# *The Masters of Misdirection*

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I cannot fathom how voters would vote against the President's party in the upcoming November elections. Obviously the hard core supporters of the "out" party will continue to vote along party lines and similarly the right will do the same. The swing factor—the independents—will probably make the difference. The imperative is for conservatives to convince independents that we are and will be better off if the "in" party stays in. While the Iraq war remains an enigma for many voters, the key questions for the 2008 election are: Am I better off than I was four years ago? And if I am, who is responsible for my well-being?

Historically, the most powerful force driving voters to elect one party over another has been economic growth and concomitant rising standards of living. If this prime driver of voter behavior holds true to form, the "out" party should lose more seats in November regardless of polls or press reports to the contrary. If we start with the first quarter real GDP growth of 5.6% vs. a long-term trend potential of 3.5%, this is an unusually favorable statistic that provides the best measure of good times. Even more impressive is the fact that standards of living have never been higher in the U.S. Even though the "out" party proclaims that the income gap between rich and poor is widening, few acknowledge that incomes of both of these groups is rising!

Also, the argument that workers are not as well off is slight of hand by the masters of misdirection. Common sense tells us that when you add millions of new workers to payrolls, the wage of the average or median worker will fall. The reason is that all these new workers enter the work force near the bottom of the pay scale, not near the top. Any time you get a booming economy and rising employment, it is likely that the average or median income level will fall.

For conservatives, the latest good news is an unexpected decline in the size of the federal budget deficit. A front-page article in the Sunday New York Times reported the following: "Surprising Jump in Tax Revenues Curbs U.S. Deficit." According to the Times: "there has been an unexpectedly steep rise in tax revenues from corporations and the wealthy." The surge in tax revenues will be $100 billion larger than expected only six months ago. (Could it be even bigger by yearend?) Again, according to the Times, "The main reason is a big spike in corporate tax receipts, which have nearly tripled since 2003, as well as what appears to be a big rise in individual taxes on stock market profits and executive bonuses."

Despite these positive facts, politicians of all stripes, complaining about how much money corporations pay their executives, seldom own up to the reality that up to 40% of those payments are quickly confiscated by state and local government as "income" taxes. I don't remember any representatives from Massachusetts getting up and thanking corporate executives for paying the taxes that are contributing to overflowing state budget coffers.

The huge surge in tax revenues is likely to continue given the fact that many companies are reporting strong earnings. Also the decline in tax loss carry forwards will increase tax liabilities. When President Bush cut taxes not once but twice, the response from the naysayers was such tax cuts are irresponsible and will cause a financial disaster.

Now that the recession is over and the economy is growing above the long-term average rate, what do you think the "outs" are saying? Well the Times quotes them: "…many budget analysts note that revenues have barely climbed back to the levels reached in 2000…" Or "Even with surging payments for investment profits and business income, individual tax payments in 2005 were only $972 billion—below the $1 trillion reached in 2000, even without adjusting for inflation." So now the comparisons are with all-time record tax revenues?

The tax cuts were supposed to cause a financial disaster and now the masters of misdirection are denigrating a six-month $100 billion surge in tax revenues as not being good enough to match the previous record? In fact, a combination of record low taxes and record high profits is the key to understanding our economic boom, which continues to be the "greatest story never told."

Independent voters should see through these distortions couched as news in publications such as the Times. If corporations are paying huge tax bills, they must be making profits. The majority of independent voters recognize that they are better off because they are experiencing record high levels of living standards. Earned income is only one measure of improved standards of living. (The reason for polls showing a less-than an ebullient consumer may be the influence of the newspapers they read.) Then there is the state and local government crowd. Suddenly flush with billions of dollars in surpluses from rising tax revenues they have never been better off either.

Yet, the new governor of New Jersey, a member of the "out" party, pushed through a 17% increase in the state's sales tax on a constituency that already pays the highest real estate tax in the nation. Maybe governor Corzine is giving New Jersey residents a taste of what is in store for the general populace if the "out" party gains control of Congress in November.

Why would anyone want to revoke economic policies that have given us so much? The reason is that the masters of misdirection are telling anyone that will listen that what they see isn't really happening. Being on the outside looking in, what else can they do?

Another stunt is that, since the near-term boogeyman forecasts haven't panned out (remember John Kerry wanting to raise taxes to solve a weak economy and stagnant employment?) the "outs" have to resort to theoretical problems. Their latest fear tactic is to blame the retiring baby boomers as a cause celebre to do something. Since I'm one of these boomers, I can't see why I am a problem.

Here is a classic quote from the Times article that captures the mood of the "outs." Douglas Holtz-Eakin a former director of the Congressional Budget Office (the same guys who miscalculated the boom in tax revenues) said: "The long-term outlook is such a deep well of sorrow that I can't get much happiness out of this year." What planet is this guy on? Are the masters of misdirection trying to scare us into making changes that will turn a boom into a bust?

Independent voters should ask these "outs" what they would do to fix the problem. They dodged the President's proposal to privatize part of the Social Security System—recognizing the problem but proposing no solution. Rather, they seem intent to raise taxes again and again until the rich people pay their fare share.

Just look at past presidential contenders who proposed raising taxes: Walter Mondale, Michael Dukakis and John Kerry. Even President H. W. Bush lost his job because he violated his promise not to raise taxes. So who got elected? President Clinton who kept his tax raising plans a secret. Fortunately, two years after playing his tax trick on the American public, they responded by turning the Democratic "in" party to the "out" party in the 1994 mid-term elections. Incidentally, I don't remember any one of those pollsters predicting a Republican sweep then.

The bottom line is that solutions to mythical problems created by the current "out" party will do more economic damage because they will undermine long-term economic growth, the only way to deal with potential revenue shortfalls.

As we approach the November elections keep an eye on these masters of misdirection when it comes to overturning the policies that have provided record standards of living and a booming economy. A donkey shouldn't buffalo independent voters.

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