Tea Leaf

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Your guide to understanding today's economy and financial markets

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Disincentives

Written by Jeff Thredgold, CSP, President, Thredgold Economic Associates

Following the Democratic election (and health care bill) disaster in Massachusetts last week, the President noted that voters, in general, "don't get it." He stated that he needs to be clearer as to what he and the Democratic Congress are trying to do.

He spoke in recent days about…let's see…greater government involvement in child care tax credits; greater government involvement in minimizing the pain of paying back student loans for higher education; greater government involvement in helping people save for retirement; and greater government involvement in elder care assistance.

Each of these issues is desirable on their own. However, each issue, along with hundreds of others, carries a common theme…greater government involvement. Greater government mandates and greater government red-tape, leading to greater government budget deficits and greater consumer anxiety about what tomorrow holds.

The Administration and the Democratic Congress wonder why American companies, especially small businesses, are not creating new jobs. I would suggest the Administration and the Congress don't get it.

Business owners and managers of any size company see a number of major impediments over the next few years…

1) Rising health care costs for their employees. These managers can at least breathe a sigh of relief that the enormously costly health care mess that was passed in different versions by both the Senate and the House of Representatives won't come to pass. Note: We do need health care reform. But it must include such things as tort reform, allowing health care insurers in one state to compete in other states, more consumer choice, and some form of portability. A scaled-down plan that could be supported by both sides of the political aisle is now more likely

2) Potential "cap & trade" legislation to boost business costs. This is one more issue to keep managers awake at night. The good news here is that a weakened Administration and Congress are unlikely to move quickly in this area. Moreover, the green movement and efforts to conserve energy usage by both businesses and consumers have become much more mainstream, helping to achieve successes in reducing carbon emissions, without a government mandate

3) Employers see sharply higher taxes on the horizon, one more impediment to new job creation. Successful employers see higher income tax rates coming, higher dividend tax rates coming, higher capital gains tax rates coming, possibly higher withholding for Medicare coming, yada yada yada

4) Many states and local communities are imposing and will impose greater costs on local businesses as a means of generating greater "fee" income to help offset declines in sales taxes, property taxes, and income taxes. Many already high-cost states will simply drive their most valued businesses across state borders to more "business friendly" environs

5) Business owners and managers are fearful of government out of control when it comes to budget deficits, and fear the longer-term implications on our children and grandchildren. The government announced yesterday a revised budget deficit estimate for this fiscal year of $1.35 trillion, versus a record $1.4 trillion deficit last year. That improvement still results in a budget deficit of $154,000,000 every 60 minutes!

My simple definition of economics is "people respond to incentives." The disincentives to add jobs in this country are formidable.

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USA TODAY Money

Quarterly economic survey

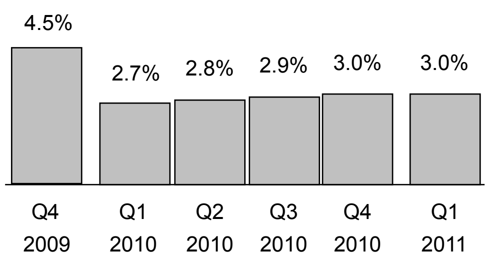
The USA TODAY economic survey of 50 top economists was conducted January 15-21. Median estimates through Q1 2011:

USA TODAY • MONDAY, JANUARY 25, 2010

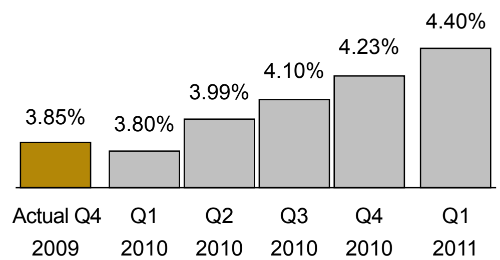
"TEA"ser

Experience is a wonderful thing. It enables you to recognize a mistake when you make it again.

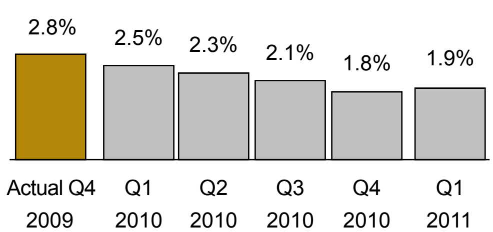
Gross domestic product
(real annual rate)



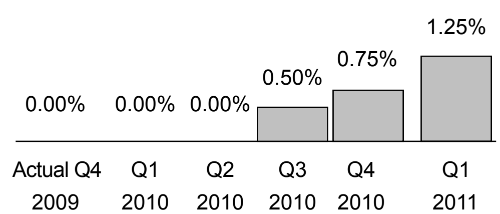
10-year T-note yield
(quarter end)



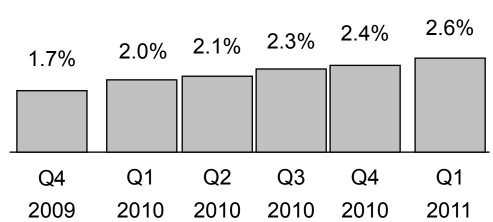
Consumer price index
(rate of change, 12 months ended)



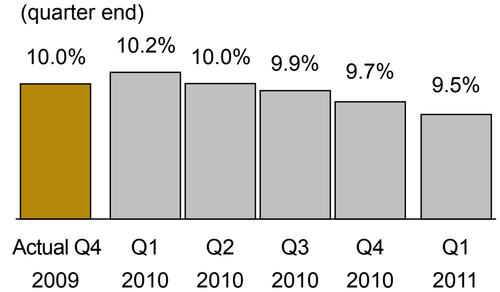
Federal funds rate target
(quarter end)



Consumer spending
(real annual rate)



Unemployment rate
(quarter end)



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