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KELLEN WASHINGTON REPORT

LATEST FORECASTS

Every day brings a new poll with a new forecast, but as this issue of the Kellen Washington Report went to press Thursday, the conservative National Review was predicting that Republicans would pick up 57 seats to take control of the House but only 8 seats in the Senate, where they need 10 to take control (see KEY RACES.) Many see this as a recipe for even greater gridlock on Capitol Hill for the next two years. Current Speaker Nancy Pelosi is rumored to be planning to retire from Congress rather than accept a “demotion.” Democratic spokesmen are still predicting that they will be able to hold on to enough seats to keep control of the House, but the consensus of nearly all polls is that they will lose between 50 and 60. The Republicans need a net gain of 39 seats to take control.

Summers Out: Businesswoman In?

As another sign that the White House is on the verge of a major shake-up, top economic adviser Larry Summers announced that he will be leaving the staff at the end of the year to return to Harvard. As director of the National Economic Council, he played a leading role in designing the administration’s economic policies. He is the third member of Obama’s senior economic team to quit in a matter of weeks. The President has been criticized for having too many academics on his staff and is said to be looking to recruit at least one senior corporate executive – preferably a woman, for political reasons.

GOP Legislative Goals

Anticipating a victory in November, House Republicans this week unveiled their legislative goals, including:

- Immediate reduction of all federal spending and cancellation of all unspent stimulus funds.
- Cut government spending to pre-stimulus and bailout levels.
- A hiring freeze for all non-security federal workers.
- Repeal and replace the Obama health care plan and approve medical liability reform.
- Require that all troop funding bills be free of any extraneous issues.
- Reduce taxes on small business by 20 percent of business income.

Is Recession Really Over?

Yes, according to the National Bureau of Economic Research, which announced Monday that the longest recession of the post-war era officially ended in June 2009. The private organization of economists is widely accepted as the official arbiter of business cycles. But the continuing 9.6 percent unemployment rate appeared to undermine their blithe pronouncement, and as the *Washington Post* reported, “Vast majorities of Americans think the nation is still in recession, regardless of what scholars say.” The NBER also predicted that it would probably be another three years before employment rates return to their pre-recession level.

Food Safety Concerns

The word in Washington is that absolutely nothing of any importance is going to happen before members of Congress go home in a couple of weeks to campaign for the November 2 election. But there is one potentially important exception: the food safety bill, which passed the House more than a year ago and has been awaiting action in the Senate ever since. The bill increases the powers of the Food and Drug Administration to require stricter food-safety standards and gives the agency authority to order food recalls. It has broad bipartisan, industry and association support. However, the measure has been held up over objections by a single senator – the widely respected Tom Coburn (R-Okla.), a practicing physician and cancer survivor who is running for reelection this year. Coburn maintains that the bill would cost taxpayers too much and expanding the powers of an already troubled agency would do little to improve the nation’s health. Senate majority leader Harry Reid said last week that he planned to shelve the bill as there was too little time before the midterm elections to address Sen. Coburn’s concerns. Industry and public interest lobbyists, meanwhile, continue to press for passage before the Senate adjourns. Stay tuned....

Tax Showdown Time

The never-ending debate over whether to continue the Bush tax cuts beyond December 31 still has not ended, with both sides vowing not to back down. Absent legislation to extend the cuts, income tax rates will increase across the board, notes the National Journal in an extensive analysis. The top rate for individuals will rise from 35 percent to 39.6 percent; the rate on corporate dividends will jump from 15 percent to 39.6 percent, and tax on capital gains will climb from 15 percent to 20 percent. The best solution, suggests the non-partisan Journal, would be a comprehensive overhaul of the tax code, but that’s unlikely to happen any time soon. The reality remains that the country is in deep financial trouble and everyone is looking for new sources of income to stave off a double-dip recession. Possibilities being discussed on Capitol Hill range from a suspension of payroll taxes to targeted tax credits for manufacturers of clean-energy projects and companies that add workers to their payrolls, while the White House is proposing a temporary investment tax break to accelerate capital spending on plants and equipment.

In the background and gaining momentum among economists is the imposition of a value-added tax, known as a VAT, which basically amounts to a national sales tax that would add between 10 percent and 20 percent to all goods and services – likely to trigger a new round of inflation, but providing vast new sources of income for the government.

HOW POLITICOS AVOID TAXES

An eyebrow-raising report from the Internal Revenue Service last week noted that many Hill and White House staffers have been giving themselves handsome tax cuts – simply by not paying their taxes. Capitol Hill staffers owe a total of \$9.3 million – an average of \$12,787 per delinquent in the Senate and \$15,498 in the House. White House staffers owe even more – an average of \$20,270. Incredibly, the biggest delinquents are the three employees of the Office of Government Ethics who together owe more than \$75,000. The report said that a total of 99,000 federal employees, whose salaries and benefits are generally superior to those earned by people with similar jobs in the private sector, collectively owe the IRS nearly \$1 billion. Congress is said to have shown little interest in doing anything about this state of affairs -- with the exception, once again, of Senator Tom Coburn. “Taxpayers are fed up with those in Washington living under a different set of rules than the rest

of America,” he thundered, while most other lawmakers and their highly paid staffers quietly kept their heads down.

Key Senate Races

Some of the most interesting races to watch include:

- Incumbent Russ Feingold (D) against challenger Ron Johnson (R) in Wisconsin
- Incumbent Patty Murray (D) against challenger Dino Rossi (R) in Washington
- Incumbent Barbara Boxer (D) against challenger Carly Fiorina (R) in California
- Challengers Roy Blunt (R) and Robin Carnahan (D) for Kit Bond’s (R) seat in Missouri
- Challengers Kendrick Meek (D), Marco Rubio (R) and Charlie Crist (I) for Mel Martinez’ (R) seat in Florida
- Challengers Joe Sestak (D) and Pat Toomey (R) for Arlen Specter’s (D) seat in Pennsylvania
- Incumbent Blanche Lincoln (D) against challenger John Boozman in Arkansas
- Challengers Rob Portman (R) and Lee Fisher (D) for George Voinovich’s (R) seat in Ohio
- And Christine O’Donnell (R) against County Executive Chris Coons (D) in Delaware.

What Were They Thinking?

Everyone on Capitol Hill talks about helping small business, but when the opportunity arose last week for the Senate to do something tangible, they squandered it. They voted down two amendments that would have relieved small businesses and tax-exempt organizations of the truly onerous burden of issuing Form 1099s to every vendor from whom they buy goods or services amounting to \$600 or more during the course of a year. It has been estimated that 40 million businesses, charities and associations would be impacted, entailing huge compliance costs. ASAE and the AMC Institute were among those fighting to the last minute against the reporting requirement. The *Wall Street Journal* deplored the Senate’s action, noting that several of the liberal Democrats who voted for the 1099 requirement -- and against the amendments -- ironically represent states with thousands of small businesses. What were they thinking? Senators Mike Johanns (R-NE) and Bill Nelson (D-FL), authors of the amendments, vowed to continue their efforts to turn back the new 1099 rules in the next Congress.

ODDITIES IN THE NEWS

Jimmy Carter, in a 60 Minutes interview, stunned Democrats by blaming the iconic **Sen. Ted Kennedy** for deliberately defeating Carter’s comprehensive health care plan.

Walter Mondale, interviewed by the *New Yorker*, said President Obama reminds him of Carter and that “November might be a disaster.”

Lisa Murkowski, the Alaska Senator soundly defeated in the Republican primary, has decided she wants to continue being a senator anyway, so launched a write-in campaign, which she is likely to lose, according to party officials.

Michelle Obama, more popular than her husband and nearly all other Democrats, has agreed to help the party out by campaigning in six states for candidates in trouble.

Christine O’Donnell, who single-handedly defeated long-term Republican Representative Mike Castle in the Delaware primary, has been endorsed by the party but still not by Castle. Her chances of winning the Senate seat for the Republicans in November will surely make this one of the most interesting races to watch.