreams notwithstanding, we are currently in a reality of the “Ricardo effect” where taxpayers are saving or reducing debt and not spending as taxes on the “wealthy” increase and discretionary income is trimmed.

What is the reality for recovery? What is the mechanism for future job growth? Permanent increases in employment arise from reinvestment of “profits”, whether they are corporate or individual. What is reality, who is dreaming and why is Washington confused?

Sincerely,

Joel H. Jastromb
Chairman

* **Keynesian economics** is a [macroeconomic](#) theory based on the ideas of 20th century British economist [John Maynard Keynes](#). Keynesian economics argues that [private sector](#) decisions sometimes lead to [inefficient](#) macroeconomic outcomes and therefore, advocates active policy responses by the [public sector](#), including [monetary policy](#) actions by the [central bank](#) and [fiscal policy](#) actions by the government to stabilize output over the [business cycle](#)