

## The Vision Thing and Voodoo Economics

Prior to the State of the Union I concluded we needed more of both vision and voodoo economics. The State of the Union delivered vision and the famous Bush come-from-behind leadership, but nowhere near enough voodoo economics. In fact, it delivered economic trickery: basically policies to either fool you or bribe you to act before the election.

The truth is coming out as people dig in to the actual proposals, and it looks like it is Darman all the way down. Now you see, it now you don't.

The State of the Union evoked memories of candidate Bush coming from 17 points behind Dukakis in August of 1988, and world leader Bush forming the coalition against Sadaam Hussein in the fall of 1990. But in this State of the Union Bush stopped far short of proposing a comprehensive, integrated and visionary program for prosperity. Below I will comment specifically on the speech, on the so-called growth package, and include my own advice for the President.

!! The Speech!!

The President prefers to come from behind, to lead by waiting then finally reacting and mobilizing, rather than by anticipating future events and pre-positioning himself. We saw this in the 1988 campaign against Dukakis. His campaign never really started until his acceptance speech at the August RNC Convention. We can see the same behavior in the Gulf War. There was no initial reaction to the invasion of Kuwait, but in time, Bush built the coalition, defied Congress and became positively Churchillian.

Again, as the Soviet Union began to unravel, he accelerated the process with unilateral US Arms reduction, but he gave no early support or recognition to Yeltsin. Only now has his attention turned to domestic policy, the economy, and the 1992 election, but his attention has turned fully. We saw this in the State of the Union speech. We saw flashes of the Churchillian world leader and a return of Peggy Noonan as speech writer. She was a speech writer for Reagan and for the Bush Republican National Convention acceptance address. She wrote many of the most vivid and impactful lines of the State of the Union lines like: " ".

It appeared that we are beginning to see a return of "voodoo" economics, the kind we like, the kind of voodoo economics that

produced 17 million new jobs from 1981 to 1988. The kind of voodoo economics the President promised us more of when he was candidate Bush, when he said in 1988:

"I will not raise your taxes, period.

Seven years of economic success -- 17 million new jobs, low inflation, interest rates finally under control -- after four years of Democratic tax and spend failure -- should have taught us that controlling the tax burden and controlling spending are the keys to success. The problem is not that we're taxed too little, it's that we spend too much.

Raising taxes is not just unpopular, it is hazardous to the economic recovery we have struggled to achieve and maintain. Tax hikes never gave an American a job or fed a family. They simply feed the Congressional spending machine. We have not come this far to see America turn back to the days of double digit inflation and unemployment. Tax hikes would throw 17 million new American jobs into jeopardy. ¶ 1¶

¶ 1¶ George Bush, in his Letter to the Editor of !! U.S. News and World Report!! dated July 14, 1988.

It looked like that's what we were getting, but as the story has unraveled in the days since January 28th, it has become clear that we are getting Darmanomics, or now-you-see-it-now-you-don't tax cuts.

For example, as the !! Wall Street Journal!! reported February 7, for many taxpayers, the effective tax rate for capital gains would not be 15.4% but 24%. The pro-growth wing of the Republican Party blew the whistle on this and it appears that this is now going to be changed.

Below I comment on each of the tax initiatives.

!! Growth Package!!

Here's a run down of each item.

Capital-Gains Tax Cut:

A reduction from 28% to 15.4% looks like a great improvement to

economic activity, but a hidden provision of the proposal would raise the rate back to 24% (the alternative minimum tax) for those taxpayers whose capital gains were large relative to annual income. This would apply, for example, to those who worked all of their lives to build up a business and then sell it.

This proposal looks like it is going to be remedied, plus have indexing added so that only "real" gains are taxed.

Additionally, I recommend two changes: a zero rate for investments made in inner cities, and the elimination of the proposed three year holding period. A three year holding period would work both to decrease the efficiency of the economy and would result in a revenue loss to the Treasury.

#### R&D Credits:

This will improve productivity by reducing marginal tax rates.

#### Withholding Cuts:

Seventy percent of Americans prefer and are intentionally over-withheld; they want the forced savings of receiving a \$350 tax refund. CNN has demonstrated that they see the President's change in the holding schedule for what it is: a shameless manipulation to give Americans more money in 1992 and less in 1993.

#### Increase in Personal Exemptions by \$500 per Child:

This is nothing more than printing bonds and giving them to the American people. It would not change marginal tax rates, and not change any incentive to work, save or invest. Worse than that, it is blatantly and election year trick because it doesn't even take effect until October of 1992.

#### Investment Tax Credit:

This is proposed for one year. It is a bribe to buy a machine this year rather than next year. It leaves unchanged marginal tax rates, therefore there is no improvement in either coordination or incentives. It presumes that the problem that we have in the economy is a shortage of machines. No, we have a shortage of activity for using the machines that we have. We need more growth, not more machines.

#### Incentives for Real Estate Investment:

This is only a gift to the real estate lobby, nothing more. We don't need to incent more construction of unneeded buildings, we need to allow for more growth to fill up the buildings we have.

10%/\$5000 first time Homebuyers Credit:  
Again this is only for this year. It is a bribe to act now,  
rather than a permanent reduction in the cost of homeownership.  
It is bad policy because it subsidizes homeownership at the  
expense of overall growth.

!! Advice to the President!!

Below is a letter to the President from Arthur Flectcher,  
Chairman of the United States Commission on Civil Rights, myself,  
and Charles W. Kadlec, Member, New Jersey State Advisory  
Committee for the United States Commission on Civil Rights. It  
outlines what we call a "Program for Prosperity." Some elements  
of this proposal have found and are beginning to find their way  
into the administration's 1992 growth policy.

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January 3, 1992

The President  
The White House  
Washington, D.C. 20500

Dear Mr. President:

In accepting the Republican nomination for President, you made  
three bold promises that became central to your election:

- O No new taxes;
- O 20 million new jobs over the subsequent 8 years;
- O A kinder and gentler nation.

During your first three years in office you have had many  
historic accomplishments. However, you have not been able to  
accomplish your economic goals. We are proposing here a plan  
that will permit you to reach your goal of improved opportunity  
for all Americans.

Congress pushed you into raising taxes. Unemployment has been on the rise ever since. The destruction of jobs and opportunity has had a disparate impact on blacks, other minorities and women. In addition, higher taxes, falling housing values, and the capital crunch now jeopardize the middle class, fueling racial tensions and animosities toward the poor. David Duke's success is a measure of the fear many white Americans have about their futures. This destruction of jobs and shrinking of opportunities is the reason behind your decline in the polls and the reason why your reelection is at risk.

Recent indications that you have made economic growth your highest domestic priority are a welcome step toward addressing the concerns of the American people. The Democratic Party's strategy of attacking the "rich" gives you and the Republican Party the opportunity to advocate prosperity for all Americans.

A program that can produce prosperity for all Americans, from the poorest in our society on up, has the power to unify the country. Poor, middle class, rich -- all of us -- have a stake in bringing prosperity to America's inner cities. Expanding jobs and opportunity increases the community's capacity to take care of its social concerns and reduce racial tensions. The best antidote to poverty has been and will always be an expanding market for jobs and advancement. The best way to reduce the cost of welfare is to produce employment among the poor and disadvantaged.

The key actions we ask you to take include:

- 1) Reduce the capital gains tax rate, and reposition this so it is definitely not seen as a scheme to benefit the rich.
- 2) Reduce to zero the capital gains tax for those who live, work and invest in the inner cities.
- 3) Reduce the tax on wages.
- 4) Make all of the tax rate reductions effective January 1, 1992.
- 5) Demand repeal of the law that prohibits poor people from saving their way out of poverty.

6) Reform the welfare system specifically to reward those who supplement their welfare benefits with income from work.

7) Implement your program to provide educational choice for all Americans, especially those trapped in the bankrupt school systems that plague our inner cities.

Together these actions constitute a "Program for Prosperity" that will give you and the Republican Party the high moral ground. It will do this by providing an alternative to class warfare and the implicit racism of your opponents. In the attached memorandum we discuss each of the seven initiatives.

We are at your disposal to assist you and your staff in forwarding adoption of this program.

Sincerely,

Arthur A. Fletcher  
Chairman  
U.S. Commission on Civil Rights

Russell G. Redenbaugh  
Commissioner  
U.S. Commission on Civil Rights

Charles W. Kadlec  
Member, N.J. State Advisory Committee to  
U.S. Commission on Civil Rights

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