

State of the Union 2012

By: Shane Burke

On Tuesday, President Obama gave his annual State of the Union address. His speech touched on a number of sensitive political points that often received a standing ovation from one side of the aisle, while eliciting no reaction from the other. Three of his major talking points were employment, taxes and energy.

He first turned his attention to employment in the U.S. He cited “in the last 22 months, businesses have created more than three million jobs. Last year, they created the most jobs since 2005.” He would, of course, like to see more jobs being added, specifically in infrastructure development, and will seek to reduce the red tape that delays or halts those infrastructure construction projects. It is widely expected that unemployment will be the number 1 issue heading into this year’s election. In signs that unemployment is in fact improving, earlier this month the Labor Department reported that unemployment fell in 37 states in December, remained unchanged in 10 and rose in only 3.

Another highly debated topic this past year was taxes, both corporate and individual. The President stated “right now, companies get tax breaks for moving jobs and profits overseas. Meanwhile, companies that choose to stay in America get hit with one of the highest tax rates in the world.” Therefore, “every multinational company should have to pay a basic minimum tax. And every penny should go towards lowering taxes for companies that choose to stay here and hire here.” He urged Congress to put something on his desk immediately to address this perceived problem.

Regarding individual taxation, the President cited Warren Buffett, who admitted last year that he paid a lower effective tax rate than his secretary. Mr. Obama called on Washington to “stop subsidizing millionaires” and rescind a trillion dollars of tax breaks for the wealthiest 2%. He asked Congress to reform the tax code that includes the so-called Buffett rule, a minimum 30% tax rate for individuals whose income exceeds \$1 million. No tax increases were proposed for anyone earning less than \$250,000.

As for energy, President Obama said “over the last three years, we've opened millions of new acres for oil and gas exploration, and tonight, I'm directing my Administration to open more than 75% of our potential offshore oil and gas resources.” While he was happy to say American oil production is the highest that it's been in eight years, the U.S. has only 2% of the world's oil reserves. In a rather inclusive vision, he would open offshore gas & oil fields to exploration and production, while also urging passage of clean energy tax credits and an end to subsidies for the fossil fuel industry.

Other talking points throughout the evening included:

- A ban on "insider trading" by members of Congress, limits on elected officials' investments in companies they regulate, and lobbying reform.
- A simple majority vote within 90 days on judicial and public service nominations.
- A request for authority to streamline the federal executive branch.
- Continuing international pressure on Iran to scrap its nuclear weapons program.
- Support for a mortgage refinancing program for all "responsible" homeowners, funded by "a small fee" on large financial institutions.
- Maintenance of a strong military while cutting the budget by nearly \$500 billion.
- Legislation to protect against cyber-terrorism.
- Beefed-up border protection, combined with a law to create a path for undocumented immigrant students to become legal U.S. citizens.

While many support President Obama’s initiatives from Tuesday night, the odds of actually getting laws passed are minute. Congress is divided and most legislation initiated in the House does not make it through the Senate, and vice versa. As always, TPI will continue to monitor events closely and keep you apprised.

On a separate note, the Federal Reserve reported Wednesday that it expects to leave interest rates near zero for another two years, extending historically low borrowing cost until late 2014.