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"Do everything in love."

—Paul

There is a select list of catastrophic life events that are known to have the power to completely bankrupt us spiritually. The field of psychology and other related sciences are quite familiar with the listing. It could be the death of a close family member, or it might be that we are struck with an incurable illness. Or, it could be a financial reversal that totally wipes us out and leaves us destitute. Suddenly, an unwanted event such as this happens to us and we naturally succumb to depression, fear, and confusion.

"Why me?" will be the first of many questions like this one that we may entertain as we struggle emotionally with our painful circumstances. We may also realize, perhaps for the first time in our lives, that the world around us can be cruel and hostile, a respecter of no one. Race, pedigree, intelligence, or wealth matters not. A life event of this caliber is the great leveler of people allowing us to realize some important realities about our world and ourselves in it. Many times these life events can become the catalyst to our search for life's meaning and the search for God.

Those of us who are financial professionals and united with us in the work we do, intuitively know an aspect to these regrettable conditions most people never recognize. We know that these types of life experiences will affect not only the unfortunate recipient of the catastrophe, but also the economic forces connected to that individual, such as a household, a business, or a community of people. These seemingly individual misfortunes also have far reaching economic consequences that affect many others and we know this is where we can help. This is what makes our profession and calling invaluable. We, above all other professions, have at our disposal the resources to help individuals and families mitigate these unexpected risks. What a tremendous gift and blessing!

During this time of thanksgiving and reflection of all that we have been given, let's remember to reach out to those around us that are downcast and suffering with devastating life experiences. More importantly, let's reach out to them before disaster strikes. If ever there was a time in the history of the world for the *Remnant* to shine as a beacon of hope and faith in the economic realm, it is now. Therefore, extend your helping hand often and without delay. Let your light shine and build the 10%.

Yours truly,
Carlos and Bob

Bitcoin Battles

BITCOIN "FORKS" AND OTHER DEVELOPMENTS

As of this writing, Bitcoin has broken through a price of $8,600, when it had only been around $900 at the start of the year. (This is an incredible ~850% increase year-to-date.) Bitcoin enthusiasts claim that this is just the beginning, as we are witnessing a new era in the technology of payment. Critics deride the entire new asset class of "cryptocurrencies" as a mass delusion that ignores the fundamentals of monetary theory.

In this short blurb, we won't take a stand on this controversy; interested readers can consult the guide co-authored by Murphy, available at: www.UnderstandingBitcoin.us. However, for our purposes here, we can summarize some of the recent events: There has been a growing concern that the original (or "core") Bitcoin network would be unable to mature into a realistic option in the modern payments ecosystem. The original "block size" to be added to the Bitcoin history was 1MB. Because the original protocol adjusts the difficulty of "mining" operations to ensure that the network adds one new block for every 10 minutes, this implied that the most the network could process is about 7 transactions per second. (For a frame of reference, major credit card companies currently process more than 1,000 transactions per second.)

Because of this inherent limitation, some of the leaders in the Bitcoin community had been lobbying to alter its protocol, to increase the size of a block to 8MB, thus allowing for eight times as many transactions per second (all else held equal). The community couldn't reach consensus on this proposal, such that a "hard fork" occurred on August 1, 2017. At that point, the "tree" transaction history of exchanges of bitcoins broke into two separate branches, with one branch following the original protocol and the other being designated "Bitcoin Cash."

Whether the Bitcoin fans or critics turn out to be right, the whole episode is a fascinating experiment in truly *voluntary* alternatives to the coercive monetary and banking system that humanity currently uses.

YELLEN ON THE BUST

OUTGOING FED CHAIR WARNS OF "BOOM-BUST CYCLE"

In an ironic twist, Janet Yellen—who officially will not have her term renewed as Fed chair—gave a recent talk at New York University in which she warned that the U.S. central bank would need to be careful with its interest rate policy in the coming years.

According to a Nov. 21 article from the AP, Yellen *"said that going forward, the Fed will be faced with a delicate balancing act: It will need to move rates up at a pace that allows the labor market to improve and inflation to move toward the Fed's target. This while not delaying hikes to the point where the Fed is forced to push rates up so quickly that it threatens to throw the country into recession."*

This all sounds great in theory, but remember that the Fed (under Alan Greenspan) also tried to engage in a "soft landing" following the stimulus it had given to the economy after the dot-com crash. Specifically, the Fed had cut its policy rate from 6.5% down to 1% by June 2003, and held it there for a year. Then, starting in June 2004, the Fed began frequent but modest hikes, in an attempt to "take its foot off the gas" without crashing the economy. We all know how that balancing act turned out.

If the Austrians are right about the business cycle, there is no way to avoid a crash. Artificially low interest rates—in place for seven years—invited massive misallocation of resources, such that the capital structure of the economy is in an unsustainable configuration. By sloooooooowly letting interest rates return to more appropriate levels, the Fed may postpone the day of reckoning, but it will only prolong the period of illusory prosperity and make the crash that much worse when it happens.

ObamaCare Sticker Shock

OBAMA'S OUT, BUT HIS POLICIES LIVE ON

A Nov. 16 article in the Washington Post by Colby Itkowitz reveals that in Charlottesville, North Carolina, self-insured individuals are facing the biggest health insurance premium hikes in the country. The article gave the example of *"Ian Dixon, who left his full-time job in 2016 to pursue an app-development business,"* and who *"did so because the ACA guaranteed that he could still have quality coverage for his young family, he said. But when the 38-year-old Charlottesville husband and father of a 3- and a 1-year-old went to re-enroll this month, his only choice for coverage would cost him more than $3,000 a month for his family of four…"*

That new monthly premium compares with $900 that he paid previously, meaning his health insurance price more than tripled in just one year. Other people around the country are seeing large hikes, though there are special factors contributing to Charlottesville's crazy situation.

Critics of the Trump Administration are naturally blaming everything on his policies. Yet even if everything they said were accurate—which it isn't—this debacle would *still* be a strike against the Affordable Care Act, a.k.a. ObamaCare. When the federal government takes a much larger role in health insurance, it necessarily politicizes the sector. It will obviously follow that when the other party takes power, regular Americans will be caught in the crossfire.

Just as people of all religious persuasions can appreciate the wisdom in "separation of church and state," by the same token liberals and conservatives should endorse "separation of health insurance and state." If the problem is that too many Americans can't afford health insurance, getting the federal government in the middle of it is hardly going to help.

THE GOP TAX BILLS

BY ROBERT P. MURPHY

As of this writing, the House and Senate have crafted their respective versions of the GOP tax proposals. After the Thanksgiving holiday, the two sides will race to reconcile and present President Trump with something tangible to sign so that they can declare "Mission Accomplished" before the calendar year expires.

The proposals are each hundreds of pages long, and so in this article I am obviously not going to give a comprehensive analysis of their particular details. Instead, I will explain the logic of supply-side "tax reform," and will then critically analyze the current GOP proposals from that perspective. As we will see, even on their own terms, the proposals are nothing like the truly revolutionary changes to the tax code that occurred during the Reagan Administration. As obnoxious and clichéd as some of the leading Democrats are, they *do* have a point when they complain that the current proposals are stacked quite heavily in favor of the wealthy and do little for—or even penalize!—the middle class.

The takeaway message is simple: Don't pin your hopes on top-down reform from Washington. If you get some tax relief and/or a big cut in the corporate income tax stimulates domestic activity, great. But either way, you should be taking steps to "secede" from the current monetary and banking system, to insulate yourself as much as possible from the coming financial storms. The stock market has been roaring since Trump's election, but even if they end up delivering some decent reforms, that won't fix the festering problems that the Fed has created since 2008.

The Logic of Supply-Side Tax Reform

As someone who used to work for Arthur Laffer, I want to give proper credit to the underlying logic of what the current "tax reformers" claim to be doing. So it's not the *spirit* of the GOP proposals that bothers me, but rather the *letter* of their actual detailed plans.

Even on their own terms, the proposals are nothing like the truly revolutionary changes to the tax code that occurred during the Reagan Administration.

The crucial insight is that there are different ways of raising revenue for the federal government, and some approaches distort the economy more than others. So we should make a distinction between a "tax cut" and "tax reform." It's possible for the Treasury to take in the same number of dollars in tax receipts, in a way that allows the private sector to grow faster. This is a win-win scenario that should please both conservatives and liberals.

When people are currently talking about "fundamental tax reform" and bringing up the 1986 Tax Reform Act, the fundamental idea is to lower the marginal *rates* of income tax, while getting rid of deductions and exemptions in order to broaden the tax base to which those rates apply.

The stock market has been roaring since Trump's election, but even if they end up delivering some decent reforms, that won't fix the festering problems that the Fed has created since 2008.

To take a very simple example, just to make sure the reader understands the logic: Suppose initially the average household has $100,000 in pre-tax income, and the tax code allows it to claim $50,000 in various deductions. Further suppose that the single flat marginal tax rate is 40%. In this scenario, the household has $50,000 in *adjusted* income, and then pays $50,000 x 40% = $20,000 in income tax.

Now instead of this approach, instead suppose the government gets rid of all of the deductions, but lowers the single flat income tax rate to 20%. Then the household has to report its actual income of $100,000, on which it pays a tax of $100,000 x 20% = $20,000.

So at first glance, it would seem that this should be a wash: Either way, the household hands over $20,000 to the IRS. Yet most economists would argue that the second approach is superior, because of the change in incentives. In the first scenario, with the generous deductions but high marginal tax rate, the household didn't have as much incentive to generate more income (such as through additional saving, working an extra job, or taking a more stressful but higher paying job).

For example, suppose the household in the first scenario considers cutting back on its lifestyle spending in order to save an additional $10,000 and buy corporate bonds yielding 5%. That means the following year the household would have an additional $500 of pre-tax income. But the amount of deductions doesn't increase just because the household saved and invested more, and so now the household's adjusted income is $50,500, meaning its tax bill is $50,500 x 40% = $20,200.

What has happened here? Of the extra $500 in interest income that year (earned from buying the $10,000 extra in corporate bonds), the government skims off 40% from the top. Thus, of that additional $500 in *pre*-tax income, the household only gets to keep $300 of it after the Tax Man gets his cut. (In percentage terms, the household retains only 60% of the extra income it generated through its frugality.)

In contrast, suppose we change the rules to a system with no deductions but a flat 20% tax rate. In this case, if the household decides to save and invest an additional $10,000 in corporate bonds yielding 5%, then the following year the household's tax bill will be $100,500 x 20% = $20,100. Thus, of the additional $500 in pre-tax income, the household gets to keep $400 of it, after the Tax Man gets his cut. (In percentage terms, the household now retains 80% of the extra income it generated through its frugality.)

When people are currently talking about "fundamental tax reform" and bringing up the 1986 Tax Reform Act, the fundamental idea is to lower the marginal rates of income tax, while getting rid of deductions and exemptions in order to broaden the tax base to which those rates apply.

Does It Matter?

I chose nice round numbers for my example to keep the math simple, but I hope the reader sees the underlying logic. In either scenario, the government gets the same amount of revenue in a "static" analysis, where we assume households and businesses keep behaving the same way. In other words, the hypothetical tax reform I sketched out above would be classified as "revenue neutral."

Yet in reality, most economists would agree that the second approach was more "efficient" (where that term has a precise technical meaning that is not simply "desirable"). In the aggregate, with millions upon millions of households making saving and work decisions "on the margin," it really does add up when you magnify the after-tax return on additional pre-tax income.

To repeat: With our numbers, the household got to keep 80% of its additional earnings with the tax reform, as opposed to the original scenario of only keeping 60%. That might not make much of a difference for any one household, but over the entire economy, year after year, that change in incentives could have an enormous impact on how much is saved and invested. The increased investment then fuels the construction of more tools and equipment, so that workers have a higher productivity and earn higher wages.

Different Tax Types

In addition to studying the impact of rate reductions, economists also analyze the *form* of the tax. I do not have the space to dwell on it in this article, but the takeaway conclusion is that (other things equal) taxes on *capital* are the most destructive to economic growth, whereas taxes on consumption are less distortionary than taxes on income. This is why so many economists favor (at least in principle) things like a Value Added Tax or a sales tax in order to raise revenue, and argue that a capital gains tax or the corporate income tax is counterproductive.

In addition to studying the impact of rate reductions, economists also analyze the *form* of the tax.

For our purposes here, let me give the intuition behind the preference for a "consumption tax" as opposed to an "income tax." If the government levies (say) a 10% tax rate on all consumption, then that distorts the economy. It makes a worker less eager to sell his labor hours for wages, since anything he buys (such as food, fancy clothes, or apartment rental) will have a 10% tax going to the government. On the margin, the worker will want to enjoy more leisure, and not work as many hours, because of the 10% tax on consumption.

However, it would distort things *even more* if the government were to raise the same amount of revenue by imposing a flat tax rate on income (rather than consumption). Not only does an income tax make the worker less likely to sell his labor hours for wages (since the wages get hit with the income tax), but it *also* distorts the worker's decision about how much to save out of his after-tax paycheck. When a worker saves, the benefit to him accrues in the form of interest, dividends, or capital gains in the future, and these are all different types of "income" that will be hit by the income tax.

So to sum up, textbook discussions of tax theory typically favor a consumption tax (such as a sales tax or a Value Added Tax) over an income tax, because the income tax has a double whammy: Not only does it screw up the decision of how much to work each period, but it *also* penalizes saving in an extra way. In contrast, a consumption tax discourages work effort too, but once you've earned the income, a consumption tax doesn't give an artificial advantage to spending the money today rather than next year.

Tax "Efficiency" versus "Equity" (or Fairness)

Thus far I've summarized some of the standard points in the economic analysis of taxation. However, I should be clear that even economists recognize that "efficiency" is not the only criterion. Cold-blooded economists also appreciate that there are other things to consider, such as the impact on the poor.

To give one simple example: One of the

least distortionary taxes is a "head tax," in which each person in the country owes a flat dollar amount to the government. This is pretty attractive from the perspective of economic efficiency, since it doesn't alter incentives very much. (The only decision it really distorts is to make people less likely to have children.)

However, even though a flat head fee would constitute a very small "drag" on the economy, depending on its size it might be monstrously *unfair*. Imagine that the government insists that every citizen owes, say, a flat $7,000 each year to the IRS. This would take in some $2 trillion in total revenue, while unshackling the most productive citizens to earn boatloads more of income, and also it would give a huge boost to saving and investment.

We need to ask *why* the tax code gets so distorted in the first place, if it's so obviously inefficient?

But on the other hand, think of how unfair it would be to suddenly tell a single mother with three little kids that she now has to cough up $28,000 per year in the head tax, while telling a bachelor hedge fund manager that he only owes $7,000 per year.

So as this extreme example illustrates, even the standard economic analysis appreciates that raw "efficiency" is not the only thing to consider when discussing the "ideal" way to raise revenue.

The Real World versus Textbook Theory

Now that I've sketched out some of the main results in the standard economics literature, let me hasten to add that I am *NOT* endorsing such thinking. There are many pitfalls in a naïve application of the principles we've considered so far in this article.

For example, we need to ask *why* the tax code gets so distorted in the first place, if it's so obviously inefficient? The reason of course is that legislators don't craft the tax code in order to satisfy a group of technocratic PhDs, but instead they aim to curry favor with their donors. If they put in a clause that allows manufacturers in Baton Rouge to fully deduct expenditures on new trucks so long as they are red and carry radio parts at least six months of the year, then that is a quirk that won't affect most people but could be very lucrative to certain companies. Such a specific measure would presumably be inserted into the tax code by a representative whose constituents are based in Baton Rouge.

Once we realize that there are political *reasons* that the current tax code ended up the way it did, we should be skeptical of promises to "reform" the code by taking away so-called loopholes in exchange for lowering marginal rates. Those rates will no doubt rise in the future, and other loopholes will be inserted down the road. This cycle repeats again and again.

Another major problem with the standard approach to "tax reform" is that it *raises taxes on some people* in order to make the "simplification" possible. This is unavoidable if the objective is a "revenue neutral" reform that lowers rates while eliminating deductions and credits, because different people take advantage of these quirks differently.

The only safe way to reduce the tax burden without hurting anybody is to keep the structure of the code that way it is, while merely lowering the rates.

Finally, introducing a new type of tax—such as a European-style Value Added Tax or a national sales tax or a carbon tax—is particularly dangerous, since it warms the American people up to a new form of bilking.

The only safe way to reduce the tax burden without hurting anybody is to keep the structure of the code that way it is, while merely lowering the rates.

The Reagan Revolution

After our lengthy discussion of the theory (and pitfalls) underlying the tax reform discussion, we can appreciate just how significant the changes to the federal income tax really were back in the 1980s. Table 1 shows the marginal tax rates for the various income brackets, at the start of the Reagan years and then at the end. (Note that the changes started when he first came in, and then additional changes were implemented in stages after the sweeping 1986 Tax Reform Act. There was not one sudden year in which the code completely transformed.)

As Table 1 indicates, Ronald Reagan came into office facing a federal personal income tax code with *seventeen brackets,* and a top marginal rate of *70 percent.* After the various reforms were phased in, seven years later the federal personal income tax had only *two brackets* with a top marginal rate of *28 percent.* Thus you can see why some people look so fondly on the supply-side achievements during the Reagan years, as the turnaround was pretty remarkable on this front.

Before moving on to the current GOP tax proposals, let me address one pernicious myth about the Reagan fiscal record. It is certainly true that the federal budget deficit mushroomed on his watch, causing a massive expansion in the federal debt, whether measured in absolute dollars or even as a percentage of GDP.

However, the problem here wasn't *revenue,* it was *spending.* Specifically, in Fiscal Year

Table 1: Federal Personal Income Tax Brackets and Rates, Single Filer, 1981 vs. 1988

Tax Year 1981		Tax Year 1988	
Income Bracket	**Marginal Rate**	**Income Bracket**	**Marginal Rate**
$0 - $2,300	0%	$0 - $17,850	15%
$2,300 - $3,400	14%	$17,850 -	28%
$3,400 - $4,400	16%		
$4,400 - $6,500	18%		
$6,500 - $8,500	19%		
$8,500 - $10,800	21%		
$10,800 - $12,900	24%		
$12,900 - $15,000	26%		
$15,000 - $18,200	30%		
$18,200 - $23,500	34%		
$23,500 - $28,800	39%		
$28,800 - $34,100	44%		
$34,100 - $41,500	49%		
$41,500 - $55,300	55%		
$55,300 - $81,800	63%		
$81,800 - $108,300	68%		
$108,300 -	70%		

SOURCE: Tax Foundation[1]

1981 total federal receipts were $599 billion, while total outlays were $678 billion. By Fiscal Year 1989, total receipts had grown to $991 billion, but spending had grown to $1,144 billion.[2] Thus, over the eight years that could be attributed to the fiscal policies of Congress working with President Reagan, federal receipts increased by 65 percent, while spending increased 69 percent.

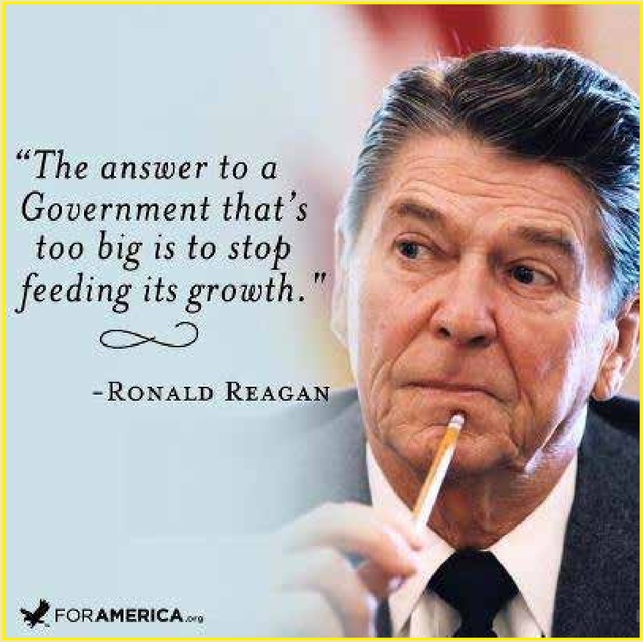
Moreover, except for one year early on (during the worst recession since the Great Depression at that point), tax receipts went up every year during Reagan's two terms. So the critics of "tax cuts for the rich" can't even claim that there was a huge hole that was only filled by the end of his tenure. No, it is simply a myth of American politics that the Reagan years involved "starving the government" of revenue. Reagan was a disappointment from the perspective of fiscal conservatism, but it was due to lack of discipline in spending restraint, not because of reckless tax cutting.

The Current GOP Proposals

As of this writing, both the House and Senate have offered tax reform packages. The *good* news is that they involve massive *cuts* (on net) rather than simply rearranging the burden of the tax code. Indeed, the media accounts report that the Republicans in Congress are pushing through the largest reduction in receipts (relative to the projected status quo baseline) that is allowed by the rules, to still be able to avoid a Democratic filibuster. Specifically, the plans are projected to "cost" the federal government $1.5 trillion over ten years in lost revenue.

Let's be sure we understand this terminology. When the media reports that either of the Republican tax plans will "cost" $1.5 trillion, what that means is that the IRS will let Americans keep $1.5 trillion more of the income they earned.

Another shared feature of both the House and Senate proposals is a reduction in the corporate income tax rate from 35 percent down to 20 percent. By itself, this is a beneficial change that is long overdue. Even though the *personal* income tax in the United States is not outrageous by global standards, the *corporate* income tax is the 4th highest on planet Earth as of 2017. (The three highest are the United Arab Emirates, Comoros, and Puerto Rico.)[3]



It is simply a myth of American politics that the Reagan years involved "starving the government" of revenue.

The corporate income tax is particularly insidious, because it penalizes—and hence discourages—investments in business growth. (After all, the benefit of investing more in a company is that it hopefully generates higher net income down the road.) Reduced investment is bad not only for shareholders, but also for American workers.

A lower U.S. corporate income tax rate will attract more investment, both from American and foreign savers, which will increase the accumulation of machines, tools, and other equipment in the United States. This means U.S. workers will enjoy faster productivity growth, so that their wages and salaries will grow faster than they otherwise would have.

When the media reports that either of the Republican tax plans will "cost" $1.5 trillion, what that means is that the IRS will let Americans keep $1.5 trillion more of the income they earned.

"Closing Loopholes" and Crashing Asset Prices

On the downside, the House and Senate plans reduce or eliminate many of the deductions and credits that people can currently claim. Earlier in this article I explained the logic behind such a move.

But even though "closing loopholes" may sound elegant in theory, in practice it can crash entire markets. For example, the famous 1986 Tax Reform Act eliminated the real estate "tax shelters" that had become very popular. As investors responded to the change, the real estate market had the worst crash since the 1930s, and the stock market crash of 1987 was literally the worst one-day fall in history. (The Dow Jones lost 22.6% in a single day!)[4]

We can hope that there is nothing as dramatic brewing in the current proposals, but the House version *does* limit the mortgage interest deduction on new purchases to the first $500,000. (The current cap is $1 million.) The Senate version has no such change to the rules. Both homebuyers and the housing sector are of course anxiously awaiting the reconciliation process to see the ultimate fate of this politically popular element of the tax code.

Watch the Thresholds, Not Just the Rates

As my final bit of complaining in this article, let me illustrate how relatively modest the *personal* income tax rate reductions are in the Senate proposal. But on top of that, look at how the *bracket thresholds* change as well. It means that some households might see the top tax rate *increase,* in addition to losing some of their deductions.

To reiterate, the proposed changes in Ta-

Table 2. Senate Income Tax Proposal, Single Filer, 2018 Tax Year

CURRENT PLAN		SENATE "Tax Cuts and Jobs Act" (CHAIRMAN'S MARK)	
Income Bracket	**Marginal Rate**	**Income Bracket**	**Marginal Rate**
$0 - $9,525	10%	$0 - $9,525	10%
$9,525 - $38,700	15%	$9,525 - $38,700	12%
$38,700 - $93,700	25%	$38,700 - $70,000	22%
$93,700 - $195,450	28%	$70,000 - $160,000	24%
$195,450 - $424,950	33%	$160,000 - $200,000	32%
$424,950 - $426,700	35%	$200,000 - $500,000	35%
$426,700 -	39.6%	$500,000 -	38.5%

SOURCE: Tax Foundation[5]

ble 2 are a pittance compared to the massive overhaul documented in Table 1. Those comparing the current GOP proposals to the "Reagan Revolution" are being overly dramatic.

Yet beyond the fact that the personal income tax rates are only tweaked—and even here, the lowest and second-highest bracket rates stay the same, at 10% and 35% respectively—look at the expansion in the income ranges of the brackets. Even disregarding the elimination of certain deductions, we can see that some taxpayers will suffer a *hike* in their marginal income tax rate! (However, note that the standard deduction will increase, which will counterbalance some of the problem, though it won't address the incentive issue.)

Let's take two examples, based on the information in Table 2. First, suppose you earn $160,000. Under current law, if you had the ability to generate up to $35,450 in additional income, you would face a marginal income tax rate of 28% on that extra income.

However, under the latest version of the Senate bill, if you earn $160,000 right now, then the next $40,000 of additional income you might generate faces a *marginal* tax rate of 32%.

Let's consider a second example. Suppose you currently earn $200,000. Under current law, you can generate up to $224,950 in additional income, and face a marginal tax rate of 33 percent on it.

However, under the latest version of the

Senate bill, if you earn $200,000 right now, then the next $300,000 in additional income you might generate faces a marginal tax rate of 35 percent.

Not only is this annoying to millions of high-income people who may have thought they were getting a reduction in income tax rates, but it also undercuts the whole *point* of a supply-side tax reform. Namely, millions of upper-middle class professionals and small business owners (depending on how they file—there are tax breaks given to pass-through income) are facing a tax rate *hike* on the extra income they might plausibly generate over the next several years. If Republicans think the supply-side tax cuts of the 1980s were responsible for stimulating saving, investment, and job growth, then they should realize that the current Senate proposal will do the opposite, at least for a large segment of the most productive Americans.

Conclusion

The current House and Senate tax proposals are enormous documents, containing not only the items we've touched on above, but also changes to the treatment of pass-through business income and possible repeal of the ObamaCare mandate and estate tax. Here at the ***LMR***, I'll wait until final legislation is passed before offering more commentary on specifics.

Even at this stage, however, we can warn our readers that the promised supply-side boom from the GOP proposals is likely to underwhelm. This is at least one episode where the standard Democratic complaints about a "giveaway to the rich" are somewhat justified.

To be sure, from our perspective we have no problem with tax cuts for the wealthiest Americans. But the problem is that millions of other households are facing an imminent *hike* in their taxes, both through the bracket expansion and because of the elimination of deductions (such as those for state and local taxes).

We can only repeat our plea for ***LMR*** readers to review our video "How to Weather the Coming Financial Storms,"[6] because top-down salvation from Washington is growing ever more elusive. ◆◆◆

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4. See: https://en.wikipedia.org/wiki/List_of_largest_daily_changes_in_the_Dow_Jones_Industrial_Average.
5. Analysis of Senate proposal available at: https://taxfoundation.org/overview-senate-amendment-tax-cuts-and-jobs-act/.
6. See our video at: https://lara-murphy.com/video0916/.

TRUMP'S TAX REFORM

by L. Carlos Lara

Although it's not yet law, the chances that some version of the Republican tax proposals will go through seem very likely. Republicans, who control the House and the Senate (even though it's by a narrow margin of only two seats in the latter), are hard at work trying to reconcile their differences and turn this initiative into law before the end of the year.

Virtually no aspect of the current tax code will be left untouched and if this proposal does become law it will be the most sweeping tax reform act in thirty years. Not only this, but by analyzing who is actually getting the substantial tax reductions, the Grand Old Party (GOP) appears to be crafting it so that the big corporations, and by extension their majority stock owners, wind up being the big winners.

But before questioning the GOP rationale it might help ***LMR*** readers to be reminded of several important facts about businesses in the U.S. that many of us sometimes completely overlook. These facts, which can be easily downloaded for study from the SBA Office of Advocacy at https://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdftell an interesting story and may help explain why the GOP singled out certain sectors of corporate America. I'll mention just a few.

1. There are 28 million businesses in the U.S.
2. 75% of all U.S. businesses have no employees besides the principal.
3. 52% of all U.S. businesses are home-based.
4. 19.4 million "non-employee" businesses are sole proprietorships, 1.6 million are partnerships and 1.4 million are corporations.
5. There are 18,500 businesses in the U.S. with 500 employees or more.
6. There are 4,333 publicly traded companies in the U.S.

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CORPORATIONS

From a business owner perspective here's what I see thus far in the proposed GOP tax reform. It's quite conceivable why the thrust of this bill is weighted heavily toward America's mega businesses. The approach cuts the top rate that corporations pay from 35% to 20%. That's huge and the biggest one-time drop for corporations ever, depending on what projection of the current bill you use and what yardstick you measure it by. This will have the biggest impact on manufacturing enterprises as opposed to service-oriented businesses and this makes total sense if you want to keep corporate manufacturing money from going abroad.

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It's no secret that many major corporations have been holding cash outside the U.S. borders to avoid paying the current 35% U.S. corporate tax rate. Now that particular money, under the new proposal, would only be taxed at 12% if brought back home. In addition to this, purchases of new equipment can be deducted within the year of the purchase instead of spreading it out over several years, which will constitute even more tax savings for corporations.

These are all tremendous concessions that are representative of the GOP's desire to ramp up GDP by incentivizing business entities that can make the biggest impact on the economy, even though Democrats demonize the entire plan as nothing more than special breaks for the super-rich. Yet in a real sense the Democratic Party is correct in what they are saying. All you need to do is examine each one of the areas being reformed and you can easily see that the wealthy, compared to everybody else in the country, benefit the most.

THE ESTATE TAX

Although the "Death Tax" affects only 0.5% of all estates in the country both the Senate and the House will double the estate tax exemption to $11 million from the current $5.5 million per individual, thereby shrinking the percentage of those affected even further. But there is also a push to repeal the tax altogether in 2024, which would be a bonanza for the ultra rich.

If you want a real education on what the ultra rich really look like, study the *Statistics of Income Bulletin* published by the IRS in the Spring of 2015 where the IRS revealed for the first time ever the Average Adjusted Gross Income (AGI) of the top .001% of Americans. You can find it here https://www.irs.gov/pub/irs-soi/soi-a-ints-id1506.pdf You will be shocked to learn that it represents a mere 1,365 tax filers of whom 545 are billionaires and the minimum amount of income you need to make to enter this elite group is $66 million.

Compare this to the much revered and talked about 1% which has 13.5 million tax filers in its ranks and requires a minimum of "only" $470,000 income to qualify. All to say again, that the doubling of the estate tax exemptions and perhaps the permanent elimination of the estate tax altogether goes hand in hand with this tax reform bill being slanted heavily toward the wealthy.

It's as though the GOP bill deliberately tries to prevent service companies in particular, like those in the financial services industry, law firms, and accounting firms, from getting big tax cuts.

THE ALTERNATIVE MINIMUM TAX (ATM)

There is probably no better example of this GOP bill being weighted toward the rich than the total elimination of the ATM tax, which currently requires that people who make more than $130,000 calculate their taxes twice, once with all the deductions they can find, and the other using the ATM calculation, which has a tendency to close off all loopholes. (If you are unaware of it, it's probably because your accounting firm does the calculation for you.) But just to give you an example of what eliminating this law will do for the wealthy, take the case of Donald Trump's tax return according to Glenn Kessler and Michelle Lee of the Washington Post who noted and calculated that "from 2005 that shows that the AMT increased his tax bill from about $5.3 million to $36.5 million. So at least in that year he could have saved $31 million."[1] That's an enormous difference.

PASS-THROUGH BUSINESS INCOME

"Pass-through" companies are businesses structured as a sole proprietorship, partnerships, or limited liability companies. As I explained earlier, these types of businesses, which are primarily service businesses, will not see anywhere near the tax cuts that big business will receive (and here I mean large manufacturing firms) if this tax reform is ratified. Although there are some slight adjustments that will benefit "pass-through" companies they only cut taxes up to a certain dollar threshold. In examining the thresholds, either the ones for the House or the ones favored by the Senate, they are low dollar amount thresholds and do not exceed $250,000 for a tax filer. So to be clear, when you hear on the radio or on CNBC that the GOP proposals have a lower tax rate on "pass-through income," you should realize that this is not at all comparable to the cut for the corporate income tax rate, which has no limit on the dollar amount flowing through it. It's as though the GOP bill deliberately tries to prevent service companies in particular, like those in the financial services industry, law firms, and accounting firms, from getting big tax cuts. There is, however, one exception and it stands out like a sore thumb.

CARRIED INTEREST

Some of you may remember that on the campaign trail presidential hopeful Donald Trump vowed to do away with "carried interest" because it allowed hedge fund managers, private equity firm partners, venture capitalists, and similar Wall Street titans to "get away with murder"[2] on their taxes. Even so, the GOP approach does not eliminate the special treatment of carried interest, and oh, by the way, some real estate developers use it too.

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These businesses, which are in essence "pass-through companies," earn a management fee of around 2% of the fund's assets for the general partner. However, carried interest comes out to be approximately 20 to 25 percent of a fund's annual profit, which is really the primary source of income for the general partner regardless of whether or not he or she contributed any initial investment of funds. Under the current tax code and now under the GOP proposal, carried interest is classified as a capital gain, which taxes at a much more favorable rate.

In 2012, partners of hedge funds and private equity firms averaged $535 million in average adjusted gross income easily making the elite list of the .001%. In fact, 25 partners of the top hedge funds made more money than all the CEOs of the S&P 500 companies put together, according to a 2013 Forbes article.[3]

Opponents of carried interest want it to be reclassified as ordinary income and be taxed at income tax rates. But the new GOP proposal will have no part of it, although it did make a slight adjustment at the 11th hour requiring the assets to be held for three years before a taxpayer can claim the carried interest provision. Nevertheless, here we see yet another example of how this tax reform will benefit primarily the wealthy.

25 partners of the top hedge funds made more money than all the CEOs of the S&P 500 companies put together.

CONCLUSION

Trump's tax reform, if it passes into law, will be the most comprehensive tax reform mandate since the 1986 Tax Reform Act. It too, like the one that became law thirty years ago, is intended to reduce taxes as a way to stimulate the economy and so it places a heavy emphasis in incentivizing corporate America by making them the greatest beneficiaries of the cuts.

To be sure, the highest earners in the U.S. shoulder most of the income tax burden so tax relief is bound to favor them more than others, but it is so heavily weighted to the side of the wealthy that if it were not for the fact that Republicans control both chambers, this would never have a chance at becoming law.

Although I focused primarily on the big winners of the GOP tax reform, one of the biggest losers will be homebuilders. The House bill would cut in half the mortgage interest deduction millions of Americans currently use from $1 million to interest payments made only on their first $500,000 worth of home loans. (As of this writing, the Senate bill thus far does not contain this provision.) There is no question this will impact home construction.

The Dow Jones Home Construction Index, which tracks a basket of homebuilder stocks, fell 3%[4] in reaction to the proposed cut, which only served to remind me of the devastation caused to the real estate market thirty years ago immediately after the Tax Reform Act of 1986. Then the following year we had the stock market debacle famously known as Black Monday. These are events I personally will never forget.

My summation of the pending bills is basically this: Stay very liquid. ◆◆◆

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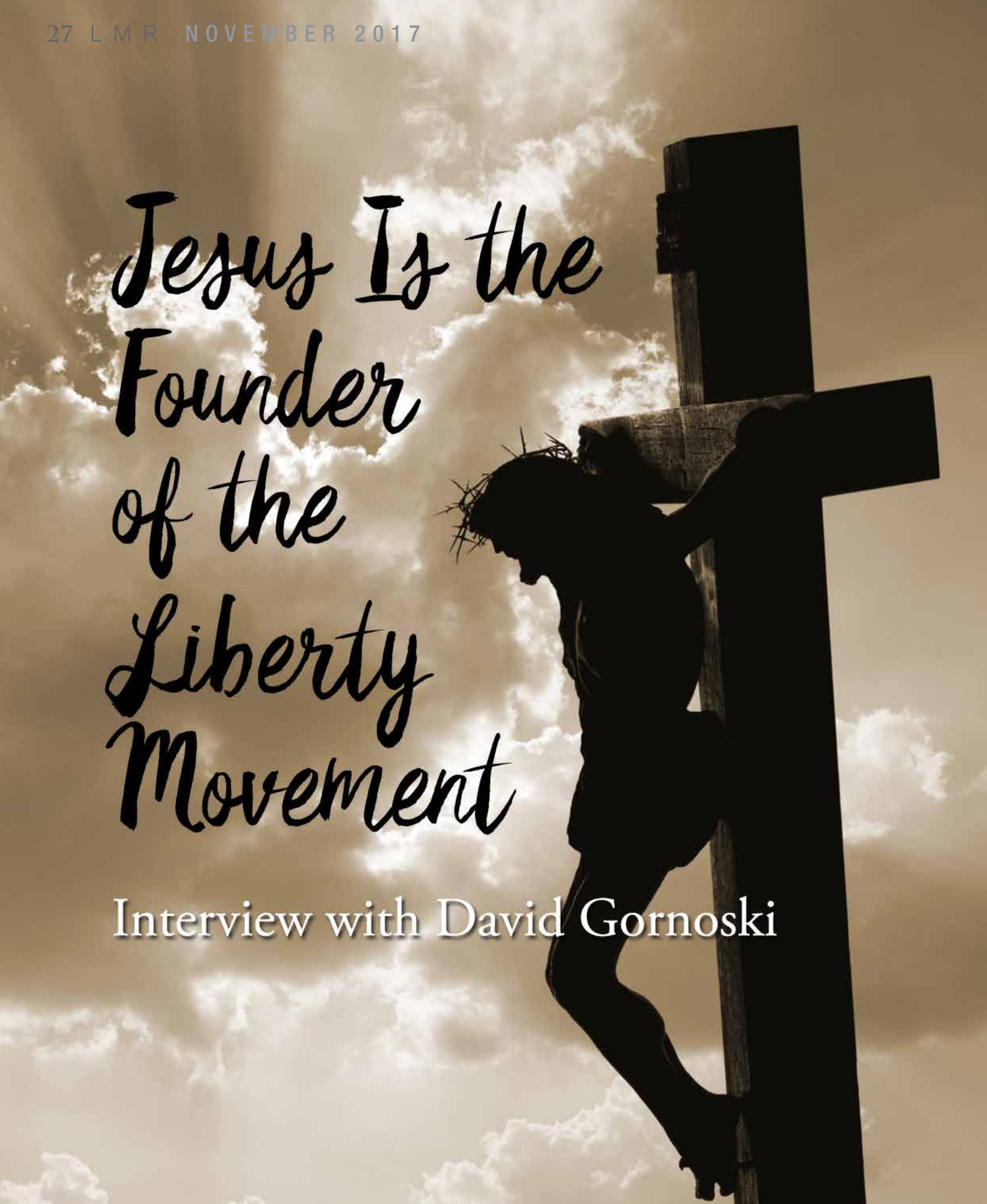


Jesus Is the Founder of the Liberty Movement

Interview with David Gornoski

David Gornoski is an entrepreneur, marketer, and thought leader on mimetic theory. His articles have appeared in the Foundation for Economic Education (FEE.org), AffluentInvestor.com, and *The American Conservative* magazine. A fellow of the Moving Picture Institute, his "A Neighbor's Choice" podcast interviews attract thousands to hear world-class business leaders, filmmakers, musicians, economists, and political icons apply mimetic theory to everyday life. He believes that anthropology (the study of human culture) is an essential key to improving all areas of life, including the workplace. You can reach him at david@aneighborschoice.com.

Lara-Murphy Report: How did you become interested in Austrian economics?

David Gornoski: When I was a child, I spake as Rush Limbaugh, understood as Rush Limbaugh, thought as Rush Limbaugh: but when I became a man, I put away Rush Limbaugh-like things. My history teacher recommended *The Politically Incorrect Guide to American History* by Dr. Tom Woods in 11th grade. I read it and started a path of intellectual discovery that led me to the Mises Institute and the Ron Paul 2008 campaign. Starting in 2008, I began writing from an Austrian perspective for sites like WND.com and interviewing folks like the illustrious Robert Murphy for a live libertarian AM radio show called Straight

Talk on topics like his book *The Politically Incorrect Guide to Capitalism.*

LMR: During your recent interview of one us (Murphy), it became clear that you have a very unusual approach to marketing the message of political and economic liberty, in which you use the gospels as your guide. Can you explain?

DG: Jesus is the founder of the liberty movement. Two thousand years ago, he inaugurated a personhood revolution which has slowly eroded the logic and myths that prop up State power. It is why his follower Paul of Tarsus said none of the princes of the world knew what Jesus was doing when they crucified him, for if they did, they would not have done so.

"Jesus is the founder of the liberty movement."

In the Gospel ("Good News") accounts of Jesus, we see a form of media technology, eyewitness written reports, that tell the story of a collective's persecution of a scapegoat, a killing of the king ritual similar to other such ritual lynchings in the broader ancient world tradition. But instead of telling the "all against one" murder from the vantage point of the winning crowd, the Gospels tell the story from the individual victim's standpoint. It's as if something wrestled the "camera" of history away from the whitewashed mythic cover ups of all other cultures that always concealed the arbitrary power lust and mob envy behind collective violence against individuals as the "will of the gods," and revealed it to be mindless mob violence that should be forgiven "for they know not what they do."

From this event, everywhere the Gospel stories are told, the State's lifeblood—the right to initiate violence against nonviolent persons for "the greater good"—slowly erodes the effectiveness of such state barbarity. When you are generationally steeped in a story that says, "God desires mercy, not sacrifice" and "Do not resist evil with violence" it becomes harder and harder to throw babies off cliffs, as ancient Greeks did, or arbitrarily scapegoat women as witches for famines.

Not only is Jesus the greatest cultural force for undermining the sacrificial logic behind the State's existence, he's the greatest practical bridge builder to people not normally moved by libertarian rhetoric or arguments. Take Thomas Jefferson, Rand, Bastiat, Rothbard, to protesters in Ferguson, Missouri and see how much of a response you get. Take those figures to Hispanic community groups. Take them to leftist campus activists. See how much currency these brilliant persons provide for these various communities. Now take Jesus to each of these groups and see how much more open and engaged people are to explore "Just what would Jesus do" to solve social problems.

"When you are generationally steeped in a story that says, "God desires mercy, not sacrifice" and "Do not resist evil with violence" it becomes harder and harder to throw babies off cliffs, as ancient Greeks did."

LMR: Now that we've brought up politics and Christianity, some readers might assume that you're "on the team" of the traditional right-wingers of American culture. And yet, you've criticized both the Left and the Right in their reaction to the gospel. For example, you argue that neither side has fully absorbed Jesus' reaction to the woman caught in adultery.

DG: Jesus deconstructs the hive mind behind all collective violence (including statism) when he tells the crowd, "He who is without sin, cast the first stone." He knows a direct prohibition such as, "Do not kill this woman!" will only incite a mirror response of assertion of will from the crowd, most likely violence. So he uses verbal aikido, he sabotages the magnetic power of groupthink by getting each member of the crowd to think, "Well, will it be me or Bill?" [*Editors' note:* Aikido is a martial arts approach that seeks to defend oneself without harming the opponent, for example by turning the attacker's energy against himself.] Without being able to hide their complicity in violence in the anonymity of crowd imitation, empathy is able to strike their consciences. Instead of imitating violence, the crowd imitates the dropping of the stones in nonviolence. Again, Jesus is employing words as a technology to lift the veil of ignorance found in

collectivism which opens the way for nonviolent voluntary solutions: "Go and sin no more."

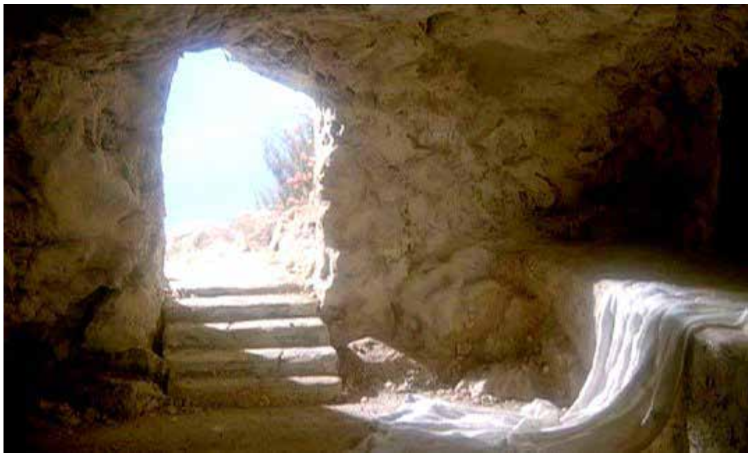
The modern left tends to hate any moral boundaries set for sexual desires between consenting adults and so would probably wish to stone Jesus (in modern terms, criminalize his speech as hate speech) for telling the woman to "sin no more."

Meanwhile, some on the modern right cannot let go of their desire to make a giant asterisk for Jesus's prohibition of "Do not resist evil with violence" for a whole multitude of nonviolent vices. For example, many conservatives have no problem caging heroin users along with violent sociopaths in prison. Heroin is bad. But I would argue adultery has destroyed more families and led to more unnecessary deaths than heroin ever has, and yet Jesus offered mercy not sacrifice to the woman in this story.

"Heroin is bad. But I would argue adultery has destroyed more families and led to more unnecessary deaths than heroin ever has, and yet Jesus offered mercy not sacrifice to the woman in this story."

LMR: Again, just to show our more progressive readers that you aren't the typical "Bible thumping conservative," you also think the Sermon on the Mount has relevance for what we currently dub "the War on Drugs." What's your take here?

DG: "Turn the other cheek" is not a passive sentiment to let the other person grab a yeast roll before you at the Golden Corral buffet line. It is a proactive, aikido-style way of dismantling evil without amplifying its power by mirroring its violent lusts. Hate the evil of drug cartels? Instead of amplifying their power by starting a drug war that allows them to make monopoly profit margins, legalize all drugs completely. The street gangs will no longer have a giant financial imperative to sell marijuana when they can make just as much money selling ar-



tichokes in a free market. Without monopoly profits, they cannot afford expensive guns and cars that make their current Wild West status so appealing to disaffected youth.

Also, Paul of Tarsus says the law provokes people to sin. A lot of the allure of teen drug culture would dissipate if the rebellious taboo factor were eliminated through legalization.

LMR: Finally, for those who are skeptics, you think it behooves them to study the life of Jesus even in a secular context. In the interview you conducted (of Murphy), you brought up the fact that people will read a Steve Jobs biography, and so presumably someone who "split time" (as in the ordering of years as BC versus AD) is worth knowing about. What did you mean?

"Even if you do not believe Jesus is God or Messiah or that he resurrected, he is without a doubt, the greatest man of history."

DG: Even if you do not believe Jesus is God or Messiah or that he resurrected, he is without a doubt, the greatest man of history. His life story has done more to shape Western civilization and—through global trade and missions—the world, than any other person. If one reads Steve Jobs in the hope of capturing some of his magic genius and example for one's own life, how much more so would one want to study and master the life of Jesus.

Jesus's favorite title for himself was "Son of Man." Christian tradition also affirms him to be "Son of God." I accept both titles. However, if we only examine the latter and not the former, we will not understand the study of man (anthropology) Jesus unveiled in his life. Once we examine his life as not only the study of God but also the study of man, we will be equipped to bear witness to the Good News that man needs "mercy, not sacrifice" to prosper.

EVENTS & ENGAGEMENTS

NOTE: MANY OF THESE EVENTS ARE OPEN TO THE PUBLIC. CONTACT US FOR FURTHER DETAILS.

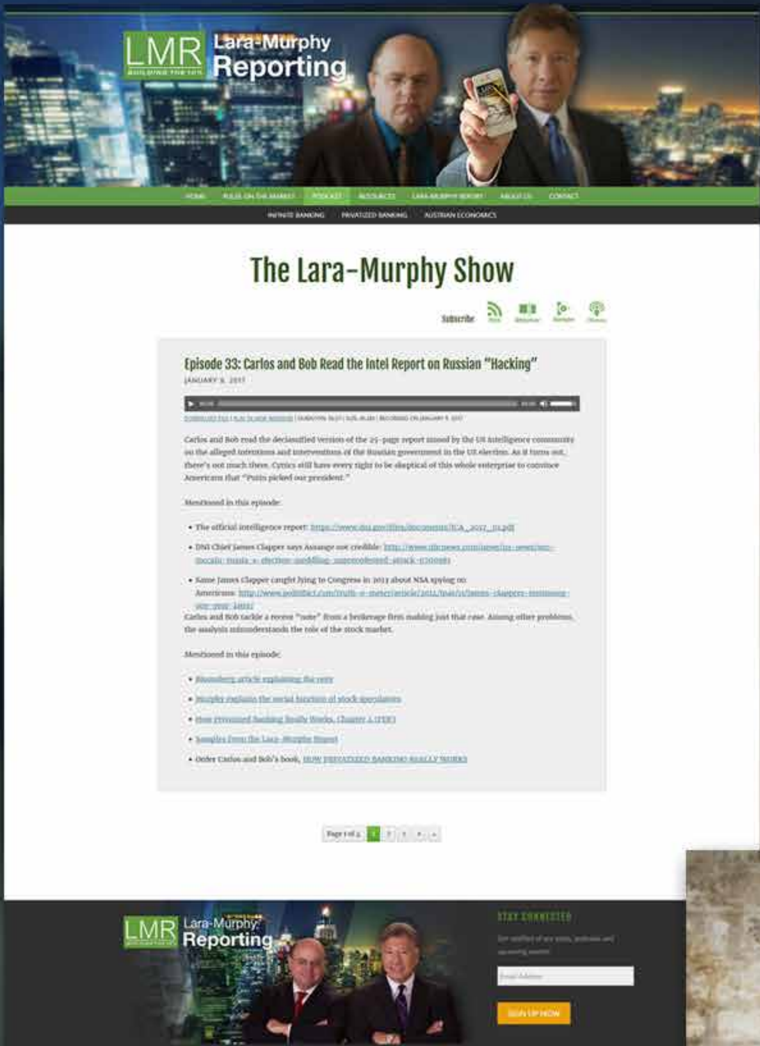
NOVEMBER 4, 2017
MORRISTOWN, NJ

Nash, Lara, and Murphy present the IBC Seminar.

DECEMBER 9, 2017
ORLANDO, FL

Murphy and Mises Institute president Jeff Deist discuss the prospects for liberty. Details at: https://mises.org/events/bob-murphy-uncertain-prospects-liberty

SOME EVENTS MAY BE CLOSED TO GENERAL PUBLIC.
FOR MORE INFORMATION: LMREVENTS@USATRUSTONLINE.COM



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