

September 2011

Introduction

Despite the high hopes for 2011, this year has proved to be a very trying time for American consumers and investors alike. A year that was supposed to be a time of growth and recovery has turned out to be anything but, and current economic data shows signs that the U.S. economy may again be slowing down and is even threatening a second recession similar to the 1979-81 U.S. "Stagflation" only at a more severe level and on a global scale. In the Bureau of Economic Analysis's recently revised GDP data, growth for the second quarter came in at a meager 1.0 percent. Additionally, 1st Quarter GDP growth was revised downward from 1.9 percent to just .4 percent. Inflation rose slightly to 3.77 percent in August even with gold and silver prices receding over the same period. The end of September finds the U.S. Congress once again debating the federal budget. If a resolution is not found soon, the threat of a federal government shutdown looms just one month after the August debate and the raising of the federal debt ceiling.

Key August/September Data

Positive Signs

U.S. productivity remains among the highest in the world while U.S. non-financial corporations' cash reserves remain at nearly \$2 trillion. The August Conference Board Global Leading Economic Indicators Report shows the U.S. and China as positive at .3 percent and .5 percent respectively, while Europe was down one percent. The U.S. savings rate remained high at 5 percent in August, down from 5.4 percent in July. Automobile, SUV and light truck sales were up 1.2 percent in August relative to both July 2011 and up 7.5 percent relative to August 2010. Over 6.5 million units have been sold during March, April,

May, June, July and August which is the largest six month cumulative level since the end of the Cash for Clunkers program in 2008. Consumer Confidence declined dramatically from July's level of 59.5 to an August of 45.2, while showing a slight improvement in September 2011 at 45.4. Average disposable income was up slightly in August marking the tenth consecutive month that disposable income has increased. The average thirty-year fixed mortgage interest rate is at a near record low at 4.05 percent with the fifteen year fixed mortgage interest rate at 3.33 percent. The U.S. dollar index has been moving up consistently since August, increasing more than 6 percent to date.

Negative Signs

The Dow Jones Industrial Average fell 519 points or 4.3 percent in August and is down 205 points in late September. The unemployment rate was at 9.1 percent again in August with nonfarm payroll unchanged and private sector employment up 91,000 in August. Despite President Obama's job-creation focus all progress seems to be eluding him. The U.S. remains one of the highest corporate tax rate countries in the world at an average rate of 39.27 percent with U.S. companies holding more than \$1.2 trillion overseas as a result. While gas and oil prices have eased slightly over the last couple months, the threat of a global inflationary period is still very real with the potential for "Stagflation" and recession more likely than ever. According to the latest manufacturing PMI Report on Business, the Manufacturing sector of the U.S. economy fell from 50.9 in July to 50.6 in August, continuing its downward trend that was momentarily broken in June of 2011. The pending home sale index fell 1.3 percent in July to 89.7 from 90.9 in June.

Current Issues

Recently President Obama made it sound as if there is a high percent of millionaires and billionaires across America who pay tax rates lower than their plumber or secretary. Data from the Internal Revenue Service (IRS) and the Tax Policy Center tell a different story. In reality, rich people pay a higher tax rate and a much larger dollar sum in personal income taxes on average than middle or lower income tax payers. According to 2009 IRS data, 1,470 tax returns or roughly a half percent of household tax returns filed by Americans earning \$1 million or more paid no federal income taxes. The remaining 235,530 people earning \$1 million or more paid roughly 24.4 percent of their income in federal personal income taxes. While households making \$100,000 – \$125,000 paid 9.9 percent, those making \$50,000 – \$60,000 paid 6.3 percent on average.

Tax rates for 2011 will be even higher according to the Tax Policy Center. Americans making \$1 million or more will pay on average 29.1 percent of their income in federal taxes, including income taxes, payroll taxes and other taxes. Those earning \$50,000 – \$75,000 will pay 15 percent, those making \$40,000 – \$50,000 will pay 12.5 percent and those earning \$20,000 – \$30,000 will pay 6.3 percent using the same metrics.

It is also important to note that the top 1 percent of income earners will pay roughly 40 percent of the personal income taxes in 2011 while the bottom 46 percent of American income earners will pay no personal income taxes in 2011. When you dissect U.S. tax data further, you find roughly 40 percent of all returns filed over the last few years not only pay no personal income taxes but after adjusting for income or factoring in exemptions and deductions actually pay a negative income tax. What this means is not only do they not pay an income tax, but they actually receive a check or subsidy from the federal government.

Finally, when President Obama uses Warren Buffet's 2010 tax return as an example, some of the facts are missing. Mr. Buffet pays himself almost nothing in salary and earns most of his income in dividends and capital gains which are taxed 15 percent. Not only is Mr. Buffet's situation an exception but for most Americans including millionaires and billionaires, dividend and capital gains income has already been taxed at least once through personal income taxes with dividend and capital gains being a double taxation of previously earned income. Even in Mr. Buffet's case, Berkshire Hathaway paid income taxes on profit first and Mr. Buffet's dividend and capital gains income is a second or double taxation of the same income which is an effective rate of at least 35 percent when factoring in federal corporate income tax rates.

Conclusions

Today, we are talking about taxing the rich without closely considering what it will mean to job creation and charitable contributions. American free enterprise is responsible for our economic greatness, but it also pays for our churches, synagogues, mosques, little leagues, the United Way, the Red Cross, and countless other institutions.

Contact Us

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