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Special Report - 53rd Annual Laffer Conference Provides Overview of Economy

May, 2013

by R.G. "Kelly" Caldwell, Jr., CEO and president, and Tim Videnka, vice president, investments

Representatives from Caldwell Trust Company attended the 53rd annual conference presented by Laffer and Associates in Washington, D.C. on May 8-10. The event provided a lively forum for a stellar roster of speakers that included numerous members of Congress, governors, economists, "think tank" representatives and other observers of national affairs. The conference consisted of a series of "town hall" meetings and speeches on current national and international issues that have a direct bearing on our economy. Because the conference is private and does not include media coverage, we have summarized the thoughts and conclusions we heard regarding our most pressing issues as a nation.

GENERAL OBSERVATION

As expected, most of the general conclusions we drew from last year's conference still remain valid today as our divided government, in its ongoing state of paralysis, continues to accomplish little of note. (To see last year's report go to: <http://www.ctrust.com/pdf/newsletters/ctc2012-05.pdf>.) In the face of serious national dysfunction, many states continue efforts to decouple from the federal government.

In the days following our visit, the IRS and AP wiretap scandals have broken out. These issues coupled with the ongoing Benghazi inquiry have the potential to dominate Congress for some time, however we have decided to mainly focus this report of the legislative issues that could have profound effects on our economy and let others worry about the implications of the scandals.

Immigration bill and then tax reform, maybe

Only two issues seem to have any traction with the legislators that we spoke with: Immigration and Tax Reform (mainly the corporate tax rate). These two areas dominated the conversations because there was a belief that there is enough support from both sides of the aisle and the President to bring both matters to workable resolutions.

The U.S. Immigration Policy has always been about refugee status, lottery, family reunification or political asylum. As a result, immigration/refugee status fraud is rampant. Other nations ask the person immigrating to the U.S, how will you be productive? They give preference to those that will provide the most economic benefit.

The Staple Act seems likely to become part of any Immigration Bill. It provides for a Green Card to be "stapled" to a master's or doctoral degree obtained by a foreign student so they can stay and work here. Right now, the Senate is forming one large bill while the House has five or six smaller bills on this topic. The conference process may well result in an acceptable compromise.

On tax reform, our corporate tax rate of 35 percent puts all U.S.- based companies at a competitive global disadvantage, given that the average corporate tax rate for all other developed countries is 25 percent. Enough players on both sides profess to wanting to level this playing field and therefore in our opinion it is a matter of when, not if, our tax rate will fall in line with other countries. That said, given the recent diversions of Congress and the coming 2014 elections, it could be a lot longer wait than we would hope.



R.G. "Kelly" Caldwell, Jr., Caldwell's CEO and president, meets with Paul D. Ryan, U.S. Congressman from Wisconsin and recent vice-presidential candidate, at the 53rd Washington conference presented by Laffer and Associates in Washington, D.C. earlier this month.



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R.G. "Kelly" Caldwell, Jr. and Tim Videnka, vice president, investments, flank Dr. Arthur B. Laffer.

SPECIFIC OBSERVATIONS

Many topics were discussed over the three-day conference. Here, in bullet-point form, are a few that we found of special interest.

The Affordable Healthcare Act: failure to launch?

When the Affordable Care Act was passed, it did not contain specific rules of implementation for business owners. As the October 2013 deadline approaches for the exchanges to be opened, many conference attendees said that the deadline may not be met. It would not surprise us to see various government bodies request and be granted permission to delay full implementation.

- One of the known rules states that an employer with 50 full-time or fulltime-equivalent (30 hours/week or more) employees is classified as a "large business" and must comply with the Affordable Care Act. Businesses are already responding by reducing fulltime or fulltime-equivalent employees, either by adjusting their hours or creating new business entities to spread out the same working hours across several employees, in effect "pulling their structure apart."

- Costs continue to rise. The original estimate to implement the Affordable Care Act: \$800 billion; last year's revised estimate: \$1.2 trillion; current Office of Management and Budget estimate: \$2.6 trillion.
- Do not be surprised if the Administration and/or the Democratic Senate ask for some delays in the implementation process.

The U.S. energy boom continues: self-sufficient in 10 years?

- Rapid progress to expand U.S. proven oil reserves continues at the state level. The most recent U.S. Geological Survey indicates that the Bakkan Shale area of the Dakotas contains 8 billion barrels of recoverable oil—up from 2 billion about five years ago and up from 800 million about ten years ago.
- The U.S. Geological Survey has revised its estimate of Green River Oil Shale (in Utah, Colorado and Wyoming), now stating that this area may hold up to two trillion barrels of oil, of which 750 billion barrels would be recoverable. To put that into perspective: Saudi Arabia's estimated total recoverable oil reserves are only 250 billion barrels.
- At the current pace of progress in U.S. oil production, the US would become a net exporter of oil. This holds the possibility of huge positive economic and political implications for the U.S.

Budget and deficit: a new way to describe the same old debt

- The Federal Government currently spends \$3.8 trillion a year, of which \$2.7 trillion is collected in taxes. The remaining \$1.1 trillion comes from new borrowing. Of the total outlay, we spend \$2.7 trillion for entitlements (Social Security, Medicare and Medicaid) and interest costs. All other government services are provided with borrowed monies.
- Demographics of the U.S. indicate that in the years 2020– 2030, entitlement spending will explode and consume an even greater amount of the budget than at present.
- Given the above facts, any budget reform without entitlement reform will have minimal impact on the economy.
- Canada has been able to hold its nominal spending in dollar terms steady for three years. Their experience shows us how such measures could go a long way in helping to correct our deficit.
- Sequester has been a non-event so far.
- Although states may enact laws, action on initiating an internet sales tax on the federal level will likely go nowhere.
- Be on the lookout for Kristi Noem (R-SD). A rising star from the farming and ranching state of South Dakota, she is passionate about repealing the death tax as it had a punitive impact on her family.
- In order to determine even something so simple as how much is spent on Welfare, Congress must make major structural re-forms because no one single bill covers such items. For example, 85 percent of the money in the farm bill is for food stamps.



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The states: that's where the action is!

- Some speakers from last year's conference left Washington, D.C. to return to their home states, hoping to make more of an impact. Several have since been elected as Governors of their states.
- As individual states take different paths on taxes and regulatory policies, major prosperity differences are starting to show up in the fiscal health of each state. Look no further than Pennsylvania and New York and their different approaches to using fracking in drilling for oil. Tennessee is another example. It is a right-to-work state while states to the north are not. In Tennessee's labor environment, foreign automakers now provide 30 percent of the state's total jobs.
- One cautionary tale for states is the impact of Medicare/Medicaid on state budgets and education. Ten years ago in Tennessee, Medicare/Medicaid amounted to 8 percent of its budget; today it accounts for 26 percent. As a result, the state is no longer able to cover 70 percent of tuition costs for students. Instead, students must now cover 70 percent while the state can only pick up 30 percent.

The Middle East: no threat to U.S. and other geopolitical views

- Asia views America as a nation in decline.
- Arabs are now openly calling for U.S. leadership in the Middle East to deal with Syria as we are the only party that can convene with all sides.
- Critics of the current Administration believe today's geopolitical situation results from the Administration's desire to support only those foreign policies that will promote its domestic policies.
- Despite what may look like a cover-up, most conference attendees believe that the Benghazi event will not matter in the end.
- Egypt is on the verge of bankruptcy and does not have enough cash to pay for food and fuel.
- Iran apparently has the ability to produce a nuclear weapon. If this proves true, by default, the U.S. strategy will be one of containment.



R.G. "Kelly" Caldwell, Jr. and his wife, Melissa stand with Ted Cruz, United States Senator for Texas, at the 53rd Washington conference presented by Laffer and Associates in Washington, D.C. earlier this month.