

## Taxes and billionaires

The House speaker, John Boehner, suggests that the Republican threat of letting the United States default on its debts is driven by concern for jobs for ordinary Americans.

"We cannot miss this opportunity," he told Fox News. "If we want jobs to come to America, we've got to give American businesspeople the confidence to invest in our economy."

So take a look at one of the tax loopholes that congressional Republicans are refusing to close — even if the cost is that America's credit rating blows up. This loophole has nothing to do with creating jobs and everything to do with protecting some of America's wealthiest financiers.

If there were an award for Most Unconscionable Tax Loophole, this one would win grand prize.

Wait, wake up! I know that "tax policy" makes one's eyes glaze over, but that's how financiers have gotten away with paying a lower tax rate than their chauffeurs or personal trainers. Tycoons have bet for years that the public is too stupid or distracted to note that in many cases they're paying just a 15 percent tax rate.

What's at stake is the "carried interest" loophole, and President Barack Obama is pushing to close it. The White House estimates that this would raise \$20 billion over a decade. But congressional Republicans walked out of budget talks rather than discuss raising revenues from measures such as this one.

The biggest threat to the United States this summer probably doesn't come from Iran or Libya but from the home-grown risk that the nation will default on its debts. We don't know the economic consequences for America or the world, but it's reckless of Republicans even to toy with such a threat.

This carried interest loophole benefits managers of financial partnerships such as hedge funds, private equity funds, venture capital funds and real estate funds — who are among the highest-paid people in the world. John Paulson, a hedge fund manager in New York City, made \$4.9 billion last year, top of the chart for hedge fund managers, according to *AR Magazine*. That's equivalent to the average per capita income of 184,000 Americans, according to my back-of-envelope calculations based on Census Bureau figures.

Paulson declined to com-

ment on this tax break, but here's how it works. These fund managers are compensated mostly with a performance bonus of 20 percent or more of the profits they make. Under this carried interest loophole, that 20 percent is eligible to be taxed at the long-term capital gains rate (if the fund's underlying assets are held long enough) of just 15 percent rather than the regular personal income rate of 35 percent.

This tax loophole is also intellectually vacuous. The performance fee is a return on the manager's labor, not his or her capital, so there's no reason to give it preferential capital gains treatment.

"The carried interest loophole represents everyone's worst fear about the tax system — that the rich and powerful get away with murder," says Victor Fleischer, a law professor at the University of Colorado, Boulder, who has written about the issue. "Closing the loophole won't fix the budget by itself, but it gets us one step closer to justice."

At a time when the richest 1 percent of Americans have a greater collective net worth than the entire bottom 90 percent, there are other ways we could raise money while also making tax policy more equitable. The White House is backing some of them in its negotiations with Congress, but others aren't even in play.

One important proposal has to do with founder's stock, the shares people own in companies they found. Fleischer has written an interesting paper persuasively arguing that founder's stock is hugely under-taxed. It, too, is essentially a return on labor, not capital.

Likewise, Europe is moving toward a financial transactions tax on trades made in financial markets. That is something long championed by some economists and it would also raise tens of billions of dollars at a time when it is desperately needed. It makes sense.

The larger question is this: Do we try to balance budget deficits just by cutting antipoverty initiatives, college scholarships and other investments in young people and our future? Or do we also seek tax increases from those best able to afford them?

And when congressional Republicans claim that the reason for their recalcitrance in budget negotiations is concern for the welfare of ordinary Americans, look more closely. Do we really want to close down the U.S. government and risk another global financial crisis to protect the tax bills of billionaires?

## Working through troubled waters

The Telluride regional real estate market was late to the party in the national real estate downturn; our market began to decline in 2008, while the U.S. market began its downturn in early 2007. The biggest impact of real estate values in the U.S. over the last four years has been the high rate of foreclosure. In 2010, 2.5 percent of all residential real estate was in foreclosure, according to the Federal Reserve. At the same time, San Miguel County had rate of only 0.6 percent; and that figure has not changed significantly as of the end of June.

Our local market was plagued by the lack of real estate transactions in 2008 and 2009, however, that number increased in 2010 by 12 percent current 2011 statistics trend to a 14 percent increase over last year which you will notice in this graph shown here. The reality is that we cannot consider price increases until we're moving enough inventory in order to create greater demand than we have supply; the current data shows that we are on track to do just that. Furthermore, in such a small market, returning to a sell-

er/buyer equilibrium does not require thousands of sales, but rather, hundreds. Determining the bottom of a market is impossible in real time, however, a trend of increasing sales is a significant factor in doing so.

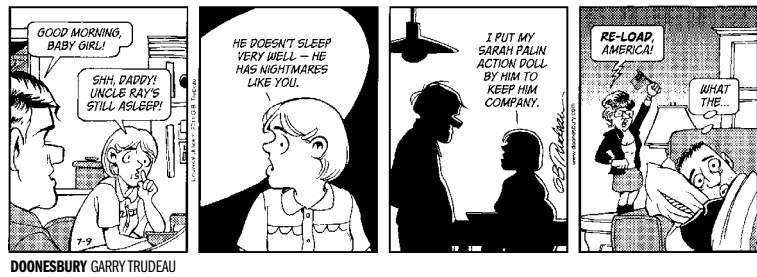
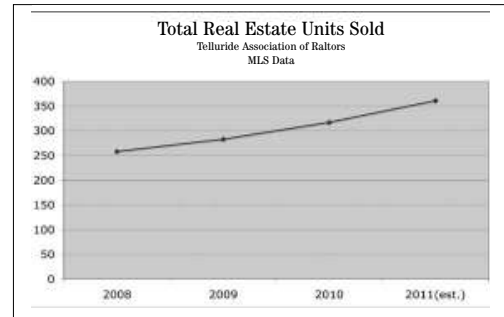
Another important statistic to consider: debt on real estate. San Miguel County has an estimated \$6.1 billion in current total real estate value with an estimated \$2.2 billion of debt on it; that represents a 36 percent debt level. The national average, as of May 2011, is just over 52 percent according to Federal Reserve data. Our market has far more liquidity than

most others; we're strengthened by a rather high percentage of cash buyers, well over 50 percent according to local title companies; and that percentage is increasing.

The moral here is that our market is rather stable, given our low level of average debt. Furthermore, given the increasing number of real estate transactions, it doesn't take a genius to deduce that we're coming out from what some thought might be the abyss.

— Matthew Hintermeister is the CAR Director of the Telluride Association of Realtors.

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## Americans prefer actually doing something

While the nation celebrated a symbolic holiday, *The Washington Post* published a story about how the U.S. House of Representatives, under the leadership of the GOP, has lost its taste for legislation that is purely symbolic.

Last year, the *Post* pointed out, the House spent time passing 250 pieces of such important legislation as bills "honoring everything from the Battle of Marathon in 490 B.C. to the International Council/Panhellenic Dance Marathon at Penn State University." Often such bills are proposed and passed with little discussion. After all, there is little political gains to be had in voting against a bill designating Multiple Sclerosis Awareness Week. Awareness is a good thing, and a commemorative resolution passed by the nation's representative body raises awareness. The country has no shortage of people who deserve recognition and congratulations.

Congress is not a public rela-

tions firm, however. It has more concrete work to accomplish — work that constituents believe is being neglected. As important as "bees and pollinators are to our ecosystem," passing a bill in their honor does not do anything to protect them, and the time spent passing a resolution recognizing them is time that could be spent actually accomplishing something — especially if lawmakers were inclined toward actual accomplishments.

Some years, though, there is little to be had but symbolism. Although the House is under Republican control, the Senate remains in the hands of Democrats, so many hours are spent proposing, debating and passing bills that will not get past the other chamber.

The House is populated entirely by people who barely have time to find their seats before they must start running for re-election. So they propose bills they cannot enact, partly to bring attention to issues they truly believe are important to the future of the nation, and partly as a barely coded message

reminding constituents that their loyal representatives in Party A are patriots and the members of that other party are obstructionists and obfuscators. They approve programs they have no ability or intention to fund. They can appease their constituents with ill-advised legislation they know they cannot pass and that therefore need not be crafted in a way that would allow a program to function. They posture in various other ways, all of them intended to make a statement rather than any real progress.

All of that is purely symbolic, and voters are losing patience. They are frustrated with partisan politics, but they also are frustrated with the excuses they continue to hear. They do not mind commemorative resolutions nearly as much as they mind campaign rhetoric disguised as public service.

Beyond the Beltway, when ordinary Americans see that Plan A is going nowhere, they do not have the luxury of shrugging and blaming their opponents. They have to devise another plan and make it work.

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