First Trust
Monday Morning OUTLOOK
April 14th, 2014
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Lobbyist Rules

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Just about every year, Congress votes to pass a set of so-called "extenders," – temporary tax provisions – that provide an incentive or benefit for certain types of behavior. There are dozens (50 or more) of these temporary provisions in the tax code and, typically, they are extended for one or two years.

Last year, in the debt ceiling deal, the Congress put off a vote on these extenders, partly because they "cost" a great deal. According to the Congressional Budget Office (CBO), extending all the current temporary provisions over the period 2014-2024 would cost roughly $1 trillion. In other words, tax receipts would be reduced by an average of about $100 billion per year if these provisions were reinstated.

Normally, we would argue tax cuts are good for the economy and tax increases are bad. However, as a whole, these extenders represent what is wrong with fiscal policy in America these days. First, these lobbyist-driven deals distort resource allocation. Temporary tax credits and incentives for the environmentally-friendly industries of fuel-cell motor vehicles, three-wheeled vehicles, alternative fuels, and energy-efficient homes, siphon resources from productive and profitable sectors of the economy to support non-profitable sectors. Subsidizing one industry at the expense of another can lead to fewer jobs overall, if the resulting allocation is less efficient.

Second, many extenders are just spending in disguise. A tax credit is another way of saying Congress wants resources directed in a politically chosen direction. A more honest approach would be for Congress to directly spend its tax receipts in areas, sectors and industries that it deems suitable. In that way, an honest accounting of what it is choosing to do would be much more transparent.

And, third, by convention, CBO budget projections treat these provisions as if they expire (even though they are almost always extended), which artificially overstates future tax revenues. As a result, when Congress and the White House come up with spending cuts to offset the loss in tax receipts it results in even more patch-work, temporary actions.

Fourth, each of the extenders has a lobbyist or group of lobbyists attached to it. The best lobbyists win…and politicians who support certain extenders and credits get support in return.

Fifth, any group that benefits from a specified extender or credit, almost by definition, is a group that will not support, or find it hard to support, any tax reform that reduces its benefits. As a result, movement toward a lower, flatter tax system (with fewer deductions and credits) is a harder sell, politically, than it would be otherwise.

Given all of this, the Congress is now working toward a retroactive passage of these temporary tax provisions. Instead, we think this is an opportunity to change course and work toward true tax reform. Let these temporary provisions die!

Some would say this is a tax hike, but it would not change our forecast for the economy. Yes, the loss of some provisions, like bonus depreciation, small-business expensing and a research and experimentation credit, might cause short-term issues for some companies, but, the positive impact of a more efficient allocation of resources in the short, medium, and longer-term will offset any negatives.

If the US ever wants to see 4% growth again – it should end the extenders. Not only will it make government more honest, it will reduce the influence of lobbyists and fuel a more efficient economy.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-14 / 7:30 am	Retail Sales – Mar	+0.8%	**+1.2%**	+1.1%	+0.3%
7:30 am	Retail Sales Ex-Auto – Mar	+0.4%	**+0.8%**	+0.7%	+0.3%
9:00 am	Business Inventories – Feb	+0.5%	**+0.5%**	+0.4%	+0.4%
4-15 / 7:30 am	CPI – Mar	+0.1%	**+0.1%**		+0.1%
7:30 am	"Core" CPI – Mar	+0.1%	**+0.1%**		+0.1%
7:30 am	Empire State Mfg Survey - Apr	8.0	**7.0**		5.6
4-16 / 7:30 am	Housing Starts – Mar	0.970 Mil	**0.998 Mil**		0.907 Mil
8:15 am	Industrial Production – Mar	+0.5%	**+0.5%**		+0.6%
8:15 am	Capacity Utilization – Mar	78.8%	**78.7%**		78.4%
4-17 / 7:30 am	Initial Claims – Apr 12	315K	**310K**		300K
9:00 am	Philly Fed Survey – Apr	10.0	**6.8**		9.0