Controversies in the US Economy: Obama’s Tax Plan
(part 1 of a 3-part series on President-elect Obama’s proposed policies)

President-elect Obama has proposed raising taxes on upper-income families to provide various tax credits for middle- and lower-income families.

Arguments in Favor

A New York Times article cites a Tax Policy Center study that says households with incomes under $100,000 will benefit from Obama’s plan, while taxes will increase for households making over $250,000. The Times argues that this plan will reduce income inequality and decrease the budget deficit due to the increased taxes on the rich.

Arguments Opposed

In contrast, a Wall Street Journal article argues that most of Obama’s “tax cuts” are actually welfare because they go to people who pay no taxes. Meanwhile, an article by the Heritage Foundation argues that the increase in taxes under Obama’s plan will cause the US to have one of the highest personal tax rates in the developed world, driving many wealthy investors overseas.

Featured Topic of the Month: Unemployment

The Council of Economic Advisers’ report of Economic Indicators for October indicates unemployment increased by 0.4% in October. The average time spent unemployed increased by 1.3 weeks to 19.7 weeks (about four and a half months) this month, up from a low of 16.2 weeks (three and three-quarters months) in March.

The increase in the unemployment rate was greatest among teenagers 16-19 (1.5%), Hispanics/Latinos (1.0%), and women who maintain families (0.6%). Unemployment actually dropped by 0.3% among African Americans and by 0.2% among part-time workers, and held steady among Asians. By sector, employment decreased the most (proportionally) for construction and retail jobs, but increased for health and education services and government jobs, and held steady for information services.

The IMF reports that US job losses for 2008 have exceeded 1.2 million. This is due in part to the loss of 240,000 jobs in October, and a revision upward of the estimated job losses in August and September from 73,000 and 159,000 to 127,000 and 280,000, respectively.

The IMF further reports that US manufacturing has dropped to a 26-year low. The report attributes the drop to a decrease in domestic orders and exports, as well as a shortage of credit and capital. The report indicates that manufacturing job cuts are likely to worsen in the future.
### Key US Statistics

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<tr>
<td>Dow Jones Indus. Avg.</td>
<td>12,958.44</td>
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<td>NASDAQ</td>
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<td>S&amp;P</td>
<td>1,433.27</td>
<td>985.40</td>
<td>873.29</td>
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<td><strong>Other Rates</strong></td>
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<tr>
<td>Consumer Price Index</td>
<td>199.2</td>
<td>208.9</td>
<td>218.9</td>
<td>216.6</td>
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<tr>
<td>Unemployment Rate</td>
<td>5.0%</td>
<td>4.8%</td>
<td>6.1%</td>
<td>6.5%</td>
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### Recent News and Analysis for the United States Economy

The IMF reports that despite the recent downturn, **US financial assets remain in high demand** worldwide. Foreign purchases of US debt, treasury notes, and securities all rose in September. **China now holds more US treasury notes** than any other foreign nation, having passed Japan for the first time in September.

Meanwhile, the IMF reports that **prices are plummeting** in the US. **Fuel costs dropped 13%** in October, while **food costs fell by 0.2%**. Fuel costs are lower because of the global downturn, while the decline in food costs is attributable to expectations of a good harvest this year.

Prices for **products other than food and fuel** have **increased by 0.4%**. However, decreasing food and fuel costs are likely to **bring down the prices** of other products **in the near future**.

The IMF further reports that House Democrats are considering passing another **$100 billion stimulus** package this session.

In an article in *The Wall Street Journal’s* Market Watch, entitled “**30 reasons for Great Depression 2 by 2011,**” Dr. Paul B. Farrell argues that we are in a **megabubble** that will pop, causing a depression in 2011. Dr. Farrell predicts that the **United States’ credit rating** will soon be **downgraded** due to an **increasing deficit**, and that this, combined with the government’s many **bailout packages** and **lack of regulation**, will cause a second Great Depression in 2011.

In contrast, in a *Forbes.com* article entitled “**Back To Growth In 2009,**” Brian S. Wesbury and Robert Stein argue that the economy will **recover in 2009**. Mr. Wesbury and Mr. Stein argue that the current downturn is due to a **rare drop in monetary velocity** (the speed with which money changes hands), and will **fade away** as **risk aversion dissipates** and **consumer confidence recovers**. **Mr. Wesbury is the chief economist at First Trust Advisors, and Mr. Stein is a senior economist at First Trust Advisors.**