



To Trent Lott from Tom Daschle: Happy Holidays!

By Thomas E. Nugent

Wow, an early Christmas present from the Democrats to the Republicans—the outright Democratic abrogation of the President’s stimulus package to lift the U.S. economy out of recession! What a great gift to help the Republicans retake the Senate in 2004. One critical item in President Bush’s stimulus plan that the Democrats specifically objected to was cutting tax rates on hard working middle class Americans—even though it was only a measly two percentage point drop in the marginal tax rate from 27% to 25%. On the other hand, the Democratic alternative insured that the government give away as much tax money to those who don’t work and who just happen to be a major constituency of the Democratic party. Now, what hard working American in their right mind would vote for a politician who loves keeping taxes high?

The reason that the Democratic resistance to the fiscal stimulus package is an early Christmas present for the Republicans is because it creates the same circumstances that Bill Clinton’s tax increase in 1993 did for Republicans in the 1994 elections. Hard working Americans were fed up with tax increases such as the Clinton confiscatory tax increase back then and they made sure that the Democrats got the bums rush when they ran for re-election in 1994. Fortunately for Republicans, most Americans are hard working and understand incentives. When they see how deep they have to dig to keep the wealth redistribution schemes of many Democrats rolling, they will choose the Republican option—growing the economy to create more jobs through incentives.

In the 1994 elections, the Republicans forged an alliance among virtually all Republican representatives called the “Contract with America.” This contract was a series of promises that the Republicans made to all Americans that if they gained control of the Congress they would work as hard as they could to get these promises into law. And they followed through on that promise after sweeping the elections for both the House and the Senate.

For the Republicans to insure victory in 2002, they must follow through by instituting a similar plan with specific promises that will guarantee an economic recovery. The American people respond to honesty and commitment. They don’t endorse back room wheeling and dealing to cut up the pork for the private interest groups. The House Democrats refusal to endorse the President’s fiscal stimulus package will continue to contract the U.S. economy and any recovery may well be put off until 2003 at the earliest. The related rising unemployment, falling stock prices and continuing declines in economic output will be the kindling for the Republicans plan to retake the Senate and increase their majority in the House of Representatives in the November 2002 elections.

The Republicans must view the Democrats’ present as something akin to getting a brand new Thunderbird sports car as a gift. It’s a great gift, but if left in the garage for the next two years, it isn’t worth too much—at least for sports car lovers. Similarly, the Republicans have to take advantage of the error the Democrats have made in robbing Peter to pay Paul. The Republican advantage is that they know that a marginal tax rate reduction is not a tax cut in a dynamic sense. By reducing tax rates, more people will work because of the incentive effects of lower tax rates. While it isn’t a substantial cut, it is still something—and the dynamic effects of such a cut will undoubtedly pay for itself by contributing to an increase in economic growth.

Another gift that the Democrats have given Republicans is that they object to virtually every tax benefit given to corporations. What the Democrats really don't understand is that this recession is a business led recession, not a consumer led recession. As a result, by penalizing corporations during a business recession, there will be more layoffs and much higher unemployment than is now in the economists' crystal balls. Consumers, as an economic class are not suffering in this recession. Compensation is still rising and low inflation is keeping prices under control. Productivity increases and lower energy prices are great for consumers but lousy for corporate profits. By continuing to stick it to those big, bad corporations, the Democrats are undermining the chances for a business led recovery. The Republicans must make sure they take that political Thunderbird out of the garage every day through next November and demonstrate that the Democrats are the ones that are punishing the economy, not the Republicans.

Maybe the biggest economic and political present may come next Christmas when President Bush and a reconstituted Congress come together with a meaningful change in U.S. fiscal policy that benefits all Americans.