



## FRIENDS OF THE MIDDLE NEWSLETTER #54 — JAN. 18, 2012

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### **Why Do the Candidates Lie?**

(posted by Steven W. Baker / SteveB, Jan. 18, 2012)

Wouldn't it be better to maintain a little credibility with the voters? Boy, Newt threw a zinger, huh? Take that, Juan!

"FACT CHECK: Distortions in Jan. 16 GOP Debate" by Calvin Woodward, AP

Jan. 17, 2012, (<http://news.yahoo.com/fact-check-distortions-gop-debate-032506557.html>)

(WASHINGTON) Mitt Romney ignored the most significant expansion of trade ties in nearly two decades when he accused the Obama administration Monday night of doing nothing to open new markets. Rick Santorum claimed to be taking purely the high road in campaign ads even as a new one from him veered from that path.

Newt Gingrich mischaracterized the Chilean retirement system that he favors as a partial model for the United States, declaring that the system of private accounts is voluntary when it's not.

So it went in the latest Republican presidential debate as the candidates took shortcuts with complex realities and committed some outright distortions. A look at some of the claims and how they compare with the facts:

**ROMNEY:** "This president has opened up no new markets for American goods around the world in his three years, even as European nations and China have opened up 44."

**THE FACTS:** Actually, Obama revived Bush-administration-era free-trade pacts with South Korea, Panama and Columbia, all passed by Congress in October, in the biggest round of trade liberalization since the North American Free Trade Agreement and other pacts of that era.

In particular, the agreement with South Korea is designed to break down barriers between the United States and the world's 15th-largest economy. The South Korea deal has the potential to create as many as 280,000 American jobs, according to a recent assessment by the staff of the U.S. International Trade Commission, and to boost exports by more than \$12 billion.

Obama also, on a recent trip to Asia, endorsed an Asia-Pacific free-trade pact that would also boost U.S. exports to Asia. With economies weak, the benefits of freer trade may not be immediate but Romney was incorrect to say President Barack Obama has opened "no new markets."

**SANTORUM:** "My ads have been positive. The only ad that I've ever put up has contrasted myself with the other candidates, and does so in a way talking about issues."

**THE FACTS:** Santorum is coming out with an ad this week accusing Romney of being "just like Obama" and saying Romney "once bragged he's even more liberal than Ted Kennedy on social issues," two negative assertions that go beyond a mere look at issues.

As a Massachusetts senate candidate in 1994, Romney wrote to a group of gay Republicans that outlined a plan to do better than Kennedy to make "equality for gays and lesbians a mainstream concern." But that's not bragging about liberalism, and Romney is hardly more liberal than the late senator — or Obama — on social issues. Romney, for example, supports a constitutional amendment to ban gay marriage.

Santorum has, in fact, stayed positive in the campaign but the new ad is a departure from that.

**GINGRICH** (on Chile's system of private retirement accounts): "First of all, it's totally voluntary. If you want to stay in the current system, stay in it. If you are younger and you want to go and take a personal savings account, which would be a Social Security savings account, you can take it."

**THE FACTS:** There is nothing voluntary about Chile's system. It requires that all workers contribute 10 percent of their salaries to private pension plans, plus other fees for insurance, instead of a government program like Social Security.

Workers had a choice when Chile created the private pensions in 1981 but after that phase-in, all new employees have been required to contribute 10 percent of their first \$33,360 in annual wages, choosing among five funds whose investments range from safe bonds to riskier stocks.

The Chile model was also a favorite of Herman Cain when he was in the Republican race. He, too, mischaracterized the system as optional.

**ROMNEY:** "We invested in well over 100 different businesses. And the people have looked at the places that have added jobs and lost jobs and that record is pretty much available for people to take a close look at."

**THE FACTS:** Romney's record as a venture capitalist at Bain Capital has been presented by his campaign highly selectively; namely, by detailing several big success stories and ignoring the job losses that resulted from Bain-owned plants and companies that closed or shrank their workforce.

His overall record is not even close to being known, because it is so complex. Many of the companies are private, without the public disclosure requirements that big corporations have, and his campaign has not released details.

Under scrutiny, Romney has stepped back from claiming that he created more than 100,000 jobs overall with his Bain investments. That claim was never substantiated. In the debate, he named four successful investments in companies that now — a decade after he left Bain — employ about 120,000 people, a more measured and accurate statement, but one that still does not account for losses elsewhere.

**RON PAUL:** "Taliban are people who want — their main goal is to keep foreigners off their land. It's the al-Qaida — you can't mix the two. The al-Qaida want to come here to kill us. The Taliban just says we don't want foreigners. We need to understand that or we can't resolve this problem in the Middle East."

**THE FACTS:** What Paul is missing is that the Taliban harbored foreigners in their land — al-Qaida terrorists who came to the United States and killed Americans— and that the Obama administration fears that might happen again if the Taliban regain control in Kabul.

He was correct that the U.S. prior to the 2001 terrorist attacks did not consider the Taliban to be a threat to the U.S. homeland.

**ROMNEY:** "Three years into office, he doesn't have a jobs plan."

**FACT CHECK:** Like them or not, Obama has proposed several plans intended to spur the economy and create jobs. The most well-known was his stimulus plan, introduced in February 2009, which included about \$800 billion in tax cuts and spending.

At the end of 2010, Obama struck a deal with GOP congressional leaders on a package intended to stimulate hiring and growth. The deal cut the Social Security payroll tax, which provided about an extra \$1,000 a year to an average family. It also extended an unemployment benefits program that provided up to 99 weeks of aid.

And in September, Obama introduced his most recent jobs plan, rolling it out in a speech to the full Congress in which he urged Congress to "pass it right away." It included \$450 billion in tax cuts and new spending, including greater cuts to payroll taxes and tax breaks for companies that hire those who've been out of work for six months or more. Almost none of it has been passed into law.

**GINGRICH:** Romney "raised taxes." vs. **ROMNEY:** "We reduced taxes 19 times."

**THE FACTS:** Both assertions were basically true, though decidedly one-sided.

Romney largely held the line on tax increases but there were notable exceptions. The state raised business taxes by \$140 million in one year with measures mostly recommended by Romney. As well, the Republican governor and Democratic lawmakers raised hundreds of millions of dollars from higher fees and fines — taxation by another name. Romney himself proposed raising nearly \$60 million by creating 33 new fees and increasing 57 others. Romney won praise from anti-tax advocates by firmly backing income tax cuts — and criticism over the business taxes and fees.

**GINGRICH:** "More people have been put on food stamps by Barack Obama than any President in American history."

**THE FACTS:** It's gotten easier to qualify for food stamps in the past decade but that is because of measures taken before Obama became president.

It's true that the number of people on food stamps is now at a record level. That's due mainly to the ailing economy, which Republicans blame on Obama, as well as rising food costs. The worst downturn since the Great Depression wiped out 8.7 million jobs, pushed the unemployment rate to a peak of 10 percent in October 2009 and increased poverty. More than 46.2 million people were on food stamps in October 2011, down slightly from a record 46.3 million in September. That's up from fewer than 31 million people three years earlier. Eligibility rules were relaxed in 2002 and 2008 during the Bush administration. Obama's stimulus package, passed in February 2009, relaxed the program's work requirements through September 2010.

(Associated Press writers Christopher S. Rugaber, Tom Raum, Steve Peoples, Robert Burns and Mary Clare Jalonick contributed to this report.)

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<a href="#">20120117-01</a>	13:54	Pam	Business Taxes
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I have a couple of questions. Remember, I am totally uneducated re. economics. I just go with my gut. What is an S company? Somewhere in this discussion someone has said that a corporation owes taxes, whether it makes a profit or not? How can that be? Isn't it precisely the profits that are taxed? Would that mean that "if corporations are people" and they lose money, the gov't. would owe THEM money? Like the earned income credit? Does the tax code really need to be so complex?

<a href="#">20120117-02</a>	15:09	Bill	Re: Business Taxes (reply to Pam, above)
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An S corporation is formed under Subchapter S of the IRS Code. The number of shareholders used to be limited to forty-five; it's some number larger than that now. The principal distinction of the S corporation is that it is not liable for income taxes. Instead, any earnings of the S corporation inure to the shareholders. The S corporation is, in other words, a conduit. S corporations are very common and typically used by smaller or start-up enterprises. (In contrast, the earnings of a C corporation are taxed at the corporate level. (So, if you're a shareholder of a C corporation, any dividends you receive from the C corporation will already have been taxed. You will, however, have to pay taxes again on those dividends that you may receive from the C corporation. This is the double taxation that irritates many shareholders.)

In the case of a C corporation, it is wholly possible that, because of certain preferences granted by the Code, you would have an income tax liability, despite having no or minimal earnings. The typical situation arises from what is known as "accelerated depreciation." This operates to allow the corporation to deduct as an expense a disproportionate amount of the cost of a capital asset, e. g. a production machine, a copier, a building and its fixtures. The result is creation of a timing difference that results in deferral of income taxes to later periods. This scenario of deferred taxes coming due is common in periods of economic distress, when the corporation has slowed or stopped its expenditures for capital assets.

That's the income-tax situation. Separately, however, a business is typically subject to many other taxes, e. g. employment taxes, property taxes, business-privilege taxes, and others. Again, in the case of slim or non-existent earnings or losses, these taxes will still be due to the taxing authority. The result of this scenario and the one above is that the C corporation must pay its tax obligations from its own, i. e. its shareholders', capital. In the separate case of an S corporation, when losses occur at the corporate level, those losses are then distributed among the shareholders, who may or may not be able to use them to offset their individual income.

This isn't an easy area, I realize, and, in answer to your question whether the Code needs to be so complex, I can only answer that corporations and individual interests lobby frenetically in Congress and in legislatures to get the preferences (e. g. the accelerated depreciation mentioned above) that may enhance their earnings. The Code and its regulations are absolutely massive, and the courts, both federal and state, generate still more interpretation of the Code and the state tax laws. Yes, it's very complex, and my heart lies with those who want to simplify this

monstrous thing, but overhauling the Code means confronting myriad financial interests whose clout may be significant.

The earned income credit lies in the area of individual taxation and is intended to help those who are working but don't earn much. We definitely don't want that for corporations.

20120117-04 15:49 Pam Re: Business Taxes (reply to Bill, above)

Well, this clear everything up. :-) Really, it's all so complicated I don't know how anyone makes heads or tails of it. It always amazes me that members of the same species as me can have so much knowledge in their heads, like economics, brain surgery, or astrophysics. I wonder if back in prehistoric times there was as much diversity of intelligence as there is today. I know intelligence and knowledge aren't the same thing, but when it comes to rocket science, it is.

As I was on my way to pick up my grandson from pre-school today, I heard part of a program on NPR about whether democracy/capitalism just needs to be tweaked or whether the whole thing needs to be rethought completely. I didn't get to hear the whole discussion, but what I heard was very interesting. The guy who believes things are worse than we think believes we need a complete overhaul. Things have gotten so screwed up that untangling the mess seems nigh onto impossible. Our government is paralyzed, and our economy is cracking badly. I learned that one third (1/3) of Americans are either below or just barely above the poverty line. That is horrifying. The experts say you have to go where the work is--like to North Dakota or the back of beyond, where the oil industry toils away. But what's happening there is an influx of workers who can't find housing, strain the infrastructure, and create a crime wave. Steve G., didn't you say there was a lot of crime out where you live?

I tend to agree with the fellow who predicts significant change. I guess in order to be happy in these parlous times, you have to assume that things will get better in the long run and think short-term when it comes to your own life. I have a young friend who has a year-old baby. She is working on a dissertation for her PhD, is married to a much older man who doesn't really have much of a job (former ballet dancer, a neat guy), and just got a gig teaching one class a week. That's a ton of stuff on the shoulders of one young woman, but I keep telling her not to worry. Things will be OK. I remember being her age and feeling overwhelmed. I also remember that as an incredibly happy time in my life. I don't know why I'm saying all this to you all. I think I'm really talking to myself.

20120117-07 16:36 Bill Re: Business Taxes (reply to Pam, above)

Thanks for your humanity and your empathy for the young woman with the baby. They contrast so admirably with the IRS Code. Glad everything is now perfectly clear about corporate earnings.

It so often seems to me that, of the many forces, both good and ill, that affect and afflict us, the information age and growing density of electronically proliferated fact and fiction all around us cause as much angst and dislocation as anything. I think I began feeling this way several years ago while sitting in interminable meetings with most attendees constantly reading Blackberry screens and punching in messages. Time for contemplation has largely evaporated. I'm willing, however, to concede it's just the weight of, oh my, age.

20120117-03 15:44 SteveB "The Romney Tax Loophole" & "Free Enterprise on Trial"

from Robert Reich's Blog (<http://robertreich.org/>):

"The Romney Tax Loophole" (Jan. 17, 2012)

After refusing for weeks to release his taxes, Mitt Romney now says he'll do so — by tax day, April 15. But the real news is what Romney has now admitted about his taxes.

It's not how much Romney earns. Everyone knows he's comfortably in the top one-tenth of one percent.

It's how much he pays of it in taxes. Romney says he pays a tax rate of "about 15 percent."

That's lower than the tax rate most of America's middle class face and far lower than the 35 percent top rate after the Bush tax cut. (To put this in perspective, recall that the top income tax rate under Dwight Eisenhower was 91 percent.)

Newt Gingrich immediately pounced on Mitt's admission as evidence that Newt's proposed flat 15 percent tax is ideal, and wants to call it the "Romney tax." Newt's flat tax is a fraud. It would dramatically lower the taxes of most of the top 1 percenters and increase the taxes of most of the rest of us.

The real smoking gun is how Romney manages to pay only 15 percent on what's been his money-gusher of compensation from Bain Capital. Romney hasn't released his tax returns yet, but the most obvious answer is he treats his Bain income as capital gains — subject to the current capital gains rate of only 15 percent.

A loophole in the tax laws allows private-equity managers like Romney to treat their compensation as capital gains. It's legal but it's a scandal. Income from employment is employment income, period.

Private-equity managers cling to the technicality that the money they take out of their companies comes from the appreciation of assets they own and sell. That may be true, but it's still income they get from their jobs. Common sense would dictate it be treated as ordinary income.

Congress has vowed for years to close this loophole. But somehow it persists. Even when Democrats have been in charge, they haven't been able to close it.

Guess why. The managers and executives of private-equity funds are big donors to Republicans and Democrats alike.

Don't call it the Romney tax, as Newt wants to do. Call it the Romney tax loophole. And let him explain why he thinks it's justified.

#### "Free Enterprise on Trial" (Jan. 16, 2012)

Mitt Romney is casting the 2012 campaign as "free enterprise on trial" — defining free enterprise as achieving success through "hard work and risking-taking." Tea-Party favorite Senator Jim DeMint of South Carolina says he's supporting Romney because "we really need someone who understands how risk, taking risk ... is the way we create jobs, create choices, expand freedom." Chamber of Commerce President Tom Donahue, defending Romney, explains "this economy is about risk. If you don't take risk, you can't have success."

Wait a minute. Who do they think are bearing the risks? Their blather about free enterprise risk-taking has it upside down. The higher you go in the economy, the easier it is to make money without taking any personal financial risk at all. The lower you go, the bigger the risks.

Wall Street has become the center of riskless free enterprise. Bankers risk other peoples' money. If deals turn bad, they collect their fees in any event. The entire hedge-fund industry is designed to hedge bets so big investors can make money whether the price of assets they bet on rises or falls. And if the worst happens, the biggest bankers and investors now know they'll be bailed out by taxpayers because they're too big to fail.

But the worst examples of riskless free enterprise are the CEOs who rake in millions after they screw up royally.

Near the end of 2007, Charles Prince resigned as CEO of Citigroup after announcing the bank would need an additional \$8 billion to \$11 billion in write-downs related to sub-prime mortgages gone bad. Prince left with a princely \$30 million in pension, stock awards, and stock options, along with an office, car, and a driver for five years.

Stanley O'Neal's five-year tenure as CEO of Merrill Lynch ended about the same time, when it became clear Merrill would have to take tens of billions in write-downs on bad sub-prime mortgages and be bought up at a fire-sale price by Bank of America. O'Neal got a payout worth \$162 million.

Philip Purcell, who left Morgan Stanley in 2005 after a shareholder revolt against him, took away \$43.9 million plus \$250,000 a year for life.

Pay-for-failure extends far beyond Wall Street. In a study released last week, GMI, a well-regarded research firm that monitors executive pay, analyzed the largest severance packages received by ex-CEOs since 2000.

On the list: Thomas E. Freston, who lasted just nine months as CEO of Viacom before being terminated, and left with a walk-away package of \$101 million.

Also William D. McGuire, who in 2006 was forced to resign as CEO of UnitedHealth over a stock-options scandal, and for his troubles got pay package worth \$286 million.

And Hank A. McKinnell, Jr.'s, whose five-year tenure as CEO of Pfizer was marked by a \$140 billion drop in Pfizer's stock market value. Notwithstanding, McKinnell walked away with a payout of nearly \$200 million, free lifetime medical coverage, and an annual pension of \$6.5 million. (At Pfizer's 2006 annual meeting a plane flew overhead towing a banner reading "Give it back, Hank!")

Not to forget Douglas Ivester of Coca Cola, who stepped down as CEO in 2000 after a period of stagnant growth and declining earnings, with an exit package worth \$120 million.

If anything, pay for failure is on the rise. Last September, Leo Apotheker was shown the door at Hewlett-Packard, with an exit package worth \$13 million. Stephen Hilbert left Consecro with an estimated \$72 million even though value of Consecro's stock during his tenure sank from \$57 to \$5 a share on its way to bankruptcy.

But as economic risk-taking has declined at the top, it's been increasing at the middle and below. More than 20 percent of the American workforce is now "contingent" – temporary workers, contractors, independent consultants – with no security at all.

Even full-time workers who have put in decades with a company can now find themselves without a job overnight – with no parachute, no help finding another job, and no health insurance.

Meanwhile the proportion of large and medium-sized companies (200 or more workers) offering full health care coverage continues to drop – from 74 percent in 1980 to under 10 percent today. Twenty-five years ago, two-thirds of large and medium-sized employers also provided health insurance to their retirees. Now, fewer than 15 percent do.

The risk of getting old with no pension is also rising. In 1980, more than 80 percent of large and medium-sized firms gave their workers "defined-benefit" pensions that guaranteed a fixed amount of money every month after they retired. Now it's down to under 10 percent. Instead, they offer "defined contribution" plans where the risk is on the workers. When the stock market tanks, as it did in 2008, the 401(k) plan tanks along with it. Today, a third of all workers with defined-benefit plans contribute nothing, which means their employers don't either.

And the risk of losing earnings continues to grow. Even before the crash of 2008, the Panel Study of Income Dynamics at University of Michigan found that over any given two-year stretch about half of all families experienced some decline in income. And the downturns were becoming progressively larger. In the 1970s, the typical drop was about 25 percent. By late 1990s, it was 40 percent. By the mid-2000s, family incomes rose and fell twice as much as they did in the mid-1970s, on average.

What Romney and the cheerleaders of risk-taking free enterprise don't want you to know is the risks of the economy have been shifting steadily away from CEOs and Wall Street – and on to average working people. It's not

just income and wealth that are surging to the top. Economic security is moving there as well, leaving the rest of us stranded.

To the extent free enterprise is on trial, the real question is whether the system is rigged in favor of those at the top who get rewarded no matter how badly they screw up, while the rest of us get screwed no matter how hard we work.

The jury will report back Election Day. In the meantime, Obama and the Democrats shouldn't allow Romney and the Republicans to act as defenders of risk-taking free enterprise. Americans need to know the truth. The only way the economy can thrive is if we have more risk-taking at the top, and more economic security below.

<a href="#">20120117-05</a>	15:49	Pam	Re: "A Voters' Rights Amendment as a Focus for Dissent" (reply to Dennis, FotM Newsletter # 53)
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These are both interesting, as are the discussions that follow. Are we really on the verge of corporate fascism? What do you think?

[I think we're way farther than "on the verge". -SteveB]

<a href="#">20120117-06</a>	16:12	SteveG	Jails, Jobs & the Cost of Living
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Sometimes I think we manufacture crimes by pushing for new laws through lobbying so that for profit companies can get into the jail business. Yakima has a huge jail (population 71,000 for the city & 220,000 or so for the metropolitan area), but the jail lost a contract and had to lay off 70 employees. That is a "city" jail, supposedly non-profit. The police chief makes over \$110,000 a year, not certain what the sheriff makes. At least here there is big money in government - smaller town Selah - the police chief and another position put forth local legislation that if they got fired they would get a \$500,000 (each) severance package - it didn't pass.

You do have to be mobile to be employed this day and age, but the laws are so different from state to state in regards to medical coverage, legalization of gay marriages, car seats for children, taxes, etc. It is difficult to understand the ramifications of moving until you do. Originally we left Indiana for Florida. It cost \$96 for license plates in Indiana and it was going to cost over \$400 for plates in Florida. They cost \$80 in Washington. Car insurance was a lot higher in Florida than in Indiana. Washington is the lowest of the 3. Cost of living is cheapest in Indiana. So to find a job in North Dakota may not be better than a lower paying job in another state.

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—Friends of the Middle,  
Steven W. Baker (SteveB), Editor/Moderator

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