

THE RAND REPORT #229

L. Terry Rand, phone 239-261-0335

Toll Free phone, 877-441-7263

Rand E-mail: Terryrand@ksifa.com

New Website, www.randfinancialadvisors.com

Please allow me to start this Rand Report with a brief item written by Walter E. Williams, and sent to me by my friend Jack Tymann. These are not my words. Thank you. (1) This is so good.

"I've often said that I wish there were some humane way to get rid of the rich. If you asked why, I'd answer that getting rid of the rich would save us from distraction by leftist hustlers promoting the politics of envy. Not having the rich to fret over might enable us to better focus our energies on what's in the best interest of the 99.99 percent of the rest of us. Let's look at some facts about the rich laid out by Bill Whittle citing statistics on his RealClearPolitics video "Eat the Rich."

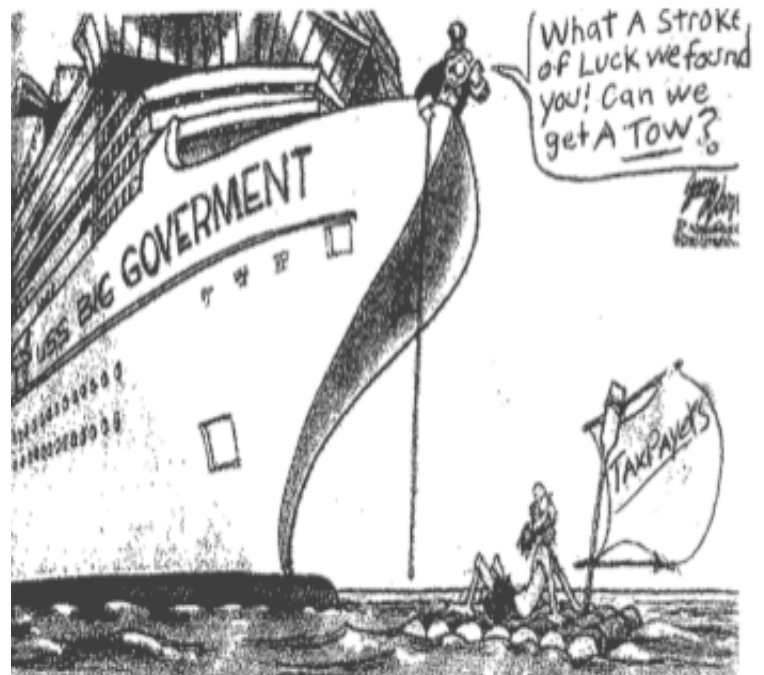
This year, Congress will spend \$3.7 trillion dollars. That turns out to be about \$10 billion per day. Can we prey upon the rich to cough up the money? According to IRS statistics, roughly 2 percent of U.S. households have an income of \$250,000 and above. By the way, \$250,000 per year hardly qualifies one as being rich. It's not even yacht and Learjet money. All told, households earning \$250,000 and above account for 25 percent, or \$1.97 trillion, of the nearly \$8 trillion of total household income. If Congress imposed a 100 percent tax, taking all earnings above \$250,000 per year, it would yield the princely sum of \$1.4 trillion. That would keep the government running for 141 days, but there's a problem because there are 224 more days left in the year.

(And of course after one year of this there would be far fewer who ever again openly reported over \$250K !) (1) Jack Tymann.

How about corporate profits to fill the gap? Fortune 500 companies earn nearly \$400 billion in profits. Since leftists think profits are little less than theft and greed, Congress might confiscate these ill-gotten gains so that they can be returned to their rightful owners. Taking corporate profits would keep the government running for another 40 days, but that along with confiscating all income above \$250,000 would only get us to the end of June. Congress must search elsewhere.

(And of course after one year of this there would be far fewer corporations that ever again openly reported over \$250K !) Jack Tymann (1)

According to Forbes 400, America has 400 billionaires with a combined net worth of \$1.3 trillion. Congress could confiscate their stocks and bonds, and force them to sell their businesses, yachts, airplanes, mansions and jewelry.



The problem is that after fleecing the rich of their income and net worth, and the Fortune 500 corporations of their profits, it would only get us to mid-August. The fact of the matter is there are not enough rich people to come anywhere close to satisfying Congress' voracious spending appetite. They're going to have to go after the non-rich.

But let's stick with the rich and ask a few questions. Politicians, news media people and leftists in general entertain what economists call a zero elasticity view of the world. That's just fancy economic jargon for a view that government can impose a tax and people will behave after the tax just as they behaved before the tax, and the only change is more government revenue. One example of that vision, at the state and local levels of government, is the disappointing results of confiscatory tobacco taxes. Confiscatory tobacco taxes have often led to less state and local revenue because those taxes encouraged smuggling.

Similarly, when government taxes profits, corporations report fewer profits and greater costs. When individuals face higher income taxes, they report less income, buy tax shelters and hide their money. It's not just rich people who try to avoid taxes, but all of us — liberals, conservatives and libertarians.

What's the evidence? Federal tax collections have been between 15 and 20 percent of the nation's Gross Domestic Product every year since 1960. However, between 1960 and today, the top marginal tax rate has varied between 91 percent and 35 percent. That means whether taxes are high or low, people make adjustments in their economic behavior so as to keep the government tax take at 15 to 20 percent of the GDP. Differences in tax rates have a far greater impact on economic growth than federal revenues." (1)

So far as Congress' ability to prey on the rich, we must keep in mind that rich people didn't become rich by being stupid.

In my opinion, we need to cut corporate taxes to 25% from 35%. I would hold the Bush tax cuts in place for the time being until Republicans get more control and we can reform tax policies. You all know how I feel about a too big corrupt government, an attempt by Obama to move us into a European “nanny” state taking care of the poor, the lazy, those with less ambition etc. That reminds me, ***why do we ignore the incentives built into the free enterprise system.*** Most of my clients spent their lives striving to excel and most have. It appears that most Americans share those incentives including the lower income groups. All income groups are upward dynamic and that is the point that is seldom recognized.

Today our workforce is about 131 million. It was 138 million prior to the Democrat's control of Congress in 2007. Now subtract the real 16% unemployed. Have too many jobs disappeared forever? We need new industries! The Bush tax cuts created a fast fix on the economy creating more jobs than anytime in US history, over 4 million new jobs and all new taxpayers. That is why in 2006 we had 4.5% unemployment and our most prosperous 12 years under Republican Congresses. I keep repeating the major events that mostly contributed to our insolvency and that may be the bursting of the Real Estate bubble, but that was a natural cycle related to supply and demand. ***I think the most major factor is the advent of sub prime mortgages and the Community Reinvestment Act in general.*** That was the primary step in government handouts to get votes. Today, US average household debt is 88% of the Federal debt. We have too much mortgage and credit card debt. \$5 trillion in maturing US Treasuries must be renewed every year, China holds about 16% of our debt and our US banks are capable of absorbing the Chinese debt. The problem is that our banks get paid interest from the US Treasury and once leveraged gives the biggest US banks profitable revenues and big salaries.

They don't have to lend money to anyone. The bank's excesses are low compared to Fannie Mae and Freddie Mac. Those CEO's are better paid by your taxes. The Obama administration has many new companies sponsored by the government and going broke at your expense. ***However the solar bankruptcies will raise votes for Obama. Investors beware!***

42% of all taxes filed in 2009 paid no income tax. 30 years earlier in 1979, the percentage who paid no taxes were 23%. Today about half of Americans don't pay taxes. A major factor was the Bush tax cuts, which eliminated taxes paid in the lowest bracket. ***That lowest bracket was first taxed by the Clinton administration before Republicans took charge of Congress. Republicans could not remove that tax until Bush controlled Congress starting in 2000.***

During WW2, women joined the work force while the men fought the battles. When the soldiers returned after WW2, they joined the work force replacing women, who then went home and raised families. I am in that generation.

What may have affected the work force was the advent of birth control. Women became more independent, more career oriented and the many women who competed with men, mostly in intellectual jobs expanded the work force with the growing population. There were only about 120 million Americans after the war. Next the divorce rate affected economics. Since 2000 the middle-income class expanded by more than 50%, but the wage scales remained the same, about \$41,000 annually per family. All income classes are dynamic. The number of taxpayers expanded even though income did not, but 50% more people paid new taxes. Federal tax revenues increased. Today the circumstances are different. ***The President has created class warfare so he can condemn Republicans for not raising taxes to distract the voters from his horrible record.*** Obama avoids defending his record and will have to demonize the Republican candidates on their backgrounds, not their solutions. Republicans have an advantage in that their economic plans have always worked. ***The problem is the socialist news media, which is a cultural thing will not recognize capitalism, except for the Wall Street***

Journal and a few other periodicals.. Are we better off now than 2008? **You decide!**

The world debt contagion affects our economy and investment markets. ***Is it not ridiculous that our capitalist system brought these European nations to prosperity and now social greed for government benefits is destroying them?***

Another of the world's problems is currency values. Islam wants currency and credit to be based on oil reserves. The free world favors currency values to be based on GDPs. In my opinion, Mid East/Muslim oil reserves and future interests in that oil will be used as collateral for bailing out the Euro nations credit/debt problems.

Please allow a quick review of the world commercial markets. Russia will soon be run by an ersatz macho Putin, a former KGB thug. Russia has a serious drinking problem. Their army is mostly drunk and the male life expectancy is lower than Bangladesh. Russia's navy is a bunch of rust buckets; their global influence will be mostly bluff. Russia controls much of Europe's natural gas supply. Russia is relatively close to Germany who supplies Russia with most of their technology in exchange for fuel. Investment opportunity? **You decide.**

China? No available women, no water, no banks, and a hyper-dangerous bachelor military that has to think twice about attacking any of their consumer markets, which finances their military. Interest paid to China from US bonds more than pays for China's military. About 60% of Chinese live in abject poverty. China wants to control the seas with an all male navy that may never meet a woman.

India is the only eastern country capable of standing up to China both economically and militarily. In the future, India's population could exceed China's. Neighbors Pakistan and Afghanistan economically have no legitimate reasons for sovereignty. I read where in less than ten years Europe and the Middle East will have serious water problems.

There is Reality and propaganda. Too many world nations are trying to bluff themselves into power. In particular, Islam tries to intimidate the world and that increases economic problems.

Iran is the most serious world problem. Iran has 78 million people; over 20 million are ethnic Azeri and would like to be part of Azerbaijan. Iran has 8 million Kurds who also want out. There are about 30 million “Persians” whose protests have been brutally put down. Iran is not as strong as they pretend, but with a nuclear bomb may be a suicidal nation. A new leader in Iran could succeed sooner than expected. Iran is the main sponsor of terrorism. Their goals are anti-American and anti-Israel. Without Iran, Iraq would be free to flourish, Syria would be liberated, and a serious threat to Saudi oil fields would be removed. Iran is a big threat to the Saudi's because the Saudi's are Sunni. **Be aware of these negatives when you invest.**

The S&P 500 gained 10% in October. That was a calendar month record, but the fluctuations that occur before and after October makes the movement rather impotent. In my 53 years experience I have never seen the economic environment in such disarray. At this juncture I believe past performance is even more useless. Investors today are more fearful of the word “guarantee.” So many investments guaranteeing results especially with the usual bank guarantees have failed. What investors seek today is “protection,” and predictability,” the latter being impossible.

Virtually all of my clients and readers are worried about politics because the political impact will have more impact than any time in our past. I repeat that REITs are the most favored investments today because real estate is down. Variable annuities represent the most invested funds. Index annuities are popular because they serve as a hedge against the stock market. The fixed rates are high in index annuities, but must be converted to guaranteed income to reap the advanced interest payments. Take care!

Footnotes: (1) Williams article sent to me by Jack Tymann noted columnist. Jack spent most of his life living and working in the Mid East representing Westinghouse. I have footnoted Jack's comments. Jack is a personal friend of mine and very erudite.