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CLIENT BULLETIN

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➢ *Re-energized Nation*

With so much focus on the financial plight of the Eurozone, many have missed an extraordinary transformation that has the potential to redefine America's economic future. The most dramatic element of this transformation is the realization that, because of relatively new drilling technology, the amount of accessible natural gas and oil in the U.S. is far greater than believed just a short time ago. Hydraulic fracturing of shale (fracking), which is the technology used to recover natural gas from shale, has raised a variety of environmental concerns and faces political headwinds, but has the potential to make the U.S. the major energy producer in the world. Consider the following statistics:

- A few years ago, it was believed that the U.S. had a six or seven year supply of natural gas; with the new technology, we have nearly 100 years worth available.
- During the past three years, the U.S. has not only reduced oil imports from OPEC by more than 20%, it has become a ***net exporter*** of refined petroleum products for the first time since the 1950s.

➢ *Economic Impact*

The enhanced production of natural gas using the new fracking technology has the potential to bolster the nation's economy. Consider the following:

- The cost of producing natural gas has declined over 70% in the past few years.
- The availability of relatively inexpensive natural gas has prompted a variety of companies to build or expand in the U.S. For example, Methanex, a Canadian company that makes methanol from natural gas, is moving a plant from Chile to Louisiana due to the abundance of natural gas.
- Low-cost natural gas should enable U.S. companies to be more competitive globally in energy-intensive industries as well as fill a growing portion of domestic fuel needs.
- High rates of shale gas recovery could result in a million new manufacturing jobs by the year 2025.

➢ *Healthcare Bill – A Closer Analysis of the Costs*

The goal of the now confirmed Affordable Care Act (ACA) is to provide health insurance for an additional 30-35 million Americans. Approximately 20 million of those people are currently uninsured and another 15 million will be newly eligible for federally funded health insurance due to an expansion of the number of families eligible for Medicaid coverage under the new law. Common sense tells us that providing health insurance for that many additional people will cost a lot of money and it does - estimates for a 10-year period are approximately $1 trillion. According to official estimates, however, the law is “revenue neutral”, meaning it does not add to the federal budget deficit. Said another way, the federal government calculates that they will ultimately not be responsible for paying the $1 trillion. In last month’s bulletin, however, I stated that the ACA will add significantly to an already swollen federal budget deficit. How can this be?

➢ *So Who Pays?*

Approximately $500 billion of the cost is to be recouped through new taxes that take effect in 2013 – a .9% increase in the Medicare tax and a new 3.8% tax on investment income for families with incomes above $250,000 ($200,000 for individuals). The remaining $500 billion cost is to be made up primarily by lowering payments that the federal government makes to doctors and hospitals who see Medicare patients. The concern, however, is that fewer doctors will take Medicare patients if they lose money seeing them due to lower reimbursement rates – a de facto rationing of medical services. Short and long-term history suggests that this second $500 billion of savings to pay for the law will not materialize. Just since the ACA was passed in 2009, Congress has overridden these scheduled Medicare rate cuts 4 times, and there is every indication it will continue to do so.

➢ *National sales tax?*

Heightened concern about the budget deficit has led to talk of the need for a federal “consumption tax”, such as a value added tax (VAT) or a national sales tax that imposes taxes on what people ***spend*** rather than what they ***earn*** as in our current income tax system.

Both ends of the political spectrum have rejected a national consumption tax, albeit for different reasons. Even small increases in the consumption tax rate would bring in billions of additional dollars to the federal government. Conservatives (those who generally favor smaller government, lower taxes and personal responsibility for financial security) reject a consumption tax as a money machine that inevitably will lead to less fiscal discipline and higher government spending.

More liberal individuals (those who generally advocate for a larger scope of government, higher taxes and government/corporate responsibility for financial security) too, have concerns about a consumption tax because it falls most heavily on their natural constituency, middle-and lower-income taxpayers, who spend a greater portion of their income. In 2010, the Senate passed a resolution *against* a consumption tax by a vote of 85-13. Given this sentiment, a consumption tax is unlikely to be enacted anytime soon, regardless of which political party is in power.