

The 100 Percent Solution: Rebate 3 Years of Income Taxes

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The stock market has lost \$9.0 trillion since the October 2007 top, and now sits halfway to zero. Unemployment is the highest in decades, making a beeline for 10 percent, with no end in sight. The Treasury Department has been assigned the lead in solving this financial crisis, however the approach they are planning is destined to fail, because it will not succeed in cleaning up American Household balance sheets.

The Master Planners, through the Treasury, will throw trillions of dollars at this mess, with most of it used to purchase bad assets sitting on bank balance sheets. There is talk of a Resolution Trust like solution, similar to what we saw in the 1980's, where they will dump bank bad assets into a bad bank, and leave only good assets in banks, the Bad Bank/Good Bank solution. The problem with this is that not one dime gets in the hands of consumers, that it will cost over \$4.0 trillion on top of other stimulus actions such as government sponsored infrastructure programs (which could take years before consumers see employment and other benefits), and will not prevent more toxic assets from developing in the future. It fails to stop the bleeding. It is top down oriented, not bottom up. The focus is on the banking system and Wall Street, and not the American Household. ***The source of the problem is the consumer's lack of income due to asset depreciation, job loss, declining investment yields, rising real estate taxes, and a rising cost of living. Buying today's bad assets fails to prevent tomorrow's bad assets from***

showing up as a new batch of consumers fail to make loan payments, giving birth to the next round of fresh toxic assets, sure as death and Obama raising taxes on the “rich.” And now President-elect Obama has tapped the co-architect of the recent TARP failing plan, New York Federal Reserve Bank Branch President Timothy Geithner, to succeed Paulson.

The solution is simple: Rebate the past 3 years of income taxes, up to \$13 trillion worth, requiring half the rebate to be used to payoff debt. If households don't have debt, they get to keep all the rebate. This will metamorphose current and future bad assets (loans and loan securities) into good assets. *This gets households back on their feet, heals both household and bank balance sheets, and choke-starts this economy with a boom that could last for decades.* Sure, the Dollar will take a hit, maybe a 50 percent hit, but debts will be eliminated, a depression will be averted, and everyone gets a fresh start. This stimulus would be alarmingly successful. Then the income tax should be replaced by a national sales and excise tax (hey, the U.S. survived quite nicely for 150 years without an income tax, through 1912). Then, the real estate tax should be repealed, an unconstitutional confiscation of wealth, and replaced again by a sales or consumption tax. And finally, to support the Dollar, the Fed should be eliminated, currency should be issued by the Treasury Department, and should be backed by Gold, even if Gold is valued at \$3,000 an ounce.

To effectuate the 10 year income tax rebate, the Treasury Department should issue \$13 trillion of fresh U.S. government Treasury securities. Those securities should then be sold

to the Federal Reserve for cash – perhaps the Fed’s last meaningful act before abolishment – and the cash would be distributed to every household in America. ***The tax rebate would not include corporations, just households. Corporations and Wall Street would benefit through trickle up, not the trickle down policies that have failed.*** Demand for goods and services would skyrocket as households, which account for 70 percent of Gross Domestic Product, buy, buy, buy with the strength of their newfound solid balance sheets. This spending will create jobs all over the place, will reinforce free market capitalism, and stave off socialist policies that appear to be on their way, that solely benefit specific industries or projects that current Congressional thinking suggests a government stimulus plan should adopt – which is a policy with a narrow range of target beneficiaries – a policy that will fail.

Everyone needs help now, not just the few high profile, lobbying-spending industries that have the publicity machines to convince government that a bailout should be for themselves. The massive income tax rebate plan would benefit the broadest range of targets possible. People paying their debts on time now, but making painful sacrifices to do so, need help now, not just those who have stopped making payments. Having a job today is no guarantee that job will exist tomorrow. ***The present focus of the Master Planners — to address only those who already hit the fan — is too narrow and will fail to stop the spread of this systemic economic plague.*** Can you imagine the boost to Detroit’s big three auto makers if every household in America got a check equal to what they paid in taxes over the past three years? GM’s stock would not sit at \$3 a share for very long. The Governor of Pennsylvania came out at the end of 2008 suggesting he may

raise PA income taxes in 2009. Are you kidding Ed? That is the precise worst thing you can do in a developing depression. He wouldn't have to do that, or even think about doing that, if this federal income tax rebate plan was effectuated.

This plan could be implemented quickly. Very fast. Checks could be in the hands of every household by mid 2009. Further, this plan should include a floor tax rebate of \$50,000 per household, assuring the poor, who are victims of job losses and a higher cost of living, receive help to get back on their feet. It is the right thing to do, in the spirit of inclusion.

Here are how the numbers work: Personal Current Taxes paid from 2004 to 2006 were \$13.3 trillion (by the way, corporations only paid \$4.6 trillion during that same period, but that is a topic for another day). (1) There were 110 million households in the United States in 2006. (2) ***That averages to a \$121,000 rebate for each and every household. If the numbers scare you, they should. But at least they go to the source of the problem, the American Household.***

The Master Planners are going to spend this much anyway to try and fix this economy. In fact, on Tuesday, November 25th, 2008, the Master Planners announced total bailout commitments, loans, and pledges of backing totaling \$7.0 trillion — and none of it is going to Main Street unless they borrow it. This is on top of the \$800 billion in bad loans the Federal Reserve announced on Tuesday, November 25th, 2008 it was going to buy. The Fed announced they plan to buy \$200 billion of bad credit card, auto, student,

and small business loans from banks, that it would also in addition buy \$500 billion of today's bad mortgages guaranteed by Freddie Mac (FHLMC) and Fannie Mae (FNMA), plus it would buy directly from Freddie, Fannie, and the Federal Home Loan Bank (FHLB) \$100 billion of bad mortgages they hold on their balance sheets. This is in addition to the \$700 billion Treasury is spending on bailouts for AIG, Goldman Sachs, Citigroup, and 53 other banking institutions. More will be spent on tomorrow's bad assets as nothing they are doing will prevent future loan deterioration.

If a plan along the lines of this 100 percent solution is not effectuated, we are likely headed for an Economic Depression, perhaps as bad or worse than the 1930s. In case you were wondering, there is a precedent for this debt forgiveness tax rebate economic stimulus plan. The Bible refers to this concept as a "Year of Jubilee" in the book of Leviticus. Further, the book of Deuteronomy suggests a periodic "remission of debts."⁽³⁾ But whether you are religious or not, the time has come for drastic, fresh-thinking action.

If you agree with this plan, please contact your Congressional Representative at www.house.gov/writerep/ and your Senator at www.senate.gov/contacting/index.cfm

- (1) Source is the U.S. Department of Commerce, Bureau of Economic Analysis
- (2) Source is the U.S. Bureau of the Census
- (3) Leviticus chapter 24, and Deuteronomy chapter 15, verses 1 and 2

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