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Financial Sector Communications

## CICERO BRIEFING: STATE OF THE UNION 2012

### Higher taxes for large companies and wealthy individuals at heart of President's programme for greater fairness

Barack Obama urged Washington to "focus on the mission and not the politics" in an effort to fight inequality and get America back to work. Despite the delicate economic situation the speech was relentlessly optimistic in tone. While the optimism gave an air of presidential confidence, it also gives the Republicans lots of ammunition should the economy take a downward turn in the coming months.

Mr Obama repeatedly used language that attempted to reach above party politics by appeals to universal American values: "We can either settle for a country where a shrinking number of people do really well, while a growing number of Americans barely get by. Or we can restore an economy where everyone gets a fair shot, everyone does their fair share, and everyone plays by the same set of rules."

Despite the rhetorical exhortations to work together, he nevertheless he used his bully pulpit to warn that he would "fight obstruction with action" – a further signal that he will use executive powers in the run-up to the campaign to bypass the political deadlock that has characterised this Congress.

And, drawing a dividing line between himself and Republicans, he defended an active government. He said that his administration would take action to help ordinary hard-working Americans through difficult times, and that regulation was essential part of making markets work.

A large part of his speech focused, as expected, on the economy. He attacked outsourcing of jobs and the excesses of the financial sector, saying that an economy built to last would be based on American manufacturing, American energy and increased skills. At the heart of the fairness agenda were proposals on tax – a so called Buffet Tax on rich individuals, and minimum tax for multinational corporations who book their profits outside the US.

Mr Obama met Republican accusations that he makes apologies for America head-on, and the speech contained a number of muscular references the preeminence of America in science, technology and manufacturing. "America is back" he said on many occasions, and so, in a way, was the forceful Barack Obama that many of his supporters felt had gone missing.

He rounded his speech out by using the example of the military operation to terminate Osama Bin Laden to illustrate what America can achieve if it works together. And of course, to remind everyone that it was his administration and his leadership that had made it happen.

So what next? Despite the considerable attention this address customarily receives, it rarely has a big positive impact on poll numbers. And with a bitterly divided Congress an obstacle to any legislative ambitions, Mr Obama knows that much of this agenda cannot progress before the end of this Congress. Tax bills, for example, must originate in the Republican controlled House – and thus far the GOP has resisted any tax raises whatsoever. What we really got, therefore, was a curtain raiser for his re-election campaign.

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## **Policies**

### ***Corporate taxes***

"No American company should be able to avoid paying its fair share of taxes by moving jobs and profits overseas"

- Proposes a minimum tax rate for multinational companies. Details are vague, but seem to propose that corporations pay the IRS the difference between tax on profits booked overseas and a US minimum tax (should the foreign rate be lower)
- Tax incentives to those bringing manufacturing back to the US
- Reduction in tax breaks for those offshoring jobs

### ***Individual taxes***

"We need to change our tax code so that people like me, and an awful lot of Members of Congress, pay our fair share of taxes"

- Urge to pass payroll tax cut without delay
- Let temporary tax breaks for the richest expire
- Support for the Buffet Rule: "if you make more than \$1 million, you shouldn't pay less than 30% tax" – partly by removal of benefits and reliefs for the wealthy
- "If you make less than \$250k your taxes shouldn't go up"

### ***Infrastructure***

"Democrats and Republicans used to invest big...now we aren't at war we need to do some nation building at home"

- Will sign Executive Order that reduces red-tape on new infrastructure projects
- Urges Congress to use half the savings from withdrawal from Iraq and Afghanistan to improve creaking US infrastructure

### ***Housing market and banking***

- Plan to Congress to for mass refinancing of home loans at historically low rates - partly funded by a fee on the financial services industry
- Attorney General to expand investigations into abusive lending and packaging of risky loans during the financial crisis
- Financial Crimes Unit to tackle fraud and urges new penalties stiffer penalties in law for fraud

### ***Trade***

"Our workers are the most productive on Earth, and if the playing field is level, I promise you – America will always win"

- Trade Enforcement Unit to investigate unfair practices by foreign countries (especially China)
- More inspections to catch counterfeit / unsafe goods entering the US

### ***Skills***

"Growing industries in science and technology have twice as many openings as we have workers who can do the job. Think about that – openings at a time when millions of Americans are looking for work"

- National commitment to train 2 million more with skills leading directly to a job
- Rationalise all skills and training programmes to just one, with single website

## ***Education***

“Give schools the resources to keep good teachers on the job, and reward the best ones. In return, grant schools flexibility: To teach with creativity and passion; to stop teaching to the test; and to replace teachers who just aren’t helping kids learn”

- Every state to require all students to stay in High School until they reach graduation or turn 18
- Urge Congress to extend tuition tax credit
- Double work study jobs for college students in 5 years
- Urge colleges to reduce tuition costs with threat of reduction of federal funds if they don’t

## ***Immigration***

“We should have immigration reform right now. No more excuses”

- However, if no agreement on comprehensive immigration reform, Congress should pass measures to stop expulsion/deportation of children who have grown up in America and give them citizenship

## ***Energy***

“This country needs an all-out, all-of-the-above strategy that develops every available source of American energy – a strategy that’s cleaner, cheaper, and full of new jobs”

- More offshore oil and gas sites to be opened for exploration
- All companies that drill for gas on public lands to disclose the chemicals they use
- Incentives for business to reduce energy consumption by increasing efficiency
- Federal land to be freed-up for clean energy – enough for three million homes. Navy purchasing enough clean energy capacity to power a quarter of a million homes

## ***Political establishment***

“The biggest dents to our confidence last year were avoidable, they came from Washington...The gap between Washington and Main Street is as wide as between Main Street and Wall Street”

- Ban insider trading by Members of Congress
- Ban holding of stocks held in companies that Members of Congress have influence/oversight over
- Those who bundle campaign contributions should not be able to lobby Congress
- Simple up and down vote on judicial and public service nominees within 90 days
- Suggests Senate filibuster should require legislators hold floor and talk continuously, to stop routine blocking by minority in Senate
- Asks Congress to give authority to consolidate bureaucracy

## Republican Response

Governor Mitch Daniels of Indiana responded on behalf of the GOP. Daniels, an able state chief executive with a strong record of cost cutting, disappointed many Republicans when he chose not to stand as a Republican candidate for the presidency last year.

His remarks were more measured than those of many of his GOP colleagues in recent years. However, Mr Daniels took issue with Mr Obama's upbeat prognosis. "On these evenings, presidents naturally seek to find the sunny side of our national condition," Daniels said. "But when President Obama claims that the state of our union is anything but grave, he must know in his heart that this is not true."

He congratulated Barack Obama for some of his achievements, such as the successful hunt for Bin Laden. He accepted that President Obama had not created the financial crisis, but said many of his policies had made it worse. He attacked the blocking of the Keystone XL pipeline as 'extremism' and said that it amounted to a 'pro-poverty' policy. He said new domestic energy technologies were the best break our economy has gotten in years.

There was some common ground as Daniels called for "a dramatically simpler tax system of fewer loopholes and lower rates" though divisions remain even within the Republican Party as to how this might happen in practice.

Another theme was what he said was the divisiveness of the Obama Presidency. He said that Obama had pitted the rich against the poor and sought to create division. "No feature of the Obama Presidency has been sadder than its constant efforts to divide us, to curry favor with some Americans by castigating others. As in previous moments of national danger, we Americans are all in the same boat. If we drift, quarreling and paralyzed, over a Niagara of debt, we will all suffer, regardless of income, race, gender, or other category. If we fail to shift to a pro-jobs, pro-growth economic policy, there will never be enough public revenue to pay for our safety net, national security, or whatever size government we decide to have."