

GOVERNMENT OVERSPENDING: UNCERTAINTY & CONFIDENCE

Americans have grown increasingly knowledgeable – and increasingly concerned – about the government’s explosion of spending and debt. Americans have also grown fearful of the great unknown: *what will Washington do next?*

As high unemployment and anemic economic growth continue to plague our nation, Washington continues to fuel uncertainty and a general lack of confidence about the future: What level of taxation will Americans face? Will there be more jobs next year, or less? How much will the new health care entitlement cost families and businesses? Which companies will survive? What about the debt? Borrowing costs? Inflation?

Uncertainty and Lack of Confidence Impede Our Recovery

- No Ability to Plan
- Families and Companies Afraid to Act

No Ability to Plan

Individuals, families, and business leaders cannot plan for the future because of uncertainty about policies coming out of Washington.

- Over the past few years, we’ve watched our government bail out financial firms, take over auto companies, and significantly increase federal involvement in the housing and mortgage markets.
- Companies, bondholders, shareholders, and consumers today can't be certain when Washington will choose to act again, or under what terms. Even efforts to clarify the relationship between government and the private sector (as was attempted in the recent financial regulatory reform bill) grant Washington bureaucracies so much discretion that no one knows exactly how the law will work when implemented.
 - In a June 22, 2010 speech, Business Roundtable Chairman and Verizon CEO Ivan Seidenberg said, **“In the search for short-term revenue fixes, we're doing long-term damage to growth. By reaching into virtually every sector of economic life, government is injecting uncertainty into the marketplace and making it harder to raise capital and create new businesses.”**¹
 - Washington has so far failed to say whether tax rates will be increased next year. Under current law, taxes on personal income, investment income, and the estate (or so-called “death”) tax are set to rise substantially. Many personal and business deductions will also be phased out.²
 - *Higher taxes will leave American families and businesses with less disposable income from which they can buy fewer goods and services, and hire fewer workers.*
 - *Uncertainty about taxes deters individuals and businesses from spending and investing today, since they don't know what rules they will face tomorrow.*

Families and Companies Afraid to Act

Because companies and families don't know what new rules, regulations, and taxes might be coming from Washington, many are not investing in the economy. Instead they are playing it safe, and holding on to

their assets as cash in order to avoid making a mistake in a system in which they lack confidence.

- American families are spending less and saving more. One reason families are holding on to more of their paychecks is that many are concerned about rising taxes and the potential for another economic downturn.
- America's non-financial companies are holding on to an estimated \$1.8 trillion *in cash*.³ This money could otherwise be used to hire new workers, buy new equipment, and expand operations -- all of which would encourage greater economic growth.
 - **“The optimal response to uncertainty if you're a firm is to do nothing, but if everyone does nothing, the economy tanks.”** Nicholas Bloom, an associate professor of economics at Stanford University⁴
- Washington’s new healthcare entitlement dramatically changes the current health care sector and creates new rules and regulations for businesses and individuals. But just how this law will work, and what the burdens and benefits will be, won't be clear until years into its implementation. This uncertainty encourages businesses to forgo expanding and hiring new workers until they know how they will be affected.
 - Michael Moran, chief economist at Daiwa Capital Markets, recently stated, **“Uncertainties regarding the costs of health care under the new structure approved by Congress, along with potential increases in taxes and limits on carbon emissions, are probably restraining corporate investment.”**⁵
- Banks are also issuing fewer loans.⁶ This is likely a result of uncertainty about the future of the economy, and concerns that another recession could lead to more default.

¹ Speech by Ivan Seidenberg at the Economic Club of Washington. June 22, 2010. <<http://www.businessroundtable.org/sites/default/files/Ivan%20Seidenberg%20Economic%20Club%20Speech%206%2022%2010%20As%20Delivered.pdf>>

² Eric Rosenbaum, "The Bush Tax Cuts: To Extend or Not to Extend?" *Newsweek*, July 20, 2010.

³ Jia Yin Lang, "Companies pile up cash but remain hesitant to add jobs," *The Washington Post*, July 15, 2010.

⁴ Rich Miller and Simon Kennedy, "The Uncertainty Principle: Not Sure? Don't Spend," *BusinessWeek*, July 22, 2010.

⁵ Kathleen Madigan, "Economists Try to Measure Uncertainty's Impact on Growth," *The Wall Street Journal*, July 26, 2010.

⁶ Alissa Figuera, "Why small businesses aren't getting credit, even when it's available," *The Christian Science Monitor*, July 13, 2010.