

Economic Prospect

Uncle Sam Called; He Wants His Social Security Back

John Addison Teevan Grace College 29:3 April 24, 2018

Unbelievably, Russian Gas is Being Delivered to New England: What about all the natural gas from fracking in the U.S.? Not allowed in much of America's New England. The Wall Street Journal wrote, "The problem is entirely political. In 2016 officials in Massachusetts and New Hampshire blocked financing for the \$3 billion Access Northeast Pipeline which would have reliably provided fuel to three New England states. "Politicians claimed the pipeline was unnecessary but a shipload of Siberian gas tells a different story." Many environmentalist groups such as 350.org and the Sierra Club oppose all new oil and coal infrastructure.

Opioids and Uncle Sam: Wisconsin Senator Ron Johnson sits on the committee that has reviewed the role of Medicaid in the opioid epidemic. There has already been much talk about the role of pharmaceutical companies in relation to opioid deaths. But the Wall Street Journal reports that Medicaid offers cheap access to astronomical quantities of pills they are often resold on the black market. (WSJ Jan 26, 2018).

For as low as a \$1 co-pay, Medicaid beneficiaries can get up to 240 oxycodone pills and then resell them for \$4000 according to the report. "Since 2010 more than 1000 people across the country have been charged or convicted of improper use of Medicaid to obtain prescription opioids." Sometimes Medicaid recipients are forced (or are paid a small fee) by dealers who pocket thousands from the many tablets from just one Medicaid prescription.

Reform and Restructure the IRS? Yes, Congressman Kevin Brady (R-TX) chair of the House Ways and Means Committee proposed a top-down restructuring that will eliminate current IRS abuses. The House just passed this legislation this week. Brady noted that this is a bipartisan effort and will be as long as it's not subject to party leaders who prefer national posturing for election outcomes to getting things done.

Income tax idea: Move tax day from April 15 to November 1, to put it closer to the election.

France President Macron is a young president who is seeking to put France on a pathway that leads away from decades of economic stagnation and low growth. His main focus is to open the job market; not easy in France where it can take a year and cost \$100,000 just to fire someone with cause.

Macron, who is in the USA this week, has taken on the very popular employees of the national railroad (SNCF). He 'merely' wants to end the jobs-for-life aspect of their work. In France people show displeasure by going on strike and marching in the streets. Macron is seeing plenty of that. Other changes, such as a new application process for France's universities, are similarly unpopular. The chances of Macron changing his mind? He says those chances are close to zero. These are the changes he was elected to make. Those popular railway employees (called cheminots) can retire at full pay at 50. (*Economist* April 14, 2018 p. 43)

In their book *How Democracies Die* authors Levitsky and Ziblatt explain that in politically polarized societies brinkmanship by one party can lead to retaliation by the other. If this gets out of hand it leads to an increase of dramatic and harsh political tactics. This posturing becomes fatal to democracy when the situation deteriorates to the point that rivals declare one another to be fully illegitimate. This opens the door to the success of measures that make one party fully dominant, making opposition virtually impossible.

Some countries do this by packing the nation's courts to rule in their favor; others prosecute political opponents. Another tactic is to change the campaign rules including campaign finance. Examples abound in Latin America including Argentina in the 1940s; Chile in the 1970s; Equator in the 1990s; and now Venezuela. Let's not forget Italy and German in the 1930s or China now. Troubling. (WSJ Jan 24, 2018).

O'Hare Airport is planning a major expansion. An \$8 billion plan will add 3.1 million square feet and replace the American Airline hub in Terminal Two. The number of gates will increase from 185 to 220 when this

project is completed in 2026. Mayor Rahm Emanuel is hoping that the promise of 60,000 new jobs will help reelect him to a third term. The airlines at O'Hare fly to 157 U.S. airports and to 60 international airports. ORD is second to Atlanta as the world's busiest airport where Delta now proposes adding another runway.

O'Hare was a military airport during WW2 and was home of protective jet fighter squadrons after WW2. Commercial airline traffic began in 1955 (when I lived nearby). As there were only 36 daily departures (1957), Midway stayed the world's busiest airport with over 700 daily flights. (Chicago Trib, March 29, 2019)

What works for Poverty? David Neumark of UC Irvine, has written that an increase in the minimum wage increases wages for many, but, sadly, not for those people at the bottom of the labor force who need to learn how to work and how to keep a job. Harm to them undoes the good of the minimum wage. On the other hand, the Earned Income Tax Credit aims at needy people but provides different incentives. The more a single mom in poverty works the more of her income she keeps. Neumark did a long term study to determine the impact of the minimum wage and of the EITC. By focusing on times of welfare reform or increase in the minimum wage he came to these conclusions. (WSJ April 11, 2018).

Elkhart is booming with virtually no unemployment and average salaries (up 17% in one year) to \$68,000. There are over 9000 jobs open with no qualified applicants to fill them. (WSJ March 30, 2018).

Tesla's Elon Musk is also a Space Baron: To compete with Uncle Sam's fabulously expensive rocket launching and satellite deployment, Elon Musk (and Jeff Bezos and Richard Branson) have each created reusable rockets. This is good for the private sector. Musk's company, SpaceX, can build a rocket for \$100 million. When asked why SpaceX is not spending the usual \$400 million his representative said "I don't know how to build a \$400 million rocket." Clever.

How to cut costs? One way is to build rockets horizontally rather than vertically. Another is to have the rocket turn end for end and use a final burn to cut speed so that it lands safely. And these entrepreneurs also cut costs by refurbishing the rocket at minimal cost.

When one of Musk's rockets exploded, he didn't hide it (unlike Jeff Bezos who hides his failures). Musk narrated the video of a failed landing and referred to the explosion of the rocket as a 'RUD'. In his world RUD stands for 'rapid unscheduled disassembly.' NASA has been paying the Russians for space rides. That will end when Musk's rockets become more reliable. (WSJ book review April 18, 2018).

Uncle Sam Called; He Wants His Social Security Back. If you waited until your full retirement age you have likely paid taxes on your benefits. And if you have been receiving Social Security (SSI) since age 62 you have also faced limits on the amount of income you can earn without losing benefits. Originally, that SSI income was tax free. And yet many people now pay full tax on 50% or even 85% of their social security income.

All this SSI taxing started under President Reagan when the first 50% of SSI benefits could be taxable. Then under President Clinton it rose to 85% of SSI benefits that could be taxed. If you qualified to pay on that 85%, your tax *rate* was probably 25% on SSI benefits; at least that will be reduced to 22% in 2018 with the new tax law. So Uncle Sam can get about 20% of SSI benefits back in the form of taxes for those who qualify.

END