BEFORE THE FEDERAL ELECTION COMMISSION

In the Matter of	)	
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Club for Growth, Inc.	)	MUR 5365
Club for Growth, Inc. PAC	)	
Pat Toomey, in his official	)	
capacity as Treasurer	)	

OPPOSITION OF THE CLUB FOR GROWTH, INC., CLUB FOR GROWTH INC. PAC, AND PAT TOOMEY, IN HIS OFFICIAL CAPACITY AS TREASURER, TO THE GENERAL COUNSEL'S BRIEF

APPENDIX Volume II

Carol A. Laham
Thomas W. Kirby

WILEY REIN & FIELDING LLP
1776 K Street, N.W.
Washington, D.C. 20006
(202) 719-7000

May 31, 2005

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Stephen Moore
NRO Financial Columnist

December 15, 2004, 12:14 p.m.

Broadband Blockers

The FCC is again trying to regulate telecommunications access.

President Bush has called for universal broadband by 2007. That's a critical goal, since there are more than a dozen countries that have greater Internet access for their citizens and businesses than we do. But does the White House understand that their own Federal Communications Commission is inhibiting this goal?

Specifically, the FCC is going to decide this week whether to promulgate new regulations that would allow competitors of the incumbent telephone companies — the "Baby Bells" — to have access to the infrastructure that the phone companies built with billions of dollars of private investment capital. Yes, of course, competition is a desirable goal. But if the government mandates that the privately financed infrastructure must be shared by all competitors, who will make the initial investments in the first place?

Telecom infrastructure development is absolutely crucial for U.S. economic growth. This is an industry with plans to invest upwards of $100 billion in new-generation fiber-optic communications networks. This is good news for workers, technology businesses, and homeowners who need to be hooked up to high-speed Internet.

In many ways Michael Powell's FCC has delayed this dynamic investment process. The FCC remains fixated on a re-regulation model for telephone and Internet communications, when the very intent of the landmark Telecommunications Act of 1996 was to inspire deregulation and a pro-consumer, survival-of-the-economically-fittest model.

From the perspective of the rule of law, the Constitution prohibits an uncompensated taking of property, which is what these regulations would in effect mandate. The idea behind the original 1996 legislation was to allow new startup telecom firms to have some access to existing networks, so they could reach a stage of economic maturity and compete on their own. After eight years, it is certainly time to allow these upstart competitors, some of which succeeded and many of which still are not profitable, to sink or swim.

Since 1996, the FCC has produced three sets of rules to regulate telecommunications access. Each has been rejected by either the D.C. Circuit Court or the U.S. Supreme Court. Each time, the courts provided guidelines for a new iteration of the rules and, each time, the FCC produced a revision that failed to meet those guidelines.

The courts have already admonished the FCC that its previous attempts indicate an "unwillingness to adhere to prior judicial rulings." Yet reports suggest that the latest attempt, due this week, is an instant replay.

One problem with the FCC's latest regulatory proposal is that it misunderstands the nature of competition. The courts have told the FCC repeatedly (and correctly) that a competitive market is defined by whether competition is *possible* — not whether competition is *actually* taking place. Gatorade dominates the sports-drink market, not because it's a monopoly with barriers to entry, but because no other firm can make a better thirst quencher. A firm may come to dominate a competitive industry simply because it makes a better product, not because it is restraining trade and competition.

The FCC rules being proposed to ensure competition border on the absurd. The FCC is considering a regulatory regime that would create a telecommunications competition analysis of every commercial office building in the United States. A new army of regulators would be needed to enforce and adjudicate this. An information-age industry should not be required to reckon with this kind of central-planning dynamic.

A better approach would be to let the free market work its course. If competitors wish to hook up to existing networks, let the market set the price. Right now telecom competitors and phone companies can connect to the incumbent network using a service that has existed since before the 1996 Telecom Act was passed. The FCC instead wants a price-control regime under which regulators decide a fair market value. These prices will certainly be discounted well below fair market rates. The cost to consumers is that this will deter growth of the network so vital to future economic growth.

If the FCC proceeds with its latest regulatory scheme, it may soon find itself in the embarrassing situation of again being turned down by a court whose patience has already been tried. All of this legal wrangling is bad for the markets and bad for the telecommunications and related high-tech industries. In practical terms, all this adds up to continued delays in delivering new services such as broadband to customers, and the slower creation of new jobs and economic growth.

Correct me if I'm wrong, but aren't these precisely the goals that the FCC is supposed to be advancing?

— *Stephen Moore is president of the Club for Growth.*

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Stephen Moore
NRO Financial Columnist

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December 13, 2004, 1:25 p.m.

Kudlow for NEC Chairman

What is Bush waiting for?

President Bush has had a series of supremely talented economists advising him over the past four years, including Larry Lindsey and Glenn Hubbard, but he has never had a gifted communicator of the White House economic message. That deficiency caused Bush severe heartburn in both marketing his first-term domestic legislative priorities and in educating American voters about how those policies are working.

In the year before the November elections, for example, the economy soared — with low interest rates, low inflation, respectable job growth, increasing worker productivity, and a rapid rate of growth for the gross domestic product. Bush's policies were working swimmingly, particularly the 2003 tax cut. Yet, the media portrayed economic conditions as if we were in a mini-depression with many voters buying into this pessimistic viewpoint. The chasm between economic reality and perception almost cost Bush the election.

All of this is to say that what George W. Bush needs an economic communicator — someone who is telegenic, charismatic, and credible. Of course, it goes without saying that this person must also be a gold-plated supply-sider who has an unshakable conviction that the Bush second-term agenda is right for the country. After all, the Bush administration has an incredibly audacious economic game plan: a tax overhaul, Social Security reform, expansion of free-trade agreements, tort reform, and budget control. If Bush can accomplish even half these priorities, he will leave behind a scintillating legacy of achievement.

For all these reasons, the open position of director of the National Economic Council should be filled by NR's own financial wizard, Larry Kudlow. I recently joined up with a growing band of conservative leaders to try to make this appointment a reality.

This choice makes so much common sense, it's amazing the White House hasn't already pounced on it. Kudlow's credentials to be the president's chief economic spokesman and adviser are impeccable:

- Kudlow is regarded on Wall Street as one of the nation's premier financial economists.
- He is TV savvy (obviously, given that he has his own show on CNBC).
- He is right in line with the Bush administration's thinking on tax cuts, entitlement reform, trade, and monetary policy.
- He has advised President Bush and Vice President Cheney on economics over the years.

- He has a unique power of persuasion that can convert people in the media, in Congress, and on Main Street of the rightness of his and Bush's positions.
- He has a national (even an international) following.
- He is highly regarded among Republicans and many Democrats in Congress.

Larry Kudlow has a pure Reaganite pedigree. He worked for the Gipper between 1981 and 1984 as the chief economist at the Office of Management and Budget. He has worked as senior economic strategist for some of the most prominent investment-banking firms on Wall Street, including two stints with Bear Stearns. He has had the fine sense to write a brilliant bi-weekly column for NRO and also writes frequently for *National Review* magazine.

It is well known that a number of years ago Kudlow had a near career-ending substance-abuse problem. It is also well known that he has had a blessed and remarkable recovery in his personal/spiritual life as well as his professional life. His only remaining vice is tobacco. (If the White House is a no-smoking zone, that, alas, may be a deal-killer.) Should his past problems be a disqualification? In this age of redemption, the answer surely is no. After all, President Bush, earlier in his life, struggled with his own substance-abuse demons, and he fully conquered them in admirable fashion.

My White House contacts tell me that for four years President Bush has been trying in vain to find for his administration a "Robert Rubin of the right." Good news: He exists, and his name is Larry Kudlow. Appointing him would be a masterstroke by the White House and would win universal applause — particularly from his conservative friends. This would be President Bush's most daring and exhilarating Cabinet selection.

What is he waiting for?

— *Stephen Moore is president of the Club for Growth.*

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http://www.nationalreview.com/moore/moore200412131325.asp

Stephen Moore
NRO Financial Columnist

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December 07, 2004, 8:35 a.m.

Let It Snow . . .

. . . for four more years.

If the *New York Times* is to be believed, someone at the White House is trying to push Treasury Secretary John Snow out the door. One unnamed White House staffer said last week that Snow could "stay as long as he wants, as long as it's not too long." The *Times* says with resolute conviction that "Snow is on his way out." The White House has failed to put these rumors to bed with solid denials. The media vigilantes smell blood.

John Snow has now learned the hard way the truth of the Ronald Reagan maxim about Washington: In this town, if you want a loyal friend, get a dog.

This is shabby treatment by the White House of a good man and an excellent Treasury secretary. If the president wants Snow out, why the backdoor innuendos and shameless whispering campaign? Snow has been loyal and effective for Bush, and his job performance has been especially glowing given that he succeeded Paul O'Neill, who betrayed Bush at every turn and was never really with the tax-cutting program. Snow deserves gratitude for bringing dignity and sanity back to the Treasury.

The media doesn't like Snow all that much. They pine for cabinet secretaries like Jim Baker and Dick Darman, people who leak to the papers, assault tax cuts, and can always be counted on to dump on conservatives. That's precisely what is admirable about Snow. He doesn't care what the *New York Times* and CBS think about him. Why should the White House?

Snow was brought in for one purpose: to sell America on the president's tax package. He did that with quiet aplomb. That shouldn't have been too surprising. John Snow, former CEO of CSX railroad, is a supply-sider down to the marrow of his bones. He made a forceful and persuasive case to Capitol Hill, Wall Street, and Main Street on the wisdom of cutting dividend and capital-gains taxes.

Here's an even more important job credential. John Snow has presided over one of the most bullish economic recoveries in many years. The economy has soared at a real growth rate of nearly 5 percent since Snow was named Treasury secretary. The stock market has increased by nearly 30 percent in less than two years. The investor class in America has much to be thankful for in the performance of John Snow.

I must confess that I am not disinterested. I know John Snow personally, and have an unqualified admiration for his economic views. We met when we both served on the Kemp Commission on Tax Reform. What became clear during those months is that Snow wants what the vast majority of Americans want: a radically simplified, single-rate tax system that clears away the barriers to growth in the IRS tax code, eliminates unfair subsidies, flattens tax rates, and doesn't require hoards of accountants, lawyers, and valium to figure out the tax liabilities. For the past year Snow has been crafting the outline of a tax-reform proposal based on the principles of simplicity, low rates, and incentives for saving and investment.

Snow is a free trader and an inflation hawk. On the dollar policy he is right. The market should determine the "correct" value for the dollar, not the witless political class, which wouldn't understand economic principles if they were written out in all caps and in green crayon.

Snow is said to have a tendency to put his foot in his mouth. An alleged blunder was that he pointed out to Ohioans that the job picture in the Buckeye state was better than the media portrayed it. How insensitive to unemployed factory workers, the whining class complained. But you know what? He was dead-on accurate. In fact, the post-election jobs report confirmed precisely what Snow was saying: The jobs recovery is in full bloom, even in high-tax Ohio.

Bush needs a Treasury secretary who can lead over this next term on tax reform, death-tax repeal, budget control, free trade, and a stable currency with stable prices. John Snow is the right man for the job. Conservatives should rally behind him. He is one of us. His ouster would be an unforgivable affront to the supply-side movement and a blow to wise financial policy.

Four more years.

— *Stephen Moore is president of the Club for Growth.*

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Stephen Moore
NRO Financial Columnist

November 19, 2004, 11:21 a.m.

A Tax-Ban No Brainer

Congress should keep the Internet-tax ban in place.

Today the House of Representatives will vote to extend the ban on Internet taxation through November of 2007. Keeping cyberspace tax free has long been a goal of anti-big-government and pro-technology forces in Washington. This bill, led by Chris Cox in the House and John McCain and George Allen in the Senate has significant opposition from tax-eater lobbying groups on Capitol Hill, especially state and local governments who hope that the World Wide Web will be their next great cash cow. The Senate enacted the bill earlier this week; the House should follow suit, and keep the Internet-tax ban in place.

President Bush strongly supports this legislation. So, if the House does its job, next week this pro-taxpayer legislation will be the law of the land.

The new law will mean no taxes on Internet access, unless you use dial up and pay the telephone tax (which should be eliminated as well). It also means no tax on Internet sales. In other words, the Internet will be a genuine tax-, regulation-, and tariff-free zone.

A tax on the Internet would do real damage to the U.S. economy. Economic growth in recent years has been propelled by the technology sector, which has made a big-time rally after the implosion of 2000-01, when the NASDAQ fell from 5,000 to 1,500.

The argument against the ban on the Internet tax is that states and localities need the money and that Internet purchases are eroding the tax base of city hall and state governments. This is preposterous. The states and localities are now awash in cash. For example, my home state of Virginia has a $1 billion state-tax surplus. The same rosy fiscal picture is true in local governments across the nation. A new Cato Institute study finds that states and localities have already doubled their tax collections over the past twelve years, even without tapping into the new frontier of the digital economy. Governors and mayors should now be aggressively cutting taxes, not finding sneaky new ways to add to their coffers.

The policy that Congress is about to adopt is simply a continuation of the federal law that has been in place for the past six years. Since 1998 Congress has wisely declared the Internet a tax-free zone by establishing a moratorium on Internet-access charges. An "access charge" is essentially a toll on using the Internet. The idea was to prevent the government from causing infant crib death of this new consumer technology. After all, as Justice John Marshall once observed, "the power to tax is the power to destroy." By all accounts, the Internet-tax moratorium has been a resounding success. In 1985, about one in six American families and businesses had access to the web; now, three in four do.

Moreover, e-commerce is the new frontier of business enterprise. International Data Corporation recently estimated that the Internet economy in 2003 reached $2.8 trillion. In the U.S. alone, e-commerce accounted for $500 billion in business activity and employed 2.3 million Americans. The Internet sector of the economy is growing at 12 percent per year compounded. E-commerce, in short, is to the early 21st century what the steam engine was to early-20th-century economic development. Meanwhile, the telecommunications sector of the economy now stands ready to invest billions to upgrade the nation's communications networks and make high-speed (or broadband) Internet access available to all American homes and small businesses, as it is for large corporations today.

All of this is to say, if ever a public policy has worked precisely as hoped, it is the Internet-tax moratorium.

Moreover, if the Republicans in Congress really wants to keep tax relief a centerpiece of their domestic agenda, keeping the IRS and state tax collectors away from the Internet is critical. By some estimates, a tax on Internet access could cost families up to $150 a year. If purchases on the Internet were also taxed, these costs could double or triple.

There is only one problem with the bill that Congress will vote on today. It does not make the Internet a tax-free zone permanently. Also, it seems that if we want a regime of "tax fairness" and a level playing field, all forms of Internet access, whether dial-up or wireless, should be immunized from state, local, and federal taxation. While Sen. McCain's compromise does not meet all of these criteria, it brings us a lot closer to the ultimate goal.

Congress today has a chance to ring the bell for liberty. The opportunity now exists to create, through the growth of the Internet economy, a massive global free-trade zone. Opponents of the Internet-tax ban argue that this bill will only put added pressure on all levels of government to lower taxes on "bricks and mortar" businesses. That's absolutely true — but I suspect most Americans would regard this as an added benefit of the Internet-tax ban.

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore200411191121.asp

Stephen Moore
NRO Financial Columnist

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November 17, 2004, 8:39 a.m.

Export a Liberal!

If they're so eager to flee to Canada, by all means, let's help them.

Well, my good friend Grover Norquist may finally see his lifelong dream come true. It looks like the Left is finally going to leave us all alone. If everything goes according to plan, blue-state Democrats are going to let us keep our guns and our money and our kids and our faith — and all the other things that government keeps trying to wrest from us.

Allow me to explain the basis for my optimism.

The Canadian embassy reports that the requests from U.S. citizens for travel visas, citizenship applications, and political-asylum petitions have skyrocketed since the glorious day of November 2, 2004, when big-government liberalism was once again relegated to the ash heap of history (for the next four years, at least). One contact at the Canadian embassy told me that they are overwhelmed with requests to enter the country from Canada's neighbor to the south. The Canadians haven't seen this kind of invasion of young discontented Americans since the Vietnam draft dodgers poured across the border.

European nations, especially France, are also reporting a surge in applications from Americans wanting to leave these shores immediately (and hopefully for good). It appears that if the Left in America can't bring the European welfare state and high taxes on the rich to America, they will go to enjoy them in Europe.

It would also appear, then, that the party that preaches tolerance as the preeminent virtue just can't tolerate one thing: conservatives. (This is especially true when conservatives control the instruments of political power.) Well, I respect that. When you get a fanny-whupping like the Left got on Election Day — when every one of your core values (tax hikes on the rich, abortion on demand, government-run health care, reparation payments for slavery, one-world government, polygamy) has been rejected by your bigoted and narrow-minded fellow citizens — it's cowardly to stick around.

I mean, really: How can any self-respecting blue-state liberal Democrat possibly stomach four more years of Republican rule in America (which, for many of the MTV Rock the Vote Generation-Xers, must seem like consecutive life sentences)? Do liberals really want the Darth Vader of American politics, Karl Rove, to rub their noses in it for another four-year term? Can they fathom being governed by red-state conservative Republicans, who, if the *New York Times* is right, have such low I.Q.s that it's hard to believe we ever managed to get toilet trained?

Liberals of America, *unite*! Leave this horrid and wicked and irredeemable backwater! Why not create a workers' paradise off the shores of France? You can all speak French, allow Janet Jackson to show both her breasts, create a cradle-to-grave welfare state, drink Starbucks lattes, read the *New York Times* every day, scramble the satellite signal for Fox News, and worship your new leader, Michael Moore! Hell, we'll throw in Harvard and the whole faculty! It's a gift. Here's an added incentive: You will never have to take the war on terrorism to the terrorists; they will almost certainly bring it right to your doorstep.

Now, there's the catch in all this. It turns out that a lot of the liberals can't afford the trip, or the entry fee into places like Canada.

So here's my idea: a new project called the Export a Liberal Fund. From this pool we will donate $100 to every liberal who agrees to give up his U.S. citizenship and flee the country permanently.

Warning #1: There's no coming back for health care when you get sick.

Warning #2: There will be no amnesty program. These are one-way tickets.

Before the 2000 elections, the Alec Baldwins and the Barbara Streisands of the world promised that they would leave the country if Bush won. The good news is that Bush indeed won; the bad news is that Streisand and Baldwin did what liberals always seem to do: they lied. And, alas, they are still among us.

But this time they are serious about leaving. With Bush's election the Renaissance was over; with his reelection, the Dark Ages have definitively descended upon America. These leftists therefore want out — so they can seek more socialist pastures. They just need a little nudge, a little financial incentive.

I, for one, stand ready and willing to do my patriotic part and contribute to the Export a Liberal Fund. I hope you will join me in this worthy charitable endeavor. Let's really go out and paint the country red!

— *Stephen Moore is a contributing editor of* National Review.

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Stephen Moore
NRO Financial Columnist

November 02, 2004, 8:29 a.m.

The Ten Races That Matter Most

An election-night checklist.

Every election brings at least one or two wonderful shockwaves, and, with them, an equal number of heartbreakers. Which ones should we look out for this year?

Here I try to select for conservatives a list of the congressional and Senate races that have the most at stake for promoting growth and free markets. Here are the top races to keep an especially close eye on during election night:

1. **Oklahoma Senate:** The federal budget is out of control, and there are too few senators today who believe in less government and advocate the elimination of worthless and obsolete federal agencies. What is needed in the Senate is a warrior for fiscal restraint; Tom Coburn will be just that. He will tie the Senate up in knots, if that's what is needed, to stop the passage of fiscally reckless spending bills. Coburn will be a free-market conservative version of John McCain in the Senate. He is every lobbyist's worst nightmare, because he can't be bought. Coburn was the fiscal conscience of the House of Representatives. He received five "A" grades from the National Taxpayers Union and he kept his three-term-limit pledge in the House. His opponent, Brad Carson, is a slick-talking Bill Clinton type.

2. **South Carolina Senate:** Jim DeMint is one of the most pro-free-market and principled men in Congress. He has received the prestigious lifetime "Taxpayer Hero" citation from Citizens Against Government Waste. He has earned "A" grades from the National Taxpayers Union in four of the five years he has served in Congress. DeMint promised to serve three terms in the House, and he did. He was one of the 25 Republican heroes who voted *against* the fiscally irresponsible Medicare-expansion bill last year, even though he was told that it would hurt his chances of winning the Senate seat. He is the author of the most comprehensive proposal for Social Security personal accounts in the U.S. House. He is for eliminating the income tax. What's not to like?

3. **South Dakota Senate:** If you want to kill the beast, you cut it off at its head. Tom Daschle has been a thorn in the side of pro-growth conservatives for years. Defeating Daschle is key to the free-trade agenda, judicial appointments, and the elimination of the death tax. John Thune is no great shakes on fiscal issues; he compiled a weak voting record for a Republican during his time in the House. But beating Daschle would be the ultimate election-night prize.

4. **Colorado Senate:** We all know that Pete Coors is a woeful debater. But he's a strong supply-side pro-growth candidate with deep roots in the conservative movement. In a Congress filled with too many career politicians and lawyers, Coors would bring a much-needed businessman's perspective to Capitol Hill. The Democrats have nominated a popular Hispanic state attorney general, Ken Salazar, who is masquerading as a centrist. In reality, Salazar is a

Kerry Democrat who wants to repeal the Bush tax cuts, renew the death tax, and who opposes tort reform.

5. **Colorado District 4:** Congresswoman Marilyn Musgrave is under attack from a multi-millionaire, left-wing activist who has spent more than $600,000 in TV ads to defeat her. The assault on Musgrave centers around her social-conservative stands (she is the lead sponsor of the Federal Marriage Amendment); she draws fire for her staunch fiscal conservatism, too. These assaults have made her vulnerable. She is an indispensable free-market conservative in the House, and her defeat would be a real blow. She was another of the 25 Republican heroes who voted *against* the fiscally irresponsible Medicare-expansion bill last year. She took on the powerful Republican chairman of the Transportation Committee when he wanted to raise the gas tax. We can't let deep-pocketed liberals run our champions out of town.

6. **Texas District 17:** Thanks to redistricting in Texas, most of the close House races this year are deep in the Lone Star state. The GOP has a great opportunity in this race to knock out a huge migraine in the U.S. House: Congressman Chet Edwards. Arlene Wohlgemuth is just the lady to do it. Wohlgemuth is a state representative who cut billions of dollars out of the Texas budget. Edwards, on the other hand, got four "F" grades in the past five years from National Taxpayers Union. The Democrats are ferociously fighting to hold on to this seat and have poured $1.7 million into the race, with a good chunk coming from lawyers, lobbyists, and unions. It would be sweet to defeat that unholy trinity of donors.

7. **Puerto Rico:** Puerto Rico does not have a floor vote in the House. But Luis Fortuno could become quite influential in the Republican caucus. If he wins, he will be the first-ever resident commissioner to caucus with the Republicans, and he could become one of the GOP's stars in the House. He is solid on all the key economic-growth issues, and, better yet, understands and can explain them in English and Spanish. He could become a very valuable asset for Republicans in future election campaigns as the GOP reaches out to Latino voters.

8. **Texas District 2:** Judge Ted Poe has become a bit of a national folk hero for his unusual approach to retribution for criminals, known as "creative sentencing." (Liberals hate it.) As noted in news accounts, his sentences have included requiring "murderers to hang pictures of their victims in their jail cells, auto thieves to give their cars to victims, and minor offenders to read books from a court-approved reading list." He is obviously an independent and creative thinker — skills that Congress desperately needs. This is another district with a liberal Democratic incumbent (four-term Rep. Nick Lampson) endangered by the newly drawn congressional-district lines. It would be nice to retire Lampson early.

9. **Cathy McMorris in Washington:** State Rep. Cathy McMorris is young, attractive, articulate, and a fierce bulldog in supporting smaller government and lower taxes. In short, she is exactly what the GOP needs in Congress to counteract liberal Democrats like House Minority leader Nancy Pelosi. McMorris is running against a Democrat with nearly unlimited money to spend out of his own pocket. If she wins, don't be surprised if someday she becomes the first woman Speaker of the House.

10. **Texas District 4:** House Majority Leader Tom DeLay has helped engineer one victory after another for free-market conservatives over the years. He has also run the strongest whip operation in the House in decades. That explains why he is under increasing fire for trumped-up ethics violations. He is despised by liberals not because his actions have been illegal, but

because he's been completely effective at neutering the Left. Now several left-wing groups are dumping money into his district to defeat him. That isn't likely to happen; in fact, despite the deluge of dollars working against him, don't be surprised if DeLay gets well over 60 percent of the vote.

With control of the House and Senate at stake, each of these races takes on heightened importance. These are contests with clear ideological distinctions. The idea of a United States Senate with Tom Coburn and without Tom Daschle would be like Christmas come early. These are my top ten; let me know if you have your own favorites.

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore200411020829.asp

Stephen Moore
NRO Financial Columnist

October 12, 2004, 10:15 a.m.

FERC-get About It

Turn out the lights on federal electricity regulators.

If there's any lesson that policy makers should have learned from the California electricity blackouts of 2002 and the East Coast blackouts of earlier this year, it is that electric power deregulation done the wrong way can cause soaring prices and leave consumers literally in the dark.

In California, homeowners and businesses had to ration their electricity use, dim the lights, and turn off their air conditioners. A basic service that we as Americans take for granted — cheap and uninterrupted access to electric power for light, heat, computers, hair dryers, dishwashers, etc. — was suddenly a scarce commodity.

Given that the electric power network is the central nervous system of the U.S. economy, we better make sure that Congress and regulators get it right as they restructure the laws regulating electric utilities. Disruptions in electricity supply and rising prices could bring our economic expansion to a screeching halt.

Unfortunately, federal regulators seem incapable of deregulating in ways that will benefit consumers and keep the nation's supply of electricity dependable. Last year, the Federal Energy Regulatory Commission (FERC) proposed a plan to restructure the national electricity market that would have required private power-generating companies across the country to come under the authority of newly created mega-regional transmission organizations. This plan would have essentially federalized electricity markets. The plan provoked outrage from governors, state utility commissioners, consumer groups, and free-market conservatives. FERC was forced to retreat.

FERC is now trying to accomplish its power grab through rule-making proposals, court filings, and other means of regulatory fiat. FERC wants to force local power utilities to join regional transmission organizations (RTOs), which would effectively prevent them from providing a first right of service to the very customers who paid for the power plants and transmission lines in the first place.

FERC maintains that this intervention will foster competition in electricity markets, which will in turn lower utility bills. That's certainly a laudable goal. But it's hard to argue that the current system, warts and all, hasn't kept prices low. Adjusted for inflation, electricity prices are lower now than they've been throughout most periods in history. Electricity prices haven't risen at nearly the rate that oil and other energy prices have. So why does FERC insist on "fixing" a system that seems to be working?

Deregulation is supposed to mean fewer rules and less red tape. When Ronald Reagan lifted price controls on oil and natural gas in the early 1980s, all that was needed was a stroke of his pen on a one-page executive order. FERC needs 603 pages just to explain SMD (standard market design). In some ways, the FERC scheme more closely resembles the multi-layers of bureaucracy in the failed Hillary Clinton healthcare plan than a deregulation manifesto.

FERC's plan is hugely expensive. In a recent report, the Public Power Council (PPC) found that the cost of FERC's regional transmission organizations quadrupled from $250 million to $1 billion between 1998 and 2004. The number of employees at the Midwest organization jumped more than 500 percent in four years, from 80 in 2000 to 465 in 2004. In Texas, according to the PPC study, the number exploded from 50 bureaucrats in 2000 to 530 in 2004.

It appears that FERC's primary goal is not to serve consumers, but rather to serve as a life raft to the merchant generating industry. This comes at the very time that Wall Street and credit-rating agencies are fully prepared to bury that industry because of poor business decision making. Standard & Poor's energy analyst Peter Rigby notes that "independent power producers gambled on a business model based on rapid and debt-funded growth." Now these indebted power-generating companies face a perfect storm of rising interest rates, soaring natural-gas prices, and declining electricity demand — and they want a de facto bail out from Uncle Sam.

Bailouts of bad businesses aren't consistent with the free-market model of survival of the fittest. Airline deregulation forced some inefficient airlines like Pan Am and Eastern Airlines out of business, but others like JetBlue rose out of their ashes. In the telecom deregulatory environment of the crazed late-1990s, we witnessed tens of billions of dollars in overinvestment, shareholder losses, and eventual bankruptcies. Uncle Sam never rushed in to use taxpayer dollars to keep these companies afloat.

Everyone wants to ensure that captive local customers aren't price-gouged by local electric utilities, which in many areas still operate as legal regulated monopolies. The goal is to eventually allow the power markets to evolve so that homeowners and businesses can purchase electricity on the national power grid from any number of competing utilities. The genuine deregulation model in electricity should work very much like the deregulated phone service of today: Consumers can now choose from many phone companies on the basis of reliability and cost. Under that model, long distance prices have plummeted.

FERC talks the talk of deregulation, but it intervenes in the marketplace to transform losers into winners. If FERC continues with this model, it may not be long before its phony "deregulation" scam brings the California crisis to the rest of the nation. Congress should turn out the lights at FERC before these bungling regulators turn the lights out on the rest of us.

— Stephen Moore is president of the Club for Growth and a senior fellow in economics at the Cato Institute.

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Stephen Moore
NRO Financial Columnist

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September 15, 2004, 8:30 a.m.

Bust the Antitrusters

The Oracle-PeopleSoft decision is a loud message for the Bush administration.

Last week a federal judge paved the way for one of the largest mergers in the history of Silicon Valley: a $7.7 billion hostile takeover bid by computer software firm Oracle for rival PeopleSoft. This court ruling overturned an injunction against the merger by the Bush administration Justice Department.

Three cheers for financial common sense prevailing over the swash-bucking tirades of overzealous trust-busting lawyers at the DOJ.

The biggest victors in this decision are the shareholders of Oracle and PeopleSoft. Both stocks surged in price after news that the merger would be approved. This court ruling is also good news for the competitiveness of U.S. industry. It will allow an American firm to compete head on and more effectively with the giant of business computer software development, SAP of Germany.

The judge in this case effectively allowed the shareholders of PeopleSoft — who, after all, are the owners of the company — to make a large profit on the sale of their stock. Throughout the past year, Oracle had been offering PeopleSoft shareholders a price that was roughly $5 *above* the current stock price.

This unconditional victory for shareholders calls into question why the Bush Justice Department is employing early 20th century logic to the enforcement of antitrust policy in a 21st century global economy. Isn't the Bush DOJ allegedly in favor of free markets, shareholder rights, and enhancing U.S. competitiveness?

Many economic commentators have argued that George W. Bush is following the Reagan free-market policy model to spur faster economic growth. But when it comes to antitrust policy, the Bush administration has veered in exactly the opposite direction. In the early 1980s Ronald Reagan essentially shut down all antitrust enforcement. This led to a huge tide of mergers, takeovers, and corporate restructurings that made American firms far more efficient, increased profitability, and helped initiate the greatest stock market boom in American history. The corporate raiders at Drexel Burnham arguably did more to enhance shareholder wealth and U.S. economic growth than all the trust busters in American history.

By contrast, Hewitt Pate, the head of antitrust policy in the Bush administration, has been one of the most aggressive adversaries of mergers and acquisitions since Jimmy Carter was in the White House. Statistics indicate that the Bush trust-busters have impeded many mergers that make financial sense. For instance, the Bush team foolishly blocked a merger a year ago between Target and Dart home-appliance stores.

These are the same wise-heads at DOJ who prevented a merger between United Airlines and U.S. Air. That decision now belongs in the hall of fame of government mishaps. Instead of allowing the marketplace to create one potentially profitable large carrier, we now have two that are teetering on the verge of Chapter 11. Just a few years ago these two firms were seen as a monopoly threat to the friendly skies. They now receive billions of dollars in taxpayer subsidies to stay aloft — and may not for much longer. Instead of one big firm competing in this market, there could be none.

Why did this happen? The answer is that there is a false belief that mergers between industry rivals reduces competition and therefore raises prices for consumers. "Simple common sense," Pate announced earlier this year, "would suggest that this merger would be bad for competition."

That was clearly false in this particular case — which is why Oracle won in court. Oracle now controls 7 percent of the business software market. PeopleSoft roughly another 8 percent. The merger would bring Oracle's share to 15 percent. Can a firm that commands one-seventh of a market fix prices? If so, cornflakes would cost $8 a box.

Meanwhile, other software firms, most prominently Microsoft, are now preparing to introduce their own rival business software packages — which would shrink market share even lower for this combined firm. The biggest advocate of squelching the assimilation of these two U.S. firms was German rival SAP.

On balance, and in more cases than not, the macro-impact of famous recent Justice Department antitrust actions has been economically debilitating. Companies like AT&T, Microsoft, IBM, and General Motors, businesses that were once thought by Justice Department officials to be gobbling up the marketplace like Pac Men, are today facing swarms of domestic and international competitive forces that in some cases have caused these firms to come to Washington pleading for protection. Today's monopoly is tomorrow's corporate-welfare recipient wielding a tin cup. The government on one hand won't allow firms to overly achieve; on the other hand it won't allow them to fail.

Antitrust actions may have made sense during the era of Theodore Roosevelt, when firms like Standard Oil could truly monopolize local markets. But in the 21st century, where markets are global, the idea that firms can gouge consumers on prices is as antiquated as the stage coach. Consumers are more fickle and cost-conscious than ever before. If prices get out of line in any market where there are no barriers to entry, competitors swoop in and lower costs so that monopoly rents disappear.

What's more, antitrust is nothing more than a devious form of corporate welfare where the aggrieved who can't compete in the open market rush to Uncle Sam for aid. For evidence of this, consider Oracle. There is a delicious irony in this latest case: The Oracle that is being damaged by the Justice Department is the same firm that cheered on the trustbusters when they sunk their fangs into Microsoft. Oracle CEO Larry Ellison was one of the instigators of the Microsoft action, which is why, as a *Wall Street Journal* editorial recently noted, "the company has a hard time playing the role of Damsel in Distress."

One strange repercussion of the lawsuit against Microsoft was that even Microsoft's competitors were injured by the case. A number of academic studies now show that the lawsuit's plaintiffs — including Sun Microsystems and Oracle — not only depressed Microsoft share prices, but their own as well. When the technology trust-busters were on the prowl, all tech stocks took a hit, because investors realized that if a technology firm started to experience rapid growth, it might fall victim to the same witch hunt suffered by Microsoft.

In fact, scholars at the American Enterprise Institute have argued that the Microsoft antitrust action helped precipitate the market meltdown of all technology stocks that began in 1999. Can anyone imagine Japan or Germany bringing a lawsuit against one of their most successful and profitable home-grown export firms? The U.S. antitrust actions only invited the E.U. to sue Microsoft, forcing the company to pay billions of dollars in economic ransom.

Of course, not all mergers make sense. Several years ago Quaker Oats purchased Snapple for about three-times its market value. It lost billions in the process. The issue is who should regulate the advisability of merger activities: investors who put up their own money, or government lawyers? Which group is more likely to safeguard shareholder value?

Now is the time for the Bush administration to lighten the enforcement burden of antitrust law and for Congress to do what it should have done long ago: repeal the Sherman antitrust laws. These laws were meant to protect consumers from higher prices, paid as a kind of ransom to monopolies that gain enormous market share. There are few if any such industries where this concern still exists. There are no longer discreet geographical or product markets. One technology competes with scores of others for consumer and business dollars. For example, satellite dishes keep cable TV prices in check even when the cable market is technically a monopoly. These competitive forces explain why prices are stable or falling in virtually every industry except where the government has created its own legal monopoly. The U.S. Postal Service and public education are examples of this.

President Bush has announced that his goal is to create an ownership society, so Americans can own their own homes, their own businesses, and their own portfolios of stock. Consistent with this goal, the White House has advanced pro-investor tax policies that have helped boost the stock market. Yet lawyers at the Justice Department are pursuing a set of policy objectives that are intentionally depressing stock values. Now that the DOJ has lost in court it should allow the Oracle-PeopleSoft merger to proceed unimpeded. If it wants to hunt down inefficient, anti-consumer monopolies, it should focus its attention on the Postal Service and Amtrak.

— Stephen Moore is president of the Club for Growth and a senior fellow in economics at the Cato Institute.

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Stephen Moore
NRO Financial Columnist

August 30, 2004, 2:22 p.m.

Time to Shine

With a good convention performance, Bush can put Kerry away.

George Bush is now in position to turn a close race into a comfortable lead that he never again relinquishes.

The president has had a remarkably good two weeks, perhaps his best two weeks of the year, thanks in part to the Swift Boat Veterans' ads. Voters are getting to know John Kerry, and they are sick of him already.

This race has many similarities to the 1984 Reagan and 1996 Clinton re-election contests. In both of those campaigns the race was relatively close until the presidents shone at their respective conventions, and Mondale and Dole were simply left in the dust. It's hard to believe in retrospect that anyone ever believed that those elections would be close. They weren't, and if Bush performs well on Thursday night, this race won't be especially close either. What's more, if he can put a comfortable distance between himself and Kerry in the polls, I predict that Democratic candidates from the South and the West will start distancing themselves from Kerry — and the entire ticket will crash like a house of cards.

So what can Bush do to put Kerry away? Here are some tips for how the president can knock this speech out of the park:

- *Defend the tax cut.* Here Bush has a great story to tell. The average family of four with an income of $40,000 got a $2,000 tax cut. A family with an income of $65,000 received almost $4,000 off their bill from the IRS. Kerry voted against marriage-penalty elimination, death-tax elimination, child credits, dividend relief, and a lower capital-gains tax. It wouldn't hurt to remind voters that this candidate who allegedly cares so much about the financial plight of the middle class keeps voting against their financial interests.

- *Trumpet the economic gains of the past two years.* Bush has the lowest misery index (inflation plus unemployment) of any president since LBJ. The stock market is up 20 percent since the tax cut. Our unemployment rate is among the lowest in the industrialized world. The recession began under Clinton: Bush inherited the economic slump; he didn't create it. America is on the mend and growing. Sound the trumpet for growth and optimism. People are tired of the whiny Left, which keeps talking down America with preposterous rhetoric about the worst economy since Herbert Hoover.

- *Propose private accounts for Social Security.* Why not create 50-75 million new investor-class Americans by converting Social Security into a private account system? There's no better way to win the hearts and souls of young voters.

- *End the tyranny of the IRS tax code by offering an optional flat tax for tax filers.* Bush has gotten us halfway to a consumption tax through his reductions in the income tax, the death tax, and the capital-gains tax. Let's finish the job by offering every American a postcard return with a 19 percent tax rate and only one deduction — for his kids. If workers want to choose the flat tax, fine; if they want to stay with the complicated system, let them.

- *Trash the trial lawyers.* There *are* two Americas: trial lawyers who get rich raping American businesses and consumers (à la John Edwards), and everyone else!

- *Get Arnold up on stage with you!* Arnold is the most popular politician in America. He's the Kerry-Terminator.

- *Appoint a new Grace Commission to root out the waste and inefficiencies embedded in the federal budget.* If Bush won't control spending, get a commission to shine a spotlight on how many of America's tax dollars go down the federal rat hole. Polls show that most Americans believe that anywhere between 25 and 50 cents on the dollar is wasted, and they're probably right.

- *Be Reaganesque:* Make people laugh — and make people laugh at Kerry. Bush has a habit of taking himself too seriously. These are serious times, but a little humor and light-hearted ridicule aimed at Kerry can help vanquish this dour left-winger.

In the last ten days, the odds of Bush's winning have risen from 52 percent to 57 percent on most betting lines. The smart money is moving toward Bush. After the convention he should be trading at 60 cents or more on the dollar, if he shines during primetime. And if that happens, liberals — so desperate to take back power from the Right — are going to start panicking and then start eating their young. This should be fun to watch.

— Stephen Moore is president of the Club for Growth.

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Stephen Moore

NRO Financial Columnist

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August 27, 2004, 8:53 a.m.

Grapes of Wrath

Choosing Chile over Champagne makes a difference.

The latest reports on France's socialistic economy portray a bleak picture of French workers on a treadmill running faster and faster just to stay in place. The French unemployment rate has soared to 9.5 percent, and the economic growth rate over the past year has trudged forward at the turtle-like speed of 1.5 percent (versus about 4.5 percent for the U.S.). If the U.S. had an unemployment rate as high as France, there would be about six million more Americans out of work — the equivalent of putting every worker in the state of Michigan in an unemployment line.

Of course, the major reason France is suffering this economic sclerosis is its love affair with socialist policies. With Communism now on the ash heap of history and the nations formerly behind the Iron Curtain racing to adopt capitalism and free markets, arguably the most socialistic economy among the industrialized nations is based in Paris. Taxes are so high — to feed France's obese welfare state — that virtually no net new jobs have been created in France so far this century.

Compounding France's economic miseries has been the residual damage from the boycott by Americans of everything French. Last year millions of Americans, incensed by the French government's outrageous failure to support the U.S. in the war in Iraq, heeded the advice of talk-show icon Bill O'Reilly and began a boycott of French products. Even though critics like the *New York Times* editorialized that the boycott was futile, the immediate impact of the voluntary decision by Americans not to buy French goods (from cheese to lingerie to wine) — or to travel to Paris or the French Riviera for vacation — hurt the French big-time in the pocketbook.

But despite assurances from French officials that the economy has weathered the storm and that no aftershocks persist, the truth is that France is still suffering from the boycott.

The short-term impact of the boycott against the French was devastating to key French industries. According to a report by the trade publication Wine Spectator, French wine sales fell by 26 percent in the first three months of the boycott and the global share of wine sales by France for the first half of 2003 plummeted by half. A poll by the French Luxury Marketing Council discovered that nearly 4 out of every 10 wealthy Americans were swearing off French goods.

Now the evidence for 2004 indicates continued residual damage to the French business environment resulting from the boycott. Real imports from France to the U.S., which stood at $2.6 billion a year in 2001, are on course to reach barely $2.5 billion in 2004. French wine sales have not recovered, potentially because consumers switched to new brands and never went back.

Here is what the evidence shows: The value of French wine exports fell 10 percent in the first five months of 2004, compared with the same period in 2002. Even more embarrassing for the French is that wines from California, Chile, and Australia overtook French wines on global export markets for the first time last year. France exported 1.78 billion bottles; new-world vintners exported 1.93 billion.

French tourism has evidently recovered, but industrial production and investment continue their anemic growth rates. French business investment is nearly flat at one-percent growth a year.

Of course, if anti-French fervor is evident in the U.S., the views of the French toward Americans are even more hostile. The French have launched their own boycott of American products, like Coca-Cola and McDonalds, but there's no evidence that it has harmed U.S. export volume much.

Anti-Americanism appears to be spreading in Europe, and this may hurt our export markets. As a strong advocate of the benefits of global free trade, I find that deeply troubling and economically destructive. But the U.S. government must not adjust our foreign and national-security policies to accommodate European pacifists and socialists. The paramount mission of the U.S. government is to protect the security of our nation: If the French and Germans prefer not to trade with us as we pursue that mission, then losing their trade dollars is a small price to pay.

The French are not our military allies, and they have unapologetically turned their back on a loyal friend. That's a sad statement to make on the 60-year anniversary of the U.S. liberation of France. But it is something Americans should remember when deciding between a French red wine and one from Napa Valley.

— *Stephen Moore is president of the Club for Growth.*

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Stephen Moore
NRO Financial Columnist

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August 19, 2004, 12:01 p.m.

Killing the Class-Warfare Argument

The rich are paying *more* taxes since the Bush tax cuts.

One of the inconvenient facts for the foes of the Bush tax cuts is that the percentage of total taxes paid by the rich *rose* after the economic stimulus plan was put into effect. This consequence of the Bush tax cuts is highly damaging to the case by the Bush-haters that his tax cuts disproportionately benefit Halliburton executives and Bill Gates. Moreover, the Bush tax cuts took some 2 million low-income taxpayers off the tax roles entirely, so it's hard to argue that working families didn't get a financial benefit.

But the Left continues to work as best it can around these facts. The Kerry-Edwards campaign is now touting a new study by the Congressional Budget Office which purportedly finds that last year's tax cut was tilted to the rich. There's just one problem with this class-warfare whine: It just isn't true.

What the CBO report did conclude was that the total tax share by the richest 1 percent declined modestly from 2001 to 2004. But that wasn't because of the tax cut. It was because of the recession. When the economy contracts and incomes fall as they did in 2001 and 2002, tax payments by the wealthy fall the fastest. This is because of the progressive rate structure of the income tax. In other words, if everyone's income falls by 10 percent, the overall percentage of taxes paid by the wealthy falls, because they pay a higher marginal tax rate.

What this means is that the best way to get the rich to pay more taxes is to incentivize their incomes to rise. For every extra dollar the rich person earns, about 30 to 40 cents goes into the government coffers. And since the Bush tax cuts have helped put the economy back on track, as evidenced by the 4.5 percent real growth rate of the economy since May 2003, the share of taxes paid by the rich has started to rise again.

Those who actually read the CBO study will discover that it confirms exactly this point. From 2001 to 2004 incomes have fallen sharply for the highest income groups. IRS data shows that in 2002, taxable income fell by about 4.3 percent, with declines steepest among the highest income groups. In 2002, income fell for the second year in a row. Prior to 2000, annual incomes hadn't fallen since 1953. The *New York Times* recently reported that income fell 63 percent from 2000 to 2002 for the highest income bracket. When the rich make less; so does the government. So why do members of the Left hate the rich so much? Without them, there would be no money to finance the government.

A recent report from the Treasury Department confirms that the rich are paying a bigger share of taxes than they would if the Bush tax cuts hadn't passed. The Treasury estimates that the top 1 percent of earners will pay about 32.3 percent of taxes this year, which is the same as the CBO estimate. The Treasury also estimates, however, that absent the tax cuts, the top 1 percent would be paying only 30.5 percent of taxes, down 10 percent from 2001.

The Treasury data confirm that the real impact of the tax cuts on the rich has been precisely the opposite of what the CBO study suggests. By resuscitating the economy and spurring a turnaround in income growth, the tax cuts have increased the share paid by the rich. Real income growth has increased significantly since the 2003 tax cuts were passed, increasing at faster than a 6 percent rate in the first two quarters of 2004. With the economy now growing more quickly, we can expect the tax shares paid by high-income groups to increase.

There is another reason to suspect that as the Bush tax cuts continue to kick in, they will increase tax payments by the wealthy. People are much more likely to work harder, engage in entrepreneurial activity, and make investments when the government is confiscating less of the monetary rewards for these activities. When you tax something, you get less of it.

This is obvious to most people. It's why we tax socially undesirable activities like smoking and drinking. It's why we fine people for traffic violations. Similarly, when we tax income, people tend to have less of it — either from working less or spending their time, effort, and money on tax-avoidance schemes. JFK understood this, writing that "Middle and higher-income families are both consumers and investors — and the present rates not only check consumption but discourage investment, and encourage the diversion of funds and effort into activities aimed more at the avoidance of taxes than the efficient production of goods."

Those who argue that the Bush tax cuts were a "give-away" to the rich assume that incomes grow at a constant rate, regardless of how heavily they are taxed. That is the fallacy of the recent CBO study. The report concedes: "Our analysis does not account for incomes changing in response to the tax cuts." It's like assuming that you're not going to take off any weight if you stop eating hot fudge sundaes with whipped cream and cherries on top. This is the same whimsical logic that compelled the tax accountants on Capitol Hill to famously estimate that a 100 percent income-tax rate would bring in billions of dollars in federal revenue.

One final point: The CBO study confirms that the rich carry the bulk of the tax burden on their shoulders. The CBO estimate says that the share of income taxes paid by the richest 20 percent of earners fell from 82.5 percent to 82.1 percent in 2004. The report also states that the top 10 percent of earners will pay "only" 66.7 percent of 2004 taxes, with the top 1 percent paying 32.3 percent. Fully 80 percent of Americans pay less than 18 percent of total income taxes. Not even Al Sharpton could look at this data and say the rich are getting a free ride.

How much exactly does the Kerry-Edwards team want the rich to pay? Seventy percent? Eighty percent? One hundred percent? Does the Left want rich people like Barbara Streisand, George Soros, Teresa Heinz, and Ted Kennedy to pay all the taxes? Hey, now there's an idea . . .

— Stephen Moore is president of the Club for Growth. Phil Kerpen is a research assistant at the Club for Growth.

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Stephen Moore
NRO Financial Columnist

July 28, 2004, 8:29 a.m.

Meet the Left

Don't be fooled by the TV spinmeisters.

BOSTON, MASS — I'm stuck in Boston doing some radio and TV interviews and I feel as though I'm in one of those sci-fi movies like *Escape from New York* where the U.S. government turns Manhattan into a penal farm and the streets are filled with nothing but packs of awful and maniacal criminals. These folks who've come to Boston this week aren't dangerous (though their ideas are), but it's almost as if a condition of entry this week at Logan Airport is having a few screws loose.

The Democratic National Convention can best be described as a lavish Bush-bashing festival. (Unfortunately, they're not here to protest steel tariffs or a doubling of the education budget.) These people detest Bush the way cats detest bathtubs.

Of course, the party organizers are terrified that the American public will actually see these Bush haters foaming at the mouth and twitching at the very name of George W., so they have adopted a theme here: "Keep the message positive." Part of the trick is to ask the delegates to masquerade as normal people, or at least virtually normal people. In effect, they are saying to the party faithful, "You know the way you always act. Don't be that way. At least for 96 hours, wash your hair, be polite, pretend you actually *like* America and work at a real job."

The TV networks have accommodated in promoting this charade. The panoramic shots of the convention give the impression that there's no one here in Beantown but middle-class, flag-waving, child-hugging bus drivers and construction workers and soccer moms and grandmothers who are infuriated by Bush's economic failures and his ill-conceived war games.

Don't be fooled by the spinmeisters. These people are not middle America. When you go into the bakeries, you can actually purchase wedding cakes with two brides on the top. A baker tells me even straight couples are purchasing these ultra-chic wedding cakes, as a sign of solidarity. The best-selling t-shirt shows George Washington standing aside George W. Bush. Under Washington the caption reads: "Could not tell a lie." Under Bush the caption: "Could not tell the truth." Every third car has a bumper sticker screaming: "RE-DEFEAT BUSH IN 2004." And then, of course, there are the many forms of advocacy for regime change in America. Leftist protesters give out placards reading: "George Bush is a lying sack of s%$@." Gee, I remember when liberals said hate wasn't a family value.

It seems every person I have met here is either a trial lawyer (the Edwards Brigade), a school teacher (about one third of the delegates are traditionally NEA members), a politician, a discontented student whining about cuts in school aid, or a lobbyist for a Washington-based tax-eating organization. These folks have as much interest in tax cuts as Linda Ronstadt has in lo-cal desserts. The common refrain from all of them is: *more, more, more*. More school funding, more child care, more taxes on the rich, more peanuts served on airlines, more drive-by abortions, more bilingual education, more pennants for the Red Sox (they are after all entitled, are they not?), more drivers licenses for illegal aliens.

Oh, and the hypocrisy. Receptions this week are hosted by multimillionaire trial lawyers and Hollywood stars munching on imported Caviar and sucking down French Merlots while protesting how unfair Bush's policies have been for poor people. The only thing these upper-crust liberals know about how the other half lives is gleaned when maids from Guatamala come to turn their beds down and lay a Godiva Chocolate on their pillows.

Perhaps the most memorable moment for me was when two antiwar protesters with "Make Love, Not War" shirts (I'm not making this up) strutted in front of my taxi and shouted expletives, daring us to run them over.

I'm no George W. cheerleader myself, as regular readers of NRO can attest, but I'm more convinced than ever now of how dangerous the Kerry-Edwards Democrats really are. This is not Bill Clinton's party — I don't care what Hillary and Al Hunt say. The façade of New Democrat moderation has been stripped to the bone. Every Democrat pundit I have spoken to here has stressed John Kerry's moderation and fiscal-conservative credentials. Kerry will be just like Clinton on the economy, they say. But Clinton ran as a free trader; Kerry campaigned in the primaries against free trade. Clinton signed into law a cut in the capital-gains tax; Kerry promises to raise it. Clinton supported welfare reform; Kerry has voted against it. Clinton was a moderate governor; Kerry is the number one liberal in the Senate. If Kerry can carry off this New Democrat label, then I'm Michael Jordan Jr. with a 40-inch vertical leap about to play for the U.S. Olympic dream-team in Athens.

Engaging the Democratic faithful in even playful debate on issues can be exacerbating. When a group of students were denouncing Bush's tax cuts for the rich, I asked them how it is that the percentage of taxes paid by the rich went up, not down, after the Bush tax cuts. Blank stares and open jaws. Twenty seconds into the debate and they were already out of intellectual ammunition — and these kids go to Ivy League schools. One stunningly obtuse girl from Vasser told me she favors Kerry because what she wants most in 21st-century America is "a radical redistribution in wealth." I tried to politely remind her that any third-rate dictator can redistribute wealth (even Pol Pot was good at that); the hard part is *creating* wealth.

I'll escape Boston with a sense of relief, yes, but also and mostly with terror that in six months these oddballs and misfits may actually be running the government. I have this recurring nightmare of Michael Moore as secretary of state, Al Franken as treasury secretary, and Barbara Streisand on the Supreme Court.

Groucho Marx once famously said he didn't want to belong to any club that would have him as a member. Well, I would never want to have a president who is a member of a political party who would have chumps like these as members. It seems unjust that so many pin-headed liberals could convene at one time under one roof when so many of them promised they would leave the country if George W. Bush became president.

Typical liberals: They never keep their word.

— *Stephen Moore is president of the Club for Growth.*

Stephen Moore
NRO Financial Columnist

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June 24, 2004, 3:25 p.m.

Budget Matters

How to end fiscal malpractice in Washington.

In recent years Congress has been spending money in such a financially reckless matter that our federal budget-making process now resembles that of a debt-ridden and corrupt third-world government. It took nearly 200 years for Congress to reach a $1 trillion budget (1987), but in just the last ten years, the budget has expanded by another $1 trillion. Recent U.S General Accounting Office audits of federal agencies find that tens of billions of dollars is spent inefficiently, spent on duplicative services, spent on overpayment to vendors, or is just missing — i.e., no one knows what happened to the money. Thank goodness Congress doesn't have the authority to print money or it might try that to finance its unquenchable spending appetite.

I have long argued that one reason we have seen this financial malpractice on Capitol Hill over the past three decades has been the 1974 Budget Act, passed by the liberal post-Watergate Congress. This law gave Congress almost unlimited power to spend money, and stripped the president of traditional powers to save taxpayer dollars from frivolous spending.

Thirty years, and $3 trillion in debt later, it is time to enact a new Budget Act. The best proposal is the Family Budget Protection Act. This bill, sponsored by Chris Cox of California, Jeb Hensarling of Texas, Paul Ryan of Wisconsin, and Chris Chocola of Indiana would help restore budget discipline in Congress and provide tools to eliminate wasteful and obsolete government programs. It recognizes that American families and businesses have to live within a budget — why not Congress?

The rules of the budget game have a big impact on the game's outcome. We need new rules that put the interests of taxpayers first. That is precisely what the Family Budget Protection Act would accomplish. The best features of the bill include:
1) It restores the power of the president to line-item veto wasteful and parochial spending projects, which have multiplied in number and in cost in recent years.
2) It eliminates so called "baseline budgeting" which allows federal programs to grow each year on automatic pilot.
3) It creates a sunset provision for federal programs, so they are not put on a perpetual life support system.
4) It requires that if Congress and the president do not agree on a budget on time and on budget, that all federal programs will be funded at the previous year's level, minus one percent.
5) For the first time ever, it creates enforceable overall spending limits on entitlement programs, which have been ravaging the federal budget over the past two decades.

It used to be that Republicans had an excuse for runaway budgets: They didn't control the purse strings. Now the bloated spending is on their watch. In their decades of dominance, Democrats changed congressional processes to enhance their policy goals. Republicans have so far failed to do the same. Unless their talk about smaller government is so much eyewash, they should embrace this budget reform.

Currently, the deck is stacked against those who wish to reduce expenditures and/or cut taxes. The lesson from the states is that budget rules that deny lawmakers the power to spend and tax recklessly can be quite effective deterrents to fiscal irresponsibility. If Congress has any fiscal conscience left, it will give strong consideration to the Family budget Protection Act.

— Stephen Moore is president of Club for Growth Advocacy.

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Stephen Moore
NRO Financial Columnist

June 07, 2004, 9:26 a.m.

Reaganomics Won the Day

. . . and the legacy lives on.

My old friend Arthur Laffer, once a chief economic advisor to Ronald Reagan, tells the story of Reagan's first Cabinet meeting as president. The new Cabinet members, ready for their marching orders, had assembled in the West Wing of the White House. Reagan, the seasoned actor, waited for silence in the Cabinet Room. He then stood and said, "Gentlemen and ladies, I hate inflation, I hate taxes, and I hate Communism. Do something about it." He proceeded to walk out of the room.

This was not a president who sweated the details. He had a few very big ideas and he pursued them with the relentless and steely resolve of a greyhound chasing a mechanical rabbit.

Those who understate the accomplishments of Reagan — political scientists rate him an average president, which says far more about political scientists than it does about Reagan — seem to have no remembrance of how far our economy had stumbled in the 1970s. During that bleak chapter of American history, our nation seemed hopelessly mired in a death-spiral of economic decline and despair: Inflation hit 13 percent and mortgage interest rates 20 percent; gasoline lines and OPEC embargoes signaled our hostage status to oil-producing nations; the "misery index" (inflation plus unemployment) hit a 40-year high of 20 percent; and communists seemed to be outperforming the capitalists.

Reagan was truly blessed by the incompetence of his predecessors. The cumulative policies of LBJ, Nixon, Ford, and Carter had atrophied America's economic muscle. Their legacy was big bureaucratic government expansionism, easy money, soaring expenditures on Great Society income-redistribution programs, a regulatory regime with tentacles that invaded every industry, and most insidious of all, confiscatory state-federal tax rates that in some cases exceeded 80 percent. What was needed in January 1981 was the right president with the right vision. That, thank God, is what we got.

Reagan knew that freedom and free markets would put things right. Of course, his supply-side experiment was anything but warmly embraced by the intelligentsia in government, academia, and the media. One recurring lesson of history is that trailblazing intellectual and political leaders who dare to capsize the conventional wisdom of the day are typically dismissed as dangerous, delusional, and dimwitted. To say the earth is round when everyone knows it is flat is a daring enterprise. But that is just what Reagan did in the 1980s. He created a new economics, one based on how the world really works, and he overthrew the unworkable Keynesian ideas that were bankrupting the nation.

And what exactly were those ideas so scorned by the Left and ridiculed as "Reaganomics"? The Reagan prescription consisted of tax-rate cuts, free trade, a light hand of regulation, tight money to make the dollar once again as good as gold, and unconditional victory in the Cold War.

The jewel of the Reagan economic package was the famous Kemp-Roth 30 percent income-tax cut. Conservative intellectuals — among them Laffer, Robert Bartley, Jude Wanniski, and Jack Kemp — had made the case for supply-side policies; Reagan was the only leader of significance who listened and understood. When the economy hit rock bottom in the summer of 1982, Reagan's adversaries joyously proclaimed Reaganomics a scam. Even many of Reagan's most trusted advisors wanted a reversal of direction. But it was Reagan who insisted that we "stay the course."

Thankfully we did — Reagan's policies spawned the greatest economic and wealth expansion in the history of the western world.

In 1982 the Dow Jones industrial average hit a low of 800. After the final pieces of the Reagan tax cuts were installed, the market rocketed upward for 18 consecutive years. From 800, the Dow rose to 10,000 — creating between $15 trillion and $20 trillion in new wealth and industries. The Dow would have to climb to 100,000 by 2020 to match this Herculean performance. By clearing away the wealth destroyers of high tax rates and high inflation, U.S. companies became far more productive, profitable, and valuable.

The economy also created 15 million new jobs under Reagan and grew in real terms by 40 percent. Some have likened this to adding a new California to the U.S. economy.

By the end of the 1980s, in what was a fitting tribute to the Reagan program, almost all industrialized nations had sharply lowered tax rates to regain a competitive position lost to the U.S. in the decade. Reagan would note that "Imitation is the sincerest form of flattery." In this way, Reaganomics saved not just the U.S. economy from worldwide depression, but the entire global economy as well.

The Reagan way was spurned throughout the 1980s as "voodoo economics" (one of George Bush Sr.'s few memorable comments.) Many college textbooks to this day even argue that Reagan's economic policies were flawed because they created record budget deficits. But the textbooks don't mention that as the national debt rose by $2 trillion, national wealth rose by $8 trillion. They also don't mention that the Laffer curve worked: Lower tax rates *did* generate more tax revenues at the federal, state, and local levels. Federal tax collections rose from $500 billion in 1980 to $1 trillion in 1990.

Ronald Reagan is dead, but the power of his ideas will no doubt continue to shape generations of future leaders worldwide. Throughout American history our heroes have come from the unlikeliest of places. How ironic that the man to most influence economics in the 20th century was a graduate of tiny Eureka College. Our haughty intellectual class, tucked away in their ivory towers, could learn much from the economic lessons of Ronald Reagan. They probably never will. But it's enough that Reagan convinced the rest of us of the rightness of his ideas — that free men and free enterprise should be the guiding forces in a prosperous and just society.

— Stephen Moore is president of the Club for Growth and an economist at the Cato Institute.

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Stephen Moore
NRO Financial Columnist

May 18, 2004, 9:25 a.m.

No More Mr. NYSE Guy

Richard Baker takes on our most sacred of sacred cows.

You've got to hand it to Richard Baker, the Louisiana Republican who chairs the House Financial Services Committee. Baker is earning a reputation as the foremost muckraker in Congress as he battles powerful and politically influential special interests in Washington. He takes on corporate titans that even Ralph Nader would likely shy away from.

Last year, Baker caused quite a hullabaloo in Washington by questioning the wisdom of the multibillion-dollar subsidies Uncle Sam lavishes on housing-finance giants Fannie Mae and Freddie Mac. These lucrative government-sponsored enterprises have spent millions upon millions of taxpayer dollars to protect their fortresses from just this kind of political assault. It's a good bet that not many young rising stars in Congress would have the spinal fortitude to take on these imbedded special interests. Baker does it because the benefits that Uncle Sam confers on Fannie and Freddie are a national outrage.

Now, Baker has taken on another admirable crusade. And once again he is out to slay one of the most sacred of sacred cows in America: the New York Stock Exchange.

On Tuesday, Baker will hold a hearing on whether the New York Stock Exchange is necessary nowadays. It's a good question to ask in this new information-age economy, which is slaying the dinosaur industries of the past the way Cicadas shed their exoskeletons.

It turns out that the NYSE derives its power not from the marketplace but from government charter. This government-sponsored enterprise takes a minute tax on stock transactions for services that may no longer be necessary. After all, the Nasdaq functions quite well without the services and fees of the NYSE.

Most Americans — and especially members of the shareholder class — probably have a warm and fuzzy feeling about the New York Stock Exchange. After all, isn't this institution the very symbol of America's hyper-efficient financial markets, trading almost one-quarter of the world's wealth? When we think of the NYSE, we are reminded of photos of world leaders, titans of industry, and Hollywood celebrities standing perched above the exchange floor ringing the bell to begin a day of trading. This is unbridled capitalism at its most raw and most virtuous form.

Isn't it?

Actually, there is mounting evidence that the NYSE has become a stodgy and outmoded inhibitor of market efficiency that survives mostly because of government protectionism. What other institution could have paid its CEO Richard Grasso tens of millions of dollars in compensation for a job that is essentially ceremonial?

In this age of electronic markets, companies like E-Bay, Instinet, and Yahoo can execute trades in nanoseconds. Unfortunately, the SEC still requires stock-brokers to send their investors' orders through the NYSE, where service is slow and unreliable and where unnecessary middlemen take a slice of the action. The NYSE is supposed to help the mom and pop investor and maintain the integrity of our stock markets. Nowadays, it acts as an unnecessary toll on transactions.

The root of the problem appears to be the so-called "trade-through" rule, which sends orders through the NYSE to insure that investors get the best price. But Nasdaq stocks are traded without the big board and investors aren't getting cheated. Moreover, it appears that because the big board is so slow and cumbersome compared to computer-based transactions, investors may not be getting the best price at all, especially when the market is volatile and prices are changing instantaneously.

Perhaps the most harmful monopoly power bestowed on the NYSE is its status as an information cartel for the stock market. Brokerage firms are forced by regulation to send information that telegraphs their customers' willingness to buy or sell stock at a given price (information of great value) to the exchange for aggregation. Those same firms are then required to buy the aggregated data stream back when providing a stock quote to their customers. This grants the NYSE with an information cartel and impairs the liquidity of the stock market.

This informational monopoly, not surprisingly, generates huge revenues for the exchange. The NYSE maintains that this arrangement benefits investors. That may be so, but more likely it imposes "rents" on stock-trading firms and ultimately their investors. This may explain how it is that Richard Grasso and his lieutenants became the most well paid "regulators" on earth.

I freely admit that I am stumped in trying to come up with an estimate as to how much this sweetheart deal between Congress and the New York Stock Exchange costs investors. It's hard to know how much efficiency is lost as a result of current trading rules, established decades and decades ago, before the information revolution. It does seem that as we move ever swiftly into an electronic age, in which billion-dollar decisions can now be made at the stroke of a keypad, the NYSE seems as relevant as the rotary telephone.

Kudos to Baker for trying to get to the bottom of this mess. He is doing a big favor for the 110 million American shareholders who, unlike the NYSE, don't have well-heeled lobbyists looking out for their best interests.

— Stephen Moore is president of the Club for Growth and a senior fellow at the Cato Institute.

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Stephen Moore
NRO Financial Columnist

May 10, 2004, 8:25 a.m.

Stick a Pump In It

Gas prices aren't even near their historical peak.

By Stephen Moore

A headline in Wednesday's edition of *USA Today* read: "Oil Prices Hit Highest Since Sept. 1990." The story glumly reported that "oil traded for more than $39 a barrel last week … the highest closing price since 1990 and the 6th highest price ever."

Good news: It isn't true. Yes, gas prices have spiked upwards by at least 30 percent in most local markets this year, and yes, it's infuriating to pay $2.00 a gallon to fill up the tank. And yes, higher oil prices are a significant tax on the U.S. economy — given that we're the world's largest importer of crude.

But prices, properly measured, are nowhere near their historical peak. In fact, the long-term trend in oil, gas, and electricity prices is downward, not upward.

What the reporter at *USA Today* and so many other fear mongers forgot to do was adjust for inflation. In the world of economics, this is an unpardonable sin. After all, if you don't adjust for inflation, just about *everything* is more expensive today than 30 years ago.

So let's look at the long-term trend for gas prices in inflation-adjusted dollars.

Gasoline prices paid at the pump have been on a steady rate of decline since the 1920s, with the obvious exception of the 1970s, when we faced an OPEC embargo and gasoline lines. In 1920 the real price of gas (excluding taxes) was twice as high as today. Electricity prices were about three-times higher 75 years ago.

If gas prices were as high today as they were in the late 1970s, we would now be paying about $6 a gallon for gas. Today's price at the pump is higher than it was as recently as 1985.

The same is true, by the way, for the cost of oil. Adjusted for wage growth, oil is slightly cheaper today than it was 20, 30, and 50 years ago, and five-times cheaper than 100 years ago. How can gas and oil be cheaper since we've used so much of it over time? Well, thanks to human innovation, we are always finding new sources of oil, while at the same time technology makes it cheaper to drill for it.

For example, the oil fields of Prudhoe Bay in Alaska have two- to three-times more reserves than originally believed. Russia, now on the way to becoming a capitalist economy, may soon become one of the world's top two oil producers, as the new Russian capitalist entrepreneurs continue to discover new untapped fields.

Of course, if Congress would only allow us to develop new oil sources here at home, gasoline prices could easily slip comfortably below $2.00 per gallon. When oil prices were $25 per barrel, we had the luxury of not drilling for more oil in Alaska. But now that the price is nearing $40 a barrel, with a good share of that money pipelined to Arab nations that are not always friendly to us (petrodollars have no doubt been siphoned off to terrorist networks in recent years), developing greater energy independence is no longer a luxury. In fact, it's an economic and national-security necessity of the first order. Any energy bill signed into law by the president this year *must* include the rights to drill in Alaska.

John Kerry has complained that President Bush is doing nothing to contain gasoline prices, but Kerry has been the consistent adversary of people who drive cars. He has supported gas-tax hikes of as much as 50 cents a gallon. He has also voted "no" every time he's had the chance to sink plans for drilling in Alaska, saying that doing so would endanger the environment for moose and elk. But it's likely that the biggest beneficiaries of Kerry's intransigence on drilling have been Arab oil exporters.

High gas prices could be a thorny political issue as we enter the spring and summer months, when travel across the country rises. But travelers should take solace in the fact that we now pay less for gas, adjusted for inflation and wages, than our parents and grandparents ever did. That's true even though the oil cartel, OPEC, holds the world price at least twice what it would be if there were a competitive marketplace at play. After all, in Saudi Arabia and many other oil-producing nations, oil costs about 50 cents per barrel to produce.

The best way to break the back of OPEC is to produce more oil here at home; if only our politicians would allow it.

— Stephen Moore is president of the Club for Growth and a senior fellow at the Cato Institute.

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Stephen Moore
NRO Financial Columnist

May 03, 2004, 9:49 a.m.

Hands Off!

There will never be a right time to tax the Internet.

Finally, a victory for the taxpayer — at least a partial one.

Last week, the Senate approved compromise legislation crafted by Senator John McCain of Arizona (yes, McCain was on the side of the angels), to extend the ban on Internet taxes for four years, through 2008. President Bush and Senator George Allen of Virginia, who gets four stars for his unwavering support of keeping cyberspace tax free, wanted a permanent ban on Internet taxes, but a four-year extension keeps Internet users at arms length from the IRS and local tax collectors for at least the foreseeable future.

The fight for a tax-free zone on the Internet was tougher than it should have been, because a handful of Republican senators wanted to empower states and cities to tax access to the Internet at their discretion. Freshman Senator Lamar Alexander of Tennessee, also former governor of that state, led the crusade on behalf of states, localities, and brigades of special interest groups who receive the largesse of local governments all desperately wanting to tap this new cash cow of the Internet.

Sen. Alexander's Internet-access tax proposal would have done real damage to the U.S. economy just as it's recovering from the tech implosion in 2000-01.

Back in 1998, Congress declared the Internet a Tax Free Zone by establishing a moratorium on such Internet-access charges. An "access charge" is the government's euphemistic way of describing a new tax. The idea was to prevent the government from killing this new consumer technology. By all accounts, this Internet-tax moratorium has been a resounding success. In 1985, about one in six American families and businesses had access to the web, now three in four do.

E-commerce is the new frontier of business enterprise. As Grover Norquist and I also wrote last week, International Data Corporation recently estimated that the Internet economy in 2003 reached $2.8 trillion. In the U.S. alone e-commerce accounted for $500 billion in business activity and employed 2.3 million Americans. The Internet sector of the economy is growing at 12 percent per year compounded. Meanwhile, the telecommunications sector now stands ready to invest billions to upgrade the nation's communications networks and make high-speed (or broadband) Internet access available to all American homes and small businesses, as it is for large corporations today. The extension of the tax ban will facilitate that infrastructure investment.

Opponents of the ban on Internet taxes always had it wrong. They argued that this policy unfairly deprives state and local governments who need the money to fund vital public services. Sen. Alexander has labeled the federal ban on the Internet-access taxes an "unfunded mandate on states." But an unfunded mandate is a requirement by the federal government for the states and localities to *spend* money. This policy doesn't deny states and cities a traditional revenue source. Most important, the growth of the Internet and the information economy has been an enormous net positive fiscal development for the states. In the 1990s, as the Internet economy soared, state and local revenues grew at a rate three times the pace of inflation. By the end of the 1990s states and local government coffers were overflowing; it wasn't until the tech bubble burst that government revenues sank.

Republicans and many pro-growth Democrats have done a service to taxpayers by extending the no-tax zone on the Internet, and the GOP dodged a political bullet. It would have made little sense for Republicans to run for reelection as the party that initiated the nation's first-ever tax on the 74 percent of American households that use the Internet.

But the victory for the Internet and for taxpayers last week only further postpones the bigger fight over whether Internet access and purchases should ever be taxed. Here is why the self-evident answer to that question is no. The expansion of the e-commerce world offers a one-time opportunity to erect a massive, global free-trade zone, in which government regulations, fees, and levies are banned. What could be more liberating? Government power will shrink, as the information superhighway is further democratized over the next 20 years to reach every business and household in the world. This is precisely why so many advocates of big government want to tap into the power of the information-age economy, before it renders them irrelevant.

So kudos to John McCain, George Allen, and the White House for clearing away roadblocks to our future in cyberspace. It is also worth applauding Democrats like Ron Wyden of Oregon who fought valiantly to keep politicians' paws off the Internet. As Wyden put it during the Senate debate: "Under [Alexander's] proposal, the consumer would be taxed every time they send an email, every time they read their local newspaper or check a bank statement online." How sad that many Republicans in the Senate need to be lectured by Ron Wyden on the destructive impact of new taxes.

The House earlier this year passed a permanent ban on Internet taxes. When the Senate takes up the issue of making the Bush tax cuts permanent, it should add the Internet-tax moratorium to the mix. An Internet tax won't make any more sense five or ten years from now than it does today.

— Stephen Moore is president of the Club for Growth and a senior fellow at the Cato Institute.

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Stephen Moore
NRO Financial Columnist

April 29, 2004, 12:25 p.m.

Net Nonsense

Lamar! wants to tax the Internet!

by Stephen Moore& Grover Norquist

This week the Senate will begin debate on legislation that will extend the now-expired moratorium on Internet taxation. The Internet Tax Non-Discrimination Act (S.150) eliminates taxes on Internet access and double-taxation of a product or service bought over the Internet. In addition, it will prohibit jurisdictions that recently began taxing Internet access from continuing to do so. Sen. George Allen of Virginia is the lead sponsor of this wise legislation and President Bush again strongly endorsed it this week.

Unfortunately, GOP Senator Lamar Alexander plans to offer an amendment that will authorize states and localities to tax the Internet. Alexander's plan would allow state legislators and city councils to establish a local tollbooth for accessing the information superhighway. This law would reverse the ban on Internet taxation that has existed virtually since the Internet was first invented. For his effort on behalf of the National Governors Association and other organizations, Alexander is making a real name for himself as the senator that wants to allow the Internet to be taxed.

This new Internet-access tax could do real damage to the U.S. economy, which is finally starting to get its feet back under itself from the tech implosion of 2000-01. In this nascent recovery, growth is again being propelled by technology and knowledge-based industries. At the very heart of this critical debate is the question of whether the Internet should be treated as a tax- and regulation-free form of commerce, or should be converted into a new cash cow for government officials to fund favored programs.

Sen. John McCain and others have decided to stop Lamar and his small band of tax-the-Internet cronies, and have introduced a compromise to address all of the legitimate concerns outlined by the state and local groups regarding their existing tax base for telecommunication services. The McCain compromise will extend the expired moratorium on Internet-access taxes for four years, phase out taxes on Digital Subscriber Lines ("DSL") that states had illegally started to collect, and address concerns about the treatment of Voice Over Internet Protocol (VOIP). The compromise will bring the necessary votes to finally pass an Internet-tax moratorium out of the Senate.

In 1998, Congress wisely declared the Internet a tax-free zone by establishing a moratorium on Internet-access charges. An "access charge" is just the government's polite way of adopting a new tax. The idea was to prevent the government from causing infant-crib death of this new consumer technology. After all, as Justice John Marshall once observed, "the power to tax is the power to destroy." By all accounts, the Internet-tax moratorium has been a resounding success.

In 1985, about one in six American families and businesses had access to the web, now three in four do.

Moreover, e-commerce is the new frontier of business enterprise. International Data Corporation recently estimated that the Internet economy in 2003 reached $2.8 trillion. In the U.S. alone, e-commerce accounted for $500 billion in business activity and employed 2.3 million Americans. The Internet sector of the economy is growing at 12 percent per year compounded. E-commerce, in short, is to the early 21st century what the steam engine was to early-20th-century economic development. Meanwhile, the telecommunications sector of the economy now stands ready to invest billions to upgrade the nation's communications networks and make high-speed (or broadband) Internet access available to all American homes and small businesses, as it is for large corporations today.

All of this is to say, if ever a public policy has worked precisely as hoped, it is the Internet-tax moratorium.

Opponents of the ban on Internet taxes believe that this policy deprives state and local governments who need the money to fund vital public services. Lamar Alexander has absurdly labeled the federal ban on the Internet-access taxes an "unfunded mandate on states." But an unfunded mandate is a requirement by the federal government for the states and localities to *spend* money. This policy doesn't even deny states and cities a traditional revenue source. Most important, the growth of the Internet and the information economy has been an enormous net positive fiscal development for the states. In the 1990s, as the Internet economy soared, state and local revenues grew at a rate three times the pace of inflation. By the end of the 1990s states and local government coffers were overflowing; it wasn't until the tech bubble burst that government revenues sank.

The proposal by Senator Alexander, along with co-sponsors Kay Bailey Hutchinson and George Voinovich, to allow fees levied on Internet usage seems maddeningly misguided politically given that in just six months voters will decide on which party controls the U.S. House, the Senate, and of course the White House. It makes little sense for Republicans to run for re-election as the party that initiated the nation's first ever tax on the 74 percent of American households who use the Internet. That's particularly true because these taxes — already contemplated by some states and city hall [city halls?] — could be financially infuriating. The fees could cost families up to $150 a year.

What is needed from the Republican Congress is not a reversal of this no-tax policy, but rather a wholesale extension of it. First, the Internet-tax moratorium should be made permanent. Second, all forms of Internet access, whether dial up or wireless, should be immunized from state, local, and federal taxation. While the Sen. McCain's compromise does not meet all these criteria, it brings us a lot closer to the ultimate goal.

We have both spent years trying to persuade Republicans that for both economic and political reasons they must never break their commitment to fighting against financially burdensome and unfair taxes. The liberating opportunity now exists to create through the growth of the Internet economy a massive, global, free-trade zone. Senator Alexander's amendment lays the groundwork not just for taxing Internet access, but also Internet purchases, which would become a cash machine for governments. States and localities have already doubled their tax collections over the past 12 years, even without tapping into the new frontier of the digital economy.

Ironically, even some liberal Democrats are questioning the wisdom of taxing the Internet. "Under [Alexander's] proposal, the consumer would be taxed every time they send an email, every time they read their local newspaper or check a bank statement online," says Oregon Senator Ron Wyden. How strange to hear liberal Democrats lecturing a Republican senator on the evils of higher taxes. Thankfully Senate Republicans and a handful of Democrats plan to keep the information superhighway toll free and side with taxpayers and the tech economy in this debate.

— Stephen Moore is president of the Club for Growth. Grover Norquist is President of Americans for Tax Reform.

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Stephen Moore
NRO Financial Columnist

April 26, 2004, 1:13 p.m.

Toomey vs. Specter

More than a dime's worth of difference.

Free market conservatives often voice frustration that in most elections voters see little ideological difference between the candidates — especially in primary races. As Kellyanne Conway of the polling company has put it, too often conservative voters are forced to choose between "vanilla and French vanilla."

Not so in Pennsylvania's primary election for Senate on Tuesday. Here voters have a choice between vanilla and chocolate-fudge brownie. The contrasts in the voting records of incumbent Arlen Specter and challenger Pat Toomey could hardly be more stark. To highlight those distinctions, I constructed a list below of the clarifying differences between what these two candidates stand for.

	Toomey	**Specter**
National Taxpayers Union Rating	Grade A	Grade C+
Supports School choice for parents	Yes	No
Position on Bush tax cut	Make it much bigger	Make it much smaller
Medical Malpractice reform	Yes	No
Trial Lawyer Campaign Support	close to 0	$1.3 million
# of Votes for Higher Taxes	0	6
Citizens Against Govt Waste	A Rating	Porker of the Year
Amer. Conservative Union Rating	96	43
Support for Free Trade	Yes	Sometimes
Taxpayer funds for abortions	No	Yes
Support National Endowment for Arts	No	Yes
Voted on $530 Medicare Drug Bill	No	Yes
Private Accounts For Social Security	Yes	Depends on when he's asked
Farm Subsidies	No	Yes

In sum, fiscal conservatives finally have a race where there is no just a dime's worth of difference, but hundreds of billions of dollars worth.

Polls show that more than 1/3rd of self-professed conservatives in Pennsylvania are leaning toward voting for Arlen Specter. This is like an oak tree voting for a chainsaw. If conservatives do vote for Specter, they may be suffering from buyer's remorse for the next six long years.

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Stephen Moore
NRO Financial Columnist

April 15, 2004, 8:38 a.m.

Santorum's Shame

Say it ain't so, Rick.

No one can question Pennsylvania Senator Rick Santorum's free-market and pro-growth credentials. Santorum has been ranked as one of the most fiscally conservative Republicans in the Senate by groups like the National Taxpayers Union. He has led the fight for tax cuts and smaller government. And pro-growth contributors, for their part, did a lot of heavy lifting to help get Santorum into the Senate in the first place and into the leadership position he now holds. It was an investment that has paid off in spades.

That is why Santorum's recent interventions on behalf of Arlen Specter in the Pennsylvania Republican primary are so bewildering. Specter is now locked in a razor-tight race against conservative three-term congressman Pat Toomey. Toomey's voting record, especially on economic-growth issues, is very similar to Santorum's and is as impressive as Specter's is dreadful. Specter was one of only three Republicans who tried to eviscerate the Bush tax cut; he was the only Republican in the Senate to vote against the Washington, D.C. school-voucher bill; and he was ranked by the Citizens Against Government Waste as the "Pork Spender of the Year."

Specter often admits his left-wing tilt. Here is how he described his own political persuasion in a recent *New Yorker* article: "When I came to the Senate, we had a lot of members of the 'Wednesday Club' — a weekly gathering of Republican moderates. You had Lowell Weicker, you had Bob Stafford, you had Bob Packwood, you had Mark Hatfield, you had Lincoln Chafee, you had John Danforth, you had Jim Jeffords, you had John Heinz. Now there are only a few of us."

Specter freely admits that he shares the ideology of Jim Jeffords and Lowell Weicker.

Rick Santorum is obligated to publicly back the incumbent Specter. Santorum believes, probably rightly, that he would not be senator today without Specter's help. In a city where loyalty is notoriously a scarce commodity, Santorum can be commended for not his public pledges of support.

But Santorum is actively working to undermine Pat Toomey's candidacy. He has discouraged donors from contributing to Toomey. He has cut TV ads for Specter that portray the senior liberal senator as a friend of the taxpayer. He has staff people in Pennsylvania actively campaigning against Toomey.

Worst of all, Rick Santorum is running around Pennsylvania and Washington, D.C., perpetuating the myth that Pat Toomey is "too conservative to win in Pennsylvania." This is precisely what liberals said about Rick Santorum when he ran for the Senate back in 1994. Santorum proved that wrong. So did Ronald Reagan, when he won Pennsylvania with a fairly right-wing message in 1980 and 1984. Pennsylvania is the signature state of the Reagan Democrat voter. These are middle-class, often unionized, blue-collar voters who are pro-life, pro-gun, and anti-tax.

Pat Toomey has a demonstrated record of winning Reagan Democrat voters. Toomey represents Allentown, Pa. Allentown is the steel city that Billy Joel immortalized in song about an economically depressed area where out-of-work unionized steel workers are "filling in forms, standing in lines." Toomey wins the district where few other Republicans prevail. And he wins with a voting record that is for free trade, private accounts for Social Security, and lean budgets — with no pork. (In fact, Specter is running as the man who brings home the bacon, and attacks Toomey for his unwillingness to vote for budget busters that have caused the federal deficit to soar into the stratosphere.)

Despite this principled free-market position on issues and his unwillingness to chase pork spending, Toomey won the district even George Bush lost it in 2000.

This contention that Republican candidates lose when they position themselves to the right and when they run on pro-economic growth issues, rather than away from them, is plain wrong. When Republicans run on principles, they win. Santorum sounds like the Reagan skeptics of the 1970s: He's way too right wing to ever win the presidency. How many times does the conservative movement have to disprove this fallacy?

Pennsylvania is a key battleground state for President Bush. The Bush team and Santorum want Specter on the ticket. But our polls indicate that Specter on the ticket may very well hurt Bush in Pennsylvania, not help him. Toomey will turn out hundreds of thousands of conservative voters, whereas Specter will turn them away.

Santorum's attacks against the Toomey campaign are especially unwarranted because many of the thousands of people who have contributed to Toomey's campaign are the same donors who helped Santorum become a Senator himself. I have talked with many Club for Growth donors who are none too pleased that Santorum is now actively campaigning against the Toomey challenge to a RINO Republican. Needless to say, through his actions, Santorum is risking alienating his own donor base — which he will have to tap into two years from now as he seeks reelection.

Pat Toomey, as *National Review* put it so concisely on its cover a few weeks ago, is "the right choice." Rick Santorum, of all people, should recognize that. My worry is that if Santorum keeps up his open warfare against Pat Toomey, Pennsylvania may not only lose the chance to have two conservative senators, we may lose the chance to have any.

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore200404150838.asp

Stephen Moore
NRO Financial Columnist

March 09, 2004, 9:01 a.m.

What's Wrong with Insider Trading?

The railroading of Martha Stewart.

I'm anything but a fan of Martha Stewart, and the idea of her stuck in a cage making baskets of potpourri for the next two years is not at all unappealing. Stewart lost all my respect when, after the first indictment against her came down, she accused her adversaries of being part of a vast right-wing conspiracy against her.

Something tells me that the twelve men and women of the jury who convicted her of four felonies were not right-wingers getting back at her for her left-wing policy positions.

Nonetheless, Stewart's felony conviction on Friday was a miscarriage of justice; there can be little doubt that she is being hung out to dry much more for her celebrity status and wealth than for her transgressions, which were minimal. She is in many ways a victim of the witch-hunt against corporate excess and corporate accounting scandals, all the rage on the left these days.

Throughout this trial, what seemed to be forgotten was that Stewart's original crime, an alleged insider-trading deal with ImClone stock, can hardly be considered a crime at all. (I know that Stewart was convicted for lying to federal investigators, but the "lying" and obstruction-of-justice charges were all related to this one sale of stock that occurred 24 hours before the market tanked.)

Libertarians have long argued that insider trading should not be a crime, because 1) there is no victim, and 2) because everyone who makes money in the financial markets is engaging in some degree of insider trading — some just have better information than others. Being a good stock picker involves having more information, and knowing how to get it, faster than other traders. What is the difference, really, between a hot stock tip, and insider trading? The line is so murky that it makes the enforcement of insider-trading laws inconsistent and capricious.

Now, advocates of insider-trading laws are probably irate at this proposition of mine to legalize insider trading, because insider trading "hurts the mom-and-pop investor." They also say that we need to enforce this law to maintain the integrity and the public confidence of the financial markets. Baloney. The market fell — it didn't rise — on the news of Martha Stewart's conviction. If investors believe that the SEC can throw you in jail for making trades that can be construed by a federal prosecutor as based on "insider information," this has a chilling effect on the financial markets and all stocks are hurt. That means all investors are also hurt.

I'm in favor of repealing insider-trading laws and replacing them with a new "let the investor beware" rule in publicly traded companies. My colleague from the Cato Institute, Doug Bandow, has written persuasively on this topic for years, and I would recommend his logic on the subject. Why not let those who have access to insider information trade on it? Let companies have bylaws in their charters to deal with selling on insider information. Repealing insider-trading laws will simply lead to information being spread faster and more efficiently throughout Wall Street.

It is believed by many policymakers that, after the market collapse in 2000 and the corporate scandals at WorldCom and Enron, we need more SEC cops on the beat, tighter government regulations, and an off-with-their-heads penalty regime. This too, through the passage of the Sarbanes-Oxley law, was supposed to restore serenity to the financial markets. But the financial markets hated the new law, and stocks fell in its wake.

If only Uncle Sam would stop protecting the "average Joe" investor, Joe might be able to start making some real money in stocks.

The Stewart convictions should leave a bitter aftertaste in conservatives' mouths for another reason. Stewart, it appears, was a victim of class warfare, which has filtered down from the brainless, demagogic left-wing politicians to now even juries of our peers. One of the jurors commented gleefully that this conviction was justified, in part, because it would send a message to the "rich and powerful" that they can't get away with such abuses. But was Martha's real crime here the illegal stock transaction, or her hoards of wealth? The press also delighted in playing the "class-warfare card" by skewering Martha Stewart for such transgressions as wearing expensive jewelry during the trial. She has become the first Leona Helmsley of the 21st century. You would have thought she had said "only poor people pay taxes."

Stewart now faces perhaps two years in prison and the liquidation of at least half of her wealth (in the hundreds of millions of dollars), all because she managed to save herself $50,000 selling ImClone stock when she heard that one of the drugs the firm had been developing had failed to get FDA approval. That was her crime, and is why she will do time.

Love her or hate her, Martha Stewart has been one of the most successful capitalists of this generation. She created hundreds of millions of dollars of new wealth and virtually a new industry that was, in effect, herself. She created thousands of jobs and was a successful entrepreneur who happened to make a lot of money while she was at it. The source of my uneasiness is that many in our society applaud her downfall precisely because of her enormous success. But success is a virtue in America, and when we start treating it as vice, we denigrate our capitalistic system. And then we have a much bigger problem in our society than whether people are trading on hot stock tips in the middle of the night.

— Stephen Moore is president of the Club for Growth.

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Stephen Moore
NRO Financial Columnist

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March 05, 2004, 11:14 a.m.

Voters Say No to New Taxes...

...even on the Left Coast.

When it comes to raising taxes, what part of "no" don't the politicians understand?

In the case of every ballot initiative in the last two years that has called for taxpayers to make the "sacrifice" of paying higher taxes, voters responded with not just a "no," but a "hell no." That string of victories for the anti-tax activists was lengthened this week when Californians voted 60-40 against a measure to gut Proposition 13.

This should not have been a surprise, because every pro-tax ballot initiative goes up in smoke.

In Alabama, Oregon, Virginia, and Washington State voters have recently — and soundly — rejected new taxes. It's particularly striking that the latest snub to higher taxes comes from the folks on the Left Coast in California. Now, California has always been considered by most in Middle America to be a little quacky. In many ways it has pursued policies that would lead one to believe that this is the most left-leaning of states. And that reputation has certainly been enhanced in the past few weeks with the gay-marriage ceremonies that are all the rage in San Francisco. This is a state where the legislature recently approved a measure to give "equal rights" to transvestites. There is also a movement in Sacramento to unilaterally sign the Kyoto Global Warming Treaty, the one that would put hundreds of thousands of Americans out of work.

But on taxes, Californians have never wavered in their opposition — putting them closer to the rest of America than one might think.

The latest rejection of the sneaky Proposition 56 signals that, even after 25 years, and even after the Left's ceaseless attacks against the devastation to schools, public safety, and government services allegedly caused by Prop. 13, the voters aren't buying it. I say that 56 was "sneaky" because its advocates sold it as a populist method to require "accountability" of the legislature on fiscal issues. It would have said that politicians won't get paid if they don't pass a budget (a good idea!). But it also sought to gut the two-thirds vote requirement to raise taxes, replacing it with a slimmer 55-percent majority. Since the Democrats control more than 60 percent of both houses, this would have given the party of Gray Davis and Willie Brown free rein to raise taxes through the roof.

If Prop. 56 had been in place last year, it is likely that nearly all the proposed $65 billion in taxes and fees proposed by the state Democrats would have been passed into law.

It would have also allowed the Democrats to approve pork-filled budgets without a single Republican vote. Given that the state faces the biggest deficit in the history of the states, even most Democratic voters realized this would be about as advisable as allowing Janet Jackson to appear on *Sesame Street*. The Howard Jarvis Taxpayers Foundation ridiculed the measure as the "Blank Check Initiative." A state wading in red ink can hardly afford to be writing blank checks.

In some ways it is astonishing that after 25 years, Proposition 13 is still regarded as sacrosanct among California voters. I guess Californians recognize that this tax-restraint measure is all that stands between the Golden State and Chapter 11 bankruptcy.

Back in 1978, the *Los Angeles Times* described the Proposition 13 movement as "a group of angry and disgruntled taxpayers across the state who believe they are paying too much for the cost of government." That was indeed the essence of the Prop. 13 revolt: After years of uninterrupted expansion in the size and arrogance of the government bureaucracy, Americans no longer believed that government was giving them their money's worth.

And they believe that less so today than ever. The California budget rose nearly 40 percent in Gray Davis's reign of fiscal terror, and it will take Arnold Schwarzenegger years to dig out of the hole. Californians get that. This is why Arnold was able to convince voters that a $15-billion revenue bond was necessary to buy time to fix the roof on a very leaky house.

In this taxaphobic environment, John Kerry is promising one of the biggest tax increases in American history, pledging to repeal most portions of the Bush tax cut. This is why John Kerry will never be president. He doesn't understand that "no" means "no."

— Stephen Moore is the president of the Club for Growth.

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Stephen Moore

NRO Financial Columnist

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February 18, 2004, 8:35 a.m.

John Kerry's Perfect Running Mate

Kerry-Specter 2004.

Now that John Kerry is the slam-dunk Democratic presidential nominee, all of the political speculation turns to the selection of his running mate.

He needs to pick someone who is an ideological soul mate and agrees with him on most big issues. Someone with an unimpeachable record of successfully and consistently arguing the case for left-of-center policies: liberal judicial appointees, smaller tax cuts, bigger investment in social-welfare programs. Someone from a large and competitive state. Someone who will further energize the left-wing base of the Democratic party. Someone who knows how to pick fights with conservatives on key issues of the day. Someone with a proven track record of getting the Rockefeller Republicans to vote for him.

Democrat strategists are considering Senators John Edwards, Evan Bayh, and former Senator Max Cleland. But they are overlooking a more ingenious choice: Arlen Specter of Pennsylvania.

Hold on a minute, you're probably thinking. A Kerry-Specter 2004 ticket? Isn't Arlen Specter a Republican? Well, yes, but a Republican in Name Only (RINO). Over the past 25 years, no one in the United States Senate with an "R" next to his name has voted for so many liberal Democratic policies. Specter has about the lowest American Conservative Union rating of any other senator who bothers calling himself a Republican and close to the worst National Taxpayers Union. The American Civil Liberties Union gives him two enthusiastic thumbs up.

Specter passes the Left's two litmus tests. He is unapologetically pro-abortion. He even supports taxpayer-funded abortions — which is consistent with his position of supporting taxpayer funding of everything. Citizens Against Government Waste recently awarded Specter with the "Pork Barrel Spender of the Year" trophy. He is also the trial lawyers' best friend in Pennsylvania and he has unhesitatingly voted against doctors and patients and for the trial-bar lobby, the Democrats' cash cow. His son is one of the best-paid trial lawyers in all of Pennsylvania.

Unions have no complaints with Arlen Specter either. He is no friend of right-to-work legislation and he always votes to raise the minimum wage.

Perhaps his strongest qualification for the job is that he and Kerry agree on so much. They are two liberal peas in the same pod. A new TV ad running in Pennsylvania sponsored by my organization, the Club for Growth, notes that in recent years Kerry and Specter have voted together as often as 71 percent of the time. (You can see the ad on Clubforgrowth.org.) That's about as often as Al Gore and Joe Lieberman agreed with each other.

And whereas Lieberman's positions often gave left-wing Democrats indigestion for his support of policies like a capital-gains tax cut and school choice, Specter's positions rarely collide with orthodox liberalism. For example, Specter was the only Republican in the Senate to oppose the Washington, D.C. school-choice initiative to give thousands of inner-city minority children better educational opportunities — when even the liberal black mayor of Washington, Anthony Williams, pleaded the case for choice.

Kerry, of course, wants to raise taxes on the rich if he becomes president. He will get little argument from Specter. Over the years Specter has voted for six tax hikes — so where would the harm be in perhaps being the tie-breaking vote for a seventh.

Now it is true that Specter has a number of votes that have antagonized liberals. Perhaps most unforgivable to the left-wing extremists is that he strongly endorsed Clarence Thomas for the Supreme Court. But Specter was one of the few Republicans to vote to "bork" Supreme Court nominee Judge Robert Bork, thus torpedoing this Reagan nominee, much to the glee of groups like People for the American Way. Some of the "hate Bush" Democratic-party faithful may complain that Specter voted for the Bush tax cut this year, but it's also true he voted with Tom Daschle to slash $300 billion out of the original Bush tax plan.

The good news for Senator Kerry is that few Republicans would howl much in protest if the Democrats stole him away. Specter is the last of a dying breed of left-wing northeastern big-government Republicans, who manages to only tilt the Republican Senate caucus further from its conservative base. That's why Specter is in the fight of his life right now for the Republican nomination against conservative Congressman Pat Toomey. Moreover, conservatives are quivering at the thought of Arlen Specter as the next Judiciary Committee chairman. He could probably do less damage as Kerry's running mate.

And here is the perfect campaign slogan: Kerry-Specter 2004: Liberal and Proud of It.

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore200402180835.asp

Stephen Moore
NRO Financial Columnist

February 02, 2004, 9:06 a.m.

Uncle Sam, Inc.

We're the most expensive government in history.

By Stephen Moore

Today President Bush releases his fourth budget to Congress, requesting $2.34 trillion in spending for fiscal year 2005. That's *trillion*.

I have often maintained that one of the biggest problems with Washington is that no one can tell the difference between $1 million and $1 billion. But when Congress starts counting our tax dollars in the trillions of dollars it's like taking a trip to Michael Jackson's Neverland. One trillion dollars is a million million dollars. That's a lot of money no matter how you stack it.

The president will predictably boast that this is a lean budget that spends money judiciously on top national priorities like homeland security and not a penny more. He will try to assure conservatives that this budget limits the growth of federal non-defense, non-security spending (social programs) to less than 2 percent. His Democratic rivals will complain that this is a penny-pinching budget that under-funds education, health care, the environment, and on down the line.

They are both wrong. A federal budget that will spend more money in a single year than the entire GDP of France and three times what it cost to fight World War II can hardly be disparaged as inadequate or celebrated as tight-fisted. Uncle Sam, Inc., will spend more money in just this year than it spent combined between 1787 and 1900 — even after adjusting for inflation. Ironically enough, we are now celebrating the ten-year anniversary of Newt Gingrich's bold declaration that "we Republicans will make government smaller and smarter." It didn't exactly turn out that way, given that the budget is now nearly $1 trillion larger than it was when the Republican revolution was launched.

But the truth is that, in recent decades, neither political party has been a particularly good steward of taxpayer resources. Government ingests about four-to-five-times more of America's national output today than in 1900. The government's share of everything we produce and earn has about doubled since the end of World War II.

Here's another way to think about it: If you took all our government spend divided it evenly among all families of four in America, each family would be more than $50,000 richer. This is double the level of spending in 1960 and fourteen times the amount government spent in 1900, even after adjusting for inflation. The question American taxpayers need to ask is this: Does my family really get anywhere near $50,000 worth of services every year from city hall, state government, and Uncle Sam, Inc.?

The composition of government spending has changed, too. Even with the recent increases in the military budget in the new age of terrorism, a smaller share of federal spending is devoted to national defense — ironically, the one area of the budget where Congress has a clear constitutional authority to spend money — than at just about any other time in U.S. history. Traditionally, about one-third to one-half of all federal expenditures were for national security. Now that percentage is down to less than one-fifth.

Almost all of the growth of government in this past fifty years has been a result of increased civilian social-program spending.

In 1940 there were 4 million Americans working for government and 11 million working in manufacturing. Today, there are 7 million more Americans working for government (21.5 million) than in all manufacturing industries (14.5 million). We have shifted from an economy of people who make things, to an economy of people who tax, regulate, subsidize, and outlaw things. We certainly have more rule-makers and red-tape dispensers than ever before.

In 1935 there were 4,000 pages of federal regulations in the Federal Register. Now there are 68,000 pages. That's a 17-fold increase in sixty-five years. Since 1970 the number of federal regulators nearly doubled from 69,000 to 130,000. We work almost half our lives now complying with government rules, edicts, levies, paperwork requirements, taxes, and fees.

The odds seem a lot higher, at least in the short term, that government will continue to rapidly expand than the federal spending orgy will subside. (After all, the ink isn't even dry on the Medicare drug bill and the cost is already up by $100 billion.)

President Bush has allowed the budget to grow by 8 percent per year *after* inflation in his first three budgets. What's worse, many in Washington want government to grow a lot more in a hurry. Most of the Democrats running for president, and even some Republicans in Congress, yearn for the day when government entirely takes over the health-care industry — so we can have a socialized system more like France and Canada. (This would put about 5 to 10 percent more of the economy under direct government control.) Many in Congress also want government to fully take over the financing and control of the education of pre-school children (ages 3 to 5) and to provide free universal college to all 18-to-22 year olds. This, too, could add another 5 to 10 percent to the government's total take.

In his bloated budget for 2005, the president seeks funds to keep marriages intact, to prevent overeating, to encourage teenagers not to have sex, and to help give Americans the willpower to stop smoking. Should it bother us that both parties have bought into the belief that government now needs a federal program, bureau, agency, or grant contract to deal with every conceivable human need? An indoor rainforest in Iowa? Arts festivals in Alaska? Swimming pools in New York? What's next, my teenager's right cheek gets a relief from acne?

More government, for one thing, makes us poorer. Just a few months ago the Heritage Foundation and the *Wall Street Journal* issued an economic-freedom index in which the U.S. ranked only number 10 worldwide. The study discovered a strong and not surprising statistical relationship between economic freedom (of which one component is limited government) and economic growth and prosperity.

Our out-of-control budget also erodes personal freedom. When government grows, as Thomas Jefferson once famously put it, "liberty yields." Dollar by trillion dollar we are voluntarily giving up our liberties for a government that promises us, in return, a blanket of protection from cradle to coffin. Republicans are steering us in the direction of the "workers' paradise" of a European socialist welfare state. The reply from the Democrats is faster, faster.

— Stephen Moore is president of the Club for Growth *and a senior fellow in economics at the Cato Institute.*

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Stephen Moore
NRO Financial Columnist

January 20, 2004, 8:32 a.m.

State of Bush's Union

We need short and fiscally conservative.

I am recommending herein the shortest State of the Union speech in American history.

Tonight, in front of 100 million Americans, who are not watching college basketball on ESPN or a horror flick on the Sci-Fi channel, George Bush should say:

> My fellow Americans: The state of the union is healthy. The economic recovery is picking up steam. We are winning the war against terrorism. Keep the faith. Good night.

The American people would stand up on their living couches roaring with thunderous applause. Brevity is, after all, the soul of wit. The art of short speeches went out sometime soon after the Géttysburg Address, which was only a few hundred words and took less than five minutes to deliver.

Instead Bush will drone on for an hour. This is an unwise strategy, because Mr. Bush is not the most gifted of orators. He is no Bill Clinton, for example. That is a small blessing compared to the hour and a half monologue that Bill Clinton once subjected us to. I always felt that Clinton was going to solve every problem in America, including exterminating the fly swimming around in my soup, with some new fancy sounding government program. You needed a cash register to ring up the cost of Clinton's new spending pronouncements.

Bush too, has this unattractive tendency to believe that there is a government grant program for every problem that afflicts America. Bush may not announce an anti-acne agency one of these days, but it wouldn't be a stretch. He wants to send a man to mars — not Paul O'Neill regrettably — that will cost $500 billion over ten years. He wants to spend millions to promote holy matrimony. He wants to spend $200 million to fight obesity — why can't we just tell fat people to stop overeating. There will be funds to fight AIDS in Africa and to purchase garbage trucks in Iraq. He wants money for hydrogen-operated cars, and a manufacturing czar, who presumably, like Dorothy in *The Wizard of Oz*, can click the heels on her ruby slippers and make factory jobs reappear.

All of this is to say that there seems to be a correlation between the length of the State of the Union speech and the size of the budget expansion in the upcoming year. Americans seem to unfailingly approve this wish list, as if government really is Santa Claus and that we are all entitled to ask what the country will do for us. Just once — just one blasted time — I would love for a president to say: Want prescription drugs? Want your toddler's pre school paid for? Want to go to college? Want a marriage counselor? Want to get thin? Then work hard and pay for it yourself you whiners!

Alternatively, the president could say: "I could give you all a super-sized goodie bag, but then I

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couldn't cut your taxes anymore. So instead of new federal programs, we will have another $500 per family tax cut and then you can go out and buy your own cans of Slim Fast.

That won't happen even though taxpayers would respect this kind of honesty. Wouldn't be compassionate. But the lesson of the last 50 years is that there is no end to government compassion when the politicians' are reaching into someone else's pocket.

We've had too much compassion from government, thank you. That is the biggest impediment to freedom and economic growth in America today. The State of Bush's Union has become in some ways a State of Dependency and a State of Entitlement. With the federal budget now costing more than $20,000 on average for every family in America, Bush should not add to the burden by promoting false compassion.

Keep it short and sweet Mr. President. As my old high-school English teacher used to warn us of on essay tests: Unnecessary verbiage will be penalized.

— *Stephen Moore is president of the* Club for Growth *and a senior fellow at the* Cato Institute.

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Stephen Moore
NRO Financial Columnist

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January 13, 2004, 8:39 a.m.

Paul for Himself

The former treasury secretary never did get it.

If you watched Paul O'Neill, George W. Bush's first treasury secretary, in his self-serving interview on *60 Minutes* Sunday night, during which he spewed venom at his former White House colleagues, you know that all that was missing was his clown outfit.

By far the best moment of the interview came when Leslie Stahl asked O'Neill if he felt any tinges of guilt for the blind-side kidney punches he was throwing at President Bush. O'Neill coyly played dumb and wondered why anyone would view his portrayal of the president as unflattering. He pretended that he was doing the president a favor, because "After all, all I am doing is telling the truth." Yes, Mr. O'Neill, I'm sure the president is tickled pink that you describe him as disengaged on domestic-policy issues, plotting to overthrow Saddam Hussein from his first day in office, and unable to comprehend the ramifications of the economic policies he was proposing. I'm sure he's equally thrilled that you turned over national-security documents to a reporter writing a hatchet-job book on the Bush presidency.

Even Leslie Stahl couldn't help smirking at O'Neill for being a rat. As such, we learn much more about the real Paul O'Neill than the real George Bush in these interviews.

Let us be clear on one thing about Paul O'Neill: He was one of the worst treasury secretaries in memory. During the height of a currency crisis and meltdown in the stock market, O'Neill was playing the role of a rock groupie as he followed Bono around Africa. Many Washingtonians — probably including President Bush himself — half-hoped he would never come back. He had a penchant for wedging his foot in his mouth, talking down the dollar and the need for tax cuts, and then pathetically blaming every *faux pas* on his penchant for "telling the truth." He was incapable of dealing with foreign leaders. During his tenure the economy performed miserably — that certainly wasn't his fault but he certainly also did nothing to rectify the bad performance.

O'Neill never understood supply-side economics and was thus a surprise candidate for the treasury slot to begin with. He came from the Richard Nixon wing of the Republican party.

As CEO of Alcoa, he was one the major corporate cheerleaders for George Bush 41's "read-my-lips" tax hike that capsized the elder Bush's presidency. Now he seems hell-bent on bringing down *this* Bush presidency, perhaps because he's still infuriated over his firing last year. Dick Cheney got him the job — he and O'Neill were buddies when Cheney was the head of Halliburton — -but O'Neill doesn't pull his punches when it comes to the vice president, describing him as a feckless pawn in the White House. (Recommending O'Neill to Bush may be Dick Cheney's only error as vice president.) If Condoleezza Rice was like the Babe Ruth of selections for his top foreign-policy adviser, O'Neill was the Mario Mendoza of the economics team.

The press is having a field day with O'Neill's claim that the 2003 tax cuts — the dividend and capital-gains reductions — were unnecessary and fiscally reckless. One wonders what this man was smoking when he was trooping around the hinterlands in Africa with U2. Ever since the Bush tax cut took effect, the stock market has risen 25 percent, the economy has produced 500,000 new jobs, the economic-growth rate has doubled, and business investment has hit a ten-year high. Again, even Leslie Stahl had to challenge O'Neill on this bizarre attack on the tax cuts by asking him whether they help explain the 8.2-percent growth rate in the third quarter. O'Neill responds, "We would have had six-percent growth without them." Even if he were right, two-percent extra growth from tax cuts is nothing to sneeze at.

Why was O'Neill against a tax cut in 2003? Because he claims he wanted to start the debate on "fundamental tax reform." But, hello! Cutting the capital-gains tax, cutting the dividend tax, lowering tax rates, increasing tax deductions for business investment, is a big leap forward toward tax reform. George Bush is giving us tax reform one bite at a time.

O'Neill just never seemed to be singing from the same hymnal as the rest of the Bush team. This became clear to me when I had a private breakfast with him a few weeks before he was fired — back in October of 2002. (He said, affably, that he wanted to meet the guy who was always criticizing him in the press.) My agenda item for the meeting was to impress upon him the importance of a tax-cut stimulus oriented toward helping investors and reversing the $5 trillion in losses that the economy has already absorbed under this president's tenure.

I was stunned by his opinions. He said a stimulus was not needed. He also said that with America about to go to war with Iraq (potentially), it was not, in his opinion, the best time to be picking a partisan fight with the Democrats in Congress over tax cuts. He thought that a "tax cut for the rich" was politically unwise. He saw little value in a capital-gains tax cut.

I continued to press the point that the stock-market collapse, if not reversed, would not only risk capsizing the economy, but could also mean catastrophic losses for Republicans and President Bush in 2004. He said he was not much interested in the politics of these issues, but rather in giving the president sound economic advice. I wondered (not aloud) why he so seldom gave any.

One of the most poignant moments of our meeting came when he asked me whether I really believed that any tax changes could impact the economy or the stock market in the short term. I politely said that policy changes, of course, matter in directing the economy in the right direction and that incentives matter — that's why we're here. He replied: "You know I hear this talk all the time about the value of this tax cut and that tax cut, but I've been in the business world for years and have made major investment decisions, and the idea that these tax changes impact these kinds of real-world decisions is just bulls***. This just isn't how the real world works." I nearly fell out of my chair. How could President Bush have put this confused man in this job, I kept asking myself.

Paul O'Neill never was at all sympathetic to the supply-side and Laffer Curve ideas that are so critical to enhancing economic growth in the short and long term. It was a good thing Bush fired O'Neill when he did and replaced him with the very capable John Snow. O'Neill would have undermined the tax cut. This is a man who is hyper-sensitive to the deficit and to the kinds of income-distributional tables that always lead to the conclusion that tax cuts benefit the people who are already wealthy.

There was one other poignant moment at the end of our meeting. I asked O'Neill about his future plans. "I will stay in this job as long as the president wants me," he declared rather haughtily. He was completely unaware that as we spoke, President Bush was wisely plotting to get rid of him. O'Neill had no idea the hatchet would soon fall.

That was Paul O'Neill as treasury secretary: clueless until 'til bitter end. And with his kiss-and-tell escapade we might also say that Paul O'Neill was classless 'til the bitter end.

— Stephen Moore is president of the Club for Growth.

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Stephen Moore
NRO Financial Columnist

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December 02, 2003, 9:10 a.m.

Untrue at Any Speed

Slow limits make road kill.

I've always argued that the two most important, life-improving reforms passed by the Republican Congress were the capital-gains tax cut and the repeal of the federal 55-miles-per-hour speed-limit law. Today almost all states have gotten rid of the "double nickel" 55-mph restrictions, and have raised their speed limits on local and interstate highways to 65 or 75 mph. This has led to shorter commutes for those of us who travel by car, and more time on the job or at our kids' soccer games.

The opponents of higher speed limits, like Ralph Nader and Joan Claybrook and insurance companies, said that it would cause 6,000 more deaths per year They said Republicans in Congress would have "blood on their hands" for their callous disregard for human life. But guess what: In every year since the speed limits were raised, death rates per mile traveled on the highways have fallen.

That's why I was shocked to see that the Insurance Institute for Highway Safetyreleased a highly publicized study suggesting that the 1995 increase in highway speed limits has led to an increase in highway fatalities . The study found that deaths on rural highways had risen by 35 percent because of the new law. There is an old saying in statistics that if you torture the data enough, you can always make them confess. This is what the Insurance Institute was forced to do to conclude that deaths increased after speed limits were raised.

A comprehensive Cato Institute study that I coauthored came to exactly the opposite conclusion. The highways today are safer, not more dangerous, than ever before. The fatality rate on the nation's roads was the lowest in recorded history in 2001; there were also 400,000 fewer injuries.

If anything, it would seem that unreasonably low posted speed limits are the real dangers to our health and safety. Over the last 35 years, the highway fatality rate has steadily declined, excepting only the period from 1976 to 1980, which followed the imposition of the national 55-mph speed limit in 1974.

There is also no evidence that states with higher speed limits saw an increase in deaths. States with 65 and 75-mph speed limits saw a 12-percent decline in the fatality rate after speed limits were raised. Some of the sharpest declines in fatality rates were in states that raised their limits to 75 mph, the highest in the country. These include Utah, with a 27.7-percent decline, Nevada at 23.7 percent, and Arizona at 21.1 percent.

How is it that higher speed limits have not led to more deaths? One reason is that cars and roads are safer than ever before, which allows us to travel at faster speeds. In the last decade, auto firms have built cars with better anti-lock brakes, better power steering, and better crash protections. Moreover, what causes fatal crashes is bad driving habits: driving too slowly in the left lane, talking on the cell phone and ignoring the road, driving while tired, and worst of all, drinking and driving. It is a timeless rule of the road: Regardless the speed limit, there will always be bad drivers.

Also, higher speed limits haven't increased deaths because speeds have not risen significantly on the highways. People were already driving well over the posted limits even when we had 55-mph restrictions. The 55-mph speed-limit law was probably the most disobeyed in American history.

The good news is that when you're speeding on the highway nowadays, you can keep focused on the road before you — and not the rear view mirror — to scan for cops. We all know that's the *real* reason behind increased highway safety.

— Stephen Moore, an NRO contributing editor, is a senior fellow at the Cato Institute.

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Stephen Moore
NRO Financial Columnist

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November 21, 2003, 11:24 a.m.

A Senior Moment

The GOP goes for a poisoned pill.

Rep. Mike Pence, the second-term Indiana Republican who is heroically leading a group of conservatives in the House against the $400 billion Medicare prescription-drug bill, notes that it was exactly ten years ago this week that the Hillary health-care plan was revealed to the world in all its splendor and glory. When it was first unveiled, Hillarycare was widely hailed as the silver bullet to solve all our health-care-system woes. The plan was quickly endorsed by the American Association of Retired Persons (AARP).

Six months later the Clinton health plan was the butt of jokes on late-night talk show as it lay in political tatters after being universally rejected by voters. Voters turned down the socialized-medicine scheme because of its complexity, high cost, and over-reliance on big government.

Now we have Republicans on the verge of repeating this fiasco, as they offer a prescription-drug-benefit plan that is complex, costly, reliant on big government, and enthusiastically supported by the AARP. What's wrong with this picture?

The policy deficiencies of the prescription-drug bill are by now well documented. The plan will dump roughly $2 trillion in added unfunded entitlement liabilities into the laps of our children and grandchildren, on top of the $21 trillion in unfunded debt already baked in the cake. As Rep. Pence stated on the House floor a few days ago, "Our children will never forgive us for this act of financial malpractice."

The plan could cause as many as four million seniors to lose their private-employer drug coverage and be thrust unwillingly into a Medicare program that offers worse benefits than they already have. This, of course, is precisely why corporate America has so energetically embraced the plan and is spending millions of dollars in advertisements to sell the public on its virtues. This plan could erase billions of dollars in liabilities from the balance sheets of Fortune 500 companies and shift them onto the books of Uncle Sam. There are no real cost-containment features to the bill, and as Rep. Pat Toomey of Pennsylvania says, "almost no one in Congress really believes this plan has any chance of holding costs to anywhere near $400 billion."

None of these fiscal realities seems to matter much to the White House or the congressional Republican leadership, which at this moment are dangling pork-barrel goodies in front of the noses of conservative health-care skeptics in the House in order to buy their acquiescence. Their reservations do not matter, because Republican political strategists are convinced that this bill will earn Bush the gratitude of senior-citizen voters, who will flock into the Republican column in November 2004.

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This is a potentially tragic political miscalculation on the part of the GOP deep thinkers. In fact, the Medicare prescription-drug bill could have just the opposite electoral effect: It could easily antagonize enough seniors to bring an end to the Republican majority in 2004.

As evidence of the political unpopularity of the drug bill, consider the poll results released this week by the Club for Growth. The poll of 800 seniors finds that retirees' support for the bill transforms into hostility when those over the age of 65 are told the full details of what this bill would actually provide. For example, when seniors are told that as many as one in three of them "may lose" his private drug coverage, 71 percent say they disapprove of the bill. When seniors are told that they will have to pay premiums of roughly $500 to $600 a year, 72 percent say they oppose the bill.

As the researchers at Basswood Research, which conducted the poll, conclude: "The more seniors learn about the prescription drug bill, the less they like it." Only 19 percent of seniors support the bill when they are informed of the full costs and the full risks. Republicans are especially vulnerable to retribution by seniors if employers accelerate the trend, already in motion, of firms' discontinuing the prescription-drug packages in their health-care plans. As the poll finds that 81 percent of seniors with private coverage are satisfied with their current plan, these seniors could end up as livid as late arrivers at the weekly church bingo game who can't find a parking space.

The prescription-drug bill is based on a faulty premise: that seniors want to swallow the pill that the Republicans are offering. That is perhaps the biggest myth in American politics today. It's a myth that could create a Speaker Nancy Pelosi in the House in 2004.

On the other hand, these poll results provide kernels of good news. If Republicans come to their senses and vote down this colossally expensive new entitlement program and replace it with a scaled-back plan that just gives benefits to low-income seniors without existing coverage, they will not only be saving their children a king's ransom, but saving their own political hides. And we know that this latter concern trumps every other consideration for our elected officials in Washington — or we wouldn't be having this debate at all.

— Stephen Moore is president of the Club for Growth

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Stephen Moore
NRO Financial Columnist

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November 20, 2003, 8:36 a.m.

Rush of Adrenaline

Voices your "ditto."

A day without Rush Limbaugh is like a morning without coffee with extra caffeine. It's like the U.S. Open without Johnny Mac or March without the NCAA basketball tournament, or Lennon without McCartney. It's like TV without Fox News. That is to say, life without Rush is unsatisfying, boring, incomplete.

So thank goodness Rush has triumphantly returned this week from drug rehabilitation to his rightful place behind the EIB Golden Microphone. And thank goodness his audience has in no way deserted him; indeed, the ratings indicate that his popularity are higher than ever.

We conservatives hate the sin, but love the sinner. For liberals, it is just the opposite.

It's especially heartening in listening to Rush this week that he hasn't taken any of the sting out of his whip. His latest tirade against the awful Medicare prescription-drug bill is a sanity check countering the GOP spin machine — a sound-bite operation that is trying to sell taxpayers a $2 trillion lemon. Thanks, Rush, for helping us try to save Republicans from themselves. They need to come to terms with their nasty addiction (to federal spending).

At the Club for Growth, we have launched a welcome-back campaign for Rush. Our members have responded in the thousands to our declaration of support and gratitude. Please join us. On Friday we will present the "Rush Resolution" to Mr. Limbaugh and we want 10,000 signatures. If you're courageous enough to give us your John Hancock and give kudos to the Left's worst nightmare, go to www.clubforgrowth.org/rush.php and sign on. It's absolutely free. The resolution reads as follows:

THE RUSH RESOLUTION
WHEREAS, Rush Limbaugh is recognized, without question, as the number one conservative talk show host in the nation;

WHEREAS, Rush Limbaugh is the leading voice in America for promoting the ideals of a free market and a limited government;

WHEREAS, Rush Limbaugh is Howard Dean's worst nightmare and Hillary Clinton's most persistent critic;

WHEREAS, Rush Limbaugh is the steely coat of armor protecting the honest, hard-working American people from the sword of high taxes, more intrusive regulation, and unaffordable government expansionism unsheathed by such wacko Democrats like Tom "Puff" Daschle, John "French-looking" Kerry, and Howard "Nikita" Dean;

NOW, THEREFORE, BE IT RESOLVED that the Club for Growth, the members and friends of which concurring within, wish "El Rushbo" a heartfelt "Welcome Back" as he triumphantly returns to his rightful place behind the EIB Golden Microphone, and once again, keeping the world safe from loony liberalism;

WE, the undersigned, loudly proclaim, "Ditto!"

— National Review/*NRO contributing editor Stephen Moore is president of the Club for Growth.*

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Stephen Moore
NRO Financial Columnist

November 12, 2003, 8:48 a.m.

The *Really* Good News

The private sector is finally starting to percolate.

Paul Krugman, Howard Dean, and Robert Reich are having a rough time of it these days.

The recent news that the unemployment rate dipped to 6 percent (which was once upon a time considered full employment) and that the economy has created about 300,000 new jobs over the past three months has made the tax-cut critics look a little silly.

Krugman, Dean, and Reich have made a profession out of railing against the Bush economy and the hollowness of the supply-side tax-cutting theory. In fact, poor Paul Krugman. Just a few weeks ago he wrote a rambling four-page article for the *New York Times Magazine* called "The Tax Cut Con." It argued that supply-siders have it all wrong — that tax cuts don't lead to more jobs, more growth, more investment, and a higher stock market.

Oops!

Meanwhile, the sizzle would seem to certainly have gone out of Howard Dean's steak (dang!). Nary a day goes by that Dean doesn't declare the Bush tax cut a miserable failure. He wants to repeal the whole tax cut. If Howard Dean is president, the capital-gains tax goes from 15 to 20 percent, the dividend tax goes from 15 to 40 percent, and the average family with two kids and a $50,000 income will pay $2,200 more in taxes. That will really jump start the economy.

The newest job data comes right smack on the heels of the stunningly positive GDP report which showed that economic growth soared by 7 percent from July through September this year. But my analysis, with Club for Growth research assistant Phil Kerpen, indicates that the underlying data is *even more* encouraging than that.

As I have noted many times on these pages, the GDP data is contaminated by the inclusion of government spending. When the government spends more, the official GDP grows, even though the government very rarely spends money efficiently.

In 2001, 2002, and the first half of 2003, the government was outgrowing the private sector in GDP. Bad news. But the *really* good news in the latest GDP report is that the private sector is finally starting to percolate. In fact, in the 3rd quarter of 2003, the private-sector growth rate was up an astonishing 8.5 percent. Hot diggity dog.

This is what we've been waiting for. Here is the data:

gdp	2001	2002	2003 (Q1 & Q2)	2003 (Q3)
Private Sector Growth	-0.5%	2.0%	1.9%	8.5%

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Government Growth	4.5%	6.1%	7.0%	1.3%

The tax cut has made one very other important positive contribution to growth, perhaps the most important of all. The stock market has soared ever since the tax cut was enacted. Since May of 2003, the Dow Jones is up 16 percent and the Nasdaq nearly 20 percent. The folks at the American Shareholders Association report that this stock market adrenaline surge has increased American household wealth by more than $1.2 trillion. This is just as supply-siders on these very pages predicted, and what the anti-supply siders like Krugman and Reich insisted would not happen.

Is a return to a 10,000 Dow and a 2,000 NASDAQ just around the corner? Ask Larry Kudlow that one. But one thing is certain: Americans are richer, the American economy is stronger, and the stock market is a lot higher thanks to the tax cut. Thank you, President Bush.

And thank you, Mr. Krugman. Wrong again. You're perfect record is safely intact.

— National Review contributing editor Stephen Moore is president of the Club for Growth.

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Stephen Moore
NRO Financial Columnist

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October 29, 2003, 8:37 a.m.

Competition to Cable and Satellite TV?

Congress may have a chance next week to do the right thing for consumers.

Ever wonder why it is taking so long for multichannel TV technologies to reach a large share of the American market at affordable prices? Or ever wonder why so many homes still can't get high-speed Internet hookups? The technologies have been around for at least a decade to make both products affordable to all homes. The culprit is government interventionism, which has impeded the introduction of new technologies that could dramatically reduce costs of satellite TV and bring more channels and clearer pictures to millions of Americans homes. Ironically, the government is blocking new TV technologies that could give Americans access to multiple new entertainment and news channels at the same time Congress moans about too much market concentration in the media business.

Typically, the biggest opponents of the newest generation of technological advance are those firms who pioneered the previous generation of innovation. This has been true for 100 years. Horse and buggy manufacturers weren't too thrilled with Henry Ford's Model T's. Incumbent industries, fat and happy from years of isolation from competitors, either due to economies of scale, or preferential regulation, are rocked by disruptive technologies. This is the essence of the free-market process of "creative destruction." The advent of the PC benefited consumers and businesses enormously, but brought down some of the leading technology firms of the last century including Burroughs, Wang, and Digital, and forced mighty IBM to rethink its whole product line.

Satellite firms are feeling a lot like IBM did in the late 1970s. Here's why: New multichannel TV and high-speed Internet providers now have the technologies to bolt a wireless local transmitter to a tower at a fraction of the cost of what it costs to design and pay NASA (or the Chinese) to launch your $300 million telecommunications satellites into orbit. For example, a firm called Northpoint Technology has developed a system comprised of local transmitters that would carry all local TV stations and emergency broadcasts within a market, something the satellite companies won't do. In fact, nearly 1,000 local TV stations are not carried by any satellite service. Under this technology, land-based transmitters would share the same frequencies used by the satellite-TV companies, and consumers would simply point their reception dish in a different direction to receive service.

If this technology works, multichannel TV and Internet service could be made available in homes at a fraction of the cost of the direct-broadcast satellite TV. The FCC has certified that the system would not interfere with satellite signals.

When you listen to Tom Hazlett, a former chief economist for the Federal Communications Commission now with the Manhattan Institute, you understand why the satellite firms are nervous. Hazlett estimates that the lack of competition with satellite TV providers is costing consumers about 5 percent on their monthly TV bills, or up to $230 million each month in higher prices. New competition from land-based technologies could mean even bigger savings than that. The GAO reported just last week that when there is more than one cable-TV company in a market, prices are about 15-percent lower. Those savings could bring multichannel TV into the living rooms of millions of more Americans sooner rather than later.

Satellite corporations claim that this technology requires the FCC to give away precious broadcast spectrum when other providers paid handsomely for spectrum allocation in license auctions. That argument sounds reasonable, except that most spectrum that has been assigned of late hasn't been allocated through auctions at all. Many of the satellite companies haven't paid a dime for their spectrum. That is true of well-known firms like DirecTV. Since 1997, the FCC has granted about 150 satellite licenses — not a single one through auction. When the FCC got around to processing the applications of Northpoint and six large satellite corporations who all applied on the same day in 1999 to share the exact same frequencies, the agency determined to license the satellite companies without auction, but dismissed Northpoint's application and invited the innovative company to participate in an auction.

I don't know if land-based transmission systems are the future of TV and high-speed Internet or not. But I do know that only the market can fairly and efficiently make these decisions, and by locking out new hopeful technological advances through government regulation, consumers lose and monopolies win. The shame here is that this fight isn't being fought in the jungle of the marketplace where survival goes to the fittest. It is being fought in the halls of Congress, where the most politically fit survive.

Commonsense free-market legislation brought by Senators John Sununu (R., N.H.) and Kay Bailey Hutchison (R., Tex.) would create a level playing field for all competitors in the pay TV market, space based and terrestrial. Through the resulting forces of competition, we could see the costs of multichannel TV and high-speed Internet plummeting in the next ten years the way cellular-phone costs have come down in the past decade.

— *Stephen Moore is president of the* Club for Growth, a contributing editor of National Review *and NRO and a nationally syndicated columnist.*

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Stephen Moore
NRO Financial Columnist

October 17, 2003, 12:46 p.m.

Iraq Needs Capitalism, Not Foreign Aid

The wrong road.

Let's say that it is the middle of the night and Bill Gates's house is on fire. And let's say that as a good neighbor you rush over, heroically break down the front door, and then, risking your own life, you rescue his family from possible death and save the house from burning to the ground.

Three weeks later you get a request from Bill Gates for $300 to pay for the door you broke down. To pay up would be preposterous. You saved the Gates home and family from possible ruin.

Yet this is precisely what the U.S. Congress is prepared to do now by authorizing $20 billion of U.S. taxpayer dollars for the initial costs of the reconstruction of Iraq (half of those, by Senate vote last night, probably in loans).

Is this another case of America winning the war and being taken to the cleaners in the peace? Do we have here the classic fictitious parody *The Mouse that Roared* come to life?

Last week I coauthored an article on these pages with Florida congressman Tom Feeney, arguing that U.S. taxpayers should not have to pay the costs of rebuilding Iraq. We made the case that Iraqis could be loaned the money, and that the loan would be repaid through future oil profits. The Senate started to get the message last night.

That article incited criticism from many of our free-market friends and allies. The *Wall Street Journal* editorial page called our idea "unreasonable." The White House has also lobbied heavily against the loan idea, arguing that Iraq is already saddled with $120 billion in unpaid foreign loans.

The issue here is not whether the Iraqis should get reconstruction aid. Yes, the Iraqi infrastructure is in utter disrepair. And, yes, the sooner the infrastructure is repaired, the sooner a functioning government can be put in place, and, in turn, the sooner American troops can be safely withdrawn. The issue is *how* the Iraqis should get the funds.

The arguments against the loan-financing approach are unpersuasive. Here are some brief refutations of the criticisms of the plan.

Spurious argument #1: A loan program would place an undue financial burden on the Iraqis. Not when one considers that the discounted present value of the oil in Iraq approaches $1 trillion. The oil fields are generating very little revenues now. But these loans could be repaid over a 10- or 20-year period with a reasonable interest rate imposed. Policymakers need to remember that, as Paul Bremer recently noted, "Iraq is not a poor country, it is a temporarily poor country." If the oil fields are privatized and the new Iraqi government vigorously allows capitalist forces to take hold, Iraq could get rich very quickly. Loan repayments would be a small price to pay for this prosperity.

Spurious argument #2: Loaning Iraq the money would merely confirm the suspicions of America's critics that the U.S. invasion was intended to seize control of Iraq's oil. But we aren't in any way confiscating the oil. We are simply insuring that we are repaid for the expenses incurred to get the Iraqi economy functioning again. Without the infrastructure repairs — to the pipelines, the roads, the security measures, the power plants, and so on — the oil remains in the ground and can never lubricate the Iraqi revival. In any case, making the loans through a multi-nation lending group, such as the World Bank, insures that the U.S. government isn't the entity that puts up the money or gets repaid.

Spurious argument #3: This $20 billion of foreign aid can have the kind of high return the Marshall Plan did after World War II. The Cato Institute has demonstrated many times over the years that the supposed "success" of the Marshall Plan is a myth that the foreign-aid establishment self-interestedly perpetuates. The aid to Germany, for example, was almost entirely cancelled out by the reparation payments the Germans were making. West Germany recovered rapidly because the Germans allowed the free market to work. East Germany had billions of dollars of aid from Russia, but it grew poorer. Moreover, if the purpose of the Marshall Plan was to build long-lasting strategic alliances with the French and Germans, then something went wrong, because two of our greatest adversaries in the war against terrorism today are the French and the Germans.

Spurious argument #4: Iraq is already saddled with too much debt.
Much of that debt is owed to three countries: France, Russia, and Germany. Why should businesses in these nations, which have obstructed the crusade to evict Saddam Hussein, be repaid anything by the Iraqi people? These nations did business with a criminal despot who is gone. If they want to be repaid, they should find Saddam and get him to repay them. The facts here aren't really very complicated. We liberated Iraq. The French, Russians, and Germans helped prop up this nation's evil oppressor. We should have first claim on any repayments.

Iraq's house was on fire. America rushed in to put it out. The notion that the U.S. taxpayer should single-handedly bear the burden of rebuilding the house, even though it rests upon a mountain of black gold, is fiscally irresponsible. With the war over in Iraq and Saddam gone for good, we should be giving Iraq a hand up through capitalism, not a hand out through welfare.

— Stephen Moore is an NRO contributing editor.

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Stephen Moore
NRO Financial Columnist

October 15, 2003, 8:20 a.m.

Let 50 Recalls Bloom

Three cheers for democracy!

By Stephen Moore & Paul Jacob

The biggest winner in last week's historic recall election in California was not Arnold Schwarzenegger, but rather the citizens of California. Millions of California voters have exercised their right to remove an incompetent and corrupt governor. Three cheers for democracy. The scandal is that less than half the states give voters the right to recall their elected officials. We think this should be made a basic right of voters in all states and at the federal level. Recall is the ultimate voter safeguard to keep politicians honest and accountable.

This isn't the way the Left sees it at all. The *Los Angeles Times* argued that the recall was "baldly partisan, threatens political civility that allows democracy to work, has become a circus that mocks the electoral process, and is inherently undemocratic." But what in the world is undemocratic about a citizen-driven movement (two million Californians signed petitions for the recall) that engaged and energized voters across the state?

Why should politicians be "entitled" to a full four years in office if they are not performing? If corporate CEOs run their business into the ground, they don't get to stay in their job for a term in office. It would be a breach of fiduciary duty of a board not to depose an incompetent CEO. Well, Gray Davis was the de facto CEO of California, the sixth-largest financial entity in the world. The economy cratered. The voters had a fiduciary duty to oust Davis as they did.

One group called Republicans Against the Recall complained that the recall is a "weapon of mass political destruction. The recall will set a terrible precedent. Soon labor unions and environmentalists will be trying to recall Republicans." Good. Many Republicans should be recalled from office. In Nevada, voters are attempting to recall their Republican governor, Kenny Guinn, for raising taxes after he had promised not to. Good move. Recalls are the ultimate shock therapy that empowers voters to impose discipline and accountability on politicians. We need more such mechanisms, not fewer.

The recall procedure is a political reform that came out of the progressive era of American politics. It was designed to wrestle control of the political process away from entrenched special interests and politicians who had been bought off by them. But now commentators want the politicians to be immune from voter disapproval. David Broder of the *Washington Post* recently moaned that "The recall is the byproduct of almost everything that has gone wrong in our political system. Partisan excess, rampant personal ambition, dereliction of leadership, media inattention, phony populism, and, as usual, the influence of money all are part of this nearly unprecedented perversion of representative government." How in the world is what occurred in California, "phony populism?" For years and years liberals political analysts like Mr. Broder have been bemoaning voter apathy and disengagement from politics. Here millions of voters mobilized in record numbers in California to change the way their government is being operated, and the exercise is being denounced as a circus. No wonder voters are cynical.

Today only 15 states allow citizens to recall their politicians for incompetence, criminal behavior, or other misdeeds in office. This allows the voters to rebel peacefully against political arrogance and misconduct. This is a commonsense voter disciplining measure to keep the politicians accountable to the people who put them in office. The nation needs more such mechanisms to ensure accountability, not fewer.

We believe that that every state should have empower their citizens with three basic rights as voters: referendum, initiative, and recall. These measures each put power into the hands of voters at a time when politicians, bought off by trial lawyers, unions, or business interests, refuse to put the public interest first.

We also favor a constitutional amendment to permit voters in states and congressional districts to recall their congressional representatives in Washington. That would make congressmen stop and think before they run $500 billion budget deficits, vote themselves preposterous pay raises, kite checks from the congressional bank, and engage in other acts of mischief.

Thomas Jefferson had it exactly right when he once declared: "A little rebellion now and then is a good thing." That is what happened in California. With a bigger budget deficit than all the other 49 states combined, the political system in Sacramento needed a good shake up. Too bad so few states allow this peaceful form of rebellion to take place through the power of recall.

— Stephen Moore is president of the Club for Growth. Paul Jacob is president of Citizens in Charge, which promotes the voter referendum and initiative process.

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Stephen Moore
NRO Financial Columnist

September 26, 2003, 8:42 a.m.

War & Peace

Let Iraqis rebuild Iraq.

By Tom Feeney & Stephen Moore

President Bush's request for an $87 billion supplemental-spending bill, at least $20 billion of which is for the rebuilding of Iraq, has met with surprisingly stiff opposition. Opinion polls indicate that the president's approval rating stumbled after Americans learned that the burden of paying for modernizing and repairing the infrastructure of war-torn Iraq would have to be shouldered by American taxpayers, rather than the Iraqis themselves. The opposition to this plan is heightened by problems here at home: the slow recession recovery, still-too-high unemployment, and an already record $400 billion of federal deficit spending.

In the run-up to the war in Iraq, administration officials had consistently argued that Iraq's oil revenues would pay for the costs of reconstruction. That financing plan, which draws from the assets of Iraq to pay for their own economic rehabilitation, seems no less sensible today than it was six months ago. Iraq is not a poor country — at least not for long. It is a resource-rich country, with the highest levels of oil reserves of any nation in the world other than Saudi Arabia. With an estimated 100 billion barrels of known reserves, and probably much more than that is technologically recoverable from these rich desert fields, the discounted present value of the oilfields could easily approach $1 trillion. But these assets only have value once they are linked to a dependable infrastructure of roads, bridges, pipelines, and security.

This begs the question: Why should U.S. citizens have to pay one additional penny for this rebuilding when Americans have already paid tens of billions of dollars for the liberation of Iraq with a huge military operation and more preciously, thousands of our own soldiers' blood?

Skeptics say that using the oil money to pay for the reconstruction of Iraq is no longer a practical option, because Iraq's oil revenues are way down. It is true that the combination of the war and economic sabotage has left the oil fields in poor condition and has brought production levels far below prewar levels. But this situation of disrepair is temporary. Once there has been a return to reasonable civic order in Iraq, oil production will increase dramatically and this nation will once again be flush with petrodollars. It could become like Saudi Arabia: one of the richest nations in the world.

As such, we would propose a fairer way to pay for infrastructure reconstruction in Iraq than the president's plan. First, the dollars for rebuilding this nation should not be given, but rather loaned, to Iraq through the U.S. government, or better yet, through a financial intermediary, such as the World Bank, or the International Monetary Fund. These loans should be collateralized against the future profits of the Iraqi oilfields. A formula which dedicates 50 percent of the oil profits to the repayment of these loans, could mean that within 10 to 15 years the debts would be paid off in full (depending in part on what happens to the world price of oil). Better yet, if the

Iraqi government decides to privatize the oil fields through a public offering, some percentage of the sale proceeds should be dedicated to debt repayment. We would even go a step further; a substantial portion of the actual war costs could and should be reimbursed to the U.S. government from this oil money, because the ultimate beneficiaries of this war were the Iraqi people themselves.

Making the loans through the World Bank or IMF would have the benefit of avoiding the spurious charge that the hidden agenda of the Bush administration was to secretly take control over the Iraqi oil fields. But in this case the U.S. government would not get a penny of the oil revenues for reconstruction purposes. The loans would be made by multilateral institutions and would be repaid to them.

This straightforward plan for financing this rebuilding process, is said to be complicated by Saddam's foreign debts. Major creditor countries, including war-opponents France, Germany, and Russia, as well as various Arab states, insist that Iraq's oil revenues secure their debt. Estimates of the amount of debt are between $100 and $150 billion, well above the entire cost of reconstruction. While these debts are likely to be renegotiated, Iraq's provisional government and the United States have adopted the questionable position that the debts are valid and will be paid. That is a mistake. To not repay the loans sends a signal to the rest of the world that they will pay a hefty price for engaging in commerce with corrupt, brutalistic, and illegitimate regimes like Saddam Hussein's. It would be a horrendous policy if Russia, Germany, and France were repaid for financing Saddam's wicked repression of Iraqis, while American taxpayers are not reimbursed for liberating and rebuilding Iraq.

President Bush is now pursuing diplomatic means to persuade the Europeans and other industrialized nations to help shoulder the remaining costs of the war and the peacekeeping process. Rather than going hat in hand to the Europeans, the Bush administration should simply cancel the Iraqi debts owed to France, Germany, Russia, and other nations. After all, the debts were incurred by a government that no longer exists and at a time when the U.S. government was boycotting Iraq. These other nation's were effectively undermining U.S. national security by effectively undermining that boycott

What we are proposing is known as the doctrine of odious debts, first proposed by Alexander Sack in 1927. According to Sack: "When a despotic regime contracts a debt, not for the needs or in the interests of the state, but rather to strengthen itself, to suppress a popular insurrection, etc, this debt is odious for the people of the entire state. This debt does not bind the nation; it is a debt of the regime, a personal debt contracted by the ruler, and consequently it falls with the demise of the regime." Beginning to enforce this principle of odious debt would very rapidly defund and thus help topple other oppressive and dangerous tyrants around the globe. If France and Germany want to be repaid, they should start hunting down Saddam and his henchmen.

Americans put their lives at risk freeing Iraq. The French, Germans, and Russians not only sat on the sidelines but, inadvertently propped up Saddam by financing his purchases of arms, palaces, and oil infrastructure. It makes no sense to argue that they should get a claim on the new Iraq's assets before we do. For once in our history, Americans should not be forced to foot the bill for the war and the peace — especially since the means to pay for both is right beneath the Iraqis feet.

— Tom Feeney is a freshman member of Congress from Florida. Stephen Moore is president of

Stephen Moore
NRO Financial Columnist

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September 8, 2003, 11:00 a.m.

Tom's House Is a Very, Very, Very Nice House

The Senate Minority Leader is anti-tax — at least, for himself.

By Stephen Moore

Perhaps you've heard about the mounting scandal over Tom Daschle's new $2 million home on ritzy Foxhall Lane in Washington, D.C. — which is a long way from Aberdeen, South Dakota. The group I head, the Club for Growth, recently exposed this audacious purchase in TV ads that are now running in Sioux Falls, South Dakota. We note that Daschle, the Senate Democratic Minority Leader, who voted against the Bush tax cuts, evidently doesn't need tax relief judging from the size of the home he can afford, but working people back in $70,000 homes in South Dakota strongly favor tax reduction. The background jingle is a parody from the Crosby, Stills and Nash song: "Our House." We changed the wording to: "Tom's house, it's a very, very, very big house."

Now we have nothing against people buying expensive mansions. Some of my best friends have million-dollar-plus homes. In a debate on Fox News the other night, former indicted Congressman Tony Coelho defended Daschle by noting that Arnold Schwarznegger has a multimillion-dollar home and he's running for office, so why shouldn't the Daschles? There's a fundamental difference here. Arnold makes things (hit movies) that people want and he has gotten rich doing so. God bless him. Tom Daschle has been living on a government salary for almost all of his working life (how much are we paying these people?) and his wife Linda gets her money from lobbying Congress. It's no stretch to say that she cashes in on her husband's lofty status.

Daschle has worked tirelessly to pull the ads off the airwaves. His protests have been almost comical. His first complaint was that the ads are misleading because he really does favor lower taxes. Hmmm, that's news to anyone who even casually follows politics in Washington. For at least the past ten years, Daschle has voted against anything that even has the whiff of a tax cut. He was the deciding vote in the Senate for Bill Clinton's mega-tax hike.

Next we heard from the '60s rock group Crosby, Stills, and Nash, which accused us of copyright violation, by parodying their music, and demanded that we cease and desist from running these ads. The law is very clear that this kind of usage is no copyright violation. And doesn't it seem like just yesterday that liberals were fanatics on First Amendment rights. Now they do everything in their power to suppress political speech — if it comes from the right side of the political spectrum..

But here's the fascinating new twist to the story. It turns out, as first reported by Talon News, that Daschle and his wife have applied for the home owner's tax exemption for the D.C. home. D.C. law requires that to qualify for this tax break, the home must be the primary place of residence. To quote from the venerable Keith Jackson: "Whoa, Nelly!" To run for the Senate in South Dakota, Daschle has to be a resident of South Dakota — not a primary resident of the

District of Columbia!

Could Daschle be legally prohibited from running for reelection because he no longer lives in South Dakota?

The Daschle campaign team has swiftly transitioned into crisis-management mode. The press release the campaign released explains away the predicament this way: "Linda Daschle works in DC and pays income taxes in DC. That makes Linda Daschle eligible for the homestead exemption on behalf of the Daschles."

Okay, let me get this straight. Linda lives in D.C. and Tom lives in South Dakota. Sounds like somebody needs couples therapy!

The press release further explains that "there is no question that Tom Daschle is a South Dakota resident. He has a South Dakota driver's license. He has South Dakota plates on his car." And then the trump card: "He pays South Dakota taxes." The only thing Daschle doesn't do it seems, is actually reside in South Dakota.

Who would ever thought by the way, that the leader of the Democratic party would be such a fanatic about tax avoidance? South Dakota has no income tax and D.C. is a tax hell. This tax-happy senator saves thousands of dollars every year on his income taxes by filing as a South Dakotan.

And apparently Linda is no slouch in this tax-minimization game either. In fact this whole mini-scandal that has snagged the Daschle's by the pants legs, was all caused by an attempt by the Daschles to save a few measly thousand dollars on their D.C. property taxes. The irony here is so thick you can taste it. Daschle fights like a pit bull every year to prevent tax cuts for working-class folks, like South Dakota farmers, who could save a few thousand dollars on their taxes thanks to the Bush tax cut. But there's no limit to the steps he will take to avoid paying taxes himself. Daschle was telling the truth when he claimed he was for tax relief: Tax relief for the Daschle family, that is.

I guess, fundamentally the Daschles agrees with Leona Helmsley: Taxes are for the little people to pay.

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore090803.asp

Stephen Moore
NRO Financial Columnist

August 28, 2003, 9:30 a.m.

The Pump Jump — in Perspective

Gasoline is still affordable in historical terms.

By Stephen Moore and Phil Kerpen

With Labor Day upon us and gas prices reaching $1.79 a gallon in many markets and even topping $2.00 a gallon for premium unleaded, newspapers have been full of headlines about "record prices." But the talk about record highs is based on a common economic fallacy — a failure to adjust for inflation over time. General inflation raises the overall level of prices throughout the economy. The real issue is whether gasoline prices are rising relative to the other costs of goods and services. And if we measure energy and gas prices correctly, we find that gasoline — although the price has risen by more than 20 percent in recent weeks — is still affordable in historical terms.

The Energy Information Administration reports gasoline prices in both nominal and real terms. The real prices are adjusted for the effects of inflation by applying the implicit GDP price deflators to compare prices in constant 1996 dollars. The current "record high" price is quite moderate by historical standards. We had higher retail gasoline prices as recently as 1985, and significantly higher prices from 1979 to the mid 1980s. (Click here for chart.)

The late great economist Julian Simon, a Cato Institute adjunct scholar, was famous for teaching us that it is most important to look at the very-long-term trends in prices of natural resources, if one wants to make predictions about the future. Here is what Simon's long-term data on energy and gas prices tells us: Gasoline prices paid at the pump have been on a steady rate of decline since the 1920s, with the obvious exception of the 1970s, when we faced an OPEC embargo and gasoline lines. In 1920 the real price of gas (excluding taxes) was twice as high as today. If the price of gasoline relative to wages was comparable today to what it was in 1920, we would be paying almost $10 a gallon for gas. (See *The State of Humanity*<>, by Julian Simon, Blackwell Publishers, 1995, Chapter 28.)

The same is true, by the way, for the cost of electricity and oil. Oil is slightly cheaper today adjusted for wage growth than it was 50 years ago and five times cheaper than 100 years ago. Electricity to our homes is about one-half as expensive as 50 years ago, and despite the recent blackouts, the service is more — not less — reliable.

Time magazine recently published a major story warning that the world is running out of energy. The authors of that story, Donald Barlett and James Steele, are completely misinformed. Given new technologies in the energy industry and the new oil deposits being found in Russia and other nations around the world, the likelihood is that prices of gasoline, oil, and electricity will fall throughout the 21st century, just as they did in the 20th. If Julian Simon were still alive, he would gladly bet Barlett and Steele or any other pessimists a tidy sum that prices will fall, not rise, over time. He has at least 100 years of history on his side.

And he never lost a bet.

One last word on the rising cost of gasoline. American motorists should be mighty pleased that the United States does not adopt the economically dysfunctional high-energy tax policies that are commonplace in Europe. In the Euro nations, gasoline often reaches $4 a gallon with more than half the price collected in taxes. Perhaps $2 a gallon gasoline is a bargain after all.

— Stephen Moore is a senior fellow at Cato and is president of Club for Growth. Phil Kerpen is a research assistant at Club for Growth.

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Stephen Moore
NRO Financial Columnist

July 31, 2003, 3:45 p.m.

Get Government Out of GDP

The growth this past quarter is a statistical mirage.

By Stephen Moore and Phil Kerpen

The latest report on gross domestic product of 2.4 percent real growth in the second quarter of 2003 is good news for the American economy and reduces fears of a dreaded double-dip recession. Caroline Baum of Bloomberg noted that this stronger-than-expected GDP growth number confounded most economists, who had been much less bullish on the U.S. economy.

There were nuggets of good news in the Commerce Department report: private domestic investment is up, and equipment and software purchases increased a solid 7.5 percent, the largest increase since 2000, signaling that perhaps the long-awaited supply-side recovery is now underway. Combined with strong demand growth of 3.3 percent, the economy seems to be on the verge of an accelerated recovery.

But the bad news is that GDP itself is still a grossly misleading way of measuring the state of the national economy.

The headline number of 2.4 percent growth — immediately applauded throughout the media as strong — is about double the real rate that the private economy grew. While the private economy grew near a 1.3 percent rate, the federal government component of GDP increased by a staggering 25 percent, the largest quarterly increase in more than three decades. The increase was due almost entirely to the high cost of the war in Iraq.

The important word there is "cost." Wars are a cost not an asset. You fight wars because you have to — because there are bad people in the world. But to suggest that the war was good for the economy would be as dimwitted as to suggest that Saddam Hussein deserves a medal of honor for helping revive the U.S. economy.

Defending U.S. interests militarily is a legitimate and necessary function of government, but it eats up resources and reduces growth, rather than enhancing it. So, to a large extent, the growth reported this past quarter is a statistical mirage. The way we currently measure GDP makes billions of dollars spent on military expenditures look like productive economic activity.

We should stop counting government growth in GDP. Keynes was wrong after all. Government growth does not enhance a free market economy, it crowds out productive private enterprise and production of wealth-enhancing goods and services. This convention of counting government spending as an asset rather than a liability creates the illusion that bigger government means more prosperity. Where on earth has that ever been the case? Certainly not the former USSR, East Germany, Japan, or Argentina.

The dramatic expansion of government that we have seen in the United States over the past century has no doubt had some positive benefits. The government builds roads and schools and spends money on our national defense and police and fire service. The problem is that many of the goods produced in the public sector add little value to the wealth of the citizenry. These are goods and services demanded by politicians, not by willing consumers in the free marketplace.

The real resources in the economy captured by government for additional public-sector spending can only come from three sources: taxes, debt, or inflation. The build up of any one of these funding sources can have influenza-virus effects on a capitalistic economy. In the 1970s all three accelerated at once, and the U.S. industrial economy collapsed until rescued by Ronald Reagan's supply-side and limited-government ideas.

In 2001 and 2002 the government component of GDP was growing at about 4 percent per year, whereas private businesses increased their output by less than 1 percent. Since most Americans are employed by private businesses, not government, and since more than half of American workers are also stockholders and thus are owners of the private sector corporations in America, the growth of government does not make America's workers feel more prosperous in any way.

Continual growth in government, one of the key components of GDP, probably does more harm than good for our private-sector-driven high-technology economy. Government growth does not drive productivity; it does not rally the stock market; it does not put more Americans to work (unless they work for the government itself); and it does not raise incomes of workers (in fact, because it necessitates higher taxes, it reduces take-home pay).

Here's a proposal: The conventional GDP numbers should be replaced with private-sector GDP. Private-sector GDP would omit government spending from the calculations. This would allow us to measure how much the market-based economy is expanding over time. By excluding government spending, no longer would economists and policy makers automatically assume the Keynesian theory that increasing government spending increases economic output.

Let's measure GDP correctly. Activities that add to wealth should be included; expenditures that reduce wealth excluded. Sorry to say that when we calculate economic growth correctly, our performance is still underwhelming. We would make the case that the single most productive thing that Congress could do to revive prosperity and jobs would be to cut government spending by as much as possible. By all means, bring a chain saw.

But this advice is exactly the exactly the opposite of what the GDP calculators would tell us to do. The *New York Times* just published a front-page story arguing that the reduction in state and local government spending this year is having a contractionary effect on the U.S. economy. Here we have the perfect example of how statistics lie, and liars figure.

— Stephen Moore is president and Phil Kerpen is a research assistant at the Club for Growth.

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Stephen Moore
NRO Financial Columnist

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July 24, 2003, 10:15 a.m.

Bill Greider: Bad Taste, Bad Economics

Rumors of my being an android have been greatly exaggerated.

I have been accused of many sins and transgressions in my life, but last week William Greider attacked me in an online column, pummeling me below the belt.

Greider was my debate foe last week on Lou Dobbs's CNN business show. Soon after we sparred, he wrote in his online column for *The Nation* that although Moore "looks remarkably human ... what if he is really an android?"

In case there is any confusion on this point, let me unequivocally set the record straight. I may bear an uncanny resemblance to Arnold Schwarzenegger, but that doesn't make me an android. I am not now, nor have I ever been, an android. And if Greider persists in making this kind of nasty accusation ... well, I just may have to terminate him.

Greider is a reasonably affable fellow in person and his article is entertaining and provides invaluable insights on how we conservatives are viewed by the Left. Allow me to quote from his column, "The 'Right' People":

> Moore is a skillful performer with reliably rightish opinions and bromides on any topic. I managed to get some points made, but Moore employs all the usual smart moves in this format. Adroitly timed interruptions. Couple of cheap shots. Obligatory paean to the golden years of Reagan. The need for still more regressive trickle down tax cutting.

Actually, that was the part I liked — and I didn't pay him for it. But read on:

> What if they are androids? All those familiar rightwingers whom we see every night, week after week, on the chatter shows — they do seem like manufactured talking mannequins, don't they? The subject of conversation doesn't matter, neither do the other opinions, so long as there's a liberal foil present. The content of conservative discourse has the "quality control" of McDonald's.

It gets better:

> I began to imagine that maybe this is how the Republican cheerleaders manage to stay "on message" so reliably. There is a microchip embedded in the base of the skull, a tiny receiver that takes cues in "real time." The control room could be at the White House but more likely it is located somewhere in the corporate sector, maybe at GE headquarters in Stamford, Connecticut, or perhaps in lower Manhattan where the financial titans are desperate to lure nervous "marks" (investors) back into the "casino" (the stock market).

On Dobbs's show, what seems to have gotten Greider's gander was that after he first spoke in full Chicken Little hysteria about the "coming American deflationary depression," I reminded CNN viewers that he predicted three American depressions that never happened. (Liberals absolutely hate being reminded of their gaffes.) Greider was the original horseman of the apocalypse back in the 1980s when Reagan enacted "trickle down" tax cuts and ran big deficits, but the economy responded with 4 percent annualized growth and 15 million new jobs. Some depression, Bill.

Greider believes that "right wing" pundits like myself are polluting the political talk shows, turning them into conservative romping grounds. It's the old right-wing bias of the media that has Greider in a huff. He seems to long for the days when Americans could get their news night after night from just one "unbiased" source, Walter Cronkite, and each morning from the "unbiased" *New York Times* or *Washington Post* (where the staunchly "unbiased" Bill Greider once worked as an editor).

These days, once again, Greider thinks the country is headed for deflation and depression, and that we are in the second or third year of an economic retrenchment that is very similar in pattern to what Japan has experienced for more than a decade now. (If he turns out right, I will buy him a Terminator doll.) He keeps lamenting that Bush has "no plan" to deal with the hard realities of the economic crisis. But one gets the sense that he has been sleepwalking through the last three months of debate, and that he missed the president's bold tax-cut victory. Apparently, Greider refuses to acknowledge that the Bush plan is indeed an economic plan.

Rather than tax cuts, Greider favors a huge explosion of new government spending on "public investments" to get Americans back to work. But there are three problems with the Greider quick-fix:

First, Bush and the Democrats have already tried this. The federal budget has gone through the roof in recent years, with spending up nearly $400 billion in the last two years. And there's still no rip-roaring recovery.

Second, the government-spending route to financial salvation has been a big bust in Japan. Heritage Foundation economist Ronald Utt reminds us that Japan has led the world in useless public-works spending (i.e., government investments) and in debt spending.

Third, the last time massive public spending was used to try to regenerate prosperity was in the last real depression in the 1930s. The FDR spending binge converted what could have been a short-lived depression into a decade-long economic retrenchment that drowned millions of Americans in a sea of human misery.

Let's have no more of that. Liberals like Greider want to terminate the Bush tax cut even before it's been given a chance to work. This robotic opposition to pro-growth tax policies is what we might expect from, well, an android. But not from a rational thinker.

I would suspect that most Americans want their tax cut and will be mighty angry if liberals try to snatch it away. In my book, anyone who tries to repeal the tax cut should be terminated.

Oops, I gave myself away!

— Stephen Moore is a real live human being and president of the Club for Growth.

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Stephen Moore
NRO Financial Columnist

July 14, 2003, 7:00 a.m.

Pull the Plug on Electricity Re-Regulation

The California mistake could be repeated at the federal level.

Deregulation has been one of the great public-policy success stories over the past quarter century. Consumers have been the big winners through lower prices and more choices. The lifting of federal airline ticket price regulations in the late 1970s ushered in the modern era of affordable discount airline travel. Tickets for flying between major cities can be bought today at about half the cost of what airlines charged 20 years ago. Similarly, Ronald Reagan's first official act as president was the deregulation of the oil industry in 1981. With a stroke of a pen the energy crisis and the gasoline lines of the 1970s vanished. As a consequence of ending price controls for oil, the inflation-adjusted price to fill up your gas tank is far lower today than it was in the 1970s.

But we've learned another lesson about deregulation in recent times. When Congress or state lawmakers botch the plan — when they engage in phony deregulation schemes — things can go catastrophically wrong.

That's precisely what happened in California during the infamous electricity blackouts and skyrocketing prices last year. During the worst stage of the electric power shortage, California homeowners and businesses had to ration their electricity use, dim the lights, and turn off their air conditioners. A basic service that we as Americans take completely for granted — the cheap and uninterrupted access to electric power for light, for heat, for running our computers, powering our hair dryers and dishwashers, and accessing the internet — was suddenly a scarce commodity. Electric utility prices skyrocketed because the California legislature implemented a tragically flawed electric-power restructuring plan.

To fix the mess California's taxpayers got stuck with a multi-billion dollar bail-out bill that has made the most alarming state fiscal-debt crisis in history even worse. Oops!

Congress will soon vote on a new electricity re-regulation scheme that could duplicate the anti-consumer mess we just witnessed in Sacramento. Uncle Sam's energy regulators want to establish a new Rubik's Cube plan for electricity markets, which would impose vast new federal control over state and local electric utilities. The plan hopes to lower prices and expand efficiency of the national electricity market by requiring private power-generating companies across the country to come under the authority of newly created mega-Regional Transmission Organizations.

Washington regulators at the Federal Energy Regulatory Commission (FERC) who contrived this new federal power grab — no pun intended — falsely label their plan a form of pro-competition deregulation. That's a stretch, to say the least.

Deregulation should not require 603 pages of new rules. It should not cost $750 million to implement. And if this is deregulation, why does the flow chart of this organizational redesign make the 1993 Hillary Clinton socialized medicine plan seem sane and comprehensible by comparison.

The new scheme also appears to create clearly definable winners and losers — and it should be no surprise that the winners are the politically powerful states. Places like New Mexico, Arizona, Colorado, Idaho, and many southern states are expected to see utility prices rise under this beggar-thy-neighbor scheme, while more of their power gets exported to the major power-using centers like California, New York, and Chicago.

And what can't yet be determined is just what policy problem Congress is here trying to solve. For years and years electricity prices have been *falling* in the U.S. This is precisely what the Department of Energy conceded when it recently noted that over the past century, "the electric power industry has generally been marked by substantial growth in capacity and generation and dramatic declines in price." A Cato Institute report finds that the average household pays less than one-third in wage-adjusted prices for electricity today as did the equivalent household in 1950.

Supporters of the new federalization idea hope that it will reduce utility costs by $1 billion annually. But Thomas Lenard, the respected energy analyst at the Progress and Freedom Foundation, notes that the overall production capacity of electricity could easily fall under this new plan because of the added risk element to new investment from this new untested regulatory regime. That would mean higher, not lower utility prices.

Lenard's warning is worth repeating and demands the upright attention of Congress: "If FERC continues on its current path, the California electricity mistake will be repeated at the federal level, and the next electricity crisis may affect the entire nation." That would chase Republicans out of office en masse.

Congress should reject the new federal re-regulation of electricity markets. Yes, the electricity markets should be fully deregulated — but deregulated the right way. That would mean precisely the opposite of what Congress is considering and what California tripped over in recent months. Deregulation means that the federal regulatory apparatus is dismantled, not empowered. As Reagan proved, true deregulation doesn't require 600 pages of new law; it just requires a stroke of the pen.

— *Stephen Moore is president of the* *Club for Growth*.

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http://www.nationalreview.com/moore/moore071403.asp

Stephen Moore
NRO Financial Columnist

June 18, 2003 7:00 a.m.

The Next Big Things for Bush

Here are my top-five economic-policy priorities.

Even in the afterglow of President Bush's tax-cut victory, now is not the time for Republicans to gloat (as tempting as that may be) or rest on their laurels. In politics, as in contact sports, you're either playing offense or defense. There are no time outs in political combat.

So what is the next big thing for conservatives? What policies should Bush advocate to help steer the economy out of its funk? The Bush tax cut is already helping — as reflected in the nice bounce in the stock market and the rise in consumer confidence — but more growth steroids are needed. So here's my list of the top-five economic-policy priorities for the Bush administration in the months ahead.

1. Repeal the death tax for good. In 2001 Congress passed a law that ends the death tax in 2010, but then brings it back to life in 2011. This bizarre time table makes estate-tax planning a near impossibility unless death is certain in 2010. Let's stick a stake through the heart of the death tax permanently.

2. Start allowing workers to voluntarily place some portion of their payroll-tax dollars into private accounts. Why not allow every worker to direct the first $1,000 of payroll taxes into a private IRA account (with safe investments) starting in 2004, in exchange for a reduction in future benefits paid to these workers. This would allow tens of millions of workers to increase their retirement earnings while reducing hundreds of billions of dollars of future government liabilities.

3. Enact common-sense, pro-consumer tort reform to lower costs and increase business activity. The trial lawyers are an immense tax on American consumers and businesses. No one knows the total price tag of excessive and frivolous litigation, but the U.S. Chamber of Commerce has estimated that the price tag to American consumers is more than $100 billion a year. To discourage rapacious lawsuits, Congress should enact legal reforms that include: losers pay provisions on court and legal fees; a $250,000 cap on medical malpractice pain-and-suffering awards; and enforcement of reasonable fee requirements so that lawyers are not receiving tens of thousands of dollars an hour (as was the case in tobacco-settlement cases).

4. Enact a new budget act to control the stampede of deficit spending. Federal spending is growing at a faster pace now than at any time since LBJ was in the White House launching the Great Society welfare state. In just the past three years the budget has grown by $500 billion. The 1974 budget act creates rules that are tilted toward rewarding more spending, not less. A new budget act should include: a balanced budget requirement, annual tax and expenditure limitations, a line item veto for the president, a supermajority vote requirement in Congress to raise taxes, and sunsets on obsolete federal spending programs. Most states impose all of these fiscal restraints and they're better than Congress at keeping deficits under wraps.

5. *Restore confidence in the dollar.* President Bush was right: The dollar has "fallen more than is economically advisable." The declining dollar could negate the positive impact of the tax cut. It is a myth that a weak currency is good for exports, because the dollars that American exporters receive are worth less in the world market. Bush should adopt the Reagan policy that a strong dollar is a sign of a strong America. No country ever got rich by depreciating its currency.

With his improbable tax-cut victory, President Bush has proven once again that when he is determined to win on his policy objectives — both with respect to foreign and domestic affairs — he ultimately perseveres and proves his critics wrong. This is a president with enormous popularity and a deep well of political capital to continue the winning streak. The lesson of his father is that he must use that political capital, or he will lose it.

— *Stephen Moore is a senior fellow at the Cato Institute and president of the Club for Growth.*

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Stephen Moore
NRO Financial Columnist

May 30, 2003 7:00 a.m.

Sunset Spending, Not the Tax Cuts

If lawmakers are really serious about eliminating the deficit . . .

President Bush has now signed into law his $350 billion investor/worker tax cut. This was an unexpectedly decisive victory for Bush and for pro-growth economic policy.

But as with most gifts from Washington, this tax relief comes with a catch. The income, capital-gains, and dividend tax reductions expire in 2008. So we get a tax cut for six years and then ... poof, it disappears and we go back to the pre-existing tax code. The same is true of the repeal of the death tax that was enacted in 2001. The death tax is eliminated in 2010, but then in 2011 it magically comes back to life again.

Congress calls this "sunsetting." We now make tax changes in Washington that are only temporary. This, of course, insanely complicates the tax code and makes long-term tax planning a near impossibility. How can anyone plan an estate if no one knows whether or not there will be a death tax after 2011. A sound tax system is one that is stable and where the rules aren't rewritten more frequently than NBA teams fire their head coaches. Figuring out the tax code is now like playing a game of Monopoly — the rules change every time you pass GO.

Instead of sunsetting tax cuts — if lawmakers are really serious about eliminating the budget deficit — Congress should sunset government-spending programs.

There are now several thousand agencies in Washington with annual budgets of more than $5 million. In the last three years we have sunset not a single one. Many programs date back to the Franklin D. Roosevelt era and have no useful function. We still have, for example, a wool and mohair subsidy that dates back to World War I. The purpose of the program was to subsidize wool for the making of military uniforms. Guess what? We haven't used wool in uniforms in at least twenty years, but we still give these well-to-do goat herders millions of dollars every year in taxpayer dollars.

Congress scandalously and quietly voted to increase the national debt ceiling by another $1,000,000,000,000 (that's $1 trillion) last week. Worse yet, deficit spending in 2003 may reach a new post-World War II high. If we were to sunset obsolete, ineffective, and counterproductive federal agencies, we could balance the budget in lightning speed.

Do we really need to spend hundreds of millions of dollars on a solar-energy research, when the past $1 billion we've spent hasn't produced a single kilowatt of electricity? Do we really need to be spending $300 million a year on bilingual education, when all the research shows that foreign-language classes stunt the learning of English by immigrant children? Do we need to be providing free Viagra to Medicaid patients?

Wait, there's more. Do we really need 15 different agencies to fund job-training programs?

Should we be giving the Pentagon a $50 billion raise this year when the federal accounting office tells us the department cannot even account for hundreds of millions of dollars that disappeared? Why do we give Amtrak nearly $1 billion a year in taxpayer handouts, when its financial performance deteriorates every year and its share of the transportation market continually declines?

Here's the budget reform that's needed: All federal programs should be sunset every five years. We should then review the financial performance of the agencies that receive the $2.2 trillion that Uncle Sam doles out each year.

We could then take this a step further. Congressman Pat Toomey of Pennsylvania has suggested common-sense legislation that would not allow a spending increase for any federal agency that cannot pass a basic audit. It turns out that hundreds of agencies receiving billions of dollars cannot pass the kind of audit that every business must undergo each year. It turns out, we have a multitude of Enron-like problems right in the heart of Washington, D.C.

In 1995 the new Republican majority in Congress proposed the elimination of 200 programs that no longer serve a useful function. They ranged from the shark-research program at the Department of Commerce to the Legal Services Corp. We called these programs Washington's "living dead." The Cato Institute reports that nearly ten years later, you can count on two hands the number that have actually been terminated. Like the Orkin pest-control man, a sunset provision would allow us to actually kill these pesky programs dead.

"The closest thing to immortality on this earth," Ronald Reagan once complained, "is a federal government program." We should make federal agencies justify their dollars, just as my kids are forced to justify their allowance. If Congress pulls the life-support plug on unneeded agencies, we can put the federal government back in the black for good. And then we wouldn't have to sunset those tax cuts at all.

— Stephen Moore is a senior fellow at the Cato Institute and president of the Club for Growth.

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Stephen Moore
NRO Financial Columnist

May 23, 2003 6:45 a.m.

A Tax Cut Worth Cheering

It will boost the economy — and Bush.

The tax-cut compromise that has been worked out in conference is a triumph for pro-growth economic policy. All pro-growth Republicans should support this tax cut enthusiastically.

Yes, this tax cut is not as large as many of us would have liked, and thus it may not provide a huge immediate stimulus (but it will help in both the short- and long-term). And yes the tax-cut package has some severe drawbacks — most notably the $20 billion give-away in funding to the states.

But on balance, it is the most pro-growth tax legislation since President Reagan's 1981 tax cut. It has four extremely positive pro-growth features:

1. It cuts the dividend tax to 15 percent immediately.

2. It cuts the capital-gains tax to 15 percent immediately.

3. It cuts the top income tax rate from 39 percent to 35 percent.

4. It front-loads all the tax cuts so they take place right now — when the economy needs the steroid boost. This is in contrast to the 2001 tax bill, which foolishly back-loaded the tax cuts and thus stunted their impact.

Also, the real 10-year price-tag on the package will be larger than $350 billion, because there is a high likelihood that the tax cuts will be made permanent in 2007 — as they should be. The *Wall Street Journal*'s front-page story of May 18 agreed. The headline read: "Tax Cuts Are Bigger than They Look in Budget."

Many of my most reliable allies in the House moan that the tax bill is too small and has too much spending. I'm sympathetic. Yet this is the best that we could have possibly hoped for given the narrow Republican majority in the Senate and the ideological make-up of the upper chamber. This is a victory, one made up of rate cuts on capital gains, dividends, and income taxes. Republicans should take it to the bank and fight for full dividend-tax repeal after the elections.

One last point: The fact that the Daschle-Pelosi Democrats, with a few notable exceptions, are almost unanimously against the tax cut, is indication that the party has become reflexively opposed to wealth and job-creating tax cuts. The Democrats are no longer the party of prosperity and tax cuts as they were under JFK. They are now the party of income redistribution, class warfare, and austerity economics. They lost because they are devoid of any alternative economic-growth policies that American voters find even semi-plausible.

As such, this tax cut is a profound economic and policy triumph for President Bush and

Republicans in Congress. And it is an even greater victory for American taxpayers, workers, and investors.

— Stephen Moore is a senior fellow at the Cato Institute and president of the Club for Growth. Thomas W. Smith is chairman of the board, National Center for Policy Analysis (NCPA), and senior partner, Prescott Investors.

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Stephen Moore
NRO Financial Columnist

May 22, 2003 10:00 a.m.

Warren Buffett Is Wrong!

What he calls "voodoo," is just what we need.

Even the great Warren Buffett can be mistaken. In his May 17 article in the *Washington Post*, "Dividend Voodoo," Buffett is critical of the president's proposal to eliminate the double taxation on dividends.

He uses himself as an example of what would happen if the dividend tax exclusion were enacted. This country is fortunate to have a man as rational and successful as Warren Buffett. But he is one of a kind. Any effect legislation has on Buffett is irrelevant. If he doesn't want the tax cut, which could bring in hundreds of millions of dollars for him, we urge him to return it to the Treasury, or better yet, a conservative charity.

Buffett complains that President Bush's plan to eliminate the double tax on dividends will not provide the quick economic stimulus needed during a period of higher unemployment and a bearish stock market. We believe the dividend tax cut will jump-start the economy and the stock market almost immediately.

We also believe that there are additional, less-obvious benefits to President Bush's dividend tax cut that Buffet should appreciate, but ignores.

The plan will change the conduct of business in America, reducing the likelihood of future Enron scandals, and it will significantly benefit charities and educational institutions. For these reasons, this could be the most important tax reform since President Reagan's reduction of income tax rates in the early 1980s.

Even if the president gets only a 15 percent dividend cut (as now seems the likely outcome), this would make dividend payments more attractive. Companies that have not paid dividends in the past will consider doing so; companies that do pay dividends will be inclined to increase their pay out.

Buffett of all people should know that shareholders think in after-tax terms. That is why they tend to avoid dividend income under the current system, preferring lower-taxed capital gains instead. Naturally, companies respond to these shareholder concerns. Twenty years ago, two-thirds of large companies paid dividends. Today, only about one-fifth do so. For many corporations, repurchasing shares is a more attractive use of corporate cash than paying dividends, especially today with share prices dramatically down. Repurchasing shares can increase the value of each remaining share with no additional shareholder investment or tax liability.

An end to the double tax on dividends will change these incentives. Investors will place a higher value on those companies paying dividends. The value of shares in companies that could pay dividends (but currently do not) will also likely appreciate in anticipation. As share prices rise, repurchasing shares will become less attractive.

Business priorities and practices will also change. Equity will become more attractive relative to debt. The business model characterized by sustainable growth with a prudent proportion of the corporate income stream paid out to investors will become more highly valued. Quarterly results will become less critical in determining share prices. A longer-term focus by both shareholders and management will become incrementally more important. These changes will help restrain irrational bubbles in individual stocks and in the market in general.

Just as lower tax rates led to more charitable giving in the 1980s, excluding dividends from taxation will be a boon to charities. Individual donations are mainly determined by the amount of after-tax cash people receive each year and by how wealthy they feel. The dividend exclusion will produce greater individual after-tax income (as more dividends are paid) and increased wealth (as share prices increase). Thus charitable donations will increase. Since there is far more psychic income from charitable giving during one's lifetime than at the time of death, charitable bequests could well be converted to annual gifts. Charities and educational institutions will benefit from both increased donations and from increased dividend income on shares of stock they currently hold.

The stock market has suffered an unprecedented decline due to many factors: the greed, malfeasance, and ignorance of some corporate leaders, investment bankers, and venture capitalists; the extraordinary dot-com and telecom bubbles; the terrorist attacks; the war in Iraq; and the SARS epidemic. This is a formidable combination. One could argue that for the economy to perform as well as it has in the face of so many negative forces is clear and powerful evidence of its underlying strength. But why gamble?

What about Buffett's charge that this is not a real quick stimulus to the economy? Again, he is wrong. By many estimates, stock values could increase in the range of 5 to 15 percent through a dividend and capital-gains tax cut. This is far from trivial. Every percentage point increase in stock values increases Americans' wealth by roughly $10 billion. This boost in stock prices will engender confidence that could positively impact decisions of corporations to invest. It will also create a significant after-tax bump in investors' income — funds that can be reinvested, spent, or given away to charities.

Buffett says he would rather have another tax rebate, as was tried in 2001 and by Presidents Ford and Carter in the 1970s. Tax rebates have never worked to stimulate economic growth, because they don't change fundamental incentives to invest, take risks, and expand businesses. Let us not reinvent failure.

We are pleased that Warren Buffett says the Bush tax cut is "voodoo economics." That is what critics said of the Reagan tax cut some 20 years ago. But the tax plan of the early 1980s was an unqualified success as a stimulant, turning around a decade of sub-par economic performance. It was a clear signal to investors here and abroad that the high-tax, high-inflation era of the 1970s was ending and that a new, more bullish policy regime was taking hold in America. The Reagan tax cuts energized both consumer and investor confidence. If that is what Buffett means by "voodoo" tax policy, by all means, bring it on.

— Stephen Moore is a senior fellow at the Cato Institute and president of the Club for Growth. Thomas W. Smith is chairman of the board, National Center for Policy Analysis (NCPA), and senior partner, Prescott Investors.

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Stephen Moore
NRO Financial Columnist

May 21, 2003 6:30 a.m.

Tax-Cut Victory Is at Hand

Congress has work to do, but the pro-growth future is bright.

Victory on the tax bill is so close you can taste it.

Let's just hope that Republicans don't find a way to snatch defeat out of the jaws of victory. As one influential Senate aide confided in me yesterday, "We're very close to winning, but don't forget, we're the party that has a tendency to shake salt on our pudding pie."

One strong confirmation of the extent of victory for tax cutters is that the Left has gone apoplectic over the tax bill that passed by two votes in the Senate last week. One of my regular television and radio sparring partners, a former Clinton administation economist, moaned the other day that "this was a complete victory for your side. There is no way to sugar coat this setback for the Democrats. Congratulations."

Even better news comes from Monday's *Wall Street Journal*. The front-page story screams: "Tax Cuts Are Bigger than They Look in Budget." Ahh, music to my ears. Here is what has the *Journal*'s reporters all worked up:

> The tax cut approved by the Senate would repeal the tax that shareholders pay on dividends. It would allow investors to shield half their dividends from income taxes this year and all dividends for the next three years. [Hooray!] After that, the dividend tax would return in full.

Now here's my favorite part:

> But neither friends nor foes of the dividend tax expect Congress to reinstate the tax in 2007.

If the dividend tax is permanently repealed, the real price tag of the tax bill is at least $700 billion.

Getting the dividend tax to zero for individuals, if even for three years, is a very big deal. If you had asked me at the beginning of the year the chances of getting 51 votes in the Senate for a full elimination of the dividend tax in America, I would have said about the same likelihood of the Cubs and White Sox meeting in the World Series (which Vegas oddmakers say is a one-in-a-thousand longshot). Well, we just hit the jackpot.

So what do House and Senate negotiators need to do now to take the best of both bills and pass a truly heroic and historic pro-growth tax bill? Three things:

1. *Eliminate the nasty tax increases in the Senate bill.* The Senate bill contains $70 billion in tax increases on American workers and firms doing business in foreign countries. These

provisions are ill-designed and economically unjustified. Republicans shouldn't be in the game of raising taxes on anyone. The House should work to pare down the size of these tax-hike offsets.

2. *Provide tax relief, not $20 billion in handouts to the states.* The tax cut is the best relief that Uncle Sam can possibly give to the fiscally strapped states. Sending $350 billion back to state taxpayers is a powerful stimulant to local economies. Moreover, states *should* cutback on their spending during these tough times after a decade of rampaging spending by governors.

Most states doubled their budgets over the past 10 years. The last thing they need is free money from Congress to continue the spending spree. And what is the logic of Congress taking money from a person living in Iowa, bringing it to Washington, and then sending it back to Iowa? Why not cut taxes at the federal level as much as possible and let Iowans raise their own taxes if need be?

3. *To provide more economic punch to the tax bill, cut the capital-gains tax, too.* The Bush plan provided a capital-gains tax cut for those who own stock in firms that retain earnings. The House bill cuts the capital-gains tax to 15 percent. The Senate bill has neither provision. The evidence is clear that when we cut the capital-gains tax, the stock market rises and capital-gains revenues rise. This tax bill needs cut the dividend *and* the capital-gains tax.

The House and Senate have now passed tax bills that are both explosively pro-growth and a major step forward in the never-ending battle to reform the tax system. One of the nation's top economists, Brian Wesbury of Griffin, Kubik, and Stephens in Chicago, says this tax bill could turn out to be "The best pro-growth tax bill since the Reagan tax cut in 1981." He also predicts that if a tax bill with the positive features of the House and Senate versions passes, we could see a strong economic and stock market recovery starting in the second half of 2003, and surging right through 2004. Republicans should like that scenario.

Of course, the gamble is that once we get the dividend tax down to zero for individuals, that no one in Washington will actually be foolish enough to propose raising it back up to 35 percent in 2007. Of course, you can make a lot of money gambling that Congress will do monumentally stupid things, but in this case, I agree with the *Wall Street Journal*'s assessment that when we get to zero, we will stay there.

If the tax cutters prevail, in just three years President Bush will have succeeded in eliminating the death tax and the dividend tax while lowering the top tax rate from 40 percent to 35 percent. One step at a time, this president is taking us down the path to the promised land of a simple, fair, and pro-growth flat tax.

Shhh! Don't tell anyone.

CORRECTION
Several NRO readers caught a careless error (now fixed) in my last article on defining tax fairness. I had said that the dividend tax can reach more than 70 percent when you include the 35 percent corporate tax and the 39 percent individual income tax paid by shareholders. Combining these taxes gives an effective tax rate of 60 percent, not 70 percent. Many thanks to those who corrected my faux pas.

— *Stephen Moore is president of the Club for Growth.*

Stephen Moore
NRO Financial Columnist

May 13, 2003 7:00 a.m.

What Tax Rate Is Fair?

Might Ted Kennedy think a 70 percent tax is too high?

The other day Sen. Ted Kennedy was asked by a reporter why he opposes President Bush's tax cut when his brother, President John F. Kennedy, advocated an even bigger tax cut forty years ago. Back in 1963, JFK cut income taxes by 30 percent and the economy soared. Now, course, George Bush wants to do something similar. Here was part of Ted's response to this apparent contradiction: "The tax laws at that time were 90 percent on income. They were effectively confiscatory."

Hold the phones folks! We now have one of the most liberal members of Congress conceding that tax rates above 90 percent are confiscatory. At a 90 percent tax rate, the worker or investor gets to keep 10 cents for every additional dollar earned, and the government snares 90 percent. Yes, we can now all agree, such a policy is confiscation.

What, one naturally wonders, do Ted Kennedy and other liberals think of an 80 percent tax or a 70 percent tax? Is that rate of tax excessive? Where exactly do we draw the line between tax fairness and a tax mugging? Could we all agree that any tax of over 50 percent is unfairly confiscatory?

It may surprise Ted Kennedy to learn that thanks to the many layers of tax we impose on Americans who engage in the virtuous behavior of saving money, savers often face an effective tax rate that can reach 70, 80, and even 90 percent. This happens because the IRS imposes multiple layers of cascading taxes on money that is saved. These taxes include the income tax, the capital-gains tax, the interest income tax, the corporate tax, and then, finally, the death tax.

Consider the dividend tax, which is the main subject of the Bush tax-cut plan. Some people like Warren Buffet complain that it is unfair to cut the tax on dividends for rich people like him. (He is free not to take the tax cut if he doesn't want it.) In any case, many millions of Americans, not nearly as rich as Buffet, pay taxes twice for dividends. The company must pay a 35 percent tax on the profits that it earns and then if that after-tax money is paid to the shareholders in a dividend, they get smacked with a tax as high as 38 percent. This works out to a 60 percent tax.

Aha! Here we have a confiscatory rate of tax on owners of stock. And as such, isn't George Bush then right to call for the end of this double tax on fairness grounds alone?

Most Americans would say yes. Polls over the past ten years have consistently found that the majority of Americans think that no family in America should have to pay more than 25 percent of its income in taxes. As the *Wall Street Journal* has pointed out in reviewing these polls, the 25 percent cap includes *all* taxes: sales taxes, property taxes, payroll taxes, income taxes, cigarette taxes, business taxes, car taxes, you name it. The government is not welcome to more than 1/4th, no matter whether we are talking about Bill Gates or the janitor who cleans Bill Gates's office at night.

The Left in America defines "tax fairness" as soak the rich. If Britney Spears or Kobe Bryant earn too much money this year, according to the greed-and-envy warriors, tax it away from them. By contrast, most people define tax fairness as a policy wherein all Americans live by the same set of rules. And those rules or laws should be applied fairly to all. This is the basis for a just society and one that allows Americans to keep the dividends from their hard work and enterprise. It is the American way.

There are many economic-growth and job-creation justifications for quickly enacting the Bush tax cut. The tax plan will clearly add value to the sputtering stock market. But one rationale for the tax cut that has been overlooked is that ending the double tax on dividends would create a fairer tax system for all of us. Ted Kennedy may not agree with that, but his brother surely did.

— Stephen Moore is president of the Club for Growth.

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Stephen Moore
NRO Financial Columnist

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April 22, 2003 8:15 a.m.

Franco Republicans?

Voinovich and Snowe act more like Daschle than Reagan.

The group I founded has stirred up much controversy in recent days for running ads in Ohio and Maine to try to get Senators Olympia Snowe and George Voinovich to back the Bush tax-cut plan.

The ads, launched by Club for Growth, state that while President Bush needed support in the war against terrorism, some of our "so-called allies" — like France — weren't there for him. The ads then state that Bush needs votes to pass his economic plan here at home, yet some "so-called Republicans" in the Senate — like Snowe and Voinovich — have said no. The last line of the ad goes like this: "Hey, George Voinovich! Get behind the president's tax cut and help fix the economy."

This has the left wing of both parties fuming. Some commentators say it is divisive for the GOP. Others charge that it is in poor taste to link the tax cut to the war. Still others say it is offensive to the French. Well, you be the judge.

But what's truly strange is that some Republican groups are now running ads applauding Senators Snowe and Voinovich for torpedoing the president's tax plan. And they blame *us* for harming the party?

Of course, the people who are most offended by these television ads are the very same people who oppose the president's tax plan. On CNBC, former Clinton Labor Secretary Robert Reich lambasted the ads as "tasteless." But what really has Reich hot under the collar is that the ads may help persuade the renegade senators to come back over from the dark side and actually help Bush win on this issue.

It's clear that the people who have divided the Republican party are Snowe and Voinovich — 90% of the other Republican lawmakers stand with the president on the tax-cut issue. Snowe and Voinovich are the ones who won't unite under the big-tent policy of tax cuts that will light a fire under economic growth. The Club for Growth ads are simply geared to get these two wayward senators to start acting like Republicans and stop acting like RINOs (Republicans in name only).

Voinovich and Snowe voted for a tax cut that is half as large as the one the president is seeking. Bush started out asking Congress for a $700 billion tax cut. To accommodate GOP moderates he trimmed that number down to $550 billion. This may still sound like a huge amount. But remember — the cut is over a ten-year period and accounts for only about 0.3% of GDP and approximately 1.5% of federal revenues. Snowe and Voinovich nixed the compromise and — along with two other unpersuadable Republicans, Lincoln Chaffee and John McCain — joined with the Democrats to chop down the White House plan.

So it seems we are at an impasse. Or are we?

Snowe and Voinovich are insisting on a tax cut of no larger than $350 billion over 10 years. That will squeeze out the dividend tax cut, even though the elimination of the personal tax on dividends is by far the most stimulative feature of the president's plan. That's why the Bush administration rightly says no to the smaller tax cut.

But there is still a realistic hope of breaking the log jam.

Senators Voinovich and Snowe have both intimated that they will vote for a bigger tax cut if other spending programs are reduced to help "pay for" the tax cut. Actually, that's a great idea.

The federal budget is expected to rise by about 9% this year, after growing 7% last year. Cut that growth rate by 1 percentage point for ten years and, bingo, you've just saved $200 billion. Alternatively, the Cato Institute recently identified $80 billion of corporate welfare spending in the budget. Cut 25% of the corporate-safety-net programs over the next ten years and the Bush tax cut becomes completely affordable. This solution would give the economy a double shot of adrenaline: it cuts anti-growth tax rates and it makes the government smaller — thus reducing the crowding-out effect of federal deficit spending on private investment.

This strategy also presents an opportunity for new Senate Majority Leader Bill Frist. The embattled Frist, who has taken some unfair heat for letting the tax vote slip away from the Republicans, can rehabilitate his image as a an adroit legislative powerbroker by patching together a tax cut/spending cut — a deal that wins over Voinovich and Snowe. Go to it Mr. Frist.

My group doesn't want to kick Snowe and Voinovich out of the party. We simply want them to start acting more like Reagan and less like Daschle. Is that asking so much?

— Stephen Moore is president of the Club for Growth.

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Stephen Moore
NRO Financial Columnist

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April 15, 2003 7:00 a.m.

Our Income-Tax Monstrosity

Some startling statistics about the tax code in America.

Many years ago I framed a classic Peanuts cartoon on the wall of my office. It shows Snoopy sitting on top of his dog house pecking away at his typewriter. The message he writes is, "Dear IRS: Please take me off your mailing list!"

If only it were that easy. With the dreaded April 15th tax filing deadline here, millions of us can empathize with our dear friend Snoopy. So for those like me who are perennial tax-filing procrastinators — having spent recent days armed with pencils, erasers, reams of financial records, 1040 forms, and Excedrin tablets — here are some startling statistics about the monstrosity of the tax code we've created in America.*

- Thirty percent of the time callers to the 1-800 help line at the IRS get a busy signal, a recorded message, are disconnected, or receive the wrong information.

- Between 1986 and 1998 the IRS wasted $5 billion on a computer system that didn't work.

- The IRS once seized all the money in Katie Wier's bank account to pay her parent's delinquent taxes. Katie is six year's old. The IRS collected $26.

- An old man entered the IRS office in New Orleans bleeding after he caught his hand in the door. He asked for help. But instead of offering even a band-aid the IRS officers joked that they would be happy to take more of his blood.

- The first income tax in 1913 required that just 2% of American families complete a tax return. The highest tax rate then was 7%.

- Businesses will spend about 3.4 billion man-hours and individuals about 1.7 billion hours figuring out their taxes this year. That is the equivalent of 3 million people working full time year-round on tax-preparation work. This is more people than now serve in the U.S. armed forces. It is more man-hours than are required to build every car, van, and truck in the United States.

- "The hardest thing in the world to understand is the federal income tax." So said Albert Einstein.

- The Gettysburg Address runs about 270 words. The Declaration of Independence has 1,337 words. The Holy Bible runs about 773,000 words. Our income-tax code runs about 7 million words and is still growing.

- The IRS sends out 8 billion pieces of paper to taxpayers every year. Ending the income tax would save thousands of trees.

- feeling distrustful of the United States due to my financial devastation."

- "The income tax has made liars out of more Americans than the game of golf." Will Rogers, 1924.

- Taxes now account for 31% of the cost of a loaf of bread, 30% of the cost of a hotel room, and 43% of the price of a bottle of beer.

- If the IRS pasted together all of the paperwork it receives annually, the result would wrap around the earth roughly 36 times.

- In 1894, the *New York Times* described the first income tax to pass Congress as a "vicious, inequitable, unpopular, impolitic, and socialistic act....The crusade for an income tax is the most unreasoning and un-American movement in the politics of the last quarter-century."

- A *Money* magazine poll found that 70% of the members of Congress on the two major tax writing committees — House Ways and Means and Senate Finance — cannot figure out their own returns and use professional tax preparers.

- If you're late paying your income taxes this year, try this excuse on for size (as reported in the *Wall Street Journal* a few years ago). Some late filers are soliciting the aid of their psychiatrists and lawyers to explain a new malady to the IRS: "The failure to file syndrome." New York attorney Robert Fink says he recently defended a throat surgeon who hadn't filed federal income taxes for 10 years because of "an aversion to filling out forms."

Hey, I suffer from that affliction too!

*Thanks to *Money* magazine for many of these items.

— Stephen Moore is president of the Club for Growth.

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Stephen Moore
NRO Financial Columnist

April 10, 2003 7:00 a.m.

Advantage, White House

Bush must now apply his popularity to the full dividend tax cut.

The Hotline reports that White House sources say they will "take the largest tax cut they can get, and declare victory." Ugh. A small tax cut (as Senate moderates are demanding) without a dividend deduction won't stimulate the economy. That would be no victory at all. With President Bush's popularity soaring due to the recent successes in the war, *now* is the time for the White House to fully press its advantage on the domestic economic policy front and insist on full funding of the dividend tax cut.

President Bush is winning this fight. One of the Republican malcontents on taxes, George Voinovich of Ohio, has suggested that he might support the president's tax plan if it is paid for by cutting more government spending. Great idea. After a two-year, $250 billion spending splurge on Capitol Hill, a time-out on new spending until the economy improves makes a world of good sense. Now, if Olympia Snowe of Maine can be made to come over from the dark side, Bush will have the votes to resurrect his tax plan.

What is essential today is that the White House not allow the RINOs (Republicans in Name Only) in the Senate to eviscerate his tax plan. The two pro-growth measures contained in the president's tax plan are the marginal rate cut and the elimination of the double taxation of dividends. They must be preserved if this tax plan is going to create jobs and growth before the end of next year.

Eliminating the double taxation of dividends will have an immediate and dramatic effect on the stock market because the value of any stock is the discounted present value of the after-tax earnings of the company. The reduction in the dividend tax increases after-tax earnings and therefore raises the value of shares of stock. Hence, the positive boost to the stock market from the dividend cut should be immediate and substantial — perhaps a $1 trillion increase in valuation according to some studies.

It's hard to imagine any other tax cut that would produce that kind of bang for the buck.

So, if the tax-cut price tag must be reduced from the original White House plan, the adjustments in the child credits and the marriage-penalty provisions should be delayed or adjusted. Leave the dividend cut alone.

The marginal income-tax rate cut from 39% to 35% is the other powerful pro-growth element of the president's plan. Most remember the economic engine that was powered by Reagan's marginal-income-tax rate cuts of the '80s. Interest rates, inflation, and unemployment fell dramatically. Fifteen million new jobs were created. And the economy grew at a healthy 3.5%.

To accommodate both these tax changes, Republicans must not settle for a tax cut of less than $550 billion over 10 years. Realistically, that is the minimum required to provide a real stimulus to an economy that will produce an estimated $150 trillion in GDP over the next decade. A tax cut of smaller size would do little to fix what ails the economy.

One final political point. Pro-growth Republicans must not come down from the moral-high-ground position that the double taxation of dividends is fundamentally unfair and anti-growth. It is our ability to stand high on that principle that makes 100% deductibility of dividends a political and economic winner.

Keep fighting. The pro-growth side is winning.

— *Stephen Moore is president of the Club for Growth.*

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Stephen Moore
NRO Financial Columnist

April 1, 2003 7:00 a.m.

The Punch of the Package

The dividend tax cut *must* survive.

The word on Capitol Hill is that the two chief Republican tax writers, Bill Thomas in the House and Chuck Grassley in the Senate, are ready to chop the president's dividend tax cut in half. This is said to be necessitated by the vote in the Senate last week to trim the size of President Bush's bold tax-cut plan. But the dividend tax elimination must remain intact. The most pro-growth element of the president's plan cannot be thrown overboard.

The better solution for Republicans in the Senate would be to put substantial pressure on the four Republican turncoats — Chaffee, McCain, Snowe, and Voinovich — to agree to a tax cut that is large enough to actually stimulate growth. Such a cut must include the dividend piece.

Last week's vote was not the big tax-cut setback that the media has portrayed it to be. President Bush's tax cut still has political momentum. In fact, it is significant that a majority of Democrats voted for a $350 billion tax cut to give the economy a burst. Clearly, tax cuts are coming, and now the two parties are simply haggling over price.

The worst move for the Republicans would be to capitulate to the left arm of the party and eviscerate the tax cut. The economy needs strong growth stimulation immediately. A scaled-back tax cut without the dividend tax elimination has little value.

With every passing day there are further flashing signs that the limping economy desperately needs this tax-cut stimulant. With consumer confidence recording its fourth straight month of negativity, the stock market bears still growling with discontent, and the manufacturing sector still bleeding jobs, a tax-cut stimulus would provide the U.S. economy with the kind of adrenaline rush that a 3-oint shot does in the waning minutes of a tied NCAA basketball game during March Madness. Tax cuts clear away barriers to new job creation and new business investment. This economic growth strategy worked for John F. Kennedy in the 1960s; it worked for Reagan in the 1980s; and it will work again for Bush today.

So why the temporary setback in the Senate? George Voinovich of Ohio, one of the four Senate Republicans who bucked his own party on the tax vote, said taxes should not be cut during a time of war. Nonsense. The best way to assure victory in this war against terrorism is to stoke the fires of America's powerful engine of economic growth so that it runs again on all cylinders.

This is precisely the strategy that Reagan used to win the Cold War. We triumphed against the Soviet Union thanks to a combination of vast military and economic superiority. The goal of the terrorists is to disable the U.S. economy. Pro-growth tax cuts are a powerful defense mechanism to foil this strategy.

The top Senate Democrat, Tom Daschle, complains that the Bush plan will blow a grenade-sized hole in the budget deficit. Deficit spending is indeed a big problem in Washington these days. But it is the absence of speedy economic growth (such as we enjoyed in the 1980s and 1990s) that has thrown the budget into severe imbalance. Without American small businesses making profits, and without decent-paying jobs for unemployed workers, how in the world does Daschle think Americans will generate the tax revenues to balance expenditures and receipts?

Growth and expenditure restraints are the keys to eliminating red ink on Capitol Hill. If president Bush's tax plan increases economic growth by just 1 percentage point a year, and if federal expenses are cutback to the rate of inflation, we will have a balanced budget by the year 2006 and a $100 billion surplus. Even in Washington that's a lot of money.

This brings us back to the crown jewel of the president's tax plan: the elimination of the dividend tax for owners of stock. This is more than half of all Americans. Larry Kudlow estimates that just this one provision would increase stock values immediately by 5% to 15%. That boost to the stock market would increase the net worth of American families by between $500 billion and $1 trillion.

The Heritage Foundation economic-forecasting model says that the president's tax plan creates 3 times as many new jobs as the Democratic alternative in the Senate. If the tax cut's price tag needs to be trimmed, the dividend piece should be left intact. Throw other items in the package over the side of the ship. The dividend cut alone will deliver the most new jobs and send the strongest jolt of electricity through the moribund stock market.

The White House said again this week that the president will not compromise on his tax plan if the alternative means more jobs lost and less economic growth than America is capable of achieving. And that is exactly what the alternative means.

Tom Daschle and other Democratic obstructionists in the Senate have only won the first round of this 15 round high-stakes prize-fight. My money is still on President Bush prevailing in the end, if only his party will follow him.

Those in his party who don't are not real Republicans and should be primaried the next time they are up for re-election.

— *Stephen Moore is president of the Club for Growth.*

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http://www.nationalreview.com/moore/moore040103.asp

Stephen Moore
NRO Financial Columnist

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February 21, 2003 8:00 a.m.

Governors Go Home!

The congressional spending orgy is continuing under Bush.

By Stephen Moore and Grover Norquist

About half the nation's governors are descending on Washington to do what politicians do best: beg for dollars. The primary purpose of this year's National Governors Association (NGA) meeting is to blame Congress for the state's financial woes and to rally support for a federal bailout of their states. But for once we have a case where Washington isn't to blame for the crisis in state finances. Hopefully they'll return to their state capitals empty handed despite their full-court press to raid the federal treasury, which, if they haven't noticed, is also running on empty these days.

States are broke because they have been irresponsibly spendthrift. Since 1990 most states have doubled their budgets — making the 1990s one of the biggest spending decades ever for states. In the late 1990s the states even managed to outspend Bill Clinton and the United States Congress, as state expenditures grew at almost twice the pace of federal expenditures.

But that isn't how the NGA sees things. What was once a force for states' rights and a useful check against unwise federal meddling in domestic affairs has become a special-interest group that views Uncle Sam as a convenient ATM machine to pay for expansions of state government. And what is most amazing is that this ever-more pronounced left-wing tilt of the NGA has occurred during the years when Republicans took control of the majority of the governorships. The problem is that Republicans never cleaned house at the NGA. The group still has a liberal Democratic staff that spends all its time lobbying for crackpot ideas like taxing the internet and reinventing federal revenue sharing.

In the last two years the NGA has attacked President Bush's tax-cut policies; a stance that has encouraged several governors, such as Jeb Bush of Florida, to stop paying NGA dues. Texas Governor Rick Perry has dropped out of the NGA and George Pataki of New York says he's next out the door. This should hopefully ignite a mass exodus of Republicans who don't want to see scarce state tax dollars, needed to balance budgets back home, wasted on lobbying to make the federal government bigger and nosier back in Washington.

Something irrational comes over Republican governors when they start fraternizing with their Democratic counterparts. A few years ago when congressional Republicans were trying to cut the capital-gains tax and reform welfare — two issues that tremendously benefited states — the governors issued a whiney statement complaining that these policies might hurt the poor because federal payments to the states would be cut.

One reason the NGA has never reformed itself is that it has been headed by some of the most pro-tax-and-spend Republican governors. For years the NGA chairman was Mark Leavitt of

Utah, who never saw a tax he couldn't raise. Now the chairman is Dirk Kempthorne of Idaho. Back in Boise, Kempthorne has endorsed the biggest tax increase (as a share of the state budget) by any governor in the country not named Gray Davis. Since Kempthorne has irresponsibly punted rather than make tough spending choices to balance the budget, it's no surprise that he's one of the ring leaders in the attempt to blame Washington for the fiscal mess he himself created back home.

The NGA has a new working paper on the state budget crisis. It is filled with half-truths and some highly inventive statistical gymnastics that try to show how states are innocent victims of circumstances beyond their control. Nonsense. No one forced the states to increase spending by twice the rate of inflation over the past five years.

A new Cato Institute report shows that if the average state had restrained spending to the rate of inflation plus population growth over the past 12 years, it would have a combined surplus of close to $100 billion — not a deficit of $100 billion. And if the governors had kept to this restraint on spending, the states would have enough money not only to balance their budgets, but to give every family of four a tax-rebate check of more than $500 this year in excess tax collections. But, of course, this reality isn't very convenient for the NGA's fairy tale governors who say they are struggling to make ends meet without opening the prisons and shutting the schools.

The NGA policy document is filled with buffoonery. It recommends that Congress "provide substantial funds to every state and territory." Then it makes even the more absurd statement that: "The governors believe the most powerful immediate economic stimulus for the nation's ailing economy is to provide fiscal assistance to the states . . ."

If fatter state budgets were the solution to our economic problems, we would all be living in fat city today. The NGA says the feds should give states money to avoid state budget cuts. But states should tighten their belts and give citizens lower-cost services after a decade of excess.

If the NGA members had any common sense — and some like Bill Owens of Colorado and Mark Sanford of South Carolina certainly do — they would carry a single mission to Washington: to urge Congress to pass the Bush tax cut. They should stop echoing the economically illiterate statements of polticians like Nancy Pelosi and Tom Daschle who complain that the Bush tax cut "doesn't help the states." The truth is the Bush 10-year $670 billion tax cut leaves all that money in the states and out of Washington. How can that not help states?

Moreover, the one and only productive step Congress can take to help balance state budgets is to get the American economy humming again. A big, bold federal tax cut will help achieve that, just as in the early 1980s the Reagan tax cuts created a mountain of gold for state treasuries.

Republican governors should boycott the NGA. They should vow never to return as members and never to commit another dime of taxpayer dollars to finance its tax-and-spend agenda. Washington has no shortage of tax-eaters seeking hand-outs from Congress. The day that America's governors come to believe that Washington is the solution to all their problems is the day America needs a new crop of governors.

— Stephen Moore is president of the Club for Growth and Grover Norquist is president of

Stephen Moore
NRO Financial Columnist

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January 29, 2003 9:45 a.m.

Reagan's Third Term Has Arrived

The *New York Times* was right!

President Bush's State of the Union address was confirmation that the Left must now face their worst fears. This past Sunday the *New York Times* pouted that George W. Bush's presidency suspiciously resembles a Reagan redux: The third term that the Gipper never had. And the comparison, of course, is not meant to be the least bit flattering. On domestic and foreign policy, George W. Bush's aims, the *Times* surmised are disturbingly indistinguishable from Reagan's.

To that charge, President Bush Tuesday night seemed to respond: Damn right.

In his speech Bush punctuated policy priorities that are unapologetically conservative — a powerful defense to protect freedom and security, a tax cut to promote growth and balance the budget, and free-market-based reforms in health care and Social Security.

Oh, I can already hear my fellow libertarians grousing that Bush wants to solve lots of society's problems — here and abroad — with more government money, agencies, and bureaucracies. And sure, too many parts of Bush's speech were more reminiscent of Bill Clinton than Reagan. We all remember those Clintonian speeches that droned on for 90 minutes and required a cash register to keep up with the mounting price tag. I too cringed when Bush touted out his multimillion-dollar cockamamie proposal for hydrogen-fueled cars. George: Let the private sector do it. Yes, during that part of his speech W. was temporarily and eerily transformed into Al Gore.

One gets the sense that W. is a long way from ever uttering the famous Reagan maxim that "government is the problem not the solution." Few of the Bushies believe that anti-big-government piece of the Reaganomics puzzle. A four percent spending increase is about two percent too much. The spendaholic tendencies of this White House could be its undoing.

But the nation's priorities now are to cut taxes to grow the economy and win the war against terrorism at all costs. Bush laid out the case cogently and persuasively daring Hillary and Daschle, to say nothing of Saddam Hussein and the dovish French — to oppose him.

The Democrats sat on their hands for much of Bush's speech signaling their intention to oppose Bush and his goals. That is a fight that they fight at their own — and, regrettably, the nation's — peril.

Bush is lke Reagan in one other way. They both relish being misunderstimated — as W. would put it — by their political adversaries.

— Stephen Moore is president of the Club for Growth.

http://www.nationalreview.com/moore/moore012903.asp

Stephen Moore
NRO Financial Columnist

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January 27, 2003 12:00 p.m.

No Snow Job

Conservatives in the Senate should fight for this Treasury nominee.

The Daschle-Democrats are on the war path on the economy. They are crassly rooting against a recovery, and they are working like armies of wood ants behind the scenes to erode any and all of President Bush's economic initiatives — including, most prominently, his bold tax-cut plan. Anything that would hasten an economic growth revival before the 2004 elections, they are reflexively opposed to.

Now we will find out whether that opposition also applies to any *person* who wishes to spur faster economic growth. On Tuesday, President Bush's Treasury secretary nominee John Snow, the former CEO of CSX Railroad, goes before the Senate for confirmation hearings. Some Senate Democrats have been threatening to convert these hearings into an ugly and coordinated campaign of character assassination against Snow. Conservatives have become all too familiar with the brutish politics of personal destruction that the Senate Democrats are capable of with regards to many of President Bush's judicial nominees.

If those tactics are brought to bear against Snow — an exceptional choice for the job — it's high time that conservatives in the Senate fight back.

I must confess that I know John Snow personally, like him very much, and have an unqualified admiration for his political views and his supply-side instincts. We met when we both served on the Kemp Commission on Tax Reform. What became clear during those months is that Snow wants what the vast majority of Americans want: a radically simplified, single-rate tax system that clears away the barriers to growth in the IRS tax code, eliminates unfair subsidies, flattens tax rates, and doesn't require hoards of accountants, lawyers, and Valium pills to figure out tax liabilities.

Jack Kemp tells me that John Snow is "thoroughly on the supply side when it comes to the case for lower tax rates." He is also a free trader and an inflation hawk. From a policy standpoint, there's very little in this man's record not to like.

John Snow has a sterling record of accomplishment as a railroad executive. When he became CEO of CSX he helped turn this once moribund railroad into a profitable enterprise — though it certainly has gone through rough patches. His stewardship has created wealth for shareholders and tens of thousands of jobs for rail workers. Any case against Snow's professional capabilities will be weakened considerably, given that several unions have written letters to President Bush commending him for choosing Snow for the Treasury secretary slot. Byron Boyd, the president of the United Transportation Union, writes: "The thoughtful and successful approaches that CSX has taken on safety and labor relations are but two examples of John's ability . . . I urge the Senate to confirm him expeditiously."

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In this post-Enron political environment, where every CEO is a member of a suspect class, the Democrats are expected to attack Snow for receiving multi-million dollar bonuses and loans. There is no smoking gun here. Snow's compensation packages were in no way out of line with the incentives given to CEOs of similarly-sized companies. To get top talent — like John Snow — firms must pay top dollar. This is the economic reality of the marketplace. Why should making money for successfully running a company invalidate someone? And if it does, how in the world was Robert Rubin ever confirmed as Treasury secretary? Rubin made far more money running Goldman Sachs than Snow did at CSX. So did Sen. John Corzine (D., N.J.), also a partner at Goldman.

Why is making money only a crime when the wealth creator is a Republican?

Democrats will also certainly use the Snow confirmation hearings as their first opportunity to savage the president's economic plan in a public forum. That's fair game. Snow must not back off. He, and the Senate Republicans, must assault the assaulters. The Republicans should recite the history of supply-side tax-reduction successes under JFK and Reagan — and even Clinton (who signed the capital-gains tax cut in 1997). They should ridicule the Democratic plan, which stimulates nothing but growth in government and offers about one-fifth the tax relief that the president's plan provides.

The Republicans in the Senate — but most importantly, John Snow himself — should not suffer fools gladly. If the Democrats attack the tax-cut plan for being "fiscally irresponsible," Snow should ask his accusers why they vote to continually pad spending bills with billions of dollars of pork and multi-billion dollar program expansions with more debt spending (as they did last week with a $390 billion appropriations bill). If they attack Snow's business acumen, then he should point out that almost none of his prosecutors have ever run a business, or met a payroll, that wasn't paid for with taxpayer dollars.

With the economy showing further signs of weakness in recent weeks (fourth-quarter 2002 GDP growth is now estimated at an anemic rate of 1%), the country desperately needs the president's economic- and jobs-growth tax cut. And what the president's tax plan needs is dogged, determined, and compelling defenders. This is Snow's first big test. My bet is that he will pass with flying colors — much to the disappointment of the Daschle Democrats.

— Stephen Moore is president of the Club for Growth.

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Stephen Moore
NRO Financial Columnist

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January 23, 2003 9:00 a.m.

Impeach Governor Sonny Perdue

Republicans are now the *pro-tax* party in Georgia.

Is there any governor in American history who has gotten off to a more ignominious start than Georgia's newly elected chief executive Sonny Perdue? Republicans in the state waited more than 100 years to wrestle the governorship from the Democrats, but it took only 24 hours for the new Republican regime to request a giant tax increase.

Perdue has called for a $762 million tax hike. This would include an increase in the so-called "sin taxes" on tobacco and alcohol, fee increases, and a hike in statewide property taxes. But Perdue and his fellow Georgia Republicans ran as fervent anti-tax conservatives, and promised a more taxpayer friendly constellation of policies. What fiscal frauds.

Many liberal commentators around the country have hardly been able to contain their glee about Sonny Perdue's budgetary hypocrisy. If Republicans in the legislature vote for the Perdue budget, the Georgia GOP could be banished for another 100 years — kicked into political oblivion, and deservedly so.

Ironically, the two previous Democratic governors in Georgia, Zell Miller and Roy Barnes, were honest-to-goodness fiscal conservatives. They both cut taxes on numerous occasions. Barnes had pledged that he wouldn't raise taxes if re-elected. So in Georgia, the party roles are reversed. The Republicans are now the pro-tax party, and the Democrats are the anti-tax party.

The Democratic Lt. Governor, Mark Taylor, who wants to run against Perdue in four years, has pledged to fight the Republican tax hike. Right on! "I am totally stunned the governor would try to take the easy way out and raise taxes," he recently complained in a *Washington Post* interview, adding this sweet music: "We are not like Washington, D.C., Democrats. We will oppose the tax increase." But apparently the Sonny Perdue Republicans are *just like* Washington, D.C., Democrats. And that's no compliment.

Conservatives in Georgia should fight right alongside the Democrats to derail the Republican tax increase express. For the past several days the Georgia members of the organization I work for, Club for Growth, have been cursing the new GOP regime and pledging to block this fiscally irresponsible budget.

What is astonishing is that Perdue turned to giant tax hikes even before even pretending to make an effort to cut the badly bloated budget in Atlanta. Perdue doesn't seem to understand that Georgia, as with most every state this year, has a chronic overspending problem — not a revenue-shortfall problem. Perdue adopts the standard left-wing education rhetoric of "meeting the needs of families and children."

Thus his budget throws money at dubious government programs: more dollars for pre-kindergarten programs, more money for foster care, more money for higher education, and more money for school construction. But if there is any money for the reform that *really* matters in improving academic achievement — expanding parental choice in education — I couldn't find it in the budget, and the governor never mentioned it in his budget speech.

Tax revenue growth has exploded in Georgia over the past decade. The budget is more than twice as large as it was in 1990 — and so are total revenues. After adjusting for inflation, tax revenues have climbed from $7.1 billion to $14.4 billion. How could any rational person look at this steep revenue growth and conclude that new taxes are needed to balance the budget?

A Cato Institute study shows that if the Georgia budget had simply grown at the rate of inflation and population growth over the past decade, the state would have a $1.9 billion *surplus* today, not a deficit. Cato's analysis shows that if spending had been restrained over the past decade — as many states out west require — the average Georgia household would be getting a $635 tax *cut* this year.

There is nothing in Perdue's budget about tax-and-expenditure limitation measures to make sure that spending sprees don't happen again. There is no call for an audit of state agencies to ferret out waste and inefficiency and duplication of services, things that are endemic in state budgets. There is no call for a super-majority vote-increase requirement to raise taxes. There is nothing in his budget that would require a vote of the people before taxes are raised. My suspicion is that if the Perdue tax hike were put to a vote of the people it would be soundly defeated.

Georgia should be cutting taxes in tough times. This is the model that has been so effectively employed by past pro-growth governors like John Engler of Michigan and William Weld of Massachusetts. They understood what Gov. Perdue doesn't: States can't tax their way to prosperity.

"This isn't the kind of budget I wanted to submit," whines Gov. Perdue. Well, governor, it's not exactly the kind of budget taxpayers had in mind, either. Voters thought they were electing a Ronald Reagan, not a Michael Dukakis.

— Stephen Moore is president of the Club for Growth and a senior fellow at the Cato Institute where he publishes the Institute's "Fiscal Report Card on the Governors."

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Stephen Moore
NRO Financial Columnist

January 16, 2003 8:00 a.m.

Put Government on a Diet

Pass the Bush tax cut.

One of the great, hidden values of President Bush's $600 billion tax cut, is that it could be the best (if not the only) way to end the boisterous spending spree on Capitol Hill of recent years. In the fiscal year just ended federal spending was up by $150 billion. The one year increase was larger than the entire federal budget in 1965.

If anything can slow down the appropriations — and, alas, maybe there is nothing — it's a tax cut that prevents the drunken sailors in Washington from spending. This is one reason why the GOP deficit hawks, who are haggling over the "cost" of the Bush tax cut and fretting over its impact on the deficit, are so misguided.

History proves that tax revenues create spending and the lack of revenues help restrain spending. Richard Vedder of Ohio University has documented time and again that revenues create the political incentive and the financial means to spend. He has shown that every additional dollar of tax revenue collections incites more than $1 in additional spending pressures. Message: Control the revenue intake and you will restrain the out-flow.

Milton Friedman, the Nobel prize-winning economist agrees. Friedman has often noted, and I paraphrase: Governments spend whatever they receive in taxes and whatever else they can get away with. That is an historical lesson that Republican tax-cut skeptics like Senators Kit Bond, John McCain, George Voinovich, and Mike DeWine need to learn.

The emergence of the budget deficit is almost all a result of egregious overspending. To quote Ronald Reagan: "Government isn't the solution to our problems, government is the problem." When he said that the federal budget was $500 billion. Today it's $2 trillion.

This is the third straight year when the federal government's budget has outpaced private-sector expansion. In 2001, total government outlays at the city, state, and federal levels grew by 6%. The private sector shrank by 0.1%. From an economic-recovery standpoint, this could hardly be worse news. Real wealth creation is driven by private businesses, entrepreneurs, and investors — not by putting to work more government bureaucrats. Government spending rose more last year than all the spending of the venture-capital sector — the sector that creates the industries of the future.

What's wrong with this picture? We are systematically pick-pocketing business owners, entrepreneurs, venture capitalists, and investors, and allowing those funds to be spent by Congress and government agencies instead. From an economic-efficiency standpoint, this makes about as much sense as having Britney Spears pinch hit for Barry Bonds.

We are foolishly following in the Keynesian footsteps of Argentina and Japan — two of the nations with the biggest bloat of government in recent years. Government didn't stimulate those economies, it further plunged them from recession to depression. In turn, trillions of dollars of wealth have been destroyed.

Another tutorial from Milton Friedman: "There ain't no such thing as a free lunch." The real resources in the economy captured by government for additional public-sector spending can only come from three sources: taxes, debt, or inflation. The build up of any one of these funding sources can have influenza-virus effects on a capitalist economy. In the 1970s all three accelerated at once, and the U.S. industrial economy collapsed until Ronald Reagan's supply-side and limited-government ideas came along.

The cast of characters in Washington who pout that tax cuts are fiscally irresponsible are the same ones who recently voted for the most expensive education spending bill ever and the most expensive farm welfare bill ever. This year Congress will pass the most expensive foreign aid bill ever. It also wants to pass the costliest new entitlement program — taxpayer financed prescription-drug benefits for seniors, with a potential price tag of $600 billion over ten years — since LBJ created Medicare 35 years ago.

Congress, of course, only seems concerned about the budget deficit when there are pro-growth tax cuts at hand.

The Tom Daschle Democrats have announced a blunderous economic-stimulus plan that would add another $30 billion to $50 billion in federal spending this year. That spending will de-stimulate the economy by capturing even more resources from private businesses and workers. Tax cuts grow the economy; government spending grows the government.

By recommending a formidable tax cut, President Bush now understands what so few others in Washington are capable of grasping: The burgeoning federal budget and the ever rising tax burden in America have become the greatest threats to a sustained recovery, a stock market revival, and a return to the virtuous free-market induced prosperity of the 1980s and '90s.

In the '80s, when Reagan used the same tactics that Bush is now using by enacting a large pro-growth tax cut, the budget briefly fell shortly thereafter. Reagan's critics derisively described the Reaganomics agenda of fiscal control as "starve the beast." Republicans should pass the Bush tax cut and try this policy again. Nothing else seems to slow down the profligate drunken sailors up on Capitol Hill.

— Stephen Moore is president of the Club for Growth.

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A Wild and Crazy Guy

By STEPHEN MOORE
October 11, 2004; Page A18

Remember the classic 1970s comic routine from Steve Martin? You can make a million dollars and pay no taxes. First, find a million dollars. Then when the IRS comes knocking on your door demanding to know why you didn't pay your taxes, you just simply tell them you forgot. And then you say: "Well, excuse me."

Well, John Kerry has his own version. It goes like this. You can make a billion dollars and pay almost no taxes. First, marry a billionaire. Second, hire a gaggle of tax accountants and lawyers to bring your tax rate down to about half what many middle-income families pay. Except for John Kerry, this is no gag; it's reality. According to the Kerrys' own tax records, and they have not released all of them, the couple had a combined income of $5.5 million last year and paid $704,000 in income taxes. That means their effective tax rate was a whopping 12.8%. And it was all (presumably) done legally.

Now don't get me wrong: I'm not against people paying a 12.8% tax rate. Far from it. I just believe that all Americans -- even those who can't afford to hire tax attorneys to set up complicated trusts and find legal ways to stash income in other tax-sheltered investments like municipal bonds -- should have a shot at that kind of non-confiscatory tax rate.

THAT'S RICH

Who's Not Paying Their Fair Share?

	2003 EFFECTIVE TAX RATE
George and Laura Bush	30.4%
Typical Middle Class Families	20%
John and Teresa Kerry	12.8%

Source: Club for Growth

Under the current tax system the middle class pays far more than the Kerry tax rate. In fact, the average federal tax rate -- combined payroll and income tax -- for a middle-class family is closer to 20% or more. George W. and Laura Bush, who had an income one-tenth of the Kerrys', paid a tax rate of 30%.

Of course, there is delicious irony in the Kerry family tax-return data. Here is the man who finds clever ways to reduce his own tax liability while voting for higher taxes on the middle class dozens of times in his Senate career. He even voted against the Bush tax cut that saves each middle-class family about $1,000.

The Kerrys have unwittingly made the case for what George W. Bush says he wants to do: radically simplify and flatten out the tax code. Dick Armey and Steve Forbes have persuasively argued over the years that America should have a flat tax with a rate of 17% to 19%. John Kerry has consistently opposed a flat tax, because he says it would be a tax break for the rich. But the truth is with a 19% flat tax, some rich people with lavish tax shelters, like John Kerry, would pay more taxes. I calculate that the Kerrys would pay another $500,000 of taxes if we had a flat tax.

So before John Kerry is given the opportunity to raise taxes again on American workers, shouldn't he and Teresa at least pay their fair share?

Mr. Moore, author of "Bullish on Bush: How George Bush's Ownership Society Will Make America Stronger," is president of the Club for Growth.

THE WALL STREET JOURNAL. ONLINE

April 8, 2004

COMMENTARY

John Kerry's Acorn

By STEPHEN MOORE
April 8, 2004; Page A16

Even a blind squirrel finds an acorn now and then, as the saying goes. And so it is with one surprisingly productive idea in John Kerry's otherwise economically schizophrenic new jobs proposal. Best of all, there is a way to improve on the idea now, without even waiting for November.

Sen. Kerry would reduce the tax on profits that our companies earn abroad, if they reinvest the capital in job-producing investments back here in the U.S. It's a sensible idea, since an estimated $500 billion of capital owned by U.S. multinational firms -- ranging from Sun Microsystems to Microsoft, to GE -- remains trapped overseas. But these firms are not "Benedict Arnolds," as Sen. Kerry has alleged. They are simply responding to unpatriotic features of the federal tax code that penalize reinvestment in the U.S., at the expense of our own workers.

Under the current IRS law, American multinational firms must pay the business taxes in the foreign country in which they earned the money; and then they are whacked with a second, add-on tax of up to 35% if they reinvest the capital here. We are virtually the only nation in the world that penalizes repatriated capital in this way, with what amounts to a 35% tariff on capital re-imported into the U.S. That gives firms an incentive to build plants, research facilities and technology centers anywhere but here. Jobs are created for other nationalities at the expense of Americans. In this regard Mr. Kerry is right: "We now have a tax code that ships jobs overseas."

Mr. Kerry would chop that tax rate down to a less punitive 10%. He argues correctly that more capital investment is the linchpin to generating good paying jobs in the U.S. And he is also right that reducing tax rates acts as a magnet for international capital flows. After the Reagan tax cuts in the 1980s -- when income-tax rates fell to a low of 28%, from a high of 70% -- that giant sucking sound Americans heard was the global capital investment flowing over our borders into the 50 states. The result: Over the next 18 years, the U.S. was a net importer of roughly $1.5 trillion of investment capital.

The U.S. in the 1980s and '90s was a job-creation machine, with more new jobs created here (36 million) than all the rest of the industrialized world combined. I recently witnessed this job-creation process near Jackson, Miss., where I passed by one of the largest factories -- at least five city blocks long -- I have ever seen. It is a Nissan facility, and it employs more than 5,000 Americans. These are almost all high-paying manufacturing jobs, insourced from Japan.

The good news is that we don't need an election to make the U.S. more hospitable to foreign capital investment and to get laid-off workers back in jobs. Legislation before the Senate right now would cut the tax rate on capital imported back into the U.S. from 35% to 5.25% (way below the 10% rate proposed by Mr. Kerry).

Backed by John Ensign and Gordon Smith, it's a provision of the Jobs Act now under consideration in the Senate. Independent analyses by PricewaterhouseCoopers and Bank of America have predicted that this measure -- known as the repatriation provision -- would produce a windfall ranging from $135 billion to $300 billion of new capital brought to the U.S. To put these numbers in perspective, U.S. taxpayers just sent $85 billion to Iraq to rebuild that nation. The repatriation provision can bring in two to four times that amount for the "rebuilding" of industry and factories here at home. The provision might even gain tax receipts for Uncle Sam, as firms scared off by the old 35% rate, line up to pay the one-time, 5.25% border tax. Hence, we make money on something that we want firms to do anyway: invest their profits in America.

Economists have estimated that creating one modern manufacturing job in the U.S. costs on average about $50,000 of business investment in plant, technology, computers and equipment. By that measure, the repatriation provision could eventually create more than two million new jobs for factory and technology workers. That is the equivalent of 400 new factories the size of the Nissan plant in Jackson. For many economically depressed communities, the provision could be a real financial salvation.

There is an old adage that liberals love jobs but hate employers. John Kerry has devoted his entire Senate career to voting against every tax reduction measure that would have made the U.S. a friendlier place for capital investment and new jobs. Mr. Kerry now complains (rightly) that our tax code discriminates against firms that want to do the right thing and create American jobs. Well, that economic impediment can be lifted in a matter of weeks, if Sen. Kerry and his colleagues will simply support the repatriation provision. The only question is whether Mr. Kerry and his colleagues will put jobs over politics and do the right thing, right now.

Mr. Moore is president of the Club for Growth and a senior fellow at the Cato Institute.

THE WALL STREET JOURNAL.
ONLINE

January 2, 2004

COMMENTARY

Take a Hike

By STEPHEN MOORE
January 2, 2004

The Democratic Party appears to be on an irreversible course to nominate Howard Dean as its candidate for the presidency. Yet while voters in Iowa and New Hampshire may have heard a thing or two about Mr. Dean's economic policies, most Americans have not. Indeed, most voters are unaware that the former governor of Vermont has a plan to raise income taxes on every single American who pays them.

Recently, an organization I run, the Club for Growth, began airing TV ads in Iowa and New Hampshire telling voters about the specifics of Mr. Dean's tax proposals. The Dean plan, our ad notes, would raise taxes by $2,472 a year on a typical middle-income family of four. Mr. Dean would also raise the death tax rate, the capital gains tax rate, the dividend tax rate and the payroll tax, and he would bring back the hated marriage tax penalty that President Bush abolished this year. There is hardly a tax levied at the federal level that Howard Dean would not raise.

And although the Dean campaign has howled in protest over this ad -- and has spent hundreds of thousands of dollars to rebut it with TV ads of its own (which mostly change the subject) -- what it cannot deny is that these are precisely the economically destructive changes to the tax code we would see under a Howard Dean presidency. In fact, unlike some recent presidential candidates, Mr. Dean doesn't bother to conceal his plans to raise taxes, he revels in telling America about it.

WHAT THE DEAN TAX MEANS FOR YOU

	Current Law	Dean Tax
Capital Gains Tax	15%	20%
Dividend Tax	15%	39.6%
Income Tax Rate (highest)	35%	39.6%
Income Tax Rate (Middle)	25%	28%
Income Tax Rate (lowest)	10%	15%
Per Child Credit	$1,000	$500
Marriage Penalty Tax	Eliminated	Reinstated
Death Tax in 2010	0$	55%

Source: The Club for Growth

In the ad, we maintain that Mr. Dean's economic agenda is reminiscent of such unforgettable recent Democratic presidential failures as George McGovern, Walter Mondale and Michael Dukakis. We're willing to admit that this may be a bit unfair. In fact, Messrs. McGovern, Mondale and Dukakis might have reason to complain, because none of them proposed economic policies that would tilt the Democratic Party as far to the left as Mr. Dean has.

Mr. Dukakis, who was ridiculed by Republicans mercilessly as a tax and spender from "Taxachusetts," pledged to voters that he would raise taxes "only as a last resort." Mr. Dean promises new taxes as a first resort. And he would raise them on virtually everyone who has a job and an income tax liability -- not just on the "evil rich" Wall Street tycoon, but even on the man who shines his shoes. In fact, I recently analyzed IRS tax data released by the Treasury Department to estimate the impact of the Dean Tax on family finances. I found that Mr. Dean's plan would force roughly two million low-income working Americans -- that's roughly three times the population of the state of Delaware -- who don't pay any income taxes now, to start paying them. This is the candidate who says he's going to be the voice of the little guy in Washington.

When it comes to taxes, Mr. Dean thinks really big. In raw numbers, the Dean Tax proposal would raise taxes on 109 million Americans by roughly $1.5 trillion over the next 10 years. This comes out to a Dean tax of about $15,440 for every family of four in the U.S., over the next decade. The Dean tax rule of thumb is that if you are in the middle class, he would roughly double your federal income tax payments.

Let's look at real-life examples of what the Dean tax might mean for you. Under current law, a married couple with one child and a $40,000-a-year income pays income taxes of $1,503. Under the Dean tax, that family would pay $2,935 -- or just about double. For a family with two kids and an income of $80,000 a year, the extra Dean tax costs $1,780 a year. What Mr. Dean has never had to answer to in the Democratic primary, perhaps because the other candidates are too embarrassed to ask, is how a presidential contender whose campaign is dedicated to relieving the economic squeeze on working class families, believes that socking these folks with a $1,400- to $1,800-a-year tax hike will make their financial situation less stressful.

Mr. Dean responds to these charges by countering that his plan will help restore prosperity and produce higher incomes and more jobs. But how exactly? His tax plan would be the equivalent of hitting small businessmen, who create about 70% of the jobs, over the head with a two-by-four. The highest tax rate under the Dean plan rises from 35% to 39.6%. Add on top of this perhaps the most insidious feature of the Dean tax. For the first time ever, he would eliminate the cap on payroll taxes. Henceforth, all income of more than $87,000 a year would pay a 15% payroll tax. This means the Dean tax plan raises the small-business tax rate from 38% to 55%. If you are a self-employed worker with an income of $125,000 a year, which in high-cost-of-living states like California and New York is hardly rich, Howard Dean wants to raise your taxes more than $8,000. That will create jobs?

When President Bush cut taxes this past year, one of the most immediately visible happy results was that the dividend and capital gains tax cuts helped boost the stock market by between 10% and 15%. The after-tax rate of return on corporate profits increases with a lower capital gains and dividends tax, so stock values predictably rise. Just since the Bush tax cut, the increased valuation of the stock market has increased the net wealth of American households by more than $1 trillion, according the American Shareholders Association. Repealing those tax cuts would impel the market to surrender those higher share prices. Since half of American households now have their savings stored in stocks, this market give-back also will put a severe dent in family finances. So the Dean tax is a double whammy on households: It reduces their after-tax income and reduces their wealth.

Of course, by reinstating the marriage penalty and bringing back to life the death tax permanently, Mr. Dean's tax proposal would add greatly to the complexity of the tax code. By raising income tax rates by roughly five percentage points on everyone and by calling for a more than doubling of the dividend tax, he sends us back toward the era of punitive double and triple taxation of saving and investment income. In many ways then, the Dean tax is "the anti-flat tax." It gives us higher tax rates and more IRS complexity, and requires several million more families to file IRS 1040 returns every year.

If the Democrats do indeed nominate Mr. Dean and make the Dean tax the underlying economic message of their party, that would be good news for Republicans, but awful news for sound economic policy making in Washington. It will signal once and for all that the Democrats have gone off the deep end on economics and no longer believe a word of John F. Kennedy's message of 40 years ago that higher tax rates "will never produce enough revenues to balance the budget, nor enough jobs" to put Americans back to work.

Mr. Moore is president of the Club for Growth.

THE WALL STREET JOURNAL. ONLINE

May 9, 2003 1:28 a.m. EDT

COMMENTARY

Save Our City

New York Crisis

By HUGH CAREY, RICHARD GILDER, H. DALE HEMMERDINGER, ROGER HERTOG, FELIX G. ROHATYN and WALTER B. WRISTON
May 9, 2003 1:28 a.m.

Last week, Mayor Michael Bloomberg stood on the steps of the New York state capitol and thanked legislators for "coming through" for his city, by giving him permission to impose $700 million in new taxes on Gotham, bringing to nearly $3 billion the total tax increases enacted by the city since the mayor took office.

Any longtime New Yorker knows that a strategy of trying to tax your way out of hard times has been tried twice before -- in the late 1960s and early 1990s -- with disastrous consequences. Now, as then, tax increases will not only not solve the budget crisis but will exacerbate the economic downturn. In the early 1990s crisis, as taxes went up two years in a row, the economy contracted by more than 10% while deficits persisted.

When taxes are already as high as they are in New York, new or increased levies fail to generate the level of revenues that city officials project. A 1997 study of tax rates in New York and other cities by a team of economists concluded that raising New York's property tax, for instance, would produce "little or no additional net revenues," because every dollar increase in tax rates drives away a dollar of the city's tax base.

NEW YORK CRISIS

This is the second in an occasional series.

• Blame Pataki
5/7/03

The current tax increases are likely to do short- and long-term economic harm. The city is raising its sales tax, for instance, despite the fact that the combined state and city rate is already more than two percentage points higher than neighboring New Jersey's. City officials maintain that the one-quarter percentage point increase will have little effect. They don't seem to understand that New York is already losing over $700 million of business annually to less taxing locales. The city's tax increases will put local businesses further at a disadvantage when they can least afford it.

Long-term, the damage to the city's economy could be profound. Over the last four decades, New York City has become the most heavily taxed city in America. And as a result, Gotham has not added a single net new private-sector job over that period of time, while local government jobs have grown by more than 20% -- 90,000 positions.

The private sector in New York has stagnated because high taxes have driven both businesses and individuals out of town. The city perpetually has a net outflow of residents -- more people leave the city to live elsewhere in the U.S. than come here from somewhere else in America. The outflow is especially intense among families earning more than $100,000 a year. Yet the city is again increasing the tax rates on these individuals, arguing that they are most able to bear the added costs of higher taxes.

The effect of tax increases on businesses is likely to be still more profound than on individuals. The rise in personal income taxes will immediately impair local small businesses, most of which are organized in such a way that their profits are taxed not at the corporate rate but as if they were the personal income of the owner.

Since most small businesses grow by drawing on profits and the personal savings of their owners, the plan will leave even less money for new small-business investment.

Big corporations, meanwhile, will get hit especially hard by the steep rise in property taxes. New York already has among the highest commercial property tax rates in the country, collecting nearly $10 a square foot in taxes for leases in prime Manhattan locations, compared with just $3 and $4 a square foot in places like Los Angeles and Atlanta, and less than that in suburban locales that perennially seek to lure corporate tenants. Big businesses -- those renting 500,000 or more square feet of space -- could see their space costs go up by $1 million a year. Fifty years ago, New York was home to 140 Fortune 500 companies. Today that number is down to 33.

What's most troubling is that all this is so unnecessary. The facts suggest that there is enormous room to cut the city's budget without severely damaging services or laying off crucial workers. New York City already spends on many things that other city governments don't. The city boasts a plethora of committees, boards, and commissions that overlap other government functions or are largely symbolic -- and costly. New York's five borough president offices, along with the public advocate's office, are largely ceremonial, but the city spends $30 million a year to maintain their staffs. The city even has its own human-rights commission, duplicating federal and state efforts, which costs $7.5 million a year.

New York spends more money, and employs more public workers per capita than most American cities. Yet the city has taken few steps to rein in costs and reduce expenditures. It is proceeding as if the private economy existed solely to preserve as many government jobs as possible, and as if 100 layoffs in the private sector economy were preferable to the layoff of a single government worker. Bolstered by projected revenues from the new tax increases, the city is only seeking minimal new job cuts, amounting to less than 2% of what is the largest municipal work force in America.

The city has also failed to win any significant concessions from its unions on such issues as health and retirement benefits, even though workers enjoy much more generous benefits than similar private-sector workers. At a time when most workers in the private sector pay at least a portion of their health-care insurance, the city has refused to ask its work force for even a modest contribution to premiums.

The city has also rejected, or simply not explored, a host of potential cost savings advocated by budget watchdogs, such as private contracting of services, from filling potholes to providing school lunches. Privatizing trash services alone could save at least $50 million a year. Requiring city employees to work a 40-hour week (not just 35 hours) could eliminate 8,500 jobs and save $500 million a year, according to the Citizen's Budget Commission.

On top of it all, the city has recently borrowed more than $2 billion to finance its deficit, and the state legislature has allowed the city to stretch out repayment of the bonds that financed the 1970s bailout. All the while, Mr. Bloomberg has taken no significant structural steps to eliminate the deficit.

* * *

As an immediate fiscal strategy, Gov. Pataki and Mayor Bloomberg should call for a special meeting of the Financial Control Board (created to oversee New York City's finances during the '70s troubles) and map out a common strategy that would begin with an immediate two-year freeze on city hiring, wages and benefits. The FCB should go on to hammer out long-term solutions to the city's fiscal problems -- above all, a blueprint for reducing the size of the municipal workforce so that it is more in line with other well-run American cities.

Cooperation is the key. This is no time for a budget brawl, in which the mayor joins with Albany legislators to support significantly higher state spending that will inevitably entail higher state taxes, half of which will have to be paid by New York city residents and businesses. The goal should be a government that provides basic services at reasonable tax rates, but that does not heap unnecessary costs on businesses or residents. New York made its name as the vibrant gleaming metropolis with jobs for all comers. We need to return to the vision of New York as a city of opportunity -- the vision that inspired so many generations.

The authors are, respectively, former governor of New York, co-chairman of the Club for Growth, CEO of Atco Properties, chairman of the Manhattan Institute, former chairman of the Municipal Assistance Corp., and former CEO of Citibank.

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THE WALL STREET JOURNAL. ONLINE

April 7, 2003

COMMENTARY

A Tax Cut: The Perfect Wartime Boost

By ARTHUR B. LAFFER AND STEPHEN MOORE
April 7, 2003

The Senate recently halved the president's tax cut, supposedly to offset the cost of the war in Iraq. Though this dollar-for-dollar accounting mentality has a crude appeal, it's wrong nonetheless. The U.S. needs this bill passed for its short-term and its long-term effects. And, we can afford it.

Economists and investors have long been aware of the fact that the returns to equity capital are double-taxed here in the U.S. If a company pays wages to its employees, the employees are liable for taxes on those wages and the company can deduct those wages from its tax base. If a company pays rent to a landlord, the landlord is responsible for taxes on that rent while to the company the rent is deductible. If a company pays interest to a lender, the lender is liable for the taxes on the interest and the company is not.

And yet, if a company pays dividends to an investor, both the investor and the company pay taxes on those dividends. If the company retains earnings to increase the share price, both the company and the shareholder (in the form of capital gains taxes when the stock is sold) pay taxes on those retained earnings. This double taxation isn't fair and it has bad consequences for the economy.

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By double taxing investor equity, share prices are depressed and corporate balance sheets use way too much debt. At no time in our lives have equity values needed more of a boost than they do now, nor has there been a time when corporate balance sheets needed restructuring more than now.

President Bush's tax bill would eliminate the double taxation, thereby increasing the static after-tax cash flow for the Standard & Poors 500 by more than 15%. That ain't chopped liver. This provision alone would have an immediate and positive impact on the stock market. A better short-term palliative is hard to imagine. In the longer term, it would also eliminate the penalties for substituting equity for debt on corporate balance sheets. Such a restructuring would benefit the long-run security of investors and employees.

With stock prices down from their 2000 highs by 31%, 44% and 73% respectively for the Dow, S&P 500 and the NASDAQ, we've never needed a shot in the arm more than now. And President Bush's tax bill would do the job.

In addition, by accelerating the legislated tax cuts already scheduled to take effect in the coming years, the incentives to defer income would be erased and the incentives to increase work output and employment would be reinforced. We need this, too. And there's no time like the present.

There's a big difference between actual tax revenue losses and tax-rate cuts. While the Senate may consider them one and the same, they aren't the same. People no more save to go bankrupt than they work to pay taxes. People save to augment their wealth and they work to get paid after tax. Those are their incentives. When tax rates are reduced, as they are on both the returns to equity capital and labor in President Bush's bill, you can rest assured that people will save and invest more and they will work more. The long-run effects obviously will be larger than the short-run effects, but both effects will be there and we need both badly.

With greater investment, work output and employment, the revenue losses from a tax rate cut will, for sure, be less than the Senate believes, and will be progressively less the further out in time you go. There's a curve that describes this effect. Just remember that sometimes you have to put up a little money to make money.

The above points should be enough to convince any senator that President Bush's tax bill is good for the country and that it's needed now. President Reagan and Margaret Thatcher cut tax rates to win the "Third World War." President Kennedy reignited prosperity from the sluggish Eisenhower/Nixon era by tax-rate cuts. Surely our Senate doesn't want to emulate the 16 years of Johnson, Nixon, Ford and Carter with tax increases and slow growth. Even the four years of President Bush senior were plagued by slow growth and higher tax rates. President Clinton, after a poor start during which taxes were raised, changed his tune and became a tax-cutting pro-growth president. The transition for President Clinton was definitely helped by the election of a Republican Congress in 1994. The last six years of the Clinton administration included Nafta, welfare reform, the reappointment of Alan Greenspan (twice), a huge capital-gains tax-rate cut, reduced federal spending as a share of GDP and budget surpluses. Let's keep the momentum going.

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Some say that the debt brought on by the deficits will come back to haunt us. But this simply isn't true. There are so many misstatements in this arena that it's hard to know where to start. But, let us just say that in 1993, when our national debt as a share of GDP stood at 49% -- the highest level in 37 years -- we were just beginning the second burst of enormous growth since the Reagan '80s. High debt didn't seem to stop us then. Even the deficits of the Reagan years were associated with falling interest rates and rapid growth.

Because of the rapid growth of the Clinton '90s and the reduction in spending and budget surpluses during President Clinton's tenure in office, the U.S. has a degree of fiscal flexibility as never before. Assuming 5% nominal GDP growth per year, the U.S. would have to run deficits of $500 billion per year for the next 10 years just to reach the level of debt relative to GDP that we had in 1993. While we're not suggesting that that would be the "right thing to do," what we are suggesting is that the idea of excessive federal debt is not the appropriate consideration to keep our president and our Congress from doing what's right for our country. We need President Bush's tax cuts now.

Mr. Laffer is the chairman of Laffer Associates. Mr. Moore is the president of the Club for Growth.

THE WALL STREET JOURNAL. ONLINE

May 16, 2002

COMMENTARY

And These Are Republicans?

By STEPHEN MOORE
May 16, 2002

Despite the fact that the Republicans control the White House, the House of Representatives, and 30 governorships, the nation is now in the midst of the biggest government spending spree since LBJ. Incredibly, the domestic social welfare budget has expanded more in just two years ($96 billion) under George W. Bush than in Bill Clinton's first six years in office ($51 billion).

Although many economists portray this surge in spending as a stimulus to growth, the opposite is true. The runaway federal budget, which is up nearly $300 billion in just the last two years, and the parallel hike in taxes and debt needed to finance this spending binge, is America's single most ominous domestic economic danger sign.

Governments can only grow by capturing resources at the private sector's expense. That's what's happening now. Over the past year and a half, government has been the single fastest growth sector of the economy. It has grown faster than construction, services, housing, and even consumer spending. In 2001 the recession-racked private-sector economy grew by a microscopic 0.5%. But there was no recession in government: its spending was up 6% for the year. For the first quarter of this year, data indicates that private-sector activity rose by 5% as the economic recovery has taken hold. But government's spending soared twice as fast. This pace would make Tip O'Neill blush.

Even more discouraging is the spending trend line. Every year since the Republicans first took control of the House in 1995, spending roadblocks have been further removed. Domestic spending actually fell by an impressive 3% in real terms in the 104th Congress (1995-96) when Republicans seized control of the House and Senate for the first time in 40 years. The next Congress raised spending by 4%, the next by 11% and this one is on pace to raise the budget by 15%. All of this is reminiscent of the old Reagan quip that to say that Congress spends like drunken sailors is an insult to drunken sailors.

Sure, the Democrats in Congress share a big part of the blame. The spending spree has worsened now that Tom Daschle is running the Senate and that prince of pork, Robert C. Byrd, is ruling the appropriations process. But one only need look at the vote on the Farm Bill -- a bill that will distribute million-dollar welfare checks to America's wealthiest farm businesses -- to see that the pro-spending virus endemic in the Democratic party has spread to the GOP.

I've covered federal budget issues for nearly two decades. If the Farm Bill wasn't the most fiscally rancid legislation I have seen, it's certainly in the top three. Yet two out of three Republicans voted for it, and, worse yet, Mr. Bush not only signed it, he crowed that it would secure the "independence of the American farmer." Independence from what exactly? The free market?

The bill is only the first of many budget-busting, anti-enterprise spending bills that are racing toward the president's desk. The emergency military supplemental spending bill has become a Christmas tree for special interests and is $3 billion over budget. The energy bill, with its emphasis on tax credits for windmills and boondoggle oil conservation projects, is a bill that only Al Gore could love. Congress will also soon send Mr. Bush a $100 billion bill to provide free prescription drug benefits for seniors, and a $6 billion bill for baby-sitting subsidies. And the president says he wants $5 billion more for failed foreign-aid programs. All this comes after last year's education bill that will nearly double the Department of Education budget over the next six years and institutionalize a federal presence in our local-school system.

The immediate way to reverse the fiscal collapse in Washington is for Mr. Bush to start dusting off his veto pen. The energy bill, the appropriations bills, the prescription drug bill all should be rejected in the name of fiscal sanity. This president has no vetoes so far. The White House has been reluctant to wield the veto power because they see this as a huge withdrawal of scarce political capital. Wrong. History proves that strong presidents -- from Roosevelt to Reagan -- make strong use of the veto. Mr. Bush can make a powerful case for rejecting obese spending bills: They are not just economically wrongheaded, they weaken the critical war on terrorism by diverting scarce tax dollars away from our vital national security needs.

Republicans wrongly believe that they can bank on a spend-and-elect model to secure their House majority and then capture the Senate this November. The opposite is likely: The current spending binge, on top of the president's steel tariffs and his signature on the anti-First Amendment campaign reform bill, may severely demoralize conservative voters and set the stage for an electoral surge back to the Democrats. After all, if it really is big government that the voters want, why not pull the lever for Democrats, who are not amateur, but major league big spenders.

John Boehner, the savvy Republican from Ohio who was a major part of the Republican Contract with America revolution in 1994, recently lamented that "we Republicans seem to have forgotten who we are and why we're here." He's right. Republicans are suffering from a politically lethal identity crisis. If the budget bulge that we're now witnessing were happening under a Democratic presidency, Republicans would be howling in indignant outrage. If the tidal wave of spending isn't soon reversed, the Republican Party may soon discover that it is both redundant and replaceable.

Mr. Moore is president of the Club for Growth.

THE WALL STREET JOURNAL. ONLINE

July 16, 2002

COMMENTARY

Ailing Economy Needs A Dose of Bush Tax Cuts

By RICHARD GILDER and THOMAS L. RHODES
July 16, 2002

The U.S. economy is sputtering, we're in the worst bear market in 25 years, and the $3 trillion budget surpluses projected last year have morphed into $1 trillion of red ink. How does Capitol Hill respond? By debating how hundreds of billions of dollars should be spent on free prescription drugs for seniors, the most expensive new program since the Great Society.

President Bush and the Republican Congressional leaders should change the discussion to refocus on issues that matter most to American families: economic growth, jobs, and the return to a bull market.

In 1995, the GOP came storming into power promising to make government smaller and smarter. The Republicans we knew then understood that Medicare's stampeding costs were the principle cause of the government's long-term budget imbalance. They would have scoffed at the idea of doubling the program's size with a scheme as grandiose as Hillary Clinton ever envisioned.

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The investor voters who elected George W. Bush and Republicans in Congress are getting restless. Has anyone in Washington noticed the market collapse? The losses are approaching $3 trillion. Yesterday, the dollar fell below parity with the euro for the first time in more than two years, reflecting the investment community's loss of confidence in the U.S. economy; the unemployment rate grew again last month; household debt is rising rapidly; and the states are in their worst fiscal shape in a decade. Consumer confidence is sagging, unusual in the first stages of a "recovery." Yes, there are some positive signs, but the optimism of earlier this year is long gone.

Transfixed on terrorism and corporate corruption, the Bush White House should remember that since 1900 no president has been re-elected in a stock market with such poor performance. To emerge from our economic miasma, the Republicans must advance economic growth policies -- off the table since the passage of the Bush tax cut in April 2001.

They'll get no help from the Daschle Democrats, who oppose speeding up the Bush tax rate cuts; oppose reducing the capital gains tax (permanently or even temporarily); oppose death tax repeal; oppose deregulation of the telecommunications markets; oppose expanding free trade; oppose common sense litigation reform and reasonable expenditure caps to control a runaway federal budget. They believe there is political gain to be gleaned from continued economic turmoil, for the

Republicans will be blamed. Do the congressional Democrats understand or care that the damage from a double-dip recession will hit hardest America's most vulnerable -- the poor?

The Daschle Gang is already on the warpath blaming President Bush for the poor economy; blaming him for the absence of bipartisanship; blaming him for the reemergence of deficits and for corporate executives' malfeasance. These howls will grow louder and more persistent as the midterm election nears -- especially if the economy doesn't show signs of improvement.

Here is a tax package that can rally the economy and the market:

• First, make all the Bush tax-rate cuts effective July 1, 2002. Fast-forward reductions in the income-tax rates and the death-tax repeal to encourage more capital formation and investment. Why wait until 2005 and after to chop growth-inhibiting tax rates?

• Second, halve the capital-gains tax for all future investments, giving investors an incentive to buy stocks at the low prices today.

• Third, to get Americans to save more, create universal and unlimited IRA accounts.

President Bush should also announce his intention to lift the steel and timber trade barriers at the end of this year. Even the administration itself concedes that its meretricious flirtation with trade protectionism has backfired. Predictably, the 30% steel tariffs imposed by the White House have cost more jobs in steel-using industries than saved in the steel-producing industries. The president needs to regain the high ground on free trade, both inside Congress and with the Europeans and Japanese; reversing his course on steel is a great start here.

Each of these measures is both stimulative and popular with voters. Capital gains cuts, IRA expansions, and death tax repeal are all broadly supported by the electorate as sound and sensible tax policy changes. Tom Daschle may not get it, but investor voters do.

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The Democrats will argue that tax cuts are unaffordable. These protests will come from the same lawmakers who want to create a 10-year $1 trillion new entitlement for prescription drugs. Protecting and creating jobs, reversing the stock-market slide and preserving America's economic security should be a higher priority than a new government entitlement.

If Republicans can not or will not make this basic and populist argument for prosperity, then they do not deserve to retain the voters' trust again this November. If, however, President Bush were to invest his tremendous political capital here, he could deliver a knockout punch to the Daschle Democrats and return the U.S. economy to 4%-5% economic growth. Go for it, Mr. President!

Messrs. Gilder and Rhodes are co-chairman of the Club for Growth, a political action committee in Washington.

Stephen Moore

NRO Columnist

Moving Markets

Bush exaggerating the weakness of the economy? Absurd.

Mr. Moore is president of the Club for Growth
April 24, 2001 8:30 a.m.

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Last month while testifying before the Senate Budget Committee, I offhandedly observed that the U.S. economy is in recession. I might as well have said that Ted Kennedy wears panty hose, so horrified was the reaction. There ensued a furious counterassault by the Democrats on the Committee. Sen. Clinton of New York sat smugly perched on her high horse and fumed: "Mr. Moore, do you even know what the definition of a recession is?"

A recession is, of course, two consecutive quarters of negative economic growth. Many times recessions are over before we knew we were officially in one, and my strong suspicion is that that's the case now. The manufacturing and high-tech sectors have been in recession for at least eight months now. The Federal Reserve Board reported last week that Americans lost some $2 trillion in the stock market in the fourth quarter of 2000. Any way you cut it, the economy is very weak.

My sin that morning was "talking down the economy." George Bush is alleged to be doing this. Tom Daschle complains that Bush's negative vibes are "very harmful to the economy." Apparently, what we need from Washington now — to bring jobs back and rally the stock

NRO Features

Impromptus
NEW YORK — W.'s Wit, Jeffords's Snit, and more. By Jay Nordlinger. 6/05/01 1:35 p.m.

Blindsided
WASHINGTON, DC — A civil-rights travesty from the Civil Rights Commission. By John J. Miller. 6/05/01 1:35 p.m.

Jenna and Barbara, Honorary J.D.'s
NEW YORK — Shedding light on a silly law. By William F. Buckley Jr. 6/05/01 1:15 p.m.

Persecuting Jenna, and Ourselves
GOLDEN, CO — The persecution of the Bush daughters isn't about safety. By Dave Kopel & Glenn Harlan Reynolds. 6/05/01 1:00 p.m.

The Demon Rum
NEW YORK — The fuss over the Bush gals trying to buy booze with fake i.d.s has shed some interesting light on the current state of our morality. By John Derbyshire. 6/05/01 12:45 p.m.

End of Bret
WASHINGTON, DC — Jersey City's

market — is happy talk. When Bush refers to the slump in the economy or mentions the dreaded "R-word," he is accused of torpedoing the economy for his own political gain. The Left is still stewing over a statement made by Dick Cheney right after the elections, when he urged passage of the Bush tax cut because "we might be on the verge of recession."

Goodness, how reckless of the vice president. After all, this was only the consensus opinion of virtually every economist in America at the time. The allegation that the Bush administration has been exaggerating the weakness of the economy is absurd on several fronts. First, how in the world does George W. benefit from economic pessimism? Let's assume for a minute that Bush's critics are right: that Bush's mere utterances can cause a crisis in confidence and that a gloomy outlook from the White House can become a self-fulfilling prophecy. If that's the case, then the administration's incentive is to be as Pollyannish as possible. After all, it's Republicans, not Democrats, who are going to get thrown out of office en masse in 18 months if the economy continues to tank.

Second, Bush hasn't been talking down the economy at all; if anything, he has been too slow to acknowledge the recession, err, slowdown. He's refused to capitalize on the ailing economy to boost the case for a bigger and faster tax cut. (In fact, he *should* be doing what he is wrongly charged with: linking the need for tax cuts to the economic slump. See my article, "Killed on Taxes," criticizing the White House on this very point in the most recent print version of *NR*). In fact, it's the Democrats, not the White House, who have proposed an $80-billion tax-rebate stimulus this year to get money into the pockets of consumers quickly. What for, if we're not in recession?

Third, when George W.'s father was president, the very same liberal critics skewered Bush Sr. for his failure to acknowledge and respond to the recession. Papa Bush was said to be insensitive to the plight of the working man — out of touch and unable to "feel the pain" of real America. Now the son is attacked for being overly sensitive to laid-off workers and for paying too close attention to the stream of negative economic news. The Bushes can't win.

But here's the most preposterous allegation of all. In an April 13th commentary in the *National Journal*, called "The Power of Negative Thinking," reporter John Maggs says that George W.'s economic pessimism is nearly

Schundler era comes to a close. By John J. Miller & Ramesh Ponnuru. 6/05/01 10:55 a.m.

Clouded by Bias
WASHINGTON, DC — The *New York Times* doesn't want to cover the culture war; it wants to fight it. By Stanley Kurtz. 6/05/01 9:55 a.m.

Euthanasia Sets Sail
NEW YORK — An interview with Philip Nitschke, the other "Dr. Death." By Kathryn Jean Lopez. 6/05/01 9:15 a.m.

Bad vs. Worse
LOS ANGELES — L.A. voters choose a new mayor today. By Jack Dunphy. 6/05/01 9:10 a.m.

In Harm's Way
WASHINGTON, DC — Just say no to a scaled-back military force. By Frank Gaffney Jr. 6/05/01 8:05 a.m.

Crippling Thoughts
BOSTON — The ADA's powerful psychological hold. By Peter Wood. 6/05/01 8:00 a.m.

unprecedented. He quotes Andy Kohut, director of the Pew Research Center, who says that he's never heard a President be so consistently dour about the economy. According to Kohut: "We're in new territory here. Presidents usually say 'everything is great, and I'm responsible.' Now we have one saying 'everything is lousy, and I'm not responsible.'"

Mr. Kohut, I would like to introduce you to someone. His name is Bill Clinton. There has arguably never been a president who talked down the economy more persistently for political gain than Mr. Clinton. His mantra as president was that "we have the worst economy in 40 years." When he announced his record tax hike to the American people he said that it was necessary because the budget outlook was "much worse than I thought." This was all utter hogwash. The economy had grown at a brisk pace for a full year before Clinton became president. The budget outlook did not change much before and after Clinton's election. Clinton was aided in this canard by a compliant media, which throughout the 1992 presidential campaign portrayed the U.S. economy in the most dire terms, even though the recession ended in mid-1991.

One last point. Can presidents successfully steer the economy *just* through their words of confidence or malaise? Perhaps a bit. Jimmy Carter just exuded doom and gloom; every time he opened his mouth, the country seemed to take a turn for the worse. Reagan's optimism and can-do attitude was clearly contagious and buoyed investor confidence.

But let's face it, there's only one politician in this New Economy age who can magically move markets with a mere gesture, facial expression, or brief utterance. And his name is not George W. Bush. It's Alan Greenspan.

Back to NRO

Action canceled

National Review Online Financial...............print version

Stephen Moore
NRO Financial Columnist

Slaying the RINO

Senators Chafee, Jeffords, and Specter are Republicans in name only.

Mr. Moore is president of the Club for Growth
April 10, 2001 9:00 a.m.

2704417290

Despite the sunny face that the White House is putting on last week's Senate vote to trim Bush's tax cut, no amount of PR spin control can cover up the defeat which the administration has suffered. Bush asked for $1.6 trillion of tax cuts. Steve Forbes, Larry Kudlow, and I — and many others — have been pestering GOP leaders for weeks that this tax cut is too small to begin with given the size of the surplus and the meltdown of the stock market. And yet, the Senate slashed Bush's proposal by about 20 percent, to $1.25 trillion.

It's too early to estimate the magnitude of this political setback. There's still ample time for the White House to recover. But what is infuriating and indefensible is that the wounds from this defeat were self-inflicted. I am speaking of the by now well-publicized betrayal of three GOP Senate RINOs (i.e., Republicans in Name Only): Lincoln Chumpy ... er ... Chafee of Rhode Island, Jim Jeffords of Vermont, and Arlen Specter of Pennsylvania. After weeks of cajoling and pleading from the White House and their fellow Senate Republicans, the three RINOs unapologetically handed Tom Daschle a stunning political victory. The photos of Chafee and Jeffords yucking it up with their Senate Democratic colleagues shortly after rejecting their president's plan were pure salt in the wounds.

This will not stand. This cannot stand.

This act of party disloyalty must be punished swiftly and severely so as to insure that the virus doesn't contaminate other week-kneed Republicans. If a Republican won't vote for a tax cut that would provide a mere 6 cents on the dollar of tax relief to Americans, then why do they bother to call themselves Republicans at all? What good are they? Tax cuts are the one issue that unify the party — it's the GOP's common currency. These days, Republicans don't demand a lot of toeing the party line in exchange for room under "the big tent"; But, at the very least, you should have to be for tax cuts. I've highlighted this quote from Bob Novak before on these pages, but it's worth repeating in the wake of last week's setback: "The only reason God put Republicans on this earth was to cut taxes."

For years left-leaning Republicans — I refuse to call them "moderates" — have complained: The reason the Right hates us is because we're pro-choice, or because we disagree with the party's religious-right platform. The RINOs are fond of describing themselves as "socially tolerant and economically conservative." Nonsense. For the most part the left-wing Republicans are left-wing on economic and social issues, and this latest vote is just further validation of that thesis.

Apologists for Chafee, Jeffords, and Specter observe that these Senators are in tough Democratic-dominated states where the political center is the absolute furthest point to the right to which one can possibly afford to migrate. Nonsense. Cutting taxes is always and everywhere a winning issue. Even in the Yuppie, latte-sipping towns of Vermont, the home of Ben & Jerry's rainforest grotto, there's a ferocious property tax revolt brewing. In Pennsylvania, is Arlen Specter really worried that his next opponent is going to run around the state campaigning on the theme: "Arlen Specter cut your taxes too much!" Moore's political axiom is that Republicans only lose elections when they raise taxes, never when they cut them.

Self-survival isn't a persuasive excuse for another reason: None of these three wayward Republicans are even up for re-election in 2002. Jeffords and Chafee don't have to face the voters again until 2006 for crying out loud. They voted the way they did not out of fear of voter retribution, but because they genuinely think the Bush tax cut is too big and that this money could and should be better used for bigger government programs. This was a vote of conviction for these three. They genuinely believe that the $400 billion they sliced from Bush's tax cut is better spent on making our $2 trillion federal budget even bigger.

What is clear is that the Republican party will not exact any form of retribution against the Benedict Arnolds in the Senate. They should be forced to go out on a date with Barbara Mikulski. They should be required to read Hillary's epic, *It Takes a Village* from cover to cover. At the very least they should be stripped of their committee chairmanships and any plum committee assignments. But don't hold your breath. The GOP party faithful will go to the ends of the Earth to protect their left flank.

So it is left up to conservatives to serve out the punishment. The group I run, the Club for Growth, will start running TV and radio ads slamming Chafee, Jeffords, and Specter in their home states. The ads will remind voters, this last week before April 15th, that their senator voted with the IRS rather than with taxpayers. You can view the TV ads on our website.

Finally, if the conservative movement is to be taken seriously, it must flex its muscles by defeating one of these three apostates in a Republican primary. At least one of them has to be taken out. In fact, the Club for Growth is ready and willing to finance any serious primary challenger to this triumvirate. The objective would not so much be retribution, though, yes, that would be sweet. No, the objective is deterrence. After all, all of the research proves that punishment does deter crime.

I can hear the squishy country club Republican set howling in protest. "Oh no, no," they will moan, "nothing could be more damaging to the party." They're wrong. Nothing could be more damaging to the party than the pro-tax vote that Messrs. Chafee, Jeffords, and Specter cast last week.

National Review Online..................print version

Stephen Moore
NRO Columnist

The Incumbency-Protection Racket

There's a better way to reform campaigns.

Mr. Moore is president of the Club for Growth
April 5, 2001 9:25 a.m.

Conservative opponents of John McCain's campaign-deform legislation are going to lose if they don't stop making the wrong and unpersuasive arguments against this fraudulent bill. The conservative attack against campaign reform has thus far centered on three arguments: first, that the system isn't broken and that campaign spending isn't out of control — which is a dubious proposition given that House races now can cost $5 million or more. Second, that campaign-spending limits are a violation of free speech--which may or may not be the case but is entirely unpersuasive to average voters, 80 percent of whom never give a dime to political candidates. And third, that special-interest groups don't buy undue influence with their donations — which is totally preposterous. (How else did we end up with this elephantine $2-trillion budget?)

The denial of a problem is arguably the worst tactical blunder. Why? Because John McCain is right: This nation is in serious need of genuine campaign reform. More to the point, the vast majority of Americans *believe* that he is right. To torpedo the McCain bill therefore requires a much more potent alternative than raising campaign limits and requiring disclosure. The good news is that there are other much more promising and popular campaign-reform measures: namely, term limits, tax reform, and ending corporate welfare, each of which would bring the fountain of special interest money now pouring into campaigns to a screeching halt. These reforms would also create a more competitive election environment — and that's why it's so excruciatingly difficult to get real campaign reform. Precious few incumbents want a more competitive climate.

In fact, that is precisely the cancer in our campaign system today that none of the so-called reformers will acknowledge.

The system is completely jerry-rigged in favor of incumbents. Nowadays, it seemingly takes a blowtorch to pry a congressman from office once he gets there. (And yet, they actually want a pay raise for this lifetime-security job!)

How strong is the incumbent advantage? Let's look at the 2000 congressional elections. Guess how many incumbents running for the House of Representatives won?

Did you guess 80%? Wrong.

Did you guess 90%? Wrong again.

Did you guess 95%? Wrong, but close.

Try 97%! These days, unless an incumbent commits an indictable offense, robs the House post office, or has sex with a page, there's just no getting rid of them. Even in the "throw-the-bums-out" election of 1994, more than 90% of incumbents were re-elected.

Studies show that House incumbents start every election with roughly a built-in $500,000 advantage, thanks to name recognition, the ability to pass out pork and go to ribbon-cutting ceremonies, and, of course, to the free campaign literature that congressional offices can mail out at taxpayer's expense during the year. Let's call it Head Start for incumbents.

So any campaign-reform law must be judged first and foremost on whether it makes it easier or harder to defeat incumbents. Does it help create a level playing field? Now, of course, incumbents of both parties don't have a strong incentive to change the laws so that it's easier to defeat them.

And voila, I present to you the McCain-Feingold bill. This bill is a scam because it would actually increase the incumbency advantage. How so? The McCain bill helps incumbents in three ways. First, the money-raising restrictions benefit incumbents, because it makes their $500,000 head start all the more valuable. Second, the bill contains an insidious millionaire provision, which incredibly says that any incumbent who faces a Jon Corzine-type gazillionaire who spends more than a million dollars of his own money, no longer has to live by the campaign-finance restrictions. And third, the bill contains an amendment by Sen. Paul Wellstone of Minnesota that prohibits independent groups, like the Club for Growth, from running TV ads mentioning any incumbent's name within 60 days of an election. If this gag rule had been in existence last year, the Club for Growth would not have been able to run ads educating New Jersey voters on the lousy congressional voting record of Marge Roukema. Ms. Roukema, by the way, is a big fan of campaign-finance reform to muzzle groups like ours.

There are three keys to genuine campaign reform. First, term limits will create competitive elections and reduce special-interest spending since politicians would only be around for a few years, thus greatly lessening the discounted present-value rate of return on campaign contributions. Politicians can't "stay bought" if they're only on Capitol Hill for four or six years. The polls show that the public still strongly supports term limits--even more than the McCain bill. It's not helpful that some of the lead Republican opponents of the McCain bill — including Sen. Mitch McConnell — are also ferocious opponents of term limits.

Second, genuine tax reform — I'm thinking here of the flat tax--would erode the power structure in Washington and put most of K-Street lobbyists out of business. Without tax carve-outs, loopholes, and deductions to buy and sell, the commerce of lobbying would be greatly depressed. Dick Armey, the tireless flat-tax crusader, has shown that there is an almost perfect linear correlation between the complexity of the tax code and the number of lobbyists in Washington. And the flat tax would be wonderful for the economy to boot.

Finally, much of the corporate political giving in Washington is a down-payment on tens of billions of dollars of corporate-welfare grants, loans, and cut-rate insurance. A few years ago, I showed that the biggest corporate givers also just happened to be the biggest recipients of a boondoggle called the Advanced Technology Program that gives companies like GE and Hewlett-Packard ten-million-dollar welfare checks.

All of these reforms would clean up the buying and selling of votes that goes on everyday in Washington and that too many conservative opponents of the McCain bill, in their zeal to defeat that legislation, pretend isn't really occurring. Anyone who is for smaller government should be a champion of campaign reform — as outlined above.

National Review Online..................print version

Stephen Moore
NRO Columnist

Tax-Cut Lessons for Dummies

That means you, Congressman.

Mr. Moore is president of the Club for Growth
March 28, 2001 9:45 a.m.

Watching the tax debate unfold on Capitol Hill you'd think Congress has been infected with Mad Cow Disease. Both the Republicans and Democrats seem to be trying to outdo each other with dimwitted tax-cut proposals designed to help sturdy the economy, but with almost no real stimulative effects and almost no chance of reviving the moribund stock market.

A case in point: Last week, as the Dow Jones and the NASDAQ stock markets continued to plunge into gloomy bearish territory, causing almost all analysts to now concede that a recession is imminent, the House Republicans voted to increase the child exemption from $500 to $1,000 per kid. Will someone please tell these people that while they dither, Rome is burning? A $500 tax credit for kids may be good social policy to help families with kids pay their bills, but it doesn't do squat for a limping economy that has seen net worth fall by more than $2 trillion just since election day.

Meanwhile, Republican Sen. Pete Domenici of New Mexico called for a $60 billion tax rebate this year. Domenici deserves praise for at least calling for a lot more short-term tax relief than is contained in the House-passed plan — which is so back-loaded that it offers an insultingly small cut this year and next. But a tax-rebate plan is the economic equivalent of flying a helicopter over Central Park in New York and dumping dollar bills out the window as a way to stimulate the economy. It's not going to work.

Equally baffling is the Democratic tax-cut alternative. That plan calls for cutting the bottom tax rate from 15 to 10% right now. Sen. Tom Daschle says that the logic here is to put hundreds of dollars back into the pockets of the lowest income taxpayers so they can rush out and spend to juice the economy.

Now admittedly the idea imbedded in both plans, which is that we should take tens of billions of dollars out of the federal treasury and give it back to workers, makes a lot of sense. And it can't hurt the economy. But both these plans are about the worst possible way to cut taxes if the goal is to restore prosperous times.

The problem — as I have been saying ad nauseum for two months now — is that Capitol Hill is shackled to demand-side logic on tax cuts. They find intellectual support from people like *New York Times* columnist Paul Krugman, who writes that tax cuts must stimulate consumer demand if they are to aid the economy.

But what's needed now is supply side incentivizing of tax-rate cuts that reduce the tax penalty on economically productive behavior. Supply-side tax cuts reduce tax rates in order to reward saving, investment, and work.

Consider the idea of cutting the bottom tax rate. Imagine for a moment that we had a tax system that taxed people at 15% for working on Monday, 28% on Tuesday, 31% on Wednesday, 36% on Thursday, and 40% on Friday. (This simplistic model actually isn't too far from the reality of our present-day graduated income tax-rate system!) Now it stands to reason that a lot of people would quit working on Fridays, or perhaps work until noon. In fact, even though the tax rate is higher on Friday than on Monday, tax collections on Monday could easily be higher than on Fridays. There would clearly be less economic activity on Fridays than on Mondays.

Would it make any sense to cut the tax rate on Mondays, but not the tax rate on Fridays? None whatsoever. That, however, in a nutshell is the reigning tax-cut proposal on Capitol Hill. Cut the lowest tax rate, but not the highest tax rate. Many Republicans, petrified of claims of "tax cuts for the rich," wish to cut the lowest income tax rate, but to delay cutting the highest rate. As I said, a clear sign of Mad Cow Disease.

The rebate plan submitted by Sen. Pete Domenici is well intentioned, but also off base. If you took the income tax structure as described above, and tried to fix things by giving every family $50 a week, they still may not work on Fridays any longer--in fact, with the added give-away dollars in their pockets, they may choose to work less on Fridays, not more.

Clearly, if the goal is to generate more economic output, you cut the highest tax rate — i.e., the tax rate for working on Fridays. Economist Arthur Laffer, who converted Ronald Reagan to supply side economics 25 years ago, has argued that we should RAISE, not lower the bottom tax rate, and then dramatically lower the top tax rate in order to create a fairer and more uniform tax rate on every day of the week.

The logic here leads us inexorably toward the tax ideal: a flat rate tax system: One uniform low tax rate paid by everyone. To get to a flat-rate tax, the top income tax rate has to come down a lot — from 40% today, to perhaps 20 or 25% tomorrow. Lowering the bottom rate only makes the tax-rate system steeper to climb.

The bottom line is this: There's almost no economic benefit to chopping the lowest tax rate, but a world of benefit from chopping the top rate as much and as soon as possible. The fiscal stimulus the economy needs should come from shaving the top income tax rate from 40% to 33% right now. That goes for the death tax too. Forget about increasing the exemption. Cut the confiscatory 55% rate to reduce the adverse incentive effects of this tax.

The economic logic here seems so straightforward that it should be compelling, even to the herd of mad cows on Capitol Hill.

National Review Online..................print version

Stephen Moore
NRO Columnist

The Key to Recovery
Hint: It does not involve Alan Greenspan.

Mr. Moore is president of the Club for Growth
March 16, 2001 12:15 p.m.

The gray cloud of gloom that is now hovering over Wall Street and Main Street has a silver lining. The case for a very large tax cut is all the more persuasive. Even the Democrats are now saying we need a bigger fiscal stimulus than the president has proposed. George W. is wrong when he says that his tax cut is the ideal package for this moment. It might have been ideally suited for an economy cruising along at 5% growth — and that's what the growth rate was 16 months ago when candidate Bush proposed tax cuts. With zero percent growth and the NASDAQ down 60 percent from its high a year ago, a much bolder economic-recovery package is needed.

Budget surpluses are meant to be used as "rainy day funds." Folks, take a look at the window, or at the stock ticker streaming along the bottom of your TV screen. It's raining out!

A consensus is starting to emerge that the tax cut needs to provide a more immediate spark to the economy. Last week at his San Diego conference Arthur Laffer referred to the Bush tax cut as a "modest long-term plus for the economy." But he says it does almost nothing for the economy now. Almost all supply-siders agree. Certainly, something is needed before 2003 — which is when the Bush marginal income tax cuts at the top start taking effect. Two-thirds of the tax cut will take effect after 2003. In 2001 the GOP tax cut would reduce your taxes — hold on to your hats — by 0.5%. Don't spend it all in one place.

So why is the GOP tax cut so destined to fail? Because Republicans don't want to be accused of "raiding Social Security" or running budget deficits. So, how to get out of the box?

Two words: capital gains. I have said it many times before on this page, but it bears repeating: The 1997 capital-gains cut raised all sorts of revenues. In 1996, $60 billion was raised from capital gains. Last year we collected more than $100 billion. Lower rates, more revenues. The good news is that a cut in the cap-gains rate from 20 to 15% will be scored by the Joint Tax Committee as raising revenues in the first year and probably the first two years. We would pick up about $7 billion this year if the cap-gains rate were lowered to 15% effective April 1, 2001.

Now this is ideal. The cap-gains tax cut can be used to finance a steeper cut in the income-tax rates without pick pocketing the Social Security and Medicare funds. It's win-win.

The reason a capital-gains cut is so crucial is that this is the one tax cut that could provide an immediate stimulus to equity values. A cut in the capital-gains tax boosts the after-tax rate of return on stocks. This lifts the price. That happened in spades after the 1997 cap-gains cut. Stocks surged.

It is lunacy for the GOP to pass a tax cut that might take effect under Speaker Gephardt and Majority

Leader Daschle — i.e., after the 2002 elections. But unless a more pro-growth tax cut is enacted between now and then, that's the dismal political future we're facing. It's not surprising that the Democrats don't want a bigger tax cut. But it is absolutely astonishing that so few Republicans do.

I hate to say I told you so — actually, I don't mind — but I have warned that if Bill Thomas were chosen as Ways and Means Committee chairman it would be bad news for Republicans and bad news for the tax-cut agenda. Thomas was the one who left out the retroactive feature of the income-tax cuts for the top rates. Why? Because, he told the House GOP caucus, "This way the Democrats can't accuse us of cutting taxes for the rich."

This is called pre-emptive surrender.

Of course, even by taking out the retroactive tax cut, the Dems are still screaming "tax cuts for the rich." So the GOP didn't buy any peace. More important, if the chairman of the Ways and Means Committee can't or won't take on the class-warfare lobby, we need someone in the job who will. The top marginal tax rates are the most critical to cut. The bottom rates are almost irrelevant in terms of promoting investment, savings, foreign capital infusions, and risk taking.

Denny Hastert, who chose Mr. Thomas over longtime conservative Phil Crane, made it known that Thomas would be a far more capable tactician and leader in taking on the likes of the ranking Democrat, Charlie Rangel, on the committee. Thomas has flunked his first big test.

National Review Online Financial................print version

Stephen Moore
NRO Financial Columnist

My March Madness
I'll take out the trash in April.

Mr. Moore is president of the Club for Growth
March 13, 2001 10:00 p.m.

March is a month that puts a severe strain on my marriage. Always has. I mean, I do love my wife, but probably not as much as college basketball and March Madness.

Over the next three weeks I'll watch almost every one of the 63 games — from the first tip-off at noon on Thursday through the closing credits of the championship game played to the tune of "One Shining Moment." The ultimate high in life is when there are four NCAA games going on simultaneously and you're seated at a sports bar with a satellite dish and four big-screen TVs. It just doesn't get any better than that. (Look, if you're going to watch the games you absolutely must have a satellite dish, or you have to find someone who does, or else you're going to O.D. on 7-Up and Honda commercials by the end of the month.)

Usually I try to go to one of the games during the first round of the tournament, as long as it's within a 100-mile radius. I've been at some of the greatest upsets in NCAA history: Northern Iowa beating Missouri, Richmond upending the #2 seed Syracuse, tiny Sienna whipping Stanford, to name a few. The real sports junkie aches for the Thursday-through-Sunday first and second-round games. There's nothing quite like watching Princeton upend UCLA or Weber State knock off mighty North Carolina.

My wife, Allison, says that I take these games too seriously. She may be right. Several years ago, my alma mater Illinois blew a 7-point lead in a first round game against a college named Austin Peay. That was the same school that produced the great Fly Williams and the immortal cheer, "The Fly is open, let's go Peay!" I felt close to suicidal for about two weeks after that Illini meltdown.

When Allison and I got married the hoops ground rules were already well established: She's not allowed to talk to me during the NCAA tournament. Sometimes she slips up and pesters me by saying, "Steve, take out the garbage please." And I will respond: "That's funny, I didn't think it was April yet." My kids have started complaining that in March they feel as if they're growing up in a fatherless home. One year an idiot friend of Allison's actually got married on the Saturday night of the Final Four, and I was forced to go as her date. "Gee, Karen," I said to her friend, "I'd much rather witness you taking your wedding vows than watch the Duke-Michigan State game." We almost got divorced over that little fracas.

Our second child, William, was accidentally born in March. We had strategically engaged in planned parenthood so that the baby would arrive in early April. William confounded our plans by arriving three weeks early. In fact, he was delivered in the middle of an Indiana-Temple game, a real nailbiter. I remember the game vividly because I kept running back and forth between the delivery room and the hospital TV room. The surly nurse kept asking me: "Mr. Moore, is this an inconvenient time for your wife to have this baby." I told her, with all honesty, that the timing could have been a lot better.

Allison kept saying: "Let him go, I'm better off without him."

Anyway, as fate would have it, that was a great day after all. William was born healthy, and IU won the game. We came close to naming him Robert Montgomery Knight Moore.

The tournament, for all its greatness, has lost some of its luster of late. It was so much better when ESPN, rather than CBS, televised the games. CBS simply refuses to switch away from a boring game (only of interest to the local audience) to an exciting one in a different part of the country. (That's another reason why you need a satellite dish.) Another problem is that CBS now has women announcers and commentators. Is nothing sacred? This is like having wives attend a bachelor party. CBS caters its broadcasts to the marginal fan. ESPN is for the fanatic. Of course, there's a pall over this year's tournament given the recent death of the original voice of college basketball, Al McGuire.

This year I have two horses in the race. Illinois is, of course, the #1 seed in the Midwest, and I've psychologically prepared myself for the typical early exit to a lower-seeded team. I got my graduate degree from George Mason. The Patriots are in the big dance for the first time in ages. So here's my vision of Utopia: The Illini meet the Patriots in the Final Four.

So now, dear reader, you know my two real passions in life. Tax cuts and college basketball. And not necessarily in that order.

National Review Online..................print version

Stephen Moore
NRO Columnist

Anti-Tax-Cut Nuttery
Part ignorance, part malice.

Mr. Moore is president of the Club for Growth
March 7, 2001 3:55 p.m.

2704417 3001

I'm continually amazed by the half-baked arguments made against George W. Bush's $1.5 trillion tax-cut plan. Has the Left learned absolutely nothing over the past couple of decades about how taxes impact the economy? Or, are the Democrats so fixated on denying George W. Bush a political victory that they will resort to even the most nonsensical arguments to prevent it from happening? I'm convinced that ignorance and malice are about equally to blame for the flim-flam attacks against the Bush tax plan.

With the key House vote on the income-tax rate cuts coming on Thursday, now is a good time to dispose of the peskiest and most oft-repeated arguments of all. The reader will doubtless discover that some of the charges levied against the tax bill contradict each other. Herewith a counterassault:

Anti-tax cut argument #1. "Tax cuts won't stimulate the economy, because the money will be saved, not spent."

Now, there's a very legitimate argument to be made (in fact, I make it all the time) that the Bush tax-rate cuts are too puny to provide a short-term economic stimulus to the economy. But that isn't the complaint we're confronted with here. This is more of a standard, discredited Keynesian analysis. The *Wall Street Journal*'s Al Hunt wrote last week that the tax cut wouldn't work because "the tax relief is too slanted toward the rich who will save the money, rather than the working class who would spend it." Thomas Mann of the Brookings Institution echoed this baffling logic the next day in a *USA Today* editorial. He criticized the plan on the grounds that it wouldn't elicit a burst in consumer spending. (In that same editorial Mann also wrote that he likes to pay taxes!) When I testified before the Senate Budget Committee last month, I was surprised to here my fellow panelist, former Clinton OMB Director Alice Rivlin, tell the Senators that in order for this tax cut to stimulate the economy, it will have to get people to go out and spend the tax cut for the economy to be jolted back to life.

No, no, no, a thousand times NO. The purpose of a supply-side tax-rate reduction is not to put more money in people's pockets so they can rush out to the mall and spend it. (Admittedly, if they did spend every new dime, this would arguably increase overall economic efficiency. After all, I can spend my own money more efficiently than the government can. I assume you can, too.)

Tax-rate reductions are economically beneficial because a cut in tax rates reduces the negative effects of the tax on economic behavior. A tax-rate cut increases the after-tax rate of return on capital investment, on starting a business, on saving, and on working. When you tax something, you get less of it. When you tax something less, you get more of it. This is why every time we've cut federal tax rates in the U.S. we've seen a spurt in productivity, employment, investment, asset values, and output.

Bush was right to invoke the examples of JFK and Reagan. Both those tax-rate cuts were followed by record economic expansions, namely, in the production of goods and services.

Anti-tax cut argument #2. "The adverse consequences of the death tax can be solved by simply raising the exemption."

Wrong. The death tax has the most injurious economic-disincentive effects on saving and investment of any federal tax. That's primarily because the 55% death-tax rate is high in its own right, but is also levied on money that was already taxed when it was originally earned. The National Center for Policy Analysis has shown that the effective tax rate on saving at the end of one's life can reach the 70-80 percent range because of this confiscatory regime. Now you know why the super-rich spend millions of dollars on tax attorneys and estate planners to find ways around paying the tax. It's nutty to raise the death-tax exemption but not to lower the tax rate as quickly and steeply as possible with the goal of someday getting to zero.

Anti-tax cut argument #3. "The tax cut will squander the budget surplus, reduce national savings, and raise interest rates."

This is the Robert Rubin special. The former Clinton treasury secretary says the Bush plan will reverse the "hard fought fiscal discipline of the 1990s" and cause higher interest rates. But wait. When Reagan cut taxes in the 1980s, interest rates fell very dramatically even as demand for credit was rising. (In 1980 the mortgage-interest rate hit 20 percent, remember?) And in the two years after Clinton raised taxes, interest rates rose. Higher taxes usually lead to higher, not lower, interest rates.

In any case, this argument contradicts the first. In the first line of attack, the Left complains that the tax cut won't work because people will save the money, not spend it. But if that's true, then how can the tax cut reduce national savings and thus raise interest rates? If the tax cut is primarily saved, then we would be simply reducing the government rate of savings (i.e., the surplus) by roughly the same amount that private savings would rise. In other words, in argument one, the tax-cut adversaries warn that it would be bad for people to save the money from their tax cut, and in argument two they say that it would be harmful if people spend their tax cut. If both of these things are true, then we really are doomed.

The historical evidence indicates that tax cuts almost always lead to a surge in national savings. Why? Because the propensity to spend an extra dollar of income is nearly 100% for the government, but much lower for individuals. If you give Congress an extra dollar, it will spend every penny of it. If you give Americans an extra dollar, they might only spend 90 cents of it. Almost none of the tax-cut opponents really doubt this. In fact, many are quite open about their desire not to cut taxes so that the federal government can spend the money on health care, child care, the schools, foreign aid, congressional pay raises, etc. Dick Gephardt and Tom Daschle have conceded that they would rather spend the $1 trillion Bush has earmarked for tax cuts on more social programs.

Wealth creation is the ultimate form of saving. Tax-rate cuts fueled stock-market booms in the 1920s, the 1960s, and the 1980s in the wake of supply-side tax cuts. After the Reagan tax cuts, the wealth of American citizens ballooned by more than $10 trillion, as the stock market soared from 800 on the Dow Jones to more than 10,000 today.

In the past 18 months, Japan, Germany, and France have all cut their income taxes. They're on to something. European economic ministers have started to begrudgingly concede that their taxes are simply too high to compete internationally. They finally seem to have taken off their socialist blinders to discover that taxes matter a whole lot in today's hyper-competitive global economy. Is it asking so much to expect America's Left — inspired by Dick Gephardt and Tom Daschle — to acknowledge their bullheaded economic thinking?

It probably is.

National Review Online.....................print version

Stephen Moore
NRO Columnist

Shut Down the NGA

Now little more than a Washington lobby for Internet taxation.

Mr. Moore is president of the Club for Growth
February 26, 2001 3:35 p.m.

More than half of the nation's governors are in Washington this week for the National Governors Association meeting. The question is: Why do they come? And why do so many conservative Republican governors continue to belong to this insidious organization that promotes an agenda entirely at odds with what they say believe in?

In the past, the NGA has been a relatively innocuous if sanctimonious "nonpartisan" organization. It did little good, but lacked the clout to do much mischief either. Throughout the 1970s and 1980s the NGA peddled a decisively left-leaning staff, which made sense because most of the governors were liberal Democrats. Like so many institutions in Washington that were tilted heavily to the left, Republicans pledged that if ever they got the power to change things, there would be a thorough housecleaning and ideological shift back to at least the center.

It's never happened at the NGA even though the GOP has had the majority of the governors for 6 years now. Today, there are 30 Republican governors. The GOP has the state house in 4 of the 5 biggest states. This should be an organization promoting an agenda of states rights, fiscal conservatism, and free-market policies.

But something irrational comes over Republican governors when they start fraternizing with their Democratic counterparts. In the spirit of bipartisanship they start to endorse looney ideas. A few years ago when congressional Republicans were trying to cut taxes and reform welfare, two issues that tremendously benefit states, the governors issued a mamby-pamby statement complaining: These policies might hurt the poor if it means reductions in payments to the states. Dick Gephardt couldn't have written the script better.

What is most obnoxious about the NGA is that is now little more than a Washington lobby for Internet taxation. The organization has become maniacal about the issue. Once Republican hill staffer complained to me a few weeks ago that "it's like the governors have a full time lobbying operation pressuring Congress to impose a uniform federal tax on the internet." One governor called me last week, frantically asking me who would be a good speaker opposing internet tax. Why? I asked. Because, he said, the NGA has stacked the deck with a session on the issue with only advocates — no opponents. Typical.

The Democratic governors are almost uniformly supportive of taxing the Internet. The Republicans are split down the middle — with the more fiscally conservative GOP govs — including Colorado's Bill Owens and New Mexico's Johnson — leading the charge against taxing cyberspace, and the more moderate to liberal faction — led by Utah's Mike Leavitt, former NGA chairman — supporting the revenue grab. Unfortunately, the incoming NGA chairman, John Engler of Michigan, who is normally level-headed when it comes to economic issues, has somehow found himself on the side of the tax hikers. He's not likely to command the NGA staff to cease and desist its crusade for this new tax.

All the more reason the NGA should be disbanded. This organization can't be reformed. It needs to be neutered. Republican governors should begin to pull out and withdraw funding — en masse.

How Does Your Governor Stack Up?
With the governors in town this week and in the national media spotlight, now's a good time to review the policies of the governors. It so happens that earlier this month, Steve Slivinski and I released our 5th annual Cato Institute Fiscal Report Card on the Governors. Governors who cut taxes and spending the most get the highest grades. The governors who tax and spend the most get the lowest grades.

On average, Republicans scored half a grade higher than Democrats. Congratulations to Gov. Paul Celucci of Massachusetts and Kenny Guinn of Nevada for acing the exam. It's encouraging to see that former Texas Governor George W. Bush ranked an impressive third on our list. The 3 most fiscally reckless governors in the nation, John Kitzhaber of Oregon, Tom Vilsack of Iowa, and Gray Davis of California are all Democrats.

But as you can see, 5 Republican governors received Ds in this year's report. GOP govs. Don Sundquist of Tennessee, Bob Taft of Ohio, Mike Foster of Louisiana, and Mike Leavitt of Utah have all been tax raising governors. It just goes to show that the RINO ("Republican in Name Only") is hardly an endangered species when it comes to state politics. Let's just hope these are the governors that aren't whispering in President Bush's ear this week.

The problem is the staff hasn't changed much from the days the Democrats dominated the governors' mansions. Grover Norquist of the Americans for Tax Reform has for years tried to persuade governors to drop out of the NGA. He has had only limited success. But now is clearly the time to recognize that this is simply a "nonpartisan" organization that has long ago outlived its usefulness.

National Review Online.................print version

Stephen Moore
NRO Columnist

Befuddled Billionaires

Why George Soros wants you to pay more taxes.

Mr. Moore is president of the Club for Growth
February 20, 2001 12:25 p.m.

Just because someone is really, really wealthy, doesn't mean that he is blessed with common sense. Earlier this week a handful of the richest people on the planet, including George Soros, Warren Buffett, and Paul Newman urged Congress *not* to eliminate the death tax. More than 100 other rich people took out an ad this weekend in the *New York Times*, essentially saying "Please tax us!" Estate-tax advocates in Washington are exulting in the fact that even the nation's yacht owners don't want this tax repealed.

The truth is that these fabulously wealthy Americans aren't being nearly as selfless as it may seem. Most billionaire families around today have long ago engaged in careful estate-tax planning-by, for example, depositing their fortunes into family foundations, or by creating generation-skipping trusts — to escape ever having to endure the long arm of the IRS beyond the grave.

Let's take the example of Mr. Soros. According to research by Brett Fromson of TheStreet.com, there are very few Americans who have been so successful at gaming our tax system as the billionaire financier. Many of Soros' investments are "off-shore" hedge funds that are often exempt from U.S. taxation. "Soros can afford to support high-inheritance taxes," writes Mr. Fromson, "given the enormous personal income tax advantage he enjoys."

Now I personally have no objection to Americans engaging in legal tax avoidance. It's smart personal finance. But Soros shouldn't turn around and urge other folks to pay more taxes, when he personally finds so many clever ways to beat the IRS.

The dirty little secret of the death tax is that the people who are clobbered by this tax are not billionaires. Typically they are ordinary Americans with medium-sized estates-the millionaire next door. I am talking about ranchers, farmers, and self-starter businessmen and women. They are the risk-takers in our society who have spent a lifetime pouring sweat equity into their family-owned firms. They grow anguished and enraged when they discover that their reward for a life of virtue is a confiscatory death tax.

Every year there are thousands of heirs who are forced to literally sell the family farm or business just to pay off their estate taxes. It's particularly unjust given that this tax is imposed on dollars that were already taxed during the deceased's lifetime (i.e., when the income was earned).

Now Mr. Buffett worries that without a death tax America will become a society of pampered third- and fourth-generation inheritors hoarding their family fortunes without ever working for an honest day's wages or contributing to society. (The image of Ted Kennedy may jump to mind here.) But, as Professor Edward McCaffery of USC Law School points out, "If breaking up large concentrations of wealth is the intention of the death tax, then it is a miserable failure." N.B.: The Kennedys and Rockefellers enjoy massive family fortunes despite the estate tax.

The death tax rewards the very life of lavish, unproductive consumption it is intended to discourage. This tax essentially says to the elderly: 'Live high on the hog; Wrap yourself in every material comfort; Eat, drink, be merry.' You can't take it with you, and you can't leave most of it to your kids. So your goal is to die broke — the ultimate form of tax avoidance. Meanwhile, the frugal men and women who scrimp and save and selflessly amass a legacy to leave to their children, gets clobbered by a death tax that allows the IRS to pilfer more than half of their life's earnings. Through the death tax, we reward vice and punish virtue. Just where is the tax fairness in that, Mr. Soros? Mr. Buffett? Mr. Gephardt?

One riposte from the billionaires is that if we were to get rid of the death tax, it would destroy private charities. But there is ample evidence showing that charitable giving is far more influenced by the degree of economic growth than the value of charitable tax deductions. In the 1980s, the value of charitable deductions fell by almost half, but charitable giving soared. It's insulting to say that Americans give to their churches or the Red Cross or the Salvation Army because they want a tax break. True, without the death tax, there would be fewer Ford and Rockefeller Foundations, but given how these Foundations have misspent monies in recent decades, that may not be such a bad thing.

George W. Bush is right to demand the end to the death tax. We consider ourselves to be the freest nation on earth, but we currently have the second-highest death tax in the industrialized world. Many nations that lean closer to socialism than our own, such as France and Sweden, impose much lower estate taxes than we do. What's more, this confiscatory tax collects a meager 1.5% of total revenues.

Some studies have predicted that we would get more tax money, not less, if we abolished the tax. George Mason University economist Richard Wagner, an expert on federal tax policy, has come to precisely this conclusion. He says that because the death tax channels billions of dollars of capital into economically-unproductive and complicated tax-shelter schemes, the tax actually reduces economic growth and thus costs the economy jobs and tax revenues. The death tax, of course, is not bad news for every industry: There are thousands of tax lawyers and crafty accountants whose livelihoods depend on preserving this tax.

I find myself in the unusual situation of siding with Hillary Clinton, not George Soros, in this debate. Last fall, while campaigning for the Senate in New York, Mrs. Clinton said: "You ought to be able to leave your land and the bulk of your fortunes to your children and not the government." Fortunately, three out of four Americans agree with her.

National Review Online....................print version

Stephen Moore
NRO Columnist

Avoiding Daschle's Tax Trap

CBO makes the case for tax cuts.

Mr. Moore is president of the Club for Growth
February 12, 2001 10:05 a.m.

The latest Congressional Budget Office budget-surplus numbers are a nightmare for anti-tax cut Democrats and moderate Republicans. Just to review the numbers: The budget surplus is $5.6 trillion over 10 years. (Once again, immodesty compels me to note that Larry Kudlow and I were right and almost all the left-wing Democrats who said that rumors of surpluses are greatly exaggerated were wrong. I mention this, because those who have been wrong for five straight years continue to say that the surpluses aren't real or won't be as big as expected. That's their story and they're sticking with it!)

Now, there are several important policy consequences of these new surplus estimates.

First, they make a powerful case for a bigger Bush tax cut. Larry Hunter, the smart supply-side economist who works for Empower America suggests that Bush should pull a Clinton. In February of 1993 Bill Clinton said: "Oh my gosh, the budget deficit is much worse than I thought, we need a much bigger tax increase than I campaigned on." Bush should say: "Oh my gosh, the budget surplus is much bigger than I thought. We need a much bigger tax cut than I campaigned on." For Bush to do this would have the extra benefit that he would be telling the truth, whereas, of course, Clinton was lying.

The budget surplus is now a whopping $1.5 trillion HIGHER than when Bush devised his tax plan 14 months ago. Circumstances have changed making the case for a bigger tax cut all the more persuasive. Even if we lay aside all the Social Security surplus, then we still have $3.1 trillion for tax cuts. That's twice the size of the Bush tax cut. We need to start lock-boxing (am I the first to use that term as a verb?) all extra surplus dollars for tax cuts.

Second, Republicans need to worry about the latest Democratic trap of setting aside all the Social Security and all of the Medicare surplus dollars for debt retirement. This is a terrible idea. Economist David Malpas of Bear Stearns tells me that if the GOP does that, by about 2005, the federal government would have to start buying up assets from the private sector. Very bad idea! In fact, when I testified before the Senate Budget Committee on February 8th, sitting down the table from me was Alice Rivlin arguing that we should have the federal government buy up private assets. While the rest of the world is moving toward divesting government-owned assets, the U.S. government would be moving toward Uncle Sam owning private assets.

The only way out of the box is to grow the tax cut. As has been reported on NRO, the best tax bill before Congress now is co-sponsored by Pat Toomey, Paul Ryan, Jeff Flake, Mike Pence, and about 20 other House members who want a Bush-Plus agenda. They seek the immediate repeal of the death tax, the income-tax-rate cutbacks accelerated, and a capital-gains cut. All Republicans should embrace the plan that would bring the tax cut number to $2.2 trillion.

Even if all of the operating budget surplus is corralled for tax cuts, this still leaves $2.5 trillion of surpluses in the Social Security fund. What is to be done with that money? The entire Social Security surplus should be devoted to personal retirement accounts. This would allow Americans to store away about three percentage points of their payroll tax payments into IRA accounts. This would lower long-term unfounded liabilities of the Social Security system and raise retirement incomes of young workers. It would also allow the burden of the national debt to fall to below 20% of GDP for the first time since the 1920s.

If the GOP would follow this strategy, everybody goes away happy, except the congressional appropriators.

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National Review Online.................print version

Stephen Moore
NRO Columnist

McCain Is Right, Bush Is Wrong

Well, on this issue.

By Stephen Moore, president of the Club for Growth
February 1, 2001 9:25 a.m.

John McCain has some pretty cockeyed ideas about cleaning up the campaign-funding system in Washington, but he has one very good idea that the Bush team has foolishly rejected. McCain has proposed that any firm selected for a Commerce Department trade mission should "voluntarily agree to a ban on political contributions to candidates for six months." When I first heard the idea, I thought it was brilliant. Finally, someone was doing something to prevent the Commerce Department from being turned into a cash register for the party in power. It also makes a lot of sense because Republicans need to shake the image that this is a political party of, by, and for corporate America. The McCain idea would be a nice symbolic gesture to voters that this administration-unlike the one they just replaced — isn't for sale to the highest corporate bidder.

But the Bush team doesn't see it that way. Don Evans, Bush's new secretary of the Department of Corporate Welfare...er...I guess it's still officially called the Commerce Department...says the plan wouldn't work because it would exclude so many qualified companies from participating in trade missions. Of course, that's precisely McCain's point.

Don Evans is a sensible and well-meaning man, but his response to the McCain idea is quite discouraging. First, of all, lest we all need reminding in this new era of compassionate conservatism, there shouldn't be a Commerce Department. My studies with Steve Slivinski at the Cato Institute have shown time and again that this Cabinet agency is the epicenter of the corporate-welfare state. Republicans were dead on when they argued in 1995 that this agency should be boarded up. If there has to be a Commerce Department, there at least shouldn't be anymore of these trade missions. Defenders of White House trade missions confuse free trade (a very good idea) with government-arranged trade (a very bad idea).

We at *NR* and NRO are adults so we can state what everyone knows to be true, but no one likes to say in polite company: The primary purpose of Commerce trade missions is to reward corporations for their generous campaign contributions. This is precisely why the Bushies have rejected the McCain proposal. After all, what's the point of giving CEOs the royal treatment on chartered trade delegation trips, and placing them in the first class aisle seats, if you can't shake them down for money soon thereafter? It's basically a cash-in, cash-out system. It reeks to high hell.

The Clinton administration, of course, under the late Secretary Ron Brown, turned these fundraisers in the sky into an art form. Republicans rightly called foul at how an entire Cabinet agency had been converted into a subsidiary of the Democratic National Committee. Brown was practically selling seats on his chartered planes to the highest Democratic bidders.

Could it be that the Republicans want to do precisely the same thing, now that they control this corrupting agency? The idea of a six-month "voluntary ban" on contributions to the political parties or candidates for firms selected to participate in trade missions is hardly a draconian requirement. Mr. Evans seems petrified that this contribution ban would lead to a lot of empty seats on these round-the-world excursions.

Maybe it would mean they would have to cancel some of these trade missions altogether!

You see, I told you McCain was on to something here.

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Stephen Moore

1/29/01 10:15 a.m.

Whatever Happened to Sportsmanship?

A lost commodity.

By Stephen Moore, president of the Club for Growth & NR contributing editor

Perhaps you saw the story last week of a high-school basketball player from Camden High in New Jersey who scored 100 points in a game. His name is Dajuan Wagner, son of former Louisville star Milt Wagner. At first the story may seem an admirable athletic feat. In truth it's just the opposite and underscores the decline of sportsmanship in America today.

The story has rightly caused a bit of a fury in high-school basketball circles, so here's the quick background.

Camden pressed the highly outmatched Gloucester High throughout the game, forcing turnover after turnover — which were converted into easy lay-ups by Wagner (though he also impressively had 10 three-pointers). The final score of the game was 157-67. Wagner played the entire game save for the last four minutes after he netted his 100th point.

It's an individual record that makes one think much less, not more of Wagner, who is ranked one of the top three prep stars in the country this year. Even worse is Camden's pompous coach Glen Jackson. When asked about the 100 points scored, Jackson answered: "Why should I apologize for him having a great game?" The opposing coach, Bob Sweeney complained: "What bothered me was that they pressed us the entire game. We're all competitive, but one of the main things is to teach sportsmanship."

That's just the point. Sportsmanship is becoming a lost commodity in American sports today. Wagner's century mark wasn't achieved in the spirit of competition, properly defined, at all. If one team is completely outmanned, then there is no competitive environment — in fact, it's hardly even a game. To keep piling on points when the game is safely in the bag, isn't to compete, it is to humiliate.

Another high school player, this one in Texas, scored 100 points earlier this year. The final score of that game: 178-28. What kind of coach lets his team win by 150 points?

We see this problem also in college football, where the rating system idiotically takes into account margin of victory, which encourages the Nebraskas and Florida States to pile on the points at the end of a game. Nebraska threw a trick flea-flicker pass against Northwestern in the Alamo Bowl when the Huskers were up by 35 points in the late 3rd quarter. Why?

One of the problems here is that we've become a nation of front-runners. Anybody can hit a shot up by 20 points, but how about when it's tied with 10 seconds to go? The true athlete and champion elevates the quality of his game under pressure. This defines the remarkable brilliance of a Michael Jordan, Pete Sampras, or Tiger Woods. Each of these three champions has been a joy to watch precisely because they some how find a burst of adrenaline that lifts them to new heights under intense adversity and pressure.

What would have been much more impressive than Wagner scoring 100 points is if he had voluntarily taken himself out of the game at half time, since his coach didn't have the common sense to sit him down.

The National Federation of High School Associations record book includes a disclaimer that says "records should be attained in the spirit of competition — not by running up the score." Let's hope that if Wagner's name appears in any record books, they at the very least put an asterisk by Mr. Wagner's name.

Oh and by the way, Dajuan: pass the ball, for heaven's sake!

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Stephen Moore

1/18/01 2:00 p.m.

A Cure for Mutual-Fund Malaise

Happy New Year! You just lost $5,000.

By Stephen Moore, president of the Club for Growth & NR contributing editor

Last week I, like millions of other Americans, received my mutual-fund statement for 2000 in the mail. It read something like this: Happy New Year! You just lost $5,000. Ouch!

Yes, the economic slowdown is finally hitting home. Most of us have become so accustomed to double-digit percentage increases in our retirement nest eggs during the 1990s that it seems those gravity defying rates of returns are a quasi-entitlement. To actually lose money feels like being a victim of armed robbery!

Alas, I'm not alone. In the last six months Americans have lost more than $1 trillion in financial wealth. Those are mountainous losses: larger than the entire GDP of all but a handful of nations. If you're unlucky enough to have heavily invested in Internet stocks, you're experiencing a family financial depression. *X* recently reported on the returns on the 10 Internet stocks with the largest market caps in January 2000. The average return in 200 was a negative 45 percent. Here were the returns for some blue-chip stocks.

These days the paramount question on the mind of most investors — and that's now about 85 million of us — is: What's George W. Bush going to do to get our mutual funds back in the black? Herein lies a big problem: The single most effective policy tool to revive a sagging stock market, particularly for the high-tech firms that have tanked the most, is a capital-gains tax cut. Yet the Bush economics team has strangely not yet called for capital-gains tax relief in their trillion-dollar tax plan.

This is a nearly unforgivable oversight, because the evidence is so compelling that the last capital-gains cut had universally favorable economic and fiscal effects. In 1997 the congressional Republicans

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enacted a reduction of the capital gains tax from 28 to 20 percent. Here's a quick review of what happened.

The latest tax collection data from the Treasury Department indicates that capital-gains revenues have exploded. In 1996 the last year with the 28 percent rate, the government collected $62 billion in capital-gains receipts. Since then, in '97, the rate has been at 20 percent, and receipts have risen from $79 billion in '97 to $89 billion in '98 and to an estimated $110 billion in '99.

The 1999 estimate is based upon IRS tax withholding data collected by ING Barings economist Larry Kudlow. In the three years since the tax-rate cut, the tax receipts are up an astonishing 74 percent even though the tax rate is down by almost 30 percent. This is the legendary Laffer curve (lower tax rates equals more revenues) in spades. To be sure, in 2000 the revenues from capital gains will be down, but still a lot higher than in 1996.

The capital-gains tax cut corresponded with two other positive economic trends. First, risk capital funding for new business start-ups increased by nearly 50 percent between 1997 and 2000. If we want an investment-led recovery, then capital-gains cuts are crucial.

Second, the stock market soared after the capital gains cut of 1997. In 1997, for example, the Nasdaq stood at 2,400. Three years later it was at 5,000. It now sits at below 3,000. Nothing could pull the Nasdaq out of its gloom more efficaciously than a tax rate cut made retroactive to the beginning of 2001.

Why should we expect lower capital gains tax rates to inspire a chain reaction of greater investment spending and higher asset values? The straightforward answer is that when Congress chops the capital-gains tax, it increases the after tax rate of return on real assets (like plant, equipment, and technology) and thus the value of the stock rises. Remember: a capital gains tax is merely a punitive second layer of tax: the value of a capital asset is no more nor less than the discounted present value of the revenue stream it produces. Under a rational tax system, we would tax the income stream *or* the asset value, but not both.

The biggest obstacle to another rate cut to 10 or 15 percent on capital gains is the Joint Tax Committee (JTC). You see, the JTC still uses an obsolete economic model when it tries to predict how much a capital-gains tax cut will cost. It's called static revenue scoring and it produces absurd results. Back in 1997 the JTC model predicted we would *lose* $75 billion if we cut the capital-gains tax, when the Treasury's actually *gained* about that much in receipts. If you were to take a plane trip from Chicago to Detroit and somehow ended up on a different continent, you'd be dealing in roughly the same magnitude of miscalculation. Unfortunately, the JTC is still using the same garbage-out model. Ask them what happens if we now cut the tax rate to 15 percent and they reflexively respond that the government loses revenue.

Bush should insist that the rate be lowered immediately and that the JTC use a model that actually has some predictive power in terms of the impact of the rate cut. The tax should also be indexed for inflation as a matter of basic tax fairness.

If the market doesn't turn around soon, there will be hell to pay in the elections of 2002 — and Republicans will be the target of voter agitation. Mr. Bush should seize the moment and doggedly press for deeper capital-gains tax reductions with indexing for inflation. The new president not only has history solidly on his side — but also 75 million nervous investors, as well.

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Stephen Moore

12/18/00 11:40 a.m.

Dear W.

Unsolicited tax-cutting advice for the president-elect.

By Stephen Moore, president of the Club for Growth & NR contributing editor

Dear W.:

During your campaign for president when you argued for a big tax cut, the truth was we didn't really NEED a tax cut. It would have been nice and it would have been warranted as an anti-recession insurance policy. And you were right that taxes are way too high for a country enjoying peace and prosperity. And you were exactly right that cutting taxes is the best way to prevent new spending. But a tax cut wasn't economically essential. What luck! Now a tax cut really is imperative. Fiscal drag is finally weighing down the economy in general and the high-tech sector in particular and a tax-cut rescue plan is urgently needed. The tax burden has risen from 18 to 21.5 percent of GDP in just the past 5 years. Last year, total public-sector revenue surpluses were $300 billion--that's about 4 percent of GDP. Fiscal policy is way too tightly wound.

If you don't cut taxes in your first 100 days, your presidency could be in trouble from the start. You've got to get the economy out of this rut before the wheels start sliding and digging the hole deeper. All your political enemies who advise you to shelve the tax cut for now, or to tone it down so it doesn't help the rich so much, (people like Bob Dole, for example) are giving you precisely the wrong advice. That is, after all, what one would expect from one's enemies.

Even some of your political allies are serving up really dumb advice. In Friday's *Washington Post* Denny Hastert is quoted as advising you to put issues like school funding, debt retirement, and health-care reform ahead of tax cuts. And then as if an afterthought, Mr. Hastert says: "We can probably give Americans some tax relief to boot." Wow, Governor, you may be up against some pretty dense thinking. (Let's hope that Mr. Hastert was misquoted — this wouldn't be the first time for the *Post*.)

If anything, we need a bigger tax cut, not a smaller one, than the one you campaigned on. And features of your tax plan need to be refined given the new reality of economic slowdown on the horizon.

So here are a few words of advice in hopes that your economics team is paying attention:

1) Make the tax cut retroactive to January 1, 2001. We need a supply-side fiscal stimulus immediately — not in six months or even 100 days. Making the tax cut effective 1/1/2001 will trigger economic activity instantly regardless of when the tax cut is signed into law.

2) Eliminate the death tax immediately. The GOP Bill is flawed. It gets rid of the death tax in 10 years. That'll never happen. Even Democrat Charlie Rangel wants the tax rate lower in the first few years than the namby-pamby GOP bill. Repeal the death tax — all of it right now. Estates should be taxed, if at all, at the capital-gains rate.

3) Cut the capital gains tax to 15 percent now. There are two reasons. First, the last cap-gains cut was an unqualified success: higher revenues, more savings, and a surge in asset values. All the arguments against the cap-gains cut are now demonstrably wrong. Second, the cap-gains cut would be the single best way to revive the NASDAQ , which as you know, is down more than 40 percent over the past year.

4) Don't you dare give up on the income-tax-rate cuts. The rate cuts and the death-tax repeal are the most economically beneficial features of the plan. In the past 18 months Germany, Japan, France, and even Russia have cut tax rates. The U.S. hasn't. What's wrong with this picture? We're losing our competitive edge. Tax-rate cuts must be a non-negotiable item in your tax plan. Sen. Grassley, the incoming chairman of the Senate Finance Committee says that you should promote populist tax cuts with Democratic support, such as marriage-penalty relief. But marriage-penalty relief is fine, but it has no supply-side growth incentives. We need rate cuts.

5) You need to make the switch to dynamic scoring of tax policy changes. Republicans have been complaining about static revenue analysis for 20 years. Now they can and must do something about it. The GOP now has control of the computers. Fix them. A model that predicts that when we cut the capital-gains rate, the Treasury is going to lose revenue when in fact it gains boat loads of revenues is worthless. Both Congress and the White House must make the switch to dynamic scoring of tax changes. This has to be done immediately.

6) End real-income-bracket creep. Your tax bill must insist upon indexing the tax brackets for the increase in nominal income each year. This doesn't cost any money in the near term but prevents the insidious hidden tax hikes that cause the tax burden to rise automatically over time by pushing more and more people into higher tax brackets.

You've got a mandate to cut taxes. Use it.

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Stephen Moore

12/06/00 9:55 a.m.

Crane for Ways & Means

Phil Crane never saw a tax-rate cut he didn't like.

By Stephen Moore, president of the Club for Growth & NR contributing editor

The contest between Phil Crane of Illinois and Bill Thomas of California for the Ways and Means Committee chairmanship is turning into a much tighter horse race than anyone expected. Crane, the longest serving Republican in the House, has the seniority. Thomas says that westerners are under-represented in the leadership, and thus the tax-writing post should go to him.

Clearly, the GOP needs someone who can advance tax legislation without buckling to the political pressures of the left. The Constitution states that tax bills must originate in the House. Whoever is Ways and Means Committee head is going to have to write arguably the most important tax bill since 1986. The economy is in dire need of a big tax cut — a lot bigger than George W. Bush proposed in the campaign. The economy is starting to feel smothered by a tax burden that has risen from 18 to 21.5% of the GDP in the past five years. The financial markets have tanked of late. A capital-gains cut would instantly resuscitate the sagging NASDAQ.

But who will get it done? Who's the more reliable supply-sider between Crane and Thomas? The answer is that Thomas would be a good chairman. Crane would be exceptionally good. Crane's 30-year conservative credentials are stellar. He has a 92 percent lifetime National Tax Limitation Committee rating. The National Taxpayers Union gives him a lifetime grade of A (versus a C for Thomas). Phil Crane never saw a tax-rate cut he didn't like. He was a leading champion of Reagan's 1981 tax rate cuts. He was for the flat tax long before it was cool. In the early 1970s he endorsed a flat tax of 10 percent. He says his top priority would be to drive a stake through the heart of the death tax.

The liberal wing of the GOP that opposes Crane grouses that he lacks the political gravitas to run this committee effectively. They worry that he couldn't handle the lead Democrat on the Committee, Charlie Rangel, the rambunctious liberal from New York. Nonsense on both counts. Crane's track record indicates that he can very ably run this committee. For the past six years Crane has chaired the Trade Subcommittee of the Ways and Means Committee. Crane was a maestro in winning congressional support for NAFTA, GATT and China, free trade. That's an astonishingly bullish trifecta given the controversy surrounding each of these trade deals.

If Crane is bypassed it will be an insult to fiscal conservatives and a blow to economic common sense.

Stephen Moore

11/30/00 11:50 a.m.

Archer for Treasury

He even fills helps fill the Democrat quota.

By Stephen Moore, president of the Club for Growth & NR contributing editor

Ed Feulner of the Heritage Foundation is fond of saying that "people are policy." He's, of course, right about that, as conservatives learned during both the Reagan and the Bush presidencies. George W. has pledged that he will surround himself with the best talent available, so this creates a mandate of sorts for Bill Archer to be the next Treasury Secretary.

Arguably, the treasury secretary slot will be by far the most important position in the new administration. Bush's presidency will be judged on the economy, stupid. Did he keep the prosperity going? Did the stock market rally of the past 18 years continue?

To make sure that the good times continue, Bush must get his tax cut through Congress. He must win quick legislative approval for his Social Security choice plan. He needs someone a) who has deep convictions that these plans are the right one's for America and b) has the relationships in Congress to navigate the president's agenda through the shark infested waters on Capitol Hill.

Bill Archer is one of the most admirable and admired men in Washington. I don't mean that to sound like a backhanded compliment — as though he's the sanest inmate in the asylum. Archer's supply-side tax credentials are also impeccable. As Ways and Means Committee Chairman, he almost single-handedly bullied through Congress the 1997 capital-gains tax cut. He fought valiantly for cap-gains relief even after the GOP leadership was ready to cave in to the left's class-warfare rhetoric. He's an unflinching free trader. He loathes the death tax. He helped pass the most important social legislation of the past 40 years: welfare reform. He believes solemnly in sound money and is an inflation hawk.

In 1983 he was one of the most vocal opponents of the Social Security tax increase that "the Greenspan Commission recommended and the Reagan was hoodwinked by his disloyal advisers into endorsing and passing. He was one of the most effective critics of the Bush 1990 tax hike and the Clinton 1993 tax heist.

What's not to like?

In December 1994, he nearly gave the entire Washington press corps a collective coronary by announcing that as the incoming chairman of the Ways and Means Committee he wanted to scrap the income tax. There's not a more dogged advocate of overhauling the tax system. There's also no one in Washington who understands the tax system the way that Archer does. (Archer actually fills out his own tax forms!) In 2002 tax reform should be a top national priority for Bush.

Michael Barone writes in the *Almanac of the American Politics* that "Archer has one of the most conservative voting records in the House." He also notes that Archer is "punctiliously loyal to his convictions" in a town where convictions are an endangered species. I've told Archer that his record of accomplishment is so impressive that he almost makes me want to reconsider my support for congressional term limits — almost. And by the way, Bush says he wants to fill some Cabinet slots with Democrats. Bill Archer *was* a Democrat when he first came to Congress in the early 1970s.

One of Bill Clinton's shrewdest Cabinet appointments was another well-liked Texan, Lloyd Bentsen. Bentsen, the former Finance Committee Chairman in the Senate, was instrumental in securing the early legislative victories in Clinton's first term. Bush needs someone like that. To his credit, Bush has several distinguished Wall Street CEO's that want the Treasury job. But Archer's a proven tax-cut champion. Bush would be foolish to let talent like this go to waste.

Stephen Moore

11/09/00 8:45 a.m.

Club Wins!

Growth economics kept the House in GOP hands.

By Stephen Moore, president of the Club for Growth & NR contributing editor

Who says economically conservative candidates can't win? Even in this strange political environment, in which strong ideological convictions are perceived as a liability, pro-growth candidates can prevail.

Last night, the Club for Growth won 10 of 16 races, including six very tight House races that were critical in ensuring that the GOP held the House. These victories in tight battleground districts provide some pretty compelling evidence that Republicans can and do win when they run on an economically pro-growth agenda of tax cuts, Social Security choice, free trade, and smaller government.

They also underscore the success of the Club for Growth model of bundling contributions from our 1,500 members to outstanding candidates who find themselves locked in tight but winnable races.

The 6 Club for Growth candidates who won tight (and, in some cases, upset) victories were: Melissa Hart of Pennsylvania, Ric Keller of Florida, Mark Kirk of Illinois, Mike Pence of Indiana, Denny Rehberg of Montana, Mike Rogers of Michigan, and Pat Toomey of Pennsylvania. Earlier this year, the Club helped lift Reagan conservative Jeff Flake to victory in a crowded primary. Jeff won with 54 percent of the vote yesterday.

Alas, we lost some nail-biters. Senator Spence Abraham of Michigan was a terrible loss. John Koster of Washington State lost by less than 1,000 votes, but with absentee ballots he may yet be declared the victor. If we can double our membership by 2002, we'll win these nail-biters next time around.

Stephen Moore

11/07/00 5:15 p.m.

My Wife Canceled out My Vote

We might as well have stayed home.

By Stephen Moore, president of the Club for Growth & NR contributing editor

I think I'm in the same predicament as millions of other married couples in America today.

My wife voted against every candidate that I voted for. And my livelihood depends on the outcome of this election. But she doesn't see the case for W. Bush and George Allen as all that persuasive.

While we were in line at the voting booth this morning she informed me that she had finally decided to vote for Chuck Robb. Good Lord! "Why?" I asked, stunned. Because of that Sierra Club commercial showing that Allen allowed all that toxic waste to be dumped in the rivers.

Women are sooo malleable! No wonder there's a gender gap.

"Honey, they lied," I say. "And anyway, you're the one who always complains about negative advertising. How can you be so persuaded by it?"

"But Gore and Robb care about the concerns of working women," she exclaims. Now I'm getting exasperated. "Yeah, well if Gore wins, you're going to be a working woman who has to work a lot harder." It gets worse. I voted against all the school and environmental bond initiatives. She voted for them all! "I like parks," she says to defend herself. "How do you feel about higher property taxes?" I ask.

The bottom line is that the Moore family's impact on the election this year was a wash. We might as well have stayed home.

The good news is that we have two sons and they both supported Bush, although one was leaning towards libertarian Harry Browne. I can't wait for the 2012 election when the Moore family can really have an impact.

Stephen Moore

11/02/00 5:35 p.m.

Post-Halloween Tale of Terror

Speaker Gephardt!

By Stephen Moore, president of the Club for Growth & NR contributing editor

The odds of the GOP holding the House seem to be improving with each passing day. But what if they don't? A Speaker Gephardt scenario would be unquestionably bearish for stocks and the economy. We'd also be looking at a potential murderer's row of anti-business left-wingers with gavels in their hands — ranging from Charlie Rangel heading the Ways and Means Committee to John Dingell back in charge at Commerce.

For the past six years we've had an extremely benign pro-growth political environment of Bill Clinton in the White House and the Republican majorities in Congress preventing him from screwing things up. It's been six years of productive gridlock. But a Speaker Gephardt scenario could disrupt all this.

Gephardt is the unrivaled leader of the Left in the House. He had a perfect 100 percent rating from the AFSCME (American Federation of State, County and Municipal Employees), America's largest public-employee union. By contrast, Gephardt received a 0 (zero) rating from the conservative National Federation of Independent Businesses, the nation's leading small-business lobbying organization. *National Journal* gave him a 79 for liberal votes on economic policy (the highest possible score for the 105th Congress) and a 0 (zero) for conservative votes. He led the protectionist squad against NAFTA and opposed free trade with China-though not aggressively. He says that Americans who are rich have "won the lottery of life."

A Republican Congress has been kind to investor-class Americans. In the six years since Republicans took control of Congress in November 1994, the stock market has tripled in value. Interest rates have fallen by 130 basis points. The unemployment rate has fallen by 2 percentage points.

Clearly the more radicalized agenda of the Democratic House members could roil financial markets. A Gore-Gephardt scenario would be most unsettling of all. I still expect the GOP to narrowly hold the House, but Republicans should be warning voters of the bearish alternative.

Stephen Moore

10/31/00 9:15 a.m.

Be Very Afraid

Al Gore is economically dangerous.

By Stephen Moore, president of the Club for Growth & NR contributing editor

I've long been a lukewarm supporter of George W. Bush. I was a Forbes supporter earlier this year, thus keeping my record of backing four losers in the past four GOP presidential primaries: Kemp in 1988, Buchanan in 1992, Forbes in 1996, and Forbes in 2000. I'm the Woody Allen of American politics: Nobody wants to join a club or campaign that I'm a member of.

I suspect that conservatives who believe that W. is the long-awaited messiah for the conservative movement are likely to be disappointed. We have here another case of the triumph of hope over experience. If Republicans sweep the White House and Congress on Tuesday, I'm betting the budget will grow faster over the next four years than it has grown over the past four.

The GOP is not an anti-big government party any longer and the Texas governor is not an anti-big-government candidate. Just listen to what he has said in the debates!

So, why Bush? The big enchilada issue to voters in this election is: Who can keep this bullish prosperity going? This expansion began 18 years ago under the policies of Ronald Reagan. Reagan cut taxes, conquered inflation, ended the ruinous build-up of the welfare state, and promoted pro-business policies. The result: the greatest era of wealth creation in world history. The Dow Jones has soared from 800 in 1982 to more than 10,000 today. To match that over the next 20 years, the Dow would have to go to 120,000 by 2020. We can do it if we pursue the right economic agenda.

Gov. Bush is head and shoulders above Mr. Gore when it comes to two critical economic issues.

First, on taxes, Bush will cut them; Gore probably won't — at least not enough that you would notice. Bush has proposed dedicating about one-third of the budget surplus to tax cuts. (That should be 100%.) Still, he would cut the top income tax rate from 39.6 to 33 percent and the lowest rate from 15 to 10%. Bush would eliminate the unfair death tax and the even more indefensible marriage-penalty tax. The Clinton and Gore administration inexplicably vetoed tax bills that would have ended these taxes this year.

Instead of cutting taxes, Al Gore wants to launch one of the biggest spending sprees in recent memory. The precise total for Al Gore's risky spending schemes comes to $1.64 trillion through 2010, or almost $15,000 for every household in America. Wouldn't you rather just have this money to spend yourself? Al Gore makes Michael Dukakis and George McGovern look like penny pinchers in comparison.

There's one other big economic issue that separates Gore and Bush. That is Social Security reform. Bush wants to permit young workers to invest at least a portion of their payroll taxes in private IRA accounts. This would give even the lowest-income workers a chance to become owner/capitalists. The rate of return on Social Security is a puny 1 to 2 percent. Young workers know they can do a lot better than that investing themselves. Gore opposes private accounts and wants to preserve the New

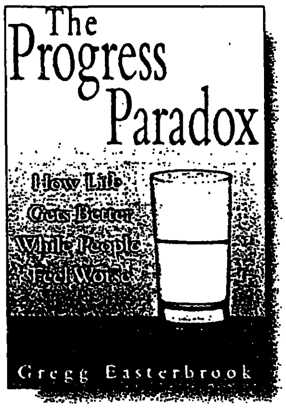
Deal era pay-as-you go system that will soon be teetering on the brink of bankruptcy. Gore says private accounts are "too risky."

A modernized private-retirement-account system for Social Security would give workers more economic freedom and more individual choices about their own retirement future. Combine this with tax rate reductions and America's economy can continue to be the wonder of the world for the next decade at least. George W. Bush's economic plan is visionary, progressive, and pro-growth.

As an economist, I'm most often asked: What could bring this U.S. economy to a screeching halt? The answer: A binge of new spending and taxes out of Washington. That's why Al Gore is economically dangerous. His trillion and a half dollar agenda to nationalize day care, health care, education, crime fighting, transportation policy, health care, zoning, and traffic patterns is the nanny state back with a vengeance.

We might be able to survive four years of Gore's government expansions. But why take that risk?

Horn of Plenty



The Progress Paradox: How Life Gets Better While People Feel Worse,
by Gregg Easterbrook
(Random House, 400 pp., $24.95)

STEPHEN MOORE

GREGG EASTERBROOK has written a book with one major flaw: What's right in the book isn't new and what's new isn't right.

The first half of the book is what's right. Here Easterbrook, a senior editor of *The New Republic*, chronicles in entertaining detail the multitude of ways in which life in America gets better all the time. Americans today have better health, more wealth, greater safety (even in the new age of terrorism), better nutrition (in fact, too much nutrition), more leisure time, cleaner air and water, and just more stuff to play with and keep them entertained than any earlier generation. In fact, there are an estimated 80 billion people who have ever lived on this earth, and Easterbrook calculates that even poor Americans have a better material living standard than 99.4 percent of them. To have been born here and now is to have truly won the lottery of life.

There's no getting around it: We're a spoiled society. We have access to treasures and opulence that were far out of the reach of our ancestors: fresh strawberries in March, toys for our pets, limousine service for our teenagers going to the prom, and Kenmore dishwashers with 16 settings. Most vitally, Americans now can purchase modern antibiotics and vaccines—costing just a few dollars—for asthma, smallpox, polio, arthritis, and tuberculosis: diseases that once relegated millions of people to misery, wheelchairs, and premature death. According to Easterbrook, Americans now spend more money on Jet Skis, yachts, and other recreational watercraft than the entire GDP of North Korea. "Gas-station minimarts now sell cabernets and chardonnays far superior to the wines drunk by the King of France"—now that's opulence. We have become such an affluent society that the new definition of a "need" in America is, in the words of George Will, "something we have wanted for 48 hours and still don't have." There's an old saying that if you must be poor, the United States is a good country to be poor in. Thank you, capitalism.

Easterbrook rightly sneers at the crass and preposterous things our consumer-driven society sometimes spends money on, but he has more contempt for the crisis-mongers in media, academia, and government who chronically complain about American life. He ridicules the daily, sensationalized news reports of "poison in the water," lost forests, the health crisis, or whatever the calamity du jour happens to be. Our latest societal affliction is "choice anxiety": so many things to choose from and so little time.

Conservatives won't be shocked to learn in this book that much of the negative information the press spoon-feeds us about America is not true. Indeed, most of the trends and data Easterbrook puts forward come from the work of the great Julian Simon—who made all these points throughout the 1970s, 1980s, and 1990s, when almost every "expert" really believed the scaremongers. So it's highly disappointing to find in this book exactly one minor reference to Julian Simon. When a writer stands on the shoulders of a giant, he really ought to acknowledge his presence more forthrightly.

In the book's second half, Easterbrook discusses the economists' conundrum of whether getting richer makes us happier. There isn't much evidence that Americans are more satisfied with their lives today than in the 1950s, an era when our parents didn't have VCRs, $800 designer teapots, treatments for cancer and heart disease, cleaner air to breathe, and so on. (Although our parents and grandparents may have been just as happy as we are, the evidence does show they were more bored. Our ancestors slept a lot more than we did, because there was nothing else to do at night.) To defend this idea that money doesn't buy happiness, Easterbrook points to data showing that chronic depression is a bigger problem in our society than ever before. Count me a skeptic on these data: First, you've got a

Mr. Moore is president of the Club for Growth.

MY CAROUSEL

Hunting Park, Philadelphia

They came and carted off my carousel,
Tore out its horses and gold chariots,
Its lions and gilt mirrors and huge wheel
Of grease that spun the zodiac around;
Each hand-carved piece went to the
 auction block
To please collectors of such artifacts;
For everything must pay its way, they say,
And carousels are definitely passé
And have no business in a public park.

I liked to walk there on warm afternoons
And hear its ancient scratchy phonograph
Playing fantastically outdated tunes
To the delight of children whirling round
In a bright vertigo of sight and sound.
The carousel became the axle-tree
Of my entire little universe
As cosmical as Merlin's Table Round.

The building's left, deserted like a tent,
Nailed, boarded up to hide the void inside,
Its wooden navel sticking in cold sky.
I wander there like someone lost, bereft,
Watching the kids play soccer to loud
 cries.
I wonder still about my animals.

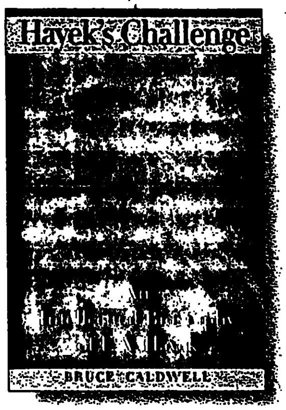
—RICHARD O'CONNELL

reporting bias. Nowadays, it's almost chic to be depressed. In any case, as with almost every disease, if you have to be depressed, much better to be living today than 50 or 100 years ago, before modern chemical treatments for depression made the condition much more bearable.

Also, as an economist, I'm a bit of a skeptic on Easterbrook's "paradox of progress" argument. We economists believe in "revealed preferences": If you choose something voluntarily, then—we assume—you are better off. If getting richer and having more and more things doesn't make us happier, why do we spend so much of our lives trying to get more money?

Finally, Easterbrook's last two chapters are seriously wrongheaded. After devoting 200 pages to the proposition that our system of free-market capitalism has created a life for most Americans that is better in almost every qualitative way than that of our parents, and even better for today's poor than the lifestyle of the kings and queens of Europe in bygone eras, Easterbrook suggests "reforms" that would . . . move us away from the policies that laid the foundation for this prosperity in the first place. Easterbrook's grand solution to eliminating poverty in America is to raise the minimum wage to $10 an hour. How eliminating several million low-income jobs in America will help the poor is never explained. Then, to solve the problem of poverty worldwide, Easterbrook advocates a massive increase in foreign aid. This is an even bigger letdown: Not only has foreign aid been a colossal failure in promoting development everywhere it has ever been tried, it misses the whole point of what this book should be telling us, but never really does. It's not by chance that America has become the most prosperous place anywhere at any time in human history. The free-enterprise system is the answer, the goose that lays the golden eggs. The way to bring prosperity to even the poorest nations on earth is not to give them more handouts so that corrupt despots like Imelda Marcos can buy more shoes, but for these nations to—simply—be more like us. That is not the Progress Paradox, it is the Progress Paradigm. NR

The Austrian Teacher



Hayek's Challenge: An Intellectual Biography of F. A. Hayek,
by Bruce Caldwell
(Chicago, 489 pp., $55)

JASON STEORTS

FRIEDRICH HAYEK said of his book *The Fatal Conceit* that "it is a work for which one has to be an economist, but this is not enough!" This sentence captures the essence of both the book and its author. Hayek was an economist, of course—but he was much more. His contributions extend to fields as disparate as cognitive psychology and political philosophy. So the study of Hayek's thought is not without its difficulties: One must think like an economist, but this is not enough.

Bruce Caldwell—who *is* an economist, and a historian—confronts the difficulties inherent in Hayek scholarship with this new book. Caldwell admits to some trepidation about his work. "I am an historian of economic thought, and my own self-image is that I am a careful one," he writes. "One need not be a genius to recognize that writing outside one's field is not a good way to be careful." Such reservations notwithstanding, Hayek is fortunate in his biographer. *Hayek's Challenge* is a success, and Caldwell proves himself capable of presenting Hayek's ideas—in all fields—with both depth and clarity.

Mr. Steorts is a former *Harvard Crimson* columnist and NATIONAL REVIEW intern.

The book is divided into three main sections. Roughly the first quarter discusses the rise of the Austrian school of economics and its antagonism with the German historical school in the late 1800s—the background against which Hayek would emerge. The next section of the book—just over half—traces the development of Hayek's thought over the course of his life. Readers interested in the *facts* of that life will be disappointed, as few are given. What is provided in great detail, rather, is a discussion of Hayek's main works, summarizing both their general themes and their specific arguments. In the final section of the book, Caldwell assesses Hayek's legacy. Here Caldwell is less historian and more interpreter, offering his thoughts on the success and relevance of Hayek's work and placing it in the context of contemporary thought.

Where Caldwell succeeds best is in showing how certain of Hayek's basic concerns affected his views across the board, on seemingly unrelated matters; and those who know Hayek in only one of his guises should find it rewarding to get to know the man as a whole.

Consider, for example, Hayek on income redistribution. Readers of NATIONAL REVIEW are perhaps most likely to think of Hayek as the author of *The Road to Serfdom* and *The Constitution of Liberty*, works of political philosophy in which he defends market institutions against interventionist policies designed to achieve "social justice." (Hayek's work in this area played an important role in the conversion of Robert Nozick, another great defender of free markets, from socialism.) What many may not know, however, is that Hayek's antipathy toward socialistic meddling was but one manifestation of his more general concern with what he called the "knowledge problem"—his insights into which are, according to Caldwell, his most important contribution to economics.

In the 1937 essay "Economics and Knowledge," Hayek formulated the "knowledge problem" this way: "How can the combination of fragments of knowledge existing in different minds bring about results which, if they were to be brought about deliberately, would

■ PUBLIC POLICY

Like Drunken Sailors, Part MMCCXVIII

Congress, and the president, just can't—won't—stop spending

STEPHEN MOORE

BEFORE Congress departed for its August recess, conservatives suffered a series of budget-policy setbacks—each of which dramatized the sudden ascendancy of big-government Republicanism in Washington.

■ All but 19 House Republicans voted to approve the Medicare prescription-drug bill, the biggest new entitlement program since the 1960s; the Senate passed an even more expensive version. Economic forecasters say the bill will add another $5 trillion of unfunded liabilities to the system—the equivalent of doubling the national debt with one stroke of the pen.

■ The White House Office of Management and Budget projected a deficit of $455 billion this year, and nearly $500 billion in 2004.

■ The House of Representatives approved a $10 million expansion of the National Endowment for the Arts. For nearly a quarter-century, Republicans have been pledging to eliminate this program outright.

Now let's engage in a quick thought-experiment. Imagine that Al Gore and a Democratic Congress were doing all this profligate spending. Would conservatives stand for it? In fact, none of this budget-bloating is being perpetrated by Democrats (though they are willing accomplices). Fiscal sanity is in retreat, under a solidly Republican regime.

"The votes for fiscal-conservative policies have completely disappeared, even within our own Republican caucus," grouses Rep. Pat Toomey of Pennsylvania. Another of the few remaining budget hawks in the House, Jeff Flake of Arizona, moans that "almost every vote we take on the House floor is to expand the size of the state. Almost none are to make it smaller." Things have gotten so bad in the House that after Republicans approved a $400 billion spending bill earlier this year—one filled with absurd programs like the Cowgirl Hall of Fame and sweet-potato research—the GOP leadership brazenly released a manifesto urging members to go back home and boast about the pork.

As a consequence, we are witnessing the worst three-year run-up of the deficit in history. Also, according to a new Cato Institute report, the domestic discretionary budget—which is where you find the low-hanging fruit of the federal government, like Amtrak and "corporate welfare"—grew by more than 12 percent last year. It is expected to rise by another 12 percent, or more, this year.

The $1.8 trillion budget that President Bush inherited from President Clinton has swollen to $2.2 trillion—in an era of almost no inflation. The White House has yet to call for the elimination of even one major government program, and the GOP Congress has happily gone along. We have certainly come a long way from the days when Barry Goldwater declared that he wanted "not to inaugurate new programs, but to cancel old ones."

The Republican failure to cut spending stands in stark contrast to the Bush administration's stellar record in chopping anti-growth taxes. In the Reagan years, supply-siders forecast that we would eventually grow our way out of budget deficits, and they were soon proven correct: With 4 percent real economic growth and 3 percent spending growth each year, tax revenues caught up with and surpassed federal expenditures. But on the new spending path Republicans have put us on, we would need about 8 percent economic growth for six straight years to get close to a balanced budget.

In Bush's defense, it should be noted that the war on terrorism has carried with it a hefty price tag, and that includes the Iraq campaign. The White House is right that a lot of the domestic-spending bulge is for

Mr. Moore is president of the Club for Growth and a senior fellow at the Cato Institute.

necessary homeland-security measures. But at the same time, the huge burst in education spending, the hike in farm aid, and, of course, that colossal new entitlement, the prescription-drug bill, are wholly unrelated to national security. The administration's central failing in economic policy may be its unwillingness to set and enforce spending priorities. In almost every national-security crisis in U.S. history, the demand for more guns has meant less spending for butter; this administration has approved large budget increases for both.

The White House should start worrying about the political implications of its expanding budgets. On July 26, a group of 20 top conservative leaders from organizations including Cato, the Heritage Foundation, the American Conservative Union, and the Eagle Forum assembled to launch a counteroffensive. "Conservatives and libertarians cannot be silent on this disgraceful growth of government, simply because it is Republicans who are doing all the spending," fumed Cato president Ed Crane. Everyone in the room nodded in agreement.

Undoubtedly, the most immediate priority for conservatives is to stop the runaway-train drug bill. At stake here is whether Republicans will bust the Treasury the way Lyndon Johnson did in 1965, by creating a Medicare program that now costs five times what it was expected to. A Heritage Foundation report finds that the drug bill would be so expensive that further tax cuts would be politically impossible for at least another decade. This is the biggest battle between statism and free-market policies in Washington since the Clintons' only slightly more grandiose health legislation went down in flames ten years ago.

Equally important for rolling back big government is the crusade to create a private-investment option for Social Security. President Bush is on the right side of this issue; I believe the White House is sincere when it says that this would be the top domestic priority for a Bush second term. (For this reason alone, Bush needs to be resoundingly reelected.) "People forget that Social Security is nearly 25 percent of the whole federal budget," says Mike Tanner, Social Security expert at Cato. If the drug bill is Pearl Harbor for Republicans, Social Security privatization is the Allied landing at Normandy.

Next is the problem of fixing the budget process, which for too long has tilted in the direction of ever more obese budgets. Imagine trying to win a game of Monopoly with an opponent who assigns himself the role of banker, and continually slips wads of $500 bills to himself under the table. That is essentially the modern-day federal budget process, where we have assigned the role of banker to the appropriators—the very ones who have been pre-selected for their desire to break the bank (it's very hard for a fiscal conservative to get on the Appropriations Committee). "The incentive structure of the budget process is, and has been for at least 30 years, to spend money, never to save it," laments former House budget chief John Kasich.


ROMAN GENN

Republicans should scrap the 1974 Budget Act in favor of one that eliminates current-services budgeting (which builds in automatic budget increases every year). They should also impose a Colorado-style expenditure-limitation measure capping spending at population plus inflation each year; impose six-year-term limits on service on the Appropriations Committee; and sunset federal agencies every five years so that failing bureaucracies don't survive owing to mere inertia. This actually happens. The paid "volunteer" program called AmeriCorps has been graded a failure by one government report after another; only about half of its missions succeed, and there has been widespread theft and fraud. Yet somehow the program's budget has been doubled in ten years. We now have a perverse system in which tax cuts automatically expire after a decade, but spending programs live forever.

Congress should also require that all new spending programs be approved by a newly created committee that would certify whether the program is permissible under Article I, Section 8, of the Constitution. As much as 80 percent of what Congress spends money on is outside the bounds of the original intent of the enumerated-powers clause. It's not an oversight, for example, that the word "education" appears nowhere in the Constitution; the Founders never envisioned that Congress would or should spend money on schools—a state and local function—or, for that matter, to bail out industries or line the pockets of wealthy farm businesses.

Yet another pressing task is to crack down on Uncle Sam's financial malfeasance. A new General Accounting Office report indicates that taxpayers are being defrauded of billions of dollars by ineptitude, mismanagement, and fraud at government agencies. In 2002 the Agriculture Department sent out $1 billion in food stamps to people who don't qualify; as many as 45 percent of the school-lunch payments are similarly erroneous. The Medicare system had an error rate of 6.3 percent in payments (believe it or not, that was an improvement from previous years), thus bilking taxpayers out of $13.3 billion. The Pentagon can't account for over $10 billion it spent last year; the Education Department sent out $4[illegible] million in fraudulent student-aid checks; the list could go on and on. Here's a quick way to save tens of billions of dollars a year: establish a policy that any agency unable to pass a basic audit is disqualified for a budget increase in the following year.

Alas, all of these structural reforms are predicated on the assumption that Republicans actually *want* to control the bulging federal waistline. And any reorientation of the party ethic from spending money to saving it depends on President Bush himself. He has proven time and again that he has a singular capacity to lead the party; he needs to understand that restoring fiscal discipline is a much higher priority right now than giving free drugs to the richest age group in America. NR

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■ POLITICS ■

A Man with a Plan

Bush has an economic program; his critics have myths

STEPHEN MOORE

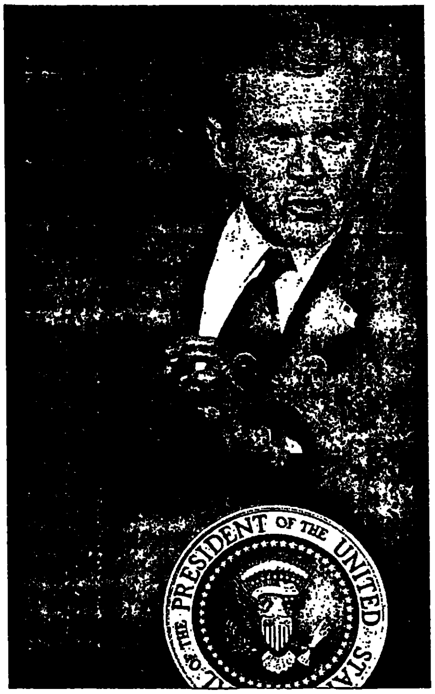
THE new Bush tax cut has been greeted with a level of media hysteria unrivaled since 1981, when the press corps predicted in unison that Reaganomics would cause economic ruin. So President Bush finds himself in all-too-familiar territory: It's two against one, with Democrats ganging up with the media against a Republican president's tax cut that's said to be too big, too tilted toward the rich, and too irresponsible.

I like Bush's odds of winning.

The challenge, though, is for the White House to get its message—that the tax cut will boost economic growth and benefit *all* taxpaying families—through the clutter of a biased media. The indispensable Media Research Center reports that "news" items on the Bush plan are running "at least 4 to 1" against it. Only one reporter on the network news has even bothered to inform viewers that the tax share paid by the rich would go up, not down, if the plan were enacted.

In some cases, the media can't even get their own biased version straight. On January 6, the day news of the Bush plan reached the public, the *Washington Post* warned in a front-page article (entitled "Analysis Finds Little Gain in Tax Cut Plan") that many economists believe the tax cut is too small to jump-start economic growth. That's a plausible complaint; but the next day, the *Post* blasted the tax cut for being too "irresponsible."

This unfocused media scorn suggests that Bush may be on to something here. His plan has attracted all the right enemies (from Tom Daschle to Dan Rather to Paul Krugman) but also all the right friends: It is being welcomed enthusiastically by the 85 million American shareholders, who understand that supply-side tax cuts mean more wealth creation and more income security for retirement. The day that the Bush plan was announced, the stock market had one of its most bullish sessions in months. A sustained rally would be very welcome news for the investor class, which has surrendered more than $5 trillion in wealth in the current bear market—but very bad news for the Democratic presidential wannabes.



Scott Olson/Reuters

Unveiling the tax-cut package

What is most needed to win passage of this plan is a tax-cut truth squad. I've pored through the media attacks of recent weeks against the Bush plan and have arranged the protests into three categories.

Myth One: The tax cut benefits only the rich. Paul Krugman of the *New York Times* declares that "90 percent of Americans . . . will get little or nothing from the dividend tax exemption." But the Tax Foundation's recent examination of IRS tax-return data finds just the opposite: Fully 34 *million* tax filers reported dividend income in 2000—and these returns represent 71 million people. That means a whole lot more than 10 percent of the population will benefit *directly* from the dividend-tax cut. And the income-tax cuts are even more widely distributed: *Everyone who pays income taxes will get an income-tax cut under the Bush plan.* The typical working family with two earners and a combined income of $75,000—and I suspect very few of these households regard themselves as "rich"—will get a $2,021-a-year tax cut under the Bush plan. If the family's income is $40,000, it gets a $1,133 tax cut—and not just for one year, as under the Democratic alternative, but forever.

And here is the biggest problem for class warriors: Proportionately, the rich get a *smaller* share of the Bush tax-cut pie than do middle-class taxpayers. The share of federal income taxes paid by Americans who make more than $100,000 a year will rise (from 74 percent to 75 percent). The share paid by those who make less than a six-figure income will decline.

Myth Two: The tax cut will blow a hole in the deficit. The Bush tax cut provides $670 billion in tax relief for Americans over the next ten years. That's not chump change, but it is hardly going to bankrupt the federal treasury either. Over the next decade the IRS will collect some $25 trillion in taxes. The tax cut comes to less than three cents on the dollar, hardly a massive giveaway.

Nor is it accurate to say that the national debt will rise by the amount of the tax cut, unless one believes that tax cuts result in absolutely zero change in economic behavior. The truth is that for every action in the economy, there is a reaction. If we cut income-tax rates and eliminate the double tax on dividends, surely workers, businesses, and investors will behave differently. If the tax on work and hiring goes down, surely we will get more of both. If the dividend tax cut drives down the cost of investment, surely we will get more of that too.

Mr. Moore is president of the Club for Growth and an economist at the Cato Institute.

The press continues to tout the results of economic models that have a perfect batting record of being wrong in predicting the future. For example, in 1997, when the capital-gains tax rate was cut, the crystal-ball gazers predicted a multibillion-dollar "cost" to the Treasury; in fact, the receipts doubled in four years. These are precisely the same economic models that are now telling us the Bush tax cut will bankrupt America.

Heritage Foundation economist Bill Beach predicts that the dividend tax cut alone is such potent medication for the economy that the Treasury should recapture about 50 to 70 percent of the supposed tax revenue loss from the tax cut. I'd put my money on Beach's estimates, which have a far better track record of accuracy.

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The Republicans' wisest strategy going forward is to proceed precisely as Reagan did in 1981.

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But let us assume the worst-case scenario: no revenue recapture whatsoever from the Bush tax cut. Even in that extreme case, we could still have a balanced budget. If Congress were to modestly control its appetite for new spending—restraining it to 2 percent annual growth over the next four years—the budget could be balanced by 2006 even if the tax plan were implemented fully.

Another reason to suspect that the Bush tax cut will not run up the deficit is that if the taxes aren't cut it is much more likely that Congress will spend the money than save it. Nobel Prize winner Milton Friedman notes that one of the strongest arguments for the Bush tax cut is that it will discourage a stampede of congressional spending over the next several years. Friedman wrote in the *Wall Street Journal* that he supports Bush's plan because "we do not get our money's worth from the roughly 40 percent of our income that is spent by government. . . . Washington spends whatever it receives in taxes plus as much more as it can get away with."

Myth Three: The tax cut won't stimulate economic growth or job creation. On this, Bush has history firmly on his side. The 1963 Kennedy income-tax-rate reductions spurred a bull market, and a balanced budget by 1969. The 1981 Reagan tax cuts ushered in seven years of prosperity and 15 million new jobs. The 1997 capital-gains cut fueled a bull-market rally, and a surge of investment and venture-capital funding for new businesses.

The critics point out that the 2001 Bush tax cut has failed to provide any juice for the economy, but there's a good reason for that: Seventy percent of the tax cuts haven't taken effect yet. The critics are strengthening the case for *speeding up* the tax cuts. The dividend tax cut, in particular, will provide rocket fuel for business expansion: John Rutledge, a respected Wall Street economist, has estimated that ending the double tax on dividends will increase stock values by some $800 billion (roughly 10 percent), reduce businesses' cost of raising investment capital by 25 percent, and hasten a recovery in the battered high-technology and telecom industries (where hundreds of thousands of jobs have been lost).

The Democratic plan, on the other hand, offers virtually no economic-growth potential at all: It contains $30 billion in new spending programs, temporary and impotent tax cuts, and another tax-rebate gimmick. It would stimulate nothing but government. Tax rebates will have no economic incentive effects whatsoever; that's why they failed to induce an economic revival under President Ford, and even under President Bush (in 2001).

All of this suggests that Bush has a winning hand—but he must play it. In fact, Chicago-based economist Brian Wesbury says that because the financial markets have already partially discounted passage of a tax cut similar to what the White House has proposed, for the president to retreat from the plan could de-stimulate the economy and deflate the stock market. That's precisely why Bush should ignore the chorus of criticisms. The Republicans' wisest strategy going forward is to proceed precisely as Reagan did in 1981, when the media went into similar convulsions: ignore them, pass the program, and prove the critics wrong. **NR**

■ POLITICS II. ■

Tell It!

A Republican outreach program to black voters

RAMESH PONNURU

ELEVEN days after a midterm electi
that went disastrously for her par
Donna Brazile, Al Gore's campai
manager, sent out a memo warning th
worse news could be coming. As badly
2002 had gone, she and a colleague sai
at least black voters had turned out
force for the Democrats. Republicar
however, had made an "unprecedent
African American communications e
fort" on black radio stations during t
campaign. Democrats were going to fa
new challenges in 2003 and 2004. "Pr
eminent among those challenges," t
two wrote, was "Republican messagi
to Democratic base voters."

The memo implied that this "messa
ing" was the work of the Republic
party. Actually, it was a small indepe
dent consultancy that conceived a
designed the radio ads. The main peo
behind it were Richard Nadler and Jo
Uhlmann, two conservative activi
from Kansas City. (Nadler is an c
friend of mine.) In 2001 and 2002, th
tried a new tactic for dealing with o
of the Republican party's longstandi
problems: its poor showing among bla
and Hispanic voters. That tactic has
ready had more success than anythi
the party has tried.

Most Republicans are unaware of t
success. They are obsessed with wi
ning votes from blacks and Hispani
especially in the wake of the Lott aff
But when it comes to doing anythi
about it, they just flail around. Repu
lican senator Orrin Hatch is planni
to introduce legislation against "h
crimes." RNC chairman Marc Raci
and Senate majority leader Bill Fr
came out of a meeting with promine
black conservatives pledging th
Republicans would hire more bla
aides and field more black candidat
In short, the party despairs of ever act

argued, meant that election officials wouldn't have enough time to prepare absentee and military ballots. In the end, while the justices rejected the GOP case, both sides seemed to agree that the main issue was whether the mechanics of the election would be disrupted by a last-minute change.

But there was an entirely different—and arguably more important—principle at stake that received very little attention. A number of legal experts believe that the law, far from being just an administrative guideline, has a higher, more democratic purpose. A preset period before an election, like New Jersey's 51-day limit, ensures that voters have enough time to evaluate a candidate before going to the polls, and thus are able to make an informed decision in the voting booth. How would the candidate perform in the job? What is he like? Is he qualified? These are questions that are answered in the course of a lengthy campaign.

"Every state has similar laws that say, If you want to be a candidate, you have to do certain things by certain times," says attorney Fredric Woocher, a Los Angeles election-law specialist who mainly represents Democrats. "There is a requirement, implicitly, that the public be entitled to know who the candidates are for a certain period of time before the election, because they need that period of time to make a rational decision." Adds Alex Vogel, the general counsel of the National Republican Senatorial Committee in Washington: "Elections are about debates in the marketplace of ideas, and you need to know who is in the game so that you can have a discussion."

Democrats have argued that such points are moot in New Jersey because Lautenberg, who served three terms in the Senate, is such a familiar figure. But Lautenberg is older now—if he wins, he'll be 84 when he finishes his term—and that might make a difference to voters. Also, if it is okay to allow Lautenberg into the race because he is well known, how would one decide in the future whether another candidate is familiar enough to the public to justify last-minute admission? "You can't be doing these things on a case-by-case basis," says Fredric Woocher. "It cannot depend on the particular circumstances of whether a candidate is known or not."

Nevertheless, the state supreme court made its decision, and its emphasis on the logistical argument in effect killed what might be called the informed-voter argument. When Republicans unsuccessfully petitioned the United States Supreme Court to consider the case, they again relied largely on the logistical argument, this time adding that since election officials did not have enough time to change all ballots, some voters would be disenfranchised. "Sixteen hundred absentee ballots have been mailed already, and 106 military ballots have been mailed already," the GOP argued. "An unknown number of these citizens of New Jersey have already cast their absentee ballots for the November 5, 2002, general election."

Since some had likely already voted, Republicans pointed out, the New Jersey supreme court in effect interfered with an election in progress. "Regardless of whether or not they are right on whether this can be done in a timely manner, they don't have the right to change the rules in the middle of the election," says the NRSC's Vogel. There is certainly some merit in that argument, but the U.S. Supreme Court rejected the Republicans' application without explanation. And that is that.

Now Lautenberg leads in early opinion polls, and it appears entirely possible that New Jersey Democrats will be able to keep the Torricelli seat. They nominated Torricelli with full knowledge of his ethical problems, and then prevailed on him to withdraw—not for the good of the voters of New Jersey but in order to prevent a Democratic loss of the Senate. In doing so, they presented the courts with a difficult legal call: Should Democrats be able to get away with a last-minute switcheroo, or should voters be presented with what is in effect a one-party ballot? Either choice set a bad precedent.

In the end, the episode revealed how vulnerable to gamesmanship the electoral system can be. Despite its reams of laws governing all aspects of voting, at its core the system depends to some degree on the good faith and honor of those who work within it. And a system that depends on good faith and honor is a system that can be gamed. That's what Democrats did in New Jersey. And that, it appears, will be the final legacy of Robert Torricelli. NR

■ PUBLIC POLICY ■

The Case for No Confidence

On the economy, forget the White House's happy talk

STEPHEN MOORE

THE White House recently unveiled its latest economic strategy: cheerlead the economy and the stock market back to good health. In early October, Commerce Secretary Don Evans released an upbeat report, "The Case for Confidence," which argues that, despite catastrophic stock-market losses, there is much good news on the economic front. "We are not being Pollyannish," insists White House spokesman Dan Bartlett. "We are being accurate." The Bush administration is making a dangerous gamble here, hoping that economic pep talks can substitute for a genuine, growth-oriented plan of action.

One cause for optimism cited by the Bush economic team is the recent jobs data from the Labor Department. The employment report for September reveals that the unemployment rate dipped to 5.6 percent—the lowest rate of any industrialized country. What a relief! Or was it? Even though unemployment fell, the economy still lost 43,000 jobs. In fact, the only major sector of the economy to gain jobs last month was the government.

Over the past two years, public payrolls have been growing at about three times the pace of private payrolls, creating only an illusion of a vibrant job market. To put it another way: These are good times if you're a mailman, an airport screener, or a Defense Department contractor. For the rest of us, this sure has the feel of a lingering recession.

Mr. Moore is a senior fellow in economics at the Cato Institute and president of the Club for Growth.

It's not just jobs that are shifting from the private to the public sector—output is shifting as well. For example, Department of Commerce statistics indicate that in the second half of 2000 the private GDP (overall GDP minus government) was treading water, growing at a rate of 0.1 percent. Meanwhile, government spending grew by 5 percent. In 2001, the private-sector economy actually shrank by –1.1 percent while government was in a full-scale spending boom, growing by 6.3 percent. So far this year, private-sector growth is stuck at a still-anemic 1.7 percent rate, but the government has luxuriated in an 11.3 percent expansion.

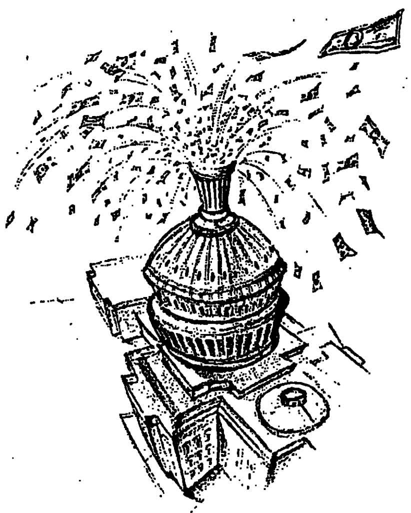
The gap between the government haves and the private-sector have-nots is widening. In the just-released second-quarter GDP numbers for 2002, we find that the private-sector economy contracted by –0.4 percent. The bottom line is, over the past two years the fastest growing industry in America has not been housing, construction, or anything of the kind—it's been government.

In 1999 and 2000, all levels of government—cities, states, and Uncle Sam—were partaking equally in the spending binge. That changed last year. The combined financial jolt of decelerating tax revenues and strict balanced-budget requirements has at last returned state- and city-agency budgets to sane rates of growth. Not so in Washington, however, where the economic slump hasn't even created a speed bump for congressional spenders.

In just the past two years, the entire federal budget has increased by $200 billion—that's more money than the entire GDP of many of our international trading partners. Congress is about to approve another $150 billion expenditure hike for 2003. Just the one-year increase in Uncle Sam, Inc., will be more than twice the amount of capital raised in a typical year by the entire venture-capital industry. (And don't forget the half-trillion-dollar prescription-drug benefit for the elderly that President Bush will probably sign into law—the most expensive and expansive new entitlement program since LBJ's Great Society.) It would appear that Sen. Robert Byrd, with the willful collaboration of Republican Senate and House appropriators, has created the world's first recession-proof government.

Of course, half of the buildup is justifiably devoted to post–9/11 defense and homeland-security spending. Nevertheless, that still leaves a 15 percent two-year expansion in non-essential government spending. In the past twelve months Congress has passed the priciest education spending bill ever (the House Republican Study Committee recently reported that Department of Education spending has soared by 104 percent since 1995) and the most expensive farm-welfare bill ever. It will soon enact the most expensive foreign-aid bill.

Rep. John Shadegg, the fiscally responsible Arizona Republican, laments that "the appropriators are on a spending rampage and there's no political will in an election year to block them." Normally, in a national-security/foreign-policy crisis, government spends less on butter to buy more guns. Now we get more of both.



By Roman Genn

Conventional wisdom has it that a boost in government spending keeps a flagging economy afloat, a Keynesian analysis that is widely held in Washington, even—unfortunately—among members of the Bush administration. In fact, from the standpoint of economic recovery, the expansion of government budgets could hardly be worse news. Real wealth creation is driven by private businesses, entrepreneurs, and workers expanding their output, not by inflating public-agency balance sheets. There is some talk among the Bush team that a further government-spending stimulus might steer the economy out of its malaise. According to this simple-minded theory, when the government spends, it encourages an increase in demand for goods and services, which encourages businesses to put Americans back to work.

The problem is that this theory has never panned out. If government is spending more, the private sector necessarily has less to spend, not more. The government can finance its spending in one of three ways: It can tax, it can borrow, or it can print money (i.e., inflate the currency). In each case, there's less money for private business, the true driver of the economy.

Take the riches-to-rags story of Japan, which responded to a recession by pumping money into huge public-works programs. Over the past decade, Japan has suffered the lowest rate of economic growth, the deepest stock-market crash (from 35,000 to 9,000), and the highest rate of growth of government spending—heavily financed with debt—of any of the industrialized nations. The Japanese economy has been a case study in Keynesianism on steroids.

For 18 months now the political class in Washington in both parties has been aping that economic strategy. Funds that otherwise could go to business owners, entrepreneurs, venture capitalists, and investors are being misspent by Congress and government agencies instead.

All of this may explain why Americans feel more agitated by the performance of the economy than the official statistics would seem to warrant. Nearly half of voters now say that things are going "in the wrong direction," and the state of the economy has now replaced terrorism as their number-one concern. We are in merely a statistical economic recovery, not a real-world one.

This summer I traveled to San Francisco to ask Milton Friedman, the world's greatest living economist, what we should do to end the economic malaise and promote long-term growth. "Cut government spending," he said—"by as much as possible." That's the kind of clear thinking that you find little of in Washington. The economy could get back on a virtuous 4-percent-growth path soon if Congress and the White House would only listen to Friedman and not the ghost of Lord Keynes. **NR** anti-business, anti-market environment. Instead, they are contributing to that environment. They are not pointing out that the stock market is being depressed not only by lack of confidence in corporate executives, but also by fear of a regulatory overreaction by Washington. They are not vowing to resist such an overreaction. They are saying, rather, that the House Republicans passed regulations faster than the Senate Democrats did, and hoping that voters will buy this counter-intuitive spin.

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Republicans must find a way to be against abusive managements but pro-investor.

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Republicans are trying to show voters that they are just as anti-Big Business as the Democrats. It won't work. As former congressman Vin Weber, a Republican, says, "There is a deep-seated impression that we're the party of business. The notion that we are, in the middle of a corporate crisis, going to convince people that the Republicans are going to be tough on business is just bizarre." But the political demand of the moment is not that politicians be "anti-business" anyway. It's that they be pro-investor.

Republicans must find a way to be against abusive managements but pro-investor. They should tell investors that they are for reforms that punish errant CEOs but against "reforms" that punish *them*. Perhaps Republicans could propose to eliminate legal restrictions on hostile takeovers. Takeovers, and the threat of takeovers, are a way of asserting investors' interests over those of possibly self-serving managements. Congressman Ryan is considering introducing a bill to bring takeovers back.

Or Republicans could suggest cutting taxes on corporate dividends. By discouraging dividends, tax policy has encouraged companies to retain too much of their profits and, sometimes, to spend this money on excessive compensation packages for executives. Dividends are an important signal that a company's earnings are real. Suppressing that signal has made fraud easier. Democrats would, of course, say a dividend tax cut was a tax cut "for the rich"—although rich people do not, as a rule, invest for dividend streams—but so what? Investors aren't hostile to rich people. They're mad at fraudulent CEOs.

If they do not advance distinctively conservative answers to the corporate scandals, Republicans will condemn themselves to play defense for several months. But if they are unwilling to reconsider their legislative strategy, they should at least reconsider their rhetoric. On July 15, President Bush said that America "must get rid of the hangover that we now have as a result of the binge, the economic binge we just went through." A few days before, a Treasury official had said that stocks were still overvalued.

Bush's remarks are, in part, a too-cute way of blaming the bear market on his predecessor while not saying his name. But it is not true that the entire boom of the 1990s was an illusion. Yes, some sectors of the economy seem to have floated free from reality. It also appears that Alan Greenspan, in following an easy-money policy to avoid Y2K disruptions, inflated the stock markets between late 1998 and early 2000. But these are footnotes. The 1990s saw real gains in productivity, real technological advances, and real wealth creation.

Millions of Americans started to invest in the stock market over the last decade, and started to move rightward politically as a result. Even now, more Americans favor a reform of Social Security based on individual investment than oppose it. Does it really make sense for the Republican party to tell these people that their experience of capitalism has been a fraud and a lie? NR

■ **COVER STORY II** ■

Taming the Bear

Confront him boldly, or he will devour you

LAWRENCE KUDLOW &

STEPHEN MOORE

THE administration of George W. Bush has not exactly covered itself in glory on the economy. In fact, most of the administration's policies in the first half of 2002 have done more harm than good: the disgraceful farm bill, the steel tariffs, the timber quotas, the emergency anti-terrorism spending bill (which quickly became the gift that kept on giving for special-interest groups), and the decision to refinance failed foreign-aid programs (the result of the Treasury secretary's trip to Africa with one-named rock singer Bono).

Meanwhile, the Republicans in Congress are just as ideologically adrift. In the middle of the stock-market crisis of recent weeks, House GOP-ers were busy passing a $350 billion prescription-drug-benefit giveaway to seniors. For the record, this would be the most expensive new entitlement program since LBJ launched the Great Society in the 1960s. (The Democrats immediately dismissed the GOP plan as meager and proposed a $1 trillion drug plan of their own.) These plans will surely lead to price controls, higher payroll taxes, or both.

Spending money is unmistakably an art form in this Congress: The budget is expected to rise by as much as 15 percent this year, on top of the 11 percent rise last year—a combined total that exceeds what Bill Clinton spent in his first five years in office. Only a few bud-

Mr. Kudlow is CEO of Kudlow & Co. and co-host of CNBC's *Kudlow & Cramer*. Mr. Moore is president of the Club for Growth. Both are contributing editors of NR.

get hawks in the House—led by John Shadegg and Jeff Flake of Arizona and Pat Toomey of Pennsylvania—are making any effort to handcuff the profligate congressional appropriators.

The congressional response to the corporate-accounting scandals hasn't steadied investor-class jitters much either. Just the opposite, in fact. What started as a crusade for tougher anti-fraud penalties and sensible accounting regulations has evolved, in tone, into something resembling a lynch mob. Now our congressmen are Big Business bashers, and their ultimate aim appears to be to stifle the golden goose of free-market capitalism that created $32 trillion of new wealth in the 1980s and '90s. Clamping down on corporate criminals is fine, but that needs to be combined with a positive agenda of growth-oriented tax cuts, deregulation, and free-trade policies. No one in the White House or on Capitol Hill has made this case.

None of our elected officials wants to confront the reality that—notwithstanding all of the corporate scandals—Washington is itself an enormous part of the economic problem. The policy environment is uniformly bearish. In fact, a strong case can be made that when you roll together all the bad laws that have been enacted on Capitol Hill this year, Congress has been a greater depressant to the stock market than all of the corporate crooks at Enron, WorldCom, and Arthur Andersen combined.

The only person capable of changing the tone of the political/economic discussion in Washington and helping to reverse the financial-market malaise is President Bush. With each passing day that the stock market melts down further, his economic team insists that the White House economic agenda does not need fixing. They are dangerously wrong. These are the steps that we would advise.

First, Bush should appoint an economic guru with credibility on Wall Street to lead the policy agenda back in a sensible direction. No such person exists in the administration right now to carry this off. Our first choice for such a position would be Steve Forbes. Retiring House majority leader Dick Armey of Texas would be another smart pick. Both have impeccable economic credentials. They're unabashed supply-siders, which are scarce in the administration right now. In addition, a panel of outside economic advisers could provide fresh perspectives and sound policy recommendations to the president.

Second, Bush should announce that he will rescind his 30 percent steel tariffs on January 1, 2003. The tariffs were a bad economic and political miscalculation by the White House: Steel prices have skyrocketed over the past three months and the free-trade agenda is frozen in place. There is mounting evidence that the steel tariffs have cost America more jobs than they have saved. The president can undo these tariffs unilaterally.

The policy environment in Washington is uniformly bearish.

Third, the Bush tax cuts of 2001 should be fast-forwarded to take effect immediately. As it stands now, it will be 2010 before the tax cuts take full effect—which in political terms is eons away. The big supply-side adrenaline surge from the Bush tax cuts won't occur until around 2005 and thereafter. Even so, the Daschle Democrats say the tax cuts have failed. The truth is that the Bush tax cuts have hardly taken effect: The top income-tax rate has been reduced by only one percentage point, thanks to the anti-tax cutters in the Democratic leadership who insisted on a gradual phase-in of the tax cuts. The president should call for immediate reduction of the top income-tax rate (from 39 to 35 percent, for a start) and termination of the estate tax, which, through a freakish accident in the tax bill, will actually be increased from 2003 to 2005 in almost half the states.

Finally, the administration should devise a tax-reduction plan specifically aimed at investors. One sound proposal, put forth by economist Richard Rahn of the Cato Institute, is to combine tax-free dividends with a prospective cut in the capital-gains tax to 10 percent for purchases of stock after July 1, 2002. We should also consider a turnover approach to capital-gains taxation: If a stock sale is soon reinvested, it shouldn't be treated as a taxable event. By unlocking prior gains (the S&P 500 is still nearly double its early 1995 level) and increasing the after-tax value of stocks, this would re-liquefy and rally the market almost instantly.

White House politicos fret that further tax cuts are a political non-starter at a time of growing budget deficits. Nonsense. Tax revenues are growing slowly not because taxes have been cut too much, but because of insufficient economic growth to generate the tax receipts to balance the budget. To paraphrase President Kennedy in 1963: Without economic growth, there will never be enough revenues to balance the budget. If Bush can put the economy back on a sustained 3–4 percent growth path, the budget will quickly rebalance itself. Meanwhile, the Treasury Department should rack up a study on the dynamic revenue effects of tax cuts, a subject with ample academic backing.

The GOP Hill leadership could likely peel off enough Democratic votes to enact an anti-recession tax-cut measure. It would force pro-tax-cut Senate Democrats in tight races this year—Carnahan of Missouri, Johnson of South Dakota, and Baucus of Montana—to respond to the proposal of fast-forwarding tax cuts. After all, if lower tax rates make sense for 2006, why don't they make sense now with the economy wobbling along? And how will they justify voting against investor-class Americans on issues like capital-gains cuts when stockowners now constitute close to 60 percent of the electorate? Either way, Republicans win.

Theodore Roosevelt once said about bear markets that "when the average man loses his money, he is simply like a wounded snake and strikes right and left at anything, innocent or the reverse." Well, the average American is losing his money—lots of it, in fact—and if the losses continue, he will lash out. If the Republicans don't develop a message of growth and prosperity, they will be the not-so-innocent targets. A sinking stock market this fall could bury GOP prospects for regaining the Senate and holding the House. **NR**

One, Republicans were not in power in Clinton's first two years; had they been, they probably would have confirmed at a rate higher than 71 percent. And two, Clinton's final years were poisoned by scandal and intense political fighting; the president was impeached, and 50 Republican senators voted to remove him from office.

Even so, the figures for Bush I and Clinton are in the same ballpark. And that suggests that there is, for want of a better phrase, an acceptable level of violence that the party in control of the Senate can inflict on the judicial nominees of a president of the other party. Two or three of every ten circuit-court nominees don't make it to the bench.

The problem today, as Republicans see it, is that Democrats are applying the standards of late-term presidencies to George W. Bush's first years in office. Unless Leahy speeds things up, it is possible that the Senate will confirm just half of the president's circuit-court nominees in his first two years in office—a dramatically low rate. "What they are doing is taking the election-year slowdown tactic and applying it to the first couple of years of this administration," says one GOP aide. "And that's a change in ground rules that we haven't ever seen."

Perhaps more worrisome is that if Leahy continues with his tactics, the new, slower rate of confirmations may become the norm for future presidents in their first years in office. Then the rate will fall even farther as the president ends his term. The result will be fewer judges confirmed and a significant escalation of White House–Senate warfare.

What can Republicans do about it? As most see it, they have just two options. The first is to make Democrats pay a political price for not confirming nominees. That's easy to say and hard to do: It appears that Democrats paid little, if any, price for their decision to kill the circuit-court nomination of Charles Pickering, and Republicans are not optimistic about making judicial nominations a hot political issue. That leaves the second option: winning back the Senate in November. Both the Bush White House and Senate Republicans know it is the only way to ensure that most of the president's nominees make it onto the bench. If Republicans fail, they will likely face more long years of frustration. **NR**

■ **PUBLIC POLICY** ■

Governors and Drunken Sailors

Out in the states, they've spent themselves silly

STEPHEN MOORE

DURING the go-go 1990s, no group in America engaged in conspicuous consumption more than the nation's governors. State budgets doubled in size, as lawmakers invented new ways to dole out tax dollars. Most states now spend between $800 and $1,000 more *per person* than they did in 1990—and that's after adjusting for inflation. As a new report by the American Legislative Exchange Council says, "Governors spent tax dollars as if the good times would last forever."

Well, they didn't.

So after years of binge spending and Everest-sized budget surpluses, most states are now swimming in rivers of red ink. California, New York, and Virginia are in particular trouble: Their combined budgets are nearly $20 billion in the red. "We didn't get a rainy day," New York governor George Pataki announced in his budget message earlier this year, "we got a monsoon."

If New York is facing a monsoon, then pity California, whose residents might begin building an ark. In the history of state government, it would be hard to match Gov. Gray Davis's four-year record of financial ineptitude. When Davis took over as governor, the state had a $7 billion two-year budget surplus and was the picture of financial health. After he inflated the budget by some $30 billion—a 32 percent budget hike in his first term in office—the state is now combating an estimated $16 billion two-year deficit. On the Cato Institute fiscal report card on the governors, Davis earned an F.

At least half of the governors, Republicans and Democrats alike, hold out hope that they can tax their way back to prosperity. The *Washington Post*'s David Broder recently wrote with approval that "solid, mainstream Republicans," such as Pataki, Connecticut's John Rowland, Kansas's Bill Graves, and Tennessee's Don Sundquist, want to raise "a combination of sales, cigarette, and gasoline taxes to close the budget gap." Virginia's legislature, which is dominated by Republicans, approved a voter referendum for a sales-tax hike. They were cheered on by the state and local chambers of commerce, partnered with the teachers union, who all see these new taxes as the commonwealth's salvation.

In all, eight states want to raise their income-tax rates; five states are contemplating sales-tax hikes; cigarette and/or beer taxes may rise in as many as 14 states; and the price of pumping gas may rise in nine others. "From Albany to Sacramento, this year could bring the biggest combined tax increases in at least a decade," says a new state budget analysis from A. B. Laffer Associates. The most predictable story is coming out of New Jersey, where the honeymoon of newly elected Democrat Jim McGreevey has come to a premature end: He has now disavowed his campaign promise not to raise taxes.

As a candidate, McGreevey preached a populist, Reaganite message of fiscal discipline. To keep the budget out of the red, he proposed cutting back on expenditures by streamlining government. McGreevey even criticized New Jersey Republicans—with much accuracy—for fiscal mismanagement, overspending, and excessive reliance on debt. Now he wants a half-billion-dollar business-tax hike ("loophole closings") and higher tobacco taxes. He had it right the first time around.

Another prominent about-face has occurred in Minnesota, where Jesse Ventura has proposed raising a series of fees and sales taxes to keep the state out of debt. This and other political miscues—the XFL debacle, his attack on religion—have Ventura battling anemic approval ratings.

Will the governors ever learn? During the economic downturn of the early 1990s, the states that raised taxes to try

Mr. Moore is an NR contributing editor and president of the Club for Growth.

to balance their budgets dug themselves into deeper financial holes. These tax-hiking states lost businesses and tax-payers, prolonging their individual recessions. California, Connecticut, and New Jersey suffered the most painful consequences. In 1991 and 1992, these three states raised income taxes only to see tax revenues decline still further as upper-income homeowners and businesses fled to more tax-friendly climates like the Carolinas, Florida, Nevada, and Texas.

Many other states learned the lessons of the Laffer curve the hard way when they found that the higher tax burdens they imposed actually generated less revenue from taxes. In fact, after California raised its income taxes on the rich to nearly 10 percent in 1992, the state actually lost domestic population (and revenues) for the first time in its history, as tens of thousands of Californians packed up and moved to havens like Seattle and Las Vegas that don't have an income tax. New Jersey's tax receipts grew twice as fast in the two years after Christie Whitman cut the income tax as they had in the two years after her predecessor, Jim Florio, raised it.

But the most remarkable tax-cutting success story is Michigan. When John Engler was first elected governor in the early 1990s, the Rust Belt economy was in the doldrums. Engler horrified his critics by cutting income taxes during a recession, freezing state-agency spending, and chopping low-priority programs. Over the next five years, Michigan led the nation in job creation and income growth. (Alas, even Engler seems to have forgotten this fiscal lesson. This year he has advocated new fuel taxes, while leading the charge as chairman of the National Governors Association for a nationwide pact to raise Internet taxes.)

Many states learned the lessons of the Laffer curve the hard way.

Michigan was no fiscal anomaly in the 1990s. The states that lessened their tax burdens the most over the last ten years created almost twice as many jobs as the states that increased their tax burdens. Too many of today's governors refuse to accept this economic reality and are poised to repeat the mistakes of the past.

Do states have any real options in cleaning up the fiscal mess? The tax-raising governors and most state legislators say they're plumb out of alternatives. They blame their budget crises on factors beyond their control—the recession, terrorism, and rising health-care costs. This cop-out has prompted the governors to go begging to Washington for federal handouts. The most fashionable solution brought forward by state lawmakers and liberal think tanks is to resurrect the Nixon-era program of revenue sharing. This would be a sweet deal for the cash-strapped governors, who would get tax dollars from Washington to spend as they wished with no accountability and without the political peril of having to wrestle the money out of their own voters. In the

1970s, states used their revenue-sharing dollars for such projects as bowling alleys, statues, luxury hotels, and sports stadiums. By the mid 1980s, even liberal Democrats in Congress agreed that the program was no more than a slush fund for the states, and killed it.

Of course, there is another option available to the states: belt tightening. This solution makes the most sense, since it was loose spending that created the crisis in the first place. Not surprisingly, the states in the bleakest budget condition are the ones that binged the most in the '90s. In debt-ridden New York, for example, the research group Change NY found that if Albany had simply restricted increases in expenditures to the rate of inflation from 1995 to 2001, state spending would have totaled $10.8 billion less, resulting in a revenue surplus.

Where, one wonders, are this generation's supply-side governors? There are a few. Bill Owens of Colorado has unflinchingly enforced the state constitution's spending-limitation measure, which prevented lawmakers from spending surpluses even in the late '90s when the state was flush with cash. Thanks to Owens's tightfistedness, Coloradans will be the only Americans to receive a state tax cut this year.

The November elections—which include 36 governor's races—could bring in a promising new crop of young, pro-growth fiscal conservatives. Bill Simon, the GOP nominee for governor of California, wants to cut the capital-gains tax rate by half. In South Carolina, Mark Sanford is running armed with a plan to abolish the state income tax over the course of the next decade. Oklahoma's outgoing governor, Frank Keating, has a plan to slash the state income tax in half, and his likely successor, former congressman Steve Largent, promises to finish the job. If elected, these brash newcomers could be just what is needed to change the hazy thinking and profligate spending that are now the rule in state capitals.

"We're the conservative reinforcements," says Arizona's Matt Salmon, who along with Largent and Sanford makes up an impressive troika of Class of '94 former congressmen running for governor. "Look at our records. We're proven tax cutters, not tax raisers." The elections can't get here soon enough. **NR**

■ CULTURE WATCH ■

A Fundamentalism of Their Own

With the Atheists in Boston

ANDREW STUTTAFORD

On Good Friday, when others were in church, I visited an atheists' convention. Choosing to hold the gathering—the 28th National Convention of the American Atheists—over the Easter weekend was, their president explained, not much more than a matter of favorable hotel rates. Ellen Johnson smiled as she said this: It was not a claim that a skeptic would expect anyone to believe.

So America's infidels gathered in their doubters' redoubt, a nondescript Hyatt on the grounds of Boston's Logan airport, transformed for a few days into a heretic Vatican. Around 250 souls (maybe that's not the word) had turned up for the fun, typically bright, somewhat eccentric sorts, often with the style sense of faculty members at a failing community college. Guys, shoulder-length hair does *not* work with bald on top. Oddballs? Well, the affable man sitting next to me did spend a surprising amount of time busily crossing out the word "God" from his dollar bills. Cranks? Judging by the pamphlets on display outside the main auditorium, quite possibly, although, to be fair, I did not witness anyone actually picking up a copy of *The Unpleasant Personality of Jesus Christ*.

It was not, it has to be said, a conservative crowd. Mentioning George W. Bush in a speech was better for jeers than for cheers. I did run into one likeable rightist. "*National Review*, eh? There aren't many of *us* here." Not that it worried him. As a nonbeliever from the South, he was used to being in a minority, and he was enjoying the opportunity for a little secular chitchat. Why the atheists? Well, the humanists were "just too touchy-feely." He had a point. Apart from one appalling moment when a hunched-shouldered woman whimpered that she was "afraid," there was none of the mush-'n'-gush that so often mars public gatherings nowadays. Refreshingly, too, there was little talk of "the children," although the enthusiasm that greeted the recital of an essay on school prayer by the young daughter (she's against) of an atheist from Alabama (so's he) had more than a touch of the Laura Bush about it.

That isn't to say that emotion was not on display. This was not a gathering very typical of the roughly 10 percent of all Americans who have no religious faith (a larger group than Jews, Muslims, Lutherans, or many others). For the most part, such secular folk keep their concerns to themselves. They are, spiritually speaking, part of the Leave Us Alone coalition, indifferent to theological controversy and free from transcendental torment. The Hyatt's heathens were made of more awkward, angrier stuff.

Given their background, that's not surprising. American Atheists is the organization (it has fewer than 5,000 members) founded by the "most hated woman in America," Madalyn Murray O'Hair, whose litigation brought an end to organized school prayer. She was a famously confrontational character, and even today her successors are a touch irritable. Contrary to rumor, there are no horns on their heads, but watch out for the chips on their shoulders. These are the Wahhabis of atheism, disbelief's true believers. Oppressed by their sense of oppression, they also show signs of succumbing to the temptation of that most pernicious of contemporary cults, the cult of the victim.

There were tales of social anxiety, embarrassment, and snubs, regrettable certainly, but hardly the Inquisition. In listening to the anguished protests against trivial slights, it was difficult to avoid the conclusion that this was a group that had lost all sense of proportion. On September 11, the United States was subjected to murderous assault at the hands of religious extremists. In addition to the carnage, bin Laden's war represents an attack at the ideological and spiritual level: It is a

Mr. Stuttaford is a writer based in New York.

The Economic Imperative

Bush and the Republicans cannot let this drop

STEPHEN MOORE

THE post–September 11 spirit of bipartisanship was suddenly shattered during a House Ways and Means Committee meeting, when Republicans suggested a capital-gains tax cut as an emergency economic stimulus. Charlie Rangel of New York, the ranking Democrat on the committee, embarked on a fist-pounding tirade denouncing the Republicans for exploiting the tragedy of terrorism to advance their "right-wing tax-cutting agenda." A few days later, John Spratt, the ranking Democrat on the House Budget Committee, lambasted the capital-gains discussion as "unconscionable" in a time of national crisis. Senate majority leader Tom Daschle piled on, advising the White House not to cave in to the "extreme voices" advocating a "divisive approach" to the stimulus bill. Translation: Even in a plunging economy, congressional Democrats will never abandon their quasi-religious opposition to capital-gains cuts.

Unfortunately, to preserve the veneer of bipartisanship, the White House has succumbed to these tirades. President Bush's economic advisers have always—inexplicably—been unenthusiastic about capital-gains cuts anyway, so the passionate opposition by liberal Democrats has convinced the Bush political team that it's now doubly wise to shelve the idea. In a meeting with investment icon Charles Schwab, Treasury secretary Paul O'Neill rebuffed Schwab's plea for a capital-gains cut, calling it a "deal-breaker." But it's only a deal-breaker because the Bush economic team, representing a president with an 85 percent approval rating, refuses to endorse the idea.

O'Neill's quick surrender has only emboldened the left-leaning Democratic leadership. They are now insisting that any speed-up of income-tax-rate cuts should apply only to the lower brackets, not to the highest and most punitive rates.

So the White House, which has handled the military and coalition-building aspects of the current crisis with such mastery and professionalism, is fumbling the economic-stimulus plan. Republicans are inching closer to agreeing to a stimulus plan with tens of billions of dollars in new government expenditures (which will depress the economy instead of resuscitating it), more tax rebates (which are close to being economically worthless), and targeted tax-rate cuts (which avoid cutting the rates that matter most).

The administration is in search of its economic orthodoxy, and it's being tugged in multiple directions.

One problem is that the White House apparently gets its economic advice from all the wrong places. Bush has announced that he is "listening to the voices of leading economists" in constructing a stimulus package. This is dreadful news, because the vast majority of modern business and academic economists have a wrong-headed view of how the world works. The supply-side model that Ronald Reagan and Margaret Thatcher employed to change the world in the 1980s is still in disrepute with most traditional Keynesians, who found themselves cast aside in the low-inflation, low-tax prosperity of the 1980s and '90s.

Most "leading economists" opposed Reaganomics. As a consequence, it is now Clintonite Robert Rubin and Fed chairman Alan Greenspan, not Reagan supply-siders, who are crafting the president's stimulus plan.

This administration is clearly in search of its economic orthodoxy, and it's being tugged in multiple directions. Bush has described his administration's economic philosophy as "both supply-side and Keynesian"; of late, the emphasis seems to be on the Keynesianism, as with the administration's absurd claim that the $40 billion emergency spending enacted the week after September 11 would provide a quick "stimulus to the economy." (This contention prompted Congressman Paul Ryan of Wisconsin—one of the rising stars of the House GOP—to send around a copy of a famous chapter from Henry Hazlitt's classic *Economics in One Lesson*. The chapter, entitled "Broken Windows," reminds us that breaking windows so as to create jobs repairing them is not an intelligent way to build prosperity.)

Of course, the demand-side Keynesian model preaches that economic growth is driven by consumer and government purchases, and I am told that the Fortune 500 CEOs who have visited the White House since September 11 are almost universally obsessed with this idea. They have begged the president to get customers into their stores. The problem with this idea is that it has already been tried, and failed. Japan—with the fastest-growing government spending and debt of any nation in the industrialized world—has been trying it for eleven years now, and continues to sink deeper into the economic mire. In early October, the despairing Japanese finally cut their capital-gains tax.

The alternative, supply-side worldview holds that prosperity is achieved by driving down the cost of capital through sound money, low tax rates, a non-intrusive government sector, and free trade. Today's supply-siders generally believe that the economy is being dragged down not by insufficient consumer demand but by a virtual disappearance of investment capital over the past year or so.

And to fix this, capital-gains tax cuts are crucial. They would raise asset values instantaneously, by reducing the tax penalty on all new and existing capital investment. They would reverse stock losses and stimulate new investment—

Mr. Moore is president of the Club for Growth.

which is what the economy needs most. Former Reagan economist Gary Robbins, now of the Institute for Policy Innovation, has found in a new study that dollar for dollar, there is no tax cut that is more stimulative to the economy than a capital-gains cut: You get $10 of economic stimulus for every $1 revenue loss. (By contrast, the Democrats' payroll-tax rebate is worth less than 50 cents for every dollar of cost.)

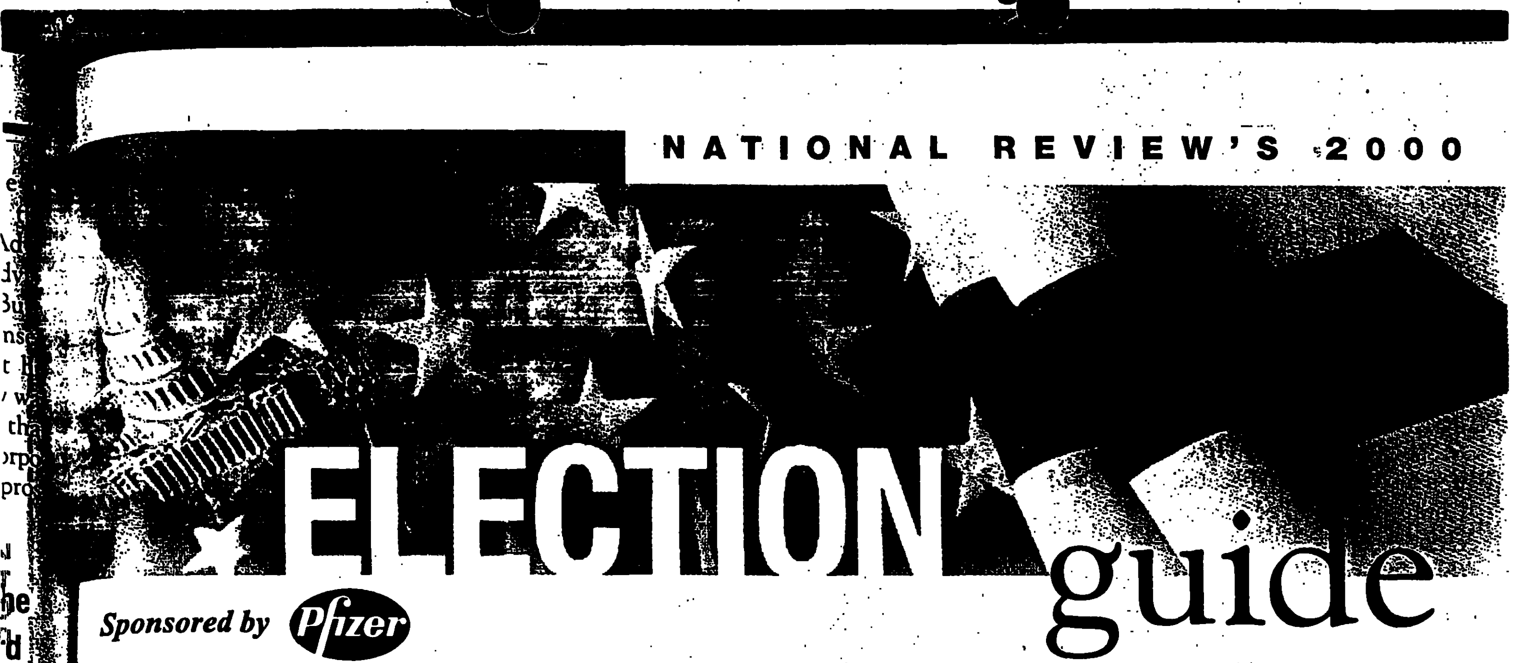
Here again, the president is receiving bad advice. The Bush team has apparently been frightened by the argument that a capital-gains cut would lead to a quick sell-off of stocks, as investors rush to cash in on past gains; this would further depress the stock market. Historically, however, the stock market has risen, not fallen, after a capital-gains cut. After the most recent capital-gains cut in 1997, the Dow went from 7,000 to a peak of 11,000. Here's why: A share of stock is valued at the expected future earnings of the company—after all taxes are accounted for. When the capital-gains tax is lowered, the after-tax value of the earnings of every company in America rises. The only possible way that the stock would fall in value is if investors were willing to sell stock that is now worth more, for a lower price.

There's also a way to guarantee that a capital-gains cut won't depress the market: Cut the rate from 20 percent to 10 percent on all gains earned *after* September 11, 2001, but not on gains earned before then. This would mean that no investors would have an extra incentive to sell stocks, because they would still have to pay the old rate, but new investors would have a strong incentive to buy stocks because the tax in later years would be cut in half. The value of stocks under this plan would have to rise. (House Whip Tom DeLay has already proposed this sensible compromise.)

This debate, alas, is not primarily about economics, but about diplomacy with the Democrats. The Bush policy team's preference on almost all domestic issues now is to advance issues that are perceived as less partisan. This makes some sense: Bush has risen above politics and party in recent weeks, to the level of a statesman trusted by almost all Americans. The problem is that when this principle is extended to economics it means that we get a steady onrush of bad policies: lavish giveaway packages to the airline industry, extended unemployment benefits, the federalization of 15,000 airline workers, another $5 billion in Department of Education spending, the most expensive farm bill in American history, and so on.

Worst of all, bipartisanship has given Tom Daschle and Dick Gephardt a de facto veto over economic-policy decision making. There are two problems with that: First, Gephardt and Daschle are clueless as to how to stimulate the economy. Second, even if they weren't economically illiterate, they might not support an economic-revival plan that would ensure that Republicans retain the House and recapture the Senate in 2002. As Rep. Pat Toomey, the Pennsylvania Republican, notes: "Our GOP leaders need to understand that a slumping economy is not necessarily contrary to Dick Gephardt's political interest."

So in the name of bipartisan cooperation, George W. Bush may commit a grave political and economic sin: signing a bipartisan stimulus package that doesn't stimulate. And if that happens, even a great military victory may not be enough to maintain these stratospheric approval ratings for long. Just ask the president's dad. NR



THE RACE

The Un-Clinton

Gore is not Clinton—that's the problem

STEPHEN MOORE

THROUGHOUT the 1980s the Democratic party's collective political judgment was blinded by a visceral hatred of Ronald Reagan. Left-wing pundits couldn't fathom the affection of the American public for Reagan, nor, worse still, its agreement with his right-leaning ideas on the military, the economy, and moral values. In 1988, Michael Dukakis's biggest blunder was his insistence on running against Reagan, not George Bush. The Democrats bemoaned the policy failures of "the last eight years," and warned voters that Bush would deliver more of the same. Voters replied: That's good, because that's exactly what we want. In short, the Democrats made the 1988 election a referendum on Reaganomics. Bush carried 40 states.

It wasn't until the public learned that Bush was not, in fact, "just like Reagan" that they rebelled against the GOP, and that the party's "electoral lock" on the White House vanished. In 1992, Bill Clinton was smart: He ran not against the ghost of Reagan, but against the defective policies of Bush. And he won by promising to recreate the prosperity that Bush's mismanagement of the economy had let slip away.

The Bush campaign strategy of tying Bill Clinton's scandals and sexual escapades around Al Gore's neck isn't just ineffective; it's completely counterproductive.

Could it be that Republicans have now tripped into the same political ditch? It's no secret that Republican party loyalists have a deep-rooted antipathy toward Bill Clinton. For eight years now, this contempt for the man they call "Slick Willie" has short-circuited their political acuity. If Ronald Reagan was the most underestimated politician of the past half-century, surely by now we can all agree that Bill Clinton is, at least, a close second.

The Bush campaign strategy of tying Bill Clinton's scandals and sexual escapades around Al Gore's neck isn't just ineffective; it's completely counterproductive. There are, no doubt, some similarities between Clinton and his vice president: Both have the same tendency to view truth-telling as optional. But the American public simply doesn't believe that Al Gore is the kind of sexual preda-

Mr. Moore is president of the Club for Growth.

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tor that Bill Clinton is; and, thankfully, they are right.

Voters still have a very negative attitude toward Clinton's vile personal behavior in the Oval Office, but they're hardly in revolt over his performance when it comes to matters of state. That's not too surprising, because Clinton's overall economic record is more favorable than many Republicans and conservatives wish to concede.

Bill Clinton did not, of course, *cause* this magnificent expansion. But when someone is raking in a huge pot at the poker table, you don't lecture him about how he played the hand all wrong. Voters don't care all that much about who deserves the credit; what they know for certain is that this truly is a marvelous economy—and, more than anything else, they want more of the same.

Tying Gore to Clinton simply makes Gore seem reasonable on policy, and a decent enough standard-bearer for prosperity. He's nothing of the sort.

That's entirely rational. If we were to rank presidents on the basis of their success in generating prosperity, jobs, and income growth, Bill Clinton gets a surprisingly strong report card. Let's take a look at how past presidents have fared, using an objective economic index constructed by Harvard University and Hoover Institution economist Robert J. Barro. Barro measured the change in four key economic indicators over the last 13 four-year presidential terms: the inflation rate, the unemployment rate, the GDP growth rate, and interest rates.

Conservatives will be cheered to learn that Reagan's first term ranks first on the Barro index. But—and this is likely to hit Republicans right in the solar plexus—Clinton's second term ranks a strong second, blowing away Bush, Ford, and Nixon. Barro explains Clinton's high standing by noting: "When it came to growth, [Clinton's] good policies—such as free trade, welfare reform, spending restraint, and stable monetary policy—outweighed his bad policies [such as] the income-tax rate hike, minimum-wage increase, family-leave regulation, and overzealous antitrust enforcement." NR economist Lawrence Kudlow has made exactly the same point over the past four years. In some ways, Clinton's success is the ultimate validation of the Reagan supply-side model.

Barro's index underscores the folly of the GOP strategy of running against Clinton in this year's election. The key to winning for George W. Bush is to separate Gore's policies from those of Clinton: Gore is simply more liberal, across the board. Clinton is genuinely a New Democrat; Gore is not. Gore is economically risky. He is reflexively pro-government in ways that Clinton is not. Gore is much more reminiscent in philosophy of the European socialist leaders of the 1980s—François Mitterrand, for example—than of the reformist New Democrat movement built by Clinton.

It's a worthwhile exercise to step back a minute and contrast Bill Clinton's policy successes with Al Gore's shifty campaign positions. First, free trade: Gore says that he wants a union-dictated, environmentalist "fair trade" policy; nowhere does he trumpet free trade. "Fair trade," of course, is a code word for protectionism.

Second, welfare reform: Gore's nanny-state proposals for free health care, child care, preschool, etc., would resurrect the old morally decrepit welfare state under a different name. His goal is much the same as that of the Great Society: to place the state in the role of surrogate father/breadwinner. We have 30 years of evidence that that's a prescription for social and economic disaster.

Third, spending restraint: Gore has proposed *about $1.6 trillion* in new spending over the next decade. That's more money than Mondale, McGovern, and Dukakis proposed—not individually, but combined. Message: Gore's a big spender, par excellence.

Fourth, Clinton has cozied up to business interests, and has fixated on the financial markets as a performance gauge. Gore, in contrast, is campaigning as a demonizer of "big business," regularly attacking

By David Smith

industries he disagrees with: oil companies, HMOs, drug companies, Microsoft, and big tobacco.

On economics, Gore is a "Clinton Democrat" only when it comes to perpetuating Clinton's debilitating economic policies. He wants a higher minimum wage; he's against pro-growth tax cuts, and supported Clinton's veto of the repeal of the death tax; he wants paid family leave; and he wants to hike the budget for the Justice Department trustbusters. He recently told the *Washington Post* that he relishes the opportunity to run as a progressive, trust-busting, anti-corporate crusader. On environmental policy, Clinton has been friendly to the radical greens; Gore would paint the Oval Office green. The Kyoto global-warming treaty alone ought to give Americans pause about a Gore presidency.

The Bush campaign has to start pounding Gore-Lieberman mercilessly for lurching the Democratic party back to the loony left. Tying Gore to Clinton simply makes Gore seem reasonable on policy, and a decent enough standard-bearer for prosperity. He's nothing of the sort. He could very easily be to Clinton what Herbert Hoover was to Calvin Coolidge.

Bush should debate Gore dozens of times before the election. Each time Gore opens his mouth on national TV, he utters some new scheme to boost government spending and undermine individual liberties. That's an act that wears thin, over time, to an American public that still prefers a paycheck to a welfare check.

I'm a fan of Dick Cheney, but he said something at the Republican convention that encapsulates why the GOP ticket has lost 15 points in the polls in the last four weeks. He said: "Does anyone . . . seriously believe that under Mr. Gore, the next four years would be any different from the last eight [under Clinton]?" If Americans conclude on Election Day that Gore would govern just like Clinton, the election is lost—for the Republicans. The message of the Barro index is that the only way for Bush-Cheney to win is to convince voters that four years of Al Gore would be nothing at all like the last eight. **NR**

PUBLIC POLICY

Tax (Credit) & Spend

Liberalism's latest social engineering

LAWRENCE KUDLOW

As the presidential campaign takes on a more ideological cast, it's the argument over tax cuts that most dramatically captures the different visions of government of the two candidates.

George W. Bush's tax-cut plan would shift a substantial amount of economic power from the federal government back to individuals. Bush aims to limit federal tax revenues to no more than one-third of the income people earn, and there's a strong moral dimension to this economic principle: Bush believes that self-governing individuals—as they exercise their personal responsibilities to each other, their families, their businesses, and their communities—will be a more reliable engine of prosperity than any number of Washington bureaucrats and regulators.

Mr. Kudlow is an NR contributing editor.

Bush's one-third rule on taxes holds the key to understanding who the Texan really is, and how he would govern if elected president. The contrast with Al Gore couldn't be more striking. Gore's tax plan contains no fewer than 29 targeted tax credits, each with specific government-approved behavioral requirements and means-tested income thresholds for eligibility. This is not a tax-relief package; it's an IRS-administered monopoly of government entitlements, transfers, grants, and subsidies, adding needless complexities to the confusing system of pulleys and levers in the existing tax code.

Together with the harsh regulations he has threatened to impose on unfavored businesses, Gore's tax-credit avalanche would drastically enlarge the government's role in the economy. He told the Democratic convention that only "over my dead body" will there be across-the-board tax-rate reduction. In Gore's view, the free-enterprise sector has gotten out of government's control,

THE LIEBERFLOPS

Social Security

Lieberman supports "privatization"—
"A remarkable wave of innovative thinking is advancing the concept of privatization, some personalization of retirement plans. . . . I think in the end that individual control of part of the retirement/Social Security funds has got to happen." (*San Diego Union Tribune*, April 19, 1998)

Lieberman opposes "privatization"—
"And look at what Governor Bush is proposing. Instead of saving Social Security, he's on a course to savage it with a privatization scheme that would take $1 trillion out of the nest egg that belongs to every worker in America, and jeopardize the program stability and the security of the working future of the American people." (Remarks at Connecticut AFL-CIO convention, Aug. 7, 2000)

"There's a case where the Bush campaign has taken some comments a couple years ago and made them into holy writ. It is not true. I was intrigued by the idea of privatization [*sic*] part of Social Security." (*Larry King Live*, Aug. 8, 2000)

"In June, the Gore campaign prudently asked Lieberman to prepare an 'op-ed column' on Social Security. 'My Private Journey Away from Privatization' attacked 'an expensive experiment' and endorsed Gore's plan. It appeared in no newspapers, but was filed at Gore headquarters for future distribution—which came this week." (Robert Novak, "Moderate Talk, but a Distinctly Liberal Walk," *Chicago Sun-Times*, Aug. 10, 2000)

in Congress. "To Hughes . . . promising to veto a popular bill was sure to be a PR disaster," *Time* continued. "Bush had to be for the people, not the HMOs. 'This will hurt us,' she warned."

It had all the signs of a classic hit-leak: a one-sided perspective, with a hero looking very smart, trying to warn the other side against stumbling into disaster. (As it turned out, Bush's veto threat played a critical role in helping him reach a deal with Congress.) Card was said to be mightily miffed, delivering stern lectures, but not embarking on the kind of Ahab-and-the-whale search for leakers that has characterized earlier administrations. Even though there have been a few other leaks—White House officials weren't happy when news got out about the planned "Communities of Character" initiative—there has been nothing of magnitude before or since the patients'-bill episode.

Instead, there has been day after day of "message discipline"—and a few deliberate leaks designed to make the president look good. While Bush hasn't engaged in that practice as much as Clinton did—after all, he has fewer friends in the press—he has pulled off one masterful strategic leaking initiative. In the weeks leading up to the decision on stem-cell research, the White House put out story after story about how much the president was agonizing over the decision, about how he brought up the issue with virtually everyone who came into the Oval Office, about members of his staff with particularly deep feelings on the issue. Coupled with Bush's carefully crafted, split-the-difference decision, the leaks were a great success. They portrayed the president as serious, studious, and fair-minded.

Now come the fall battles over spending and the surplus. It's easy to imagine a scenario in which Bush, trying to hold the line on spending, is hurt by leaked reports that his staff is bitterly divided over strategy and substance. While that might happen—the smooth-running White House message machine can't run smoothly forever—don't look for a major breakdown. "I don't think they'll ever reach the point of the 'keister' comment," says David Gergen, the aide who announced Reagan's (unsuccessful) anti-leaking crusade back in 1983. "They run a button-up place." **NR**

■ **PUBLIC POLICY** ■

Tax Cut and Spend

The profligate ways of congressional Republicans

STEPHEN MOORE

IN recent weeks President Bush has been crowing that he has trapped spendthrift Capitol Hill Democrats inside the Social Security lock box. The White House theory is that because the Democrats have now pledged never to take another dime from the Social Security surplus fund, they are dangling from the horns of a no-win budgetary dilemma: They must give up either the lock-box gambit (and thus expose themselves as fiscal hypocrites) or their multibillion-dollar wish list of social spending (and thus infuriate their liberal base).

There's one problem with this theory: spendthrift Capitol Hill *Republicans*, who have their own pricey shopping list when it comes to this year's budget. Bush has pledged to veto spending bills that would tap into Social Security—but repelling the congressional budget raiders will be a herculean task when so many of them are members of his own party.

Here's just one depressing example of the bipartisan nature of today's spending binge. So far this year, legislators have requested an all-time-record number of pork-barrel special-interest projects—bicycle paths, county courthouses, railroad museums, shrimp-research funds, money for onion growers, and the like. At least half of these slabs of taxpayer-funded bacon would be delivered to Republican districts. The Office of Management and Budget calculates that if every one of these requests were approved, the price tag would reach $280 billion. That's a

Mr. Moore is president of the Club for Growth.

figure equal to the entire defense budget.

Over the past three years—a period of Republican control of both House and Senate—the rate of growth of federal domestic spending has accelerated from 6 percent to 8.5 percent, during a time of nearly zero inflation. Congressman Pat Toomey, a Pennsylvania Republican who is the fiscal-conservative watchdog on the House Budget Committee, complains that federal appropriations may rise by as much as 10 percent by the end of the year—a far cry from the 4 percent spending increases that Bush sought when he released his budget plan back in January.

What ever happened to the hard-charging fiscal conservatives in Congress who once wanted to shut down agencies and even entire cabinet departments? It was only six years ago, in the winter of 1995, that Republicans were promising a fiscal revolution—a rollback of layer upon layer of failed multibillion-dollar welfare-state programs. For a brief but glorious moment, that is precisely what happened: In 1996, for the first time in more than a decade, many federal agencies saw a decline in their annual budgets. Big government was in full-scale retreat, or so it seemed. But the ethic of fiscal housecleaning proved to be short-lived.

The original "Contract with America" budget in 1995 slated more than 300 programs for termination. Some of these programs—such as the Legal Services Corporation and bilingual-education funding—were little more than political slush funds for special-interest constituencies. Others—such as TVA and the Rural Electrification Administration—were already antique when Barry Goldwater campaigned against them in 1964. And most of the rest were hopelessly ineffectual: the Economic Development Administration, the World Bank, federal transit grants, the Appalachian Regional Commission, and so on.

Not only does nearly every one of these programs still exist; they are actually flourishing. For example, the Goals 2000 education program—federal "free money" that some states have actually rejected because of the meddlesome strings attached—has nearly tripled in size, from $231 million to $688 million. The bilingual-education budget has risen by almost 40 percent, even as voters all around the nation are overwhelmingly rejecting bilingual education because it hinders the ability of immigrants' children to learn English.

Most farm programs were supposed to be phased out entirely with the passage of the Freedom to Farm Act back in 1996, but it turns out that over the past five years payments to agribusinesses have actually soared. Freedom to Farm was supposed to spend $47 billion over seven years, with payments dropping every year; the actual spending was roughly $86 billion, with payments rising every year. This year Congress is rewriting the farm bill—the subsidies, of course, still exist—and a staffer on the Senate Agriculture Committee recently described the bill as "the most costly and least free-market-oriented agriculture bill in at least a generation." Freedom to Farm has been converted into the Freedom to Farm Washington.

What ever happened to the hard-charging fiscal conservatives in Congress who once wanted to shut down agencies and even entire cabinet departments?

Amtrak narrowly escaped the ax back in 1996, when Congress told the railroad's management it had to break even by 2002 or else be liquidated. This year, Amtrak—which President Reagan once aptly described as a "mobile federal money-burning machine"—will record its biggest losses ever; but House Appropriations Committee chairman Don Young, a Republican, has just voiced his support for a $71 billion taxpayer bailout over the next ten years. That's almost as much as it cost to put a man on the moon.

Of the tiny handful of programs that *were* terminated, some have since risen from the grave. The wool and mohair subsidy was created in the early 1950s during the Korean War, when these payments to goat- and sheepherders were said to be vital for national security, because the military needed wool uniforms. The Pentagon hasn't used wool uniforms for about 30 years now, so the rationale for the subsidies long ago disappeared. In 1996, the Republicans killed the program; in 1999, it was suddenly resurrected under a different name. The National Sheep Industry Improvement Center was created to provide "temporary" help for sheepherders facing the problems of overproduction and low prices.

Corporate welfare is also as strong as ever. The mercantilist policies of the Commerce and Agriculture Departments are the antithesis of the free-market policies Republicans say they espouse, but the congressional GOP has never made an honest effort to push companies like AT&T and GE off the dole. The welfare-reform package included a two-year time limit for receiving aid, because it was well known that continued assistance simply creates a culture of dependence. Why should firms like Boeing receive Export-Import Bank aid for more than a decade?

Perhaps the most embarrassing fiscal retreat of all involves the Education Department. Republicans had argued in the Reagan years—and again after the GOP takeover of Congress in 1995—that this department should be shut down because it has had no impact on school performance; in fact, there is a negative correlation between federal education funding and academic achievement. But once they lost the fight with Bill Clinton over closing down this dubious legacy of the Carter era (the teachers unions used to brag, "We're the only special-interest group in Washington with our own cabinet agency"), the Republicans adopted precisely the opposite strategy: Now they're determined never again to allow the Democrats to outspend them on this agency. Between 1996 and 1999, the department's budget shot up 38 percent, to $33 billion. In 2000, its funding grew by another $6 billion; and this year's Bush education reforms call for a doubling of the federal education budget over five years. White House officials admit—anonymously and off-the-record—that these funds will do almost nothing to help schoolchildren, but will do a lot to help Republicans save their jobs.

Washington's culture of spending was an important reason the Democrats finally lost control of Congress in 1994; but that culture now thrives on the Republican side of the aisle. In 2001, the federal government will end up spending some $400 billion more than it spent back in 1995 when the GOP took over the Congress. Every dime of that increase has been in domestic social programs; none of it has been devoted to defense. It says a lot about the Democratic party's priorities that the only protest Daschle, Gephardt & Co. have raised about the affordability of a federal program has been against missile-defense proposals.

Jeff Flake, the freshman Republican from Arizona, expresses shock that every vote on the budget in the first six months he was in Congress was to expand the size of the government. "I'm still waiting for a House floor vote to make government smaller," he grouses.

His colleagues evidently don't share his view. In the past two Congresses there has been a stampede to get on the appropriations committees, which, of course, parcel out the dollars. So now we essentially have two parties ruling Capitol Hill: one that wants big government, and another that wants even bigger government. That's not the kind of sharply defined ideological difference between the two parties that will send voters to the polls to pull the lever for Republicans.

If Republicans don't rediscover the ethic of fiscal restraint—if they don't dedicate themselves this fall to constraining spending to 4 percent or so, which is about half what they'd like to spend—there will be disastrous consequences: The entire Bush-GOP fiscal strategy of tarring and feathering Democrats as fiscally reckless will collapse; the surplus will continue to shrink; Republicans will be lambasted as the Bonnie and Clydes who raided the Social Security trust fund; the GOP tax-cutting agenda will be discredited; and Dick Gephardt will be elevated to Speaker of the House.

Then, of course, taxpayers will get to see what a *real* spender can do. **NR**

■ PUBLIC POLICY II ■

Visible Hand(outs)

Ending corporate welfare as we know it

RAMESH PONNURU

SIX years ago, there seemed to be only one point of common ground in Washington. The newly elected Republican Congress was at odds with a Democratic White House on everything from school lunches to Medicare. Newt Gingrich tried to associate the Democrats with Susan Smith, who drowned her children; President Clinton tried to associate the Republicans with Oklahoma City bomber Timothy McVeigh. But on one issue, everybody professed agreement: Corporate welfare had to go. Clinton and Gingrich, Ralph Nader and Dick Armey, John Kasich and Robert Reich, the Heritage Foundation and Friends of the Earth all agreed that the federal government should stop giving subsidies to business. Colin Powell, too, blasted corporate welfare.

Clinton, Gingrich, Kasich, and Reich are all out of power now. But corporate welfare is still here. A forthcoming paper by Stephen Slivinski of the Cato Institute lists $87 billion of such subsidies in this year's budget. And corporate-welfare spending is growing. It's up 30 percent since 1997. Stephen Moore, a former Cato analyst now running the Club for Growth, concludes, "We fought a war against corporate welfare. Corporate welfare won."

One reason it won is that the consensus against it was shallow. Different groups had different views as to which programs counted as corporate welfare. Conservatives argued that most tax breaks could not be counted as welfare. Letting companies keep more of their profits was not the same as giving them taxpayers' money. In addition, conservatives viewed many business tax breaks as a partial corrective to the tax code's bias against savings and investment. If some industries were able to shield a portion of their investment from taxation, the solution was not to end this exemption but to extend it.

Reich, meanwhile, claimed that many of the programs Republicans wanted to abolish were not really corporate welfare because they gave indirect benefits to the public as well as direct benefits to companies. So elastic was the Clinton administration's conception of the public interest that in the end it was unable to identify any subsidies it wanted to eliminate. Clinton vetoed the Republicans' budget in 1995 partly because it did eliminate some subsidies. The campaign against corporate welfare has never really recovered from that veto.

That campaign has not, to be sure, entirely disappeared. President Bush's budget cuts corporate welfare by about $12 billion. No president since Reagan has had a more ambitious program of retrenchment. But Bush's cuts exist only on paper. He has said nothing in public about the cuts, done nothing to pressure Congress to make them, threatened no vetoes if they do not. Congress, not surprisingly, has ignored Bush's proposal.

Since 1995, opponents of corporate welfare have repeatedly tried to eliminate the Advanced Technology Program. Its budget has, however, grown by 40 percent during this period. Bush wants to eliminate the program, but so far his proposal is going nowhere. Senate budget-writers are suggesting a 38 percent ($55 million) increase.

The House has not been much more eager to wield the scalpel than the Senate. Bush's budget cuts the Market Access Program—which gives money to agricultural trade associations to advertise overseas—by 27 percent. The House Agriculture Committee wants to double the program.

Corporate welfare is likely to continue pretty much as is, unless the president makes an issue of it. There is a strong case for the president to give his proposals to rein in corporate welfare more publicity, and indeed to expand those proposals.

Fighting corporate welfare is the right thing to do. The federal government has no business subsidizing business. Corporate-welfare programs fall into two categories: either they pay for ventures that corpora-

■ PUBLIC POLICY ■

Killed on Taxes

The administration is blundering

STEPHEN MOORE

THE White House is gamely trying to put a positive spin on the Senate rejection of President Bush's $1.6 trillion tax cut—Hey, at least we got the Democrats to agree to $1.2 trillion!—but in reality, this was a major blow to Bush's program: The tax plan is shrinking at the very time when it could—and should—be growing. Worse, the administration has become vulnerable to a clever Democratic counterattack: Senate minority leader Tom Daschle and House minority leader Dick Gephardt now favor giving every worker a $300 tax-rebate check this year. The catch is they want to all but scuttle the longer-term income-tax rate cuts that are central to the Bush plan. "Our tax plan provides more tax relief, now when it's needed most," Daschle has slyly declared.

Daschle is at least partly right. The Democratic plan really *does* provide more tax relief now, when tax cuts are needed most. Never mind that the Democratic plan is economically silly: If governments could create prosperity by giving everybody $300, why don't Bangladesh and Nigeria try it? But the plan is politically attractive. The typical American will look at the two competing plans and think: Hmm, a $300 check right now or the mere promise of bigger tax cuts, which might arrive sometime around 2005. In those circumstances, it makes sense to just grab the check.

So the tax-cut effort is in serious trouble. The administration finds itself in this predicament largely as a result of its own freshman-year miscues. The first occurred when it became clear that the economy was in worse shape than most economists had originally believed. The

Mr. Moore, an NR contributing editor, is president of the Club for Growth.

Tom Daschle by David Smith

Fed recently calculated that Americans lost a staggering $2.6 trillion of wealth in the last quarter of 2000. Because of those losses, consumers have slowed their purchases, blue-chip companies have laid off thousands of workers, and many high-tech businesses have gone bankrupt.

Practically every prominent supply-sider has been urging Bush to endorse deeper and faster tax-rate cuts to boost the ailing stock market. The Bush team largely ignored the advice, insisting that they would not countenance revisions to their tax plan—even though it had been drafted nearly *14 months earlier*, in the midst of a roaring economy with GNP surging at a 5 percent rate. The result: Bush to this day has never submitted an anti-recession tax-cut plan, thus leaving the field wide open for the Democrats.

In February, Treasury secretary Paul O'Neill made a huge blunder when he virtually pledged to resign if the tax cut exceeded the Bush target of $1.6 trillion. This set a ceiling, rather than a floor, on the size of the tax cut. Worse, it undercut the promising work of Bush's conservative allies. Republican congressman Pat Toomey of Pennsylvania, for example, was fashioning a proposal that would have expanded on the Bush plan with a capital-gains tax cut, and deeper, immediate income-tax rate cuts.

The Toomey plan would have provided an immediate supply-side stimulus, and should have been warmly embraced by the Bush team. (Note to the White House: It's not too late!) The Toomey plan repaired the fundamental economic and political defect of Bush's original plan, the fact that it's far too back-loaded either to help the economy now or to help Republicans politically in 2002 or 2004. More than two-thirds of the tax cut arrives after 2004, by which time Hillary could be running the White House and thus be the one reaping the rewards of the supply-side policy.

What on earth are the Republicans waiting for? The solution to their conundrum seems obvious: more supply-side tax cuts, faster. How can they let Tom Daschle get to the right of them on taxes? Here's another example: On the death tax, New York Democratic representative Charles Rangel proposed to cut the rate by 20 percent immediately. The Republican plan, meanwhile, calls for eliminating the tax over eleven years, and doesn't cut the rate by 20 percent until 2008 or later. Which plan is better? I'm not entirely sure. But why don't Republicans cut the rate 20 percent now (à la Rangel) and then phase out the rest over ten years?

Because, they say, that will "cost" too much. It turns out that congressional Republicans are politically constrained from endorsing virtually any tax plan that could truly help jump-start the economy, because of the tyranny of the "lockbox"—yes, the same "lockbox" of which Al Gore spoke so reverently. The lockbox originated as a contraption by which Republicans tried to prevent Democrats from spending the surplus. Judging by last year's 8 percent increase in expenditures, it didn't work; and the GOP is now caught in its own trap.

Republicans are also suffering from another self-inflicted wound, in that the budgetary-scorekeeping process on Capitol Hill is rigged against anyone who wants to cut taxes. The best political weapon Gephardt and Daschle have in the tax fight is an obscure congressional agency called the Joint Committee on Taxation (JCT). Ever since the GOP takeover of Congress in 1995, this committee has ostensibly been run by Republican appointees. But in the past few months, every JCT revenue forecast of the impact of the White House's tax proposals seems intentionally designed to make the worst conceivable case for the president's agenda.

Tom Daschle knows it's tax-cut adversaries who have the momentum.

The JCT has a long history of ineptitude. For years, antitax Republicans have raged about its inflated estimates of how much tax cuts will "cost." Here's one very recent example. In 1997, Republicans finally strong-armed President Clinton into signing a capital-gains tax cut, lowering the rate from 28 percent to 20 percent. The JCT declared that the bill would cost the Treasury billions of dollars over the next five years. Well, three years have passed, and guess what? The tax revenues from capital gains have *soared*. In 1996, with a 28 percent rate, the capital-gains collections were $52 billion. In 1999, with a 20 percent rate, they hit $99 billion. A near 30 percent cut in the tax rate almost doubled the revenues.

Nor has the JCT learned from its glaring mistake; it now scores the proposed 15 percent capital-gains cut as a revenue loser.

You'd be amazed how many absurd tax decisions Congress has made over the years, owing to the JCT's forecasting malpractice. The basic problem is that the JCT's models assume that macroeconomic behavior does not change when tax rates change: Raise the tax rate from 40 percent to 80 percent and ka-ching, the government automatically gets twice as much revenue in its cash register.

Republicans were supposed to fix all this back in 1995 when the GOP won control of Congress. But a few years ago, the Republicans appointed Lindy Paull, never a friend of supply-side policies, to run the JCT; and its faulty scoring of tax cuts has only gotten worse. The latest JCT episode, for example, has GOP tax-cutters scratching their heads in disbelief: Over the next ten years, the death tax is expected to raise about $400 billion—but at the behest of Charles Rangel, the JCT scored an immediate repeal of the death tax as "costing" $660 billion. That's about 50 percent more than the tax brings in! And get this: The JCT justifies this bizarre scoring by saying it took into account "behavioral responses" if the tax were ended. These "behavioral responses" are conveniently ignored, however, when they might suggest that tax cuts increase revenue.

When freshman House Republican Mark Kirk of Illinois arrived in Congress this January, he was so astonished at how bad the revenue scoring is that he introduced legislation to require the JCT to use what he aptly calls "real-world budgeting." By this, he means economic models that actually produce revenue forecasts that mimic what goes on in the real world. He has caught the ear of Reps. Dick Armey and Chris Cox, both of whom are working behind the scenes to get real-world dynamic budgeting adopted. It shouldn't even require legislation; there's no law on the books now that requires Congress to use models that have no predictive power. Just change the computer models so they reflect reality. And hurry!

The White House/congressional spin machine wants conservatives to think that even though the Senate trimmed the Bush tax cut by 20 percent in early April, it was still a victory. But it was Daschle and his anti-tax-cut forces, not Bush and Cheney, who were grinning from ear to ear after the Senate vote. They know it's tax-cut adversaries who have the momentum. If Republicans don't get behind a bigger and faster economic-recovery tax cut, and soon, they'd better get used to those front-page newspaper photos of a gleeful Tom Daschle as he dismantles the Bush tax plan—and Republican hopes of holding Congress in 2002. NR

■ THE ADMINISTRATION ■

Speedy Gonzales

Bush's fast-rising counsel

RAMESH PONNURU

IT'S widely recognized that the Bush administration has more Reaganites in it than the Reagan administration itself had. Nowhere is this more true than in the administration's legal team. Never have a Justice Department and a White House counsel's office had more lawyers committed to a conservative view of the proper role of judges. It's a talented and well-credentialed crew, too. But it is also operating under severe political constraints. So it remains in doubt whether the administration will nominate a conservative for the Supreme Court when it has a chance. The fact that White House counsel Alberto Gonzales tops most people's lists of likely nominees does nothing to resolve the mystery.

Gonzales was raised, with seven siblings, in a two-bedroom house in Houston. His mother had a sixth-grade education, four grades better than his father. After high school, he went to the Air Force Academy. While there, he decided he wanted to be a lawyer. He finished college at Rice, then went to Harvard Law. He became a corporate lawyer at a prestigious Houston firm. In 1995, George W. Bush, just elected governor, made Gonzales his counsel. Appointing Gonzales to office seems to have become a habit for Bush: He has since served as the secretary of state for Texas, a justice on the Texas supreme court, and now White House counsel. As Bush has said, "In many ways, Al embodies the American dream."

When Gonzales took his latest job, conservative lawyers in Washington were wary, even suspicious. Partly this was because he was not part of their inbred world. But Gonzales also had more of a reputation as a Bush loyalist than as a conservative. During his short

But there is a solution. In 1846, D.C. residents living on the Virginia side of the Potomac prevailed on Congress to return their portion of the District to Virginia, in a process known as retrocession. This offers an historical model for reconfiguring D.C., and it's constitutional. Just as Congress in the past ceded a portion of the District to Virginia, it could now do the same for Maryland: D.C. could simply join the state that surrounds it on three sides. It would become the city of Washington, Md. This would prevent statehood, while satisfying D.C. residents who seek a voice in Congress. The downside, from a GOP perspective, is that Maryland would probably gain an extra seat in the House, and it would go to the Democrats.

As a practical matter, Maryland would have to agree to absorb the District, and there's every reason to believe it would resist this: Even Maryland Democrats would see it as a destabilizing threat to existing power structures.

But it's a result conservatives may have to insist on, if the calls for statehood become heated enough. Ignoring them may no longer be an option. The Democratic platform already calls for D.C. statehood, and Democrats have everything to gain by raising the issue: It makes them, once again, the champions of black enfranchisement. Statehood advocates say over and over that they're talking about "taxation without representation"—ringing words in the American conscience—and Democrats won't hesitate to remind us it's taxation of *African-Americans* without representation.

In demanding retrocession into Maryland, conservatives would pursue the only permanent solution that is fair to both their self-interest and the desires of D.C. residents seeking a greater political voice. This strategy would put the onus on Democrats in Maryland—such as Lt. Gov. Kathleen Kennedy Townsend—to explain why retrocession is not an acceptable answer.

Race-baiting is now a key tactic for Democrats. D.C. statehood will play into their hands—unless conservatives are ready to repel the coming charge. **NR**

■ POLITICS ■

The Governors' List

What "too much" success has done

STEPHEN MOORE

GEORGE W. BUSH has made it clear that he intends to rely heavily on the 29 Republican governors as a farm team for talent and policy advice. New Jersey's Christine Whitman and Wisconsin's Tommy Thompson are in the cabinet; Virginia's Jim Gilmore is heading the Republican National Committee; John Engler of Michigan, Tom Ridge of Pennsylvania, and, of course, Brother Jeb of Florida are among Bush's closest confidants.

After a White House meeting between Bush and a handful of Republican governors, Idaho's Dirk Kempthorne announced that "Bush's agenda is our agenda." They want Bush to devolve power to the states, and Bush seems happy to oblige.

Throughout the 1990s, Republicans dominated America's governorships. Roughly 61 percent of Americans live in states with a Republican governor, and these governors have been trailblazers on policy issues ranging from welfare reform and school choice to tort reform and the environment. Bush is also attracted to the governors for political reasons: Their state electoral machines were crucial to his victory in 2000.

Stylistically, too, most of the governors are a good fit for Bush's low-key, nonideological demeanor. Unlike the GOP congressional leaders, whose rough-edged partisanship makes Bush visibly squeamish, the governors are more naturally aligned with "compassionate conservatism." For years, political analysts and reporters—along with liberal-leaning country-club Republicans—have been applauding the governors for a shrewd governing philosophy that combines cultural moderation and fiscal conservatism.

But here's the problem: State-government expenditures are booming, and much of the spending spree is occurring in states with Republicans at the helm. The *New York Times* recently reported that at least half of the states are now experiencing a "fiscal emergency," and *Governing* magazine has declared that Republican governors have "rediscovered the joy of spending." In ten states last year, budgets rose by 10 percent or more; four of those states—Rhode Island, Virginia, Wisconsin, and Wyoming—have Republican governors. Nationwide, only about one of every seven dollars of state surpluses last year was sent back to workers through tax cuts or rebates.

What's going on here? Just seven years ago, New Jersey's Christie Whitman became a national supply-side heroine by riding her 30 percent income-tax-cut proposal to an improbable victory over an incumbent governor. The political and economic success of "Whitmanomics" touched off a nationwide tax-cutting spree. A new crop of influential and charismatic GOP governors—John Rowland of Connecticut, George Pataki of New York, Frank Keating of Oklahoma—joined Whitman, Tommy Thompson, and John Engler in this crusade.

And the tax cuts worked: They were a passport to prosperity and reelection. The states that cut taxes most had about twice the job growth of—and about 40 percent more income growth than—states that didn't cut taxes. Richard Vedder of Ohio University calculates that in the 1990s, about 1,000 Americans every day left high-tax states for low-tax states. (In the time it takes you to read this article, seven more New York and Massachusetts families will have joined the contemporary gold rush for low-tax havens like Arizona, Florida, and Texas.) Meanwhile, tax-cutting Republican governors have been getting reelected by sizable margins for the past several election cycles.

But now many Republican governors are starting to question their party's anti-tax philosophy. Cigarette-, gas-, and sales-tax rates are inching up again to fund pet spending projects. George Ryan of Illinois and Bob Taft of Ohio were

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Mr. Moore is a contributing editor of NATIONAL REVIEW and a senior fellow at the Cato Institute.

elected in 1998, and both wasted no time in bullying through major tax hikes to pay for infrastructure spending. Jane Hull raised the Arizona sales tax to pay for school class-size reductions. Mike Leavitt of Utah has reaped the ire of conservative activists for supporting a tax on the Internet to pay for new spending. After Louisiana's Mike Foster extended a state sales tax on food, he publicly lashed out at his supply-side critics: "Some people in my party see tax cuts as the Holy Grail. It's not." (Unsurprisingly, Louisiana's economic performance over the past five years has lagged severely behind that of the rest of the country.)

Many governors have cast aside the economically productive rate cuts of the early 1990s in favor of such gimmicky tax-relief measures as tax rebates (in Connecticut, Colorado, Minnesota, Mississippi, and Wisconsin) and sales-tax holidays (in Florida, New York, and Oklahoma). In Texas, Bush himself put new meaning into the term "targeted tax cuts" by pushing for a sales-tax exemption for diapers.

This decline of tax-cutting fervor is surprising, because there's no indication that state income-tax cuts have lost their political luster. Even in Massachusetts, nearly 60 percent of the voters approved a measure—endorsed by Republican governor Paul Cellucci—to cut the income-tax rate from 5.85 percent to 5 percent. If tax cuts still play in Boston, they certainly should in Peoria.

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For every Reaganite antitax crusader, there's at least one governor who boasts about increased spending.

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The ranks of Republican governors still contain a number of fiscal superstars. Among those elected in 1998 are Florida's Bush and Nevada's Kenny Guinn, who have cut property taxes; Cellucci of Massachusetts, who took on the entire state establishment to win his ballot fight for tax cuts; and Colorado's Bill Owens and New Mexico's Gary Johnson, who have chopped income-tax rates. Johnson has been unrelenting: He has fought for tax cuts for six years, against a liberal legislature opposed to almost any loss of revenue.

But for every Reaganite antitax crusader like Gary Johnson, there's at least one Rockefeller Republican governor who boasts about increased spending. The national economic expansion from 1995 to 2000 has generated a tax-collection bonanza, and Democratic and Republican governors alike have tapped the windfall to fatten state budgets. In 1998 state spending rose by 6.8 percent, in 1999 by 8.2 percent, and in 2000 by 6.9 percent. That's over a period with almost nonexistent inflation; it's also twice the rate of federal spending over the same period.

Virginia is typical: For the first time in decades, the Republicans control both the legislature and the governorship, but the state budget soared by 10.6 percent last year. Now, as the economy slows and the fear of deficits reemerges, Republicans in the legislature want to scuttle the last step of Gov. Jim Gilmore's famous repeal of the car tax; they would rather destroy Gilmore's legacy than try to rein in the spending stampede. (Gilmore, laudably, has refused to cave, vowing to fight on for his car-tax repeal.)

The shenanigans in Tennessee are even more disheartening: Don Sundquist ran for governor in 1994 promising "no new taxes," only to flip-flop inexplicably two years ago—endorsing a first-ever income tax for Tennessee to close the $382 million budget shortfall created by Sundquist's own spending excesses. The costs of the tax-guzzling Tenn-Care health plan are rising at roughly twice the rate of Medicaid in all other states. Republican legislators have foiled Sundquist's plot to create an income tax, but he's expected to try again in 2001.

If Sundquist isn't the most fiscally reckless politician in America today, he's clearly in the top three. In New York, George Pataki—whose supply-side tax policies in the mid 1990s helped cure the state of its debt hangover from a decade of Cuomoism—infuriated conservatives by signing a 55-cent hike in the cigarette tax in 1999 to fund a multibillion-dollar health-care program "for children." He wants to expand the program again this year, even as the state's budget outlook has turned decidedly gloomy. It's gotten so bad in Albany that a *New York Times* editorial has gushed with praise for "Governor Pataki's Lean to the Left." Back in 1995, Pataki was a different governor, remarking in a speech at the Heritage Foundation that "in New York, government has become the uninvited dinner guest who arrives too early, eats too much, and stays too long." The more he "grows" in office, the bigger the margins of victory for people like Hillary Clinton.

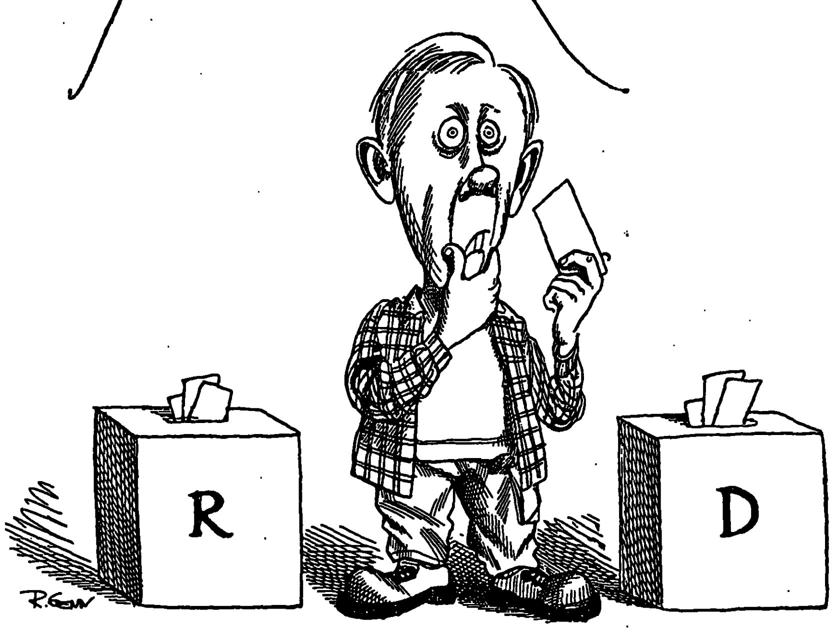
And in Connecticut, John Rowland's 1998–99 budget was so larded with extra spending that it violated the state's constitutional spending cap and could be approved only by invoking the "Declaration of Extraordinary Circumstances" loophole. Political scientist Alan Ehrenhalt recently quipped: "Some fiend has kidnapped the conservative governor and installed a Hubert Humphrey liberal look-alike in his place."

Alas, that could be said of up to a dozen Republican governors these days: They're drifting to the left to appease voters who didn't vote for them—and who never will. Meanwhile, conservative voters in states like Arizona, Illinois, Ohio, Tennessee, Utah, and New York are starting to seethe over the betrayal. When dealing with the governors, President Bush needs to take great care to make his agenda theirs—not the other way around. NR paid attention to the campaign, and that's why they want to hear more specifics. That's fine, but it should not be considered a sign of merit on their part; we don't think the best math students are the ones who cut class.

The real reason the press is so willing to lionize undecideds is that these voters are essentially independents, and that is what most journalists consider themselves. They see their own reflection in the pool of public indecision, their cynicism about the alleged lack of differences between the major parties confirmed in the ignorance of the least informed voters. But isn't there something morally questionable about putting such voters on a pedestal, and something deeply irresponsible about hectoring them to vote? The whole point of democracy is that citizens can rationally make their own decisions and determine their political interests. If they are unwilling to make those calculations in a serious way, why do we want them to vote? Voting is the last stage of civic engagement and participation, not the first. Asking Americans to vote when they can't tell you what the Supreme Court does is like asking someone to drive a school bus when they haven't even been behind the wheel of a car.

In a deeper sense, the media are simply perpetuating a hoax. There is, after all, no reason to believe that undecided voters *really* want the specifics they claim to want. If they did crave details, if they suffered from a ravenous yet unsated hunger for "specifics," that would be the easiest problem in the world for them to solve. Considering the mind-numbing amount of material out there for the asking—for any citizen, of any ideological persuasion—to say that you can't decide on a candidate without some more details is like saying you can't leave Boise because no one has given you a bus schedule. (Of course, this doesn't absolve the media for their frequently vapid coverage of the issues; but there's little evidence that undecided voters would have paid any attention to substantive coverage even if the networks offered it.)

The reality is that most undecideds are trying to figure out which guy they like most, and which will be more fun to watch for the next four years. Indeed, not a single major shift in the polls between Gore and Bush can possibly be attributed to major developments on the "issues." From Gore's kiss to Bush's pronunciation of "subliminal," undecideds have been moved from one column to the other—and back again—by events more often associated with beauty pageants than with governing. No one expects the average Joe or Jane to admit this when they are under the studio klieg lights, but it's the truth; so the press should start switching off the spotlight that's now trained, obsessively, on Joe, Jane, and their whole ignorant cohort. **NR**



The Undecided Voter by Roman Genn

■ **CAPITOL HILL** ■

'Tax, Spend, and Elect'

A fiscal free-for-all in Congress

STEPHEN MOORE

BACK in July, my Cato Institute colleague Steve Slivinski and I released a study warning that this Congress was on pace to be the biggest-spending Congress since the late 1970s. Our study was widely publicized, and infuriated Republicans on Capitol Hill accused us of exaggerating the budget buildup. House majority whip Tom DeLay and others insisted that the spending spree in Congress this fall would not be as financially reckless as our report predicted.

Well, they were right. The fiscal mess on Capitol Hill isn't as bad as we thought it would be: It's actually a lot worse. The Republicans are now set to approve spending bills for next year that will exceed their own spending caps by a whopping $98 billion. That's more money than we spent on the entire Gulf War.

What's even more depressing—and truly inexcusable for a party that professes fiscal conservatism—is that the GOP has managed to outspend even President Clinton's original budget request, by $20 billion. Or, to state the point more emphatically: Taxpayers would be much better off if Republicans had simply rubber-stamped every Clinton administration spending request back in February and then adjourned for the rest of the year. At the start of the year, the White House requested $620 billion for discretionary programs. The Republicans are set to approve $640 billion. *Congressional Quarterly* now reports that by the time Congress adjourns, GOP appropriators could end up spending over $650 billion.

Mr. Moore is a fellow at the Cato Institute and president of the Club for Growth.

Pick your favorite example of a worthless or counterproductive nanny-state program and I can almost assure you it's getting more money this year. The Legal Services Corporation for left-wing lawyers? Up $20 million. The NEA? Up $7 million. Amtrak? Forget privatization—Congress just gave them a $3.3 billion bailout.

No bill is uglier than the agriculture-funding legislation. The celebrated Freedom to Farm legislation of 1996 was supposed to phase out crop and dairy subsidies over five to seven years so that farmers could finally produce for the market rather than Uncle Sam. But that legislation has now been officially eviscerated. This year's $78 billion farm bill is by far the most expensive in history. Florida citrus and lime growers will get $58 million in payments; the famous wool and mohair subsidy has been resurrected, so that Vermont sheep herders will get $20 million in renewed handouts this year; apple and potato farmers get $138 million; Connecticut oystermen will get an emergency bailout; and the loan program for Florida sugar-plantation owners has been made more generous than ever. Aggrieved avocado farmers in California will now receive funds from a new tax on imported avocados. (The tax dollars generated from this tax "will be used to fund research and marketing campaigns in favor of avocado consumption.") The bill even allocates $1.6 billion over the next five years for increasing food-stamp payments, thus further eroding a key provision of the successful welfare-reform effort.

Other last-minute budget bills are also larded up with indefensible new spending. There's $20 billion for fattened Medicare subsidies, another $3.6 billion in farm emergency funding, and $6 billion extra for veterans' health-care benefits. The transportation bill pipelines an extra $75 million to Salt Lake City for the Olympic village. This brings the federal taxpayer cost of the 2002 Winter Games to $1.3 billion, and counting. Meanwhile, the $15 billion foreign-aid bill is so crammed with statist approaches to economic development that liberal Democrats like Nancy Pelosi have been boasting: "The money we are talking about can accommodate many of our needs."

In a genuinely stomach-turning development, congressional Republicans are trumpeting as one of their "accomplishments" that they will spend several hundred million more dollars for the Department of Education than Bill Clinton requested. This department's budget has grown by more than 35 percent since 1996. Many school-aid programs are faring a lot better under a Republican Congress than they did under the Democrats.

Republicans believe that fiscal conservatives are losing the battle because of the politics of budget surpluses.

There's a reason for this: Fiscal conservatives in Congress are becoming an endangered species. The National Taxpayers Union recently reported that in this Congress, only two members have voted to cut the budget more than to increase it: Republican congressmen James Sensenbrenner of Wisconsin and Ron Paul of Texas. Republicans and Democrats are now sponsoring seven bills to raise federal spending for every bill they propose to cut the budget.

So why can't Republicans restrain their fiscal appetites? Almost every Capitol Hill Republican I talked to believes that fiscal conservatives are losing the battle because of the politics of budget surpluses. "For the last 20 years, the budget deficit was our one line of defense for restraint on spending," says Wayne Struble, chief of staff of John Kasich's House Budget Committee. "Now that fence is gone and there are effectively no restraints left." Rep. Joe Scarborough of Florida agrees. He remembers that when he first ran for Congress in 1994 the $200 billion budget deficit was prima facie evidence to voters that the government was too big and too intrusive. "Now," he says, "the case for cutting government just comes down to philosophy. It's a tougher sell."

Indeed it is. One lesson here is that if Republicans don't start hacking away at taxes, these budget surpluses are going to lead the nation into bankruptcy. So far, for every dime of tax cuts from the budget surpluses, spending has gone up by a dollar.

Republicans do themselves no favors when they let themselves be seen as raiders of the treasury.

Republicans have deluded themselves into thinking that this "tax, spend, and elect" model will guarantee them lifetime job security. They're wrong. History teaches us that Republicans who spend like Democrats are expendable to voters: They are redundant. It was precisely this kind of election-eve spending orgy that nearly cost Republicans their House majority in 1998. Conservatives were so appalled by the GOP's spending frenzy that many chose not to vote at all. The stakes are higher this year, to be sure, and many conservatives may give spendthrift Republicans a pass in order to prevent an Al Gore presidency and a Dick Gephardt speakership.

But Republicans do themselves no favors when they let themselves be seen as raiders of the treasury. From 1999 to 2001, total federal social spending will have risen *by almost 14 percent*. When I showed the study on these spending trends in Congress to my neighbor, Democratic senator Byron Dorgan of North Dakota, he triumphantly declared: "I keep telling you, Steve, it's the Republicans who are the big spenders these days."

It's getting harder with every passing week to rebut Dorgan's point. The GOP is being profligate, and the Democrats know how to take advantage of it: They see the Republicans and raise them. The White House has threatened to veto 7 of the 13 appropriations bills—because they are "severely underfunded." This is a game the GOP can't win. They shouldn't try. **NR**

■ FOREIGN AFFAIRS ■

The Last Revolution

Milosevic falls, but is that enough?

DAVID PRYCE-JONES

We do revolutions more tidily than we used to. A million people took to the Belgrade streets, flag-waving and blowing whistles. They stormed and set fire to the parliament and the television station, but virtually nobody was hurt. Duly and properly elected, the new president, Vojislav Kostunica, opened his address to the nation with the words, "Good evening, liberated Serbia." This new president is a rather trim constitutional lawyer, and he had a record as an anti-Communist at a time when it mattered. Evidently he belongs to the human race. Away with sanctions and out with checkbooks. Democracy triumphs. What has happened in the former Yugoslavia completes the dramas of a decade ago in the old Soviet Union and its satellites, and—formally at least—it brings old-style Communism to a close in Europe.

A shadow defaces the projected happy ending, and it is the shadow of Slobodan Milosevic, who brought this revolution down on himself. With his podgy passionless features, and his tightly buttoned gray suits, he looks exactly like the veteran Communist that he is, and not quite a member of the human race. Going to war four times, he has destroyed the Yugoslavia he claimed to be saving. Tens of thousands are dead, hundreds of thousands displaced. Historic towns and monuments are flattened. During his 13 years in power, he has stolen a fortune variously estimated at between $145 million and $300 million. He has allowed his wife and son and chosen colleagues to embezzle public money on a comparable scale. His secret police have murdered his opponents. Finally,

■ CAMPAIGN 2000 VI ■

Tax Cuts: A Comeback

Lower is still better

LAWRENCE KUDLOW & STEPHEN MOORE

EARLIER this year, pundits were still declaring tax cuts dead as a political issue, smothered by Reagan's success in cutting rates in the 1980s and by prosperity in the 1990s.

But not so fast: Tax cuts may be the sleeper issue of this campaign. President Clinton just vetoed marriage-penalty tax relief, calling it a "fiscally reckless tax strategy"—but the public disagrees. Poll after poll shows a new shift of voter preferences toward tax cuts.

A recent *Wall Street Journal*/NBC poll shows that voters now prefer using federal budget surpluses to cut taxes across the board, rather than reduce the national debt. The margin is 42 percent to 32 percent, a significant shift from a few months ago. A Zogby poll finds that 63.7 percent of self-described independent voters believe they are overtaxed, and that nearly half believe a 10 percent to 20 percent personal tax rate would be fair. A Rasmussen survey shows that 69 percent want to end the marriage penalty and kill the estate tax, but by a 2 to 1 margin (62 percent to 29 percent) Americans prefer a tax cut for everyone.

Here's the real surprise: A recent *Business Week*/Harris poll found that minority voters are far more supportive of tax cuts than are white voters. Overall, 78 percent of blacks and 68 percent of Latinos say cutting taxes is "very important" to them.

Mr. Kudlow is an NR contributing editor. Mr. Moore is the president of the Club for Growth and an NR contributing editor.

Why this tax-cut renaissance? The surplus has a lot to do with it. The Congressional Budget Office now predicts non-Social Security surpluses of $2.4 trillion over the next ten years, with Social Security surpluses running to $2.2 trillion. This CBO re-estimate marks the third upward revision in just the past six months, and it is having a big impact on public attitudes toward tax cuts. The argument that we can't afford them loses force with every new surplus number.

A smart GOP congressional strategy is also helping. Instead of last year's misunderstood, seemingly excessive $792 billion tax-cut package—which Clinton vetoed, without provoking any public outrage—Republicans this year divided up the omnibus tax-cut bill into specific parts. The strategy worked: By the time of the convention in Philadelphia, the GOP had already succeeded in passing bills ending the marriage-penalty tax and the estate tax, cutting the 85 percent tax rate on Social Security benefits, expanding super-saver IRA and 401(k) accounts (in a stunning 401-25 House vote), and lifting the taxable-earnings cap on seniors' income (a bill that Clinton signed into law in the spring).

House Rules Committee chairman David Dreier, one of the architects of the Republican House tax-cutting strategy, says: "As these surplus numbers went up astronomically, people concluded that, hey, shouldn't just a little bit of that come back to me? And we learned that people relate to specifics. For these tax cuts, the political importance of the smaller pieces became greater than the original tax-cut package."

House Speaker Dennis Hastert was a tax-cut hero in his advocacy of this new strategy. Though an ardent tax-cutter, Ways and Means chairman Bill Archer was initially unenthusiastic; tax-writing committees traditionally prefer big bills to small bills. But Hastert was able to persuade Archer of the political merits of small-is-beautiful.

And the public was receptive. Despite talk of how the tax bite has diminished over the years, it is now, in fact, pinching some voters even harder. Rising wages and salaries are pushing middle-income people from the 15 percent tax bracket to the 28 percent bracket—and, with increasing frequency, right up through the 31 percent bracket to the 36 percent bracket.

This real-income "bracket creep" is punishing successful work with excessively progressive taxation. Largely as a result of the bracket creep, personal tax payments over the past year have increased by a startling 12.2 percent, which is over four times the inflation rate. Overall, national income is rising at a 6 percent inflation-adjusted pace, but *after-tax personal income* is growing only half as fast (3 percent). Meanwhile, the surging stock market of recent years has flattened out through the first two-thirds of 2000, so the income from market profits has at least temporarily disappeared. And tax payments made this past April 15 for prior-year capital gains, bonuses, and salary hikes deflated pocketbooks and wallets—creating major tax sticker-shock.

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Bush's argument for tax cuts is principled rather than prudential, and fits well with today's prosperity.

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All this would certainly put folks in a tax-cutting mood. The cause also benefits from leftover good feelings about the Reagan tax cuts, which continue to create economic benefits to this day. (Notice how Gore, after the primaries, is no longer attacking "Reaganomics"?). By lowering the top personal tax rate to 33 percent from 40 percent, dropping the basic middle-income bracket to 25 percent, and pulling the 15 percent bracket down to 10 percent, George W. Bush has adopted Reagan's principles. This program—including the plan to allow people to divert 2 percent of their Social Security payroll tax to retirement accounts—could increase the U.S. economy's long-run growth potential from the current 4 percent to around 4.5 percent.

But on the campaign trail, Bush sells his tax-cut plan less on the Reaganesque growth model than on the idea that Washington shouldn't gobble up all the surplus money: "The surplus is not the government's money. The surplus is the people's money." Bush is also establishing what he calls a moral principle that the federal government should not take more than one-third of taxpayer incomes. Bush campaign insiders say that the candidate originally wanted the limit to be one-quarter of taxpayer incomes—and that if surplus numbers continue to improve, he might decide to push down the top rate even further.

Bush's argument is indeed principled rather than prudential, and fits well with today's prosperity (the governor repeated the phrase "on principle" again and again in the tax section of his acceptance speech). Bush's moral case for tax cuts is important, but that doesn't mean the practical one has disappeared: Tax cuts will still help expand the information economy. Just as important, they will stop Washington from launching a Great Society-type entitlement binge that could derail the prosperity.

In the end, the biggest reason for the renewed power of tax cuts may be the larger forces afoot in the economy. Trillions of dollars of surpluses are expected to flow in to a Beltway bureaucracy that is distrusted by Main Street and totally unfathomable to the Internet generation. Folks on Main Street and in the suburbs would rather use the money to help their kids. The kids, in turn, once they're old enough to turn in their skateboards for business plans, would rather see their tax dollars devoted to new-technology start-ups. And almost everyone—fully two-thirds of likely voters own stocks either directly or indirectly—wants more after-tax income to invest in super-saver accounts that will help them reap the long-term benefits of the stock market.

Ownership, investment, and entrepreneurship fit the spirit of the times, and Bush has caught that spirit. The pundits who declared tax cuts a dead issue have been proved wrong. Tax cuts are again at the heart of the Republican presidential campaign—right where they belong. **NR** cheapest ones; victims of pancreatic cancer are denied access to Gemzar, the cutting-edge treatment for the disease, and are instead given a drug that is less powerful and has more side effects.

It doesn't take an inventor of the Internet to figure out that Gore's war on medical progress would wound our nation for generations to come. It would lead to a huge loss in what Harvard University's David Cutler and Elizabeth Richardson call "health capital"—the dollar value of health a person will have over the course of their remaining life." For a newborn in 1990, Cutler and Richardson estimate health capital at about $3 million, while for the elderly, health capital is nearly $1 million. Health capital has increased greatly over time—by roughly $40,000 to $50,000 per decade. Gore believes that drug companies earn profits by price gouging, not by investing in valuable new drugs; but Cutler has found that *just 30 percent* of the increase in America's health capital in the past 40 years would have been enough to justify that period's investment in medical progress.

Moreover, it is clear that gains in life expectancy, birth weight, and the reversal of starvation in the developing world are largely due to advances made through medical progress. Columbia University professor Frank Lichtenberg has found that, over the past decade, a one-time pharmaceutical R&D expenditure of about $15 billion subsequently saves 1.6 million life-years per year. Lichtenberg also found that for every dollar spent on new drugs, America saves nearly four dollars on physicians and hospitalizations.

Al Gore's plan will do little to ease the plight of the 20 million people worldwide who are afflicted with Alzheimer's, or the 24 million in Africa with AIDS, or the millions more with cancer. His small, federally regulated and funded biotech business would kill incentives for investment and drain wealth into Medicare entitlements. The result would be a death knell for medical progress, retarding and reversing the recent gains in health and life expectancy. America would pay a huge and unnecessary price for a new middle-class entitlement, and for Gore's life-denying vision of biotechnology. NR

REMEMBER WHEN?

Bilingual Education

February 12, 1981; *Carthage Courier*

"The English language is at the core of the American culture, and, in order to make a contribution to our society, immigrants in the past accepted the chore as a necessity. Anything which requires our schools to delay the all-important process of learning the language of their new country serves only to set up additional barriers for the immigrant child."

June 19, 1999; Gore speech to Hispanic group NALEO

"Some will exploit the issue of bilingual education for political gain. I believe we must support bilingual education—for educational gain."

Hey, Big Spender!

Gore and your money

STEPHEN MOORE & JAMES CARTER

IN Al Gore, Democrats have at last nominated the perfect liberal. Bill Clinton has been an imperfect liberal, because he has always cared more about his own political survival than about the Left's agenda; Gore, in contrast, is far too committed—ideologically and emotionally—to the liberals to abandon them so cavalierly.

Gore is more perfect than Hubert Humphrey, George McGovern, Walter Mondale, and Michael Dukakis—because he can win. He will play the role of the "New Democrat," with soothingly moderate and Clintonesque campaign rhetoric. But the truth is that Gore's record and platform are no less statist than those of a Dukakis or McGovern. In fact, they are more so: By our calculations, Gore wants to spend $1 trillion on new programs over the next decade—on programs, such as universal preschool funding, that a Walter Mondale would never have endorsed. This is what makes Gore the perfect liberal: the unique combination of electability and a deep-rooted ideological commitment to the expansion of government.

In considering Gore's liberal credentials, start with his congressional tenure. The National Taxpayers Union tells us that he was the only senator who has ever—that's right, ever—won the NTU award for the biggest spender on Capitol Hill two years in a row. In 1989 and 1990, he managed to nudge out Ted Kennedy for this honor. Evidently, in those two years there were certain spending bills Gore voted for that were just so fiscally reckless that even Kennedy couldn't, in good conscience, support them. In 11 of 13 years, Gore received the lowest possible grade from NTU on taxpayer issues. How Republicans ever allowed Gore to define himself as a "moderate Democrat" is a mystery.

One of the first votes Gore cast in Congress was in opposition to the Reagan tax cuts of 1981. Twenty years, 35 million jobs, and 10,000 points on the Dow Jones later, he still crows about that vote—reveling in his anti-tax-cut credentials. He savaged his two chief political rivals within the party, Dick Gephardt and Bill Bradley, for having voted for "trickle-down economics." (If Gore had had his way and the Reagan tax cuts had never been enacted, the average middle-income family in America would be paying $6,000 more in taxes every year.)

Bradley made the fatal mistake of trying to run to the left

Mr. Moore is the president of the Club for Growth, and Mr. Carter is an economic analyst in Washington, D.C.

of Gore in the primaries; it would have taken a crowbar to wedge into that narrow territory. Gore quickly established his leftist credentials and crushed the insurrection. Ralph Nader, we suspect, will face the same frustrations.

Everything we know about Gore's role in economic policymaking as vice president is that he has been a consistent voice of unreason in the White House. The famous 1993 BTU tax was Gore's inspiration. Bob Woodward reported that Gore pleaded with Clinton to the very end not to drop this regressive energy-tax proposal. (Incidentally, if all of Gore's energy policies were ever actually implemented, we'd look back on \$2-a-gallon as a great bargain.) George Stephanopoulos's book informs us that "Clinton would vent privately that Gore was pushing him to raise taxes too much." Gore swallowed his 1993 disappointment that the largest tax increase in the history of the world wasn't big enough, and cast the tie-breaking vote for it in the Senate. He's as proud of that vote as he is of the vote against Reaganomics.

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Al Gore is trapped in the 1970s and he can't get out. He is a fiscal throwback to a much worse economic time.

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Even now, with the swelling federal surplus, Gore will support only the most circumscribed tax cuts. On the campaign trail, he has offered up dozens of baffling new tax carve-outs that must have the folks at H&R Block drooling in anticipation of all the added pages of tax-code complexity: tax credits for child care, tax credits for parents who "stay at home to care for their babies," an "after-school tax credit," a long-term-care credit for elderly parents, college-tuition tax credits, "life-long learning tax credits," estate tax credits for family farmers, and business tax credits for "worker training in information technology." Our personal favorites are the "tax credit to consumers for the purchase of more fuel-efficient cars and SUVs," and the tax write-offs for building energy-conserving homes and using solar energy to generate electricity and hot water. Help! Al Gore is trapped in the 1970s and he can't get out.

He is a fiscal throwback to a much worse economic time. Under a Gore presidency, the IRS tax code would start to resemble a piece of bologna after someone has punctured out all the little green olives. The essence of good tax policy is, of course, the exact opposite: low rates, no loopholes, and a broad base. In principle, a tax credit is better than no tax cut at all, but the sum total of all these microscopic, focus-group-tested carve-outs won't reduce many families' overall tax liabilities. When we add up all the 87 tax increases in the latest Clinton-Gore budget proposal, it turns out that the revenue raisers and the Gore tax cuts pretty much cancel each other out. If Gore prevails, there will be a whole lot more lines on your tax form to wrestle with every April, but the size of your check to the IRS would be no smaller.

Gore can't afford grandiose "tax-cut schemes," because he's got spending on his mind. His gold-plated prescription-drug-benefit program for seniors would cost \$200 billion. His "Retirement Savings Plus" plan would dole out another \$200 billion to low-income workers, who can't afford to save on their own because the Social Security taxes that Gore has consistently voted to raise are so high. Expanding government health coverage to uninsured families would cost \$146 billion. His plan to provide free or subsidized preschool for 3- and 4-year-olds costs \$115 billion. He also wants a lot more money for regulators at OSHA, the EPA, and the civil-rights and antitrust snoops at the Justice Department; \$16 billion for teacher pay raises and teacher recruitment; \$200 million for an antismoking initiative; \$45 million for curtailing violence at abortion clinics; \$2 billion to combat urban sprawl; several million more to keep studying global warming—you get the picture.

The unhappy total comes to about \$1.04 trillion of new spending over the next decade, or about \$10,000 per household. But, of course, to provide a fair and balanced accounting we need to subtract from this trillion-dollar spending binge the money that Gore would save by shutting down agencies he believes are inefficient and obsolete. The problem is, there aren't any. Zero. Out of the several thousand federal programs in the eight-pound federal budget, Al Gore hasn't yet identified a single one that should be terminated.

For 20 years, Gore has been a reflexive liberal force, first in Congress and then as vice president. He rarely, if ever, defects to the right on budget and tax issues. His multibillion-dollar proposals to nationalize day care, health care, education, crime fighting, transportation policy, and traffic patterns are audacious in their magnitude, yet are brilliantly softened with conservative themes of advancing "accountability," "high standards," "responsibility," "community," "safe neighborhoods," and even "fiscal discipline." Al Gore is, in a word, a fraud. His tactic of saturating statist McGovernite policies in syrupy communitarian rhetoric may be a perfect fit for this new age of feel-good politics—and it might just fly with voters. This makes Al Gore the perfect liberal, and a very dangerous man. NR

REMEMBER WHEN?

China MFN

September 1, 1992; *San Francisco Chronicle*

"We totally disagree with Bush and Quayle when they continue to grant most-favored-nation status to one of the worst Communist dictatorships remaining in the world, with a record of human-rights violations as long as your arm, ignoring their unfair trade practices."

April 25, 2000; Gore speech

"I have stood strongly for Normal Trade Relations with China. I reaffirm that support today. And in the days and weeks ahead, I will continue to do all I can to build support in Congress for it."

tied to a respirator at least eight hours a day, eats mostly through a tube . . ." The Trapps have credit-card debts and outstanding medical bills. The bankruptcy-reform bill, according to B&S, would make it harder, maybe even impossible, for the Trapps to file for bankruptcy.

But B&S never show that the Trapps, or any of the other struggling families they interviewed, would be affected by the bill. That's because the bill tightens the rules for filing bankruptcy *only for families making above the median income.* And contrary to the article's repeated claim, the bill eliminates the option of filing bankruptcy for . . . no one.

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Given their mishandling of the facts, Barlett and Steele are placing their magazine in a parallel universe.

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Again and again, B&S get the details of the bill wrong. They write, "If a mother tapped an ATM to buy necessities such as food or prescription drugs six weeks before filing for bankruptcy, the withdrawal could be considered a fraudulent transaction." Not true. The bill clamps down on people who, planning to file for bankruptcy, buy luxury goods they intend never to pay for. Groceries and medications wouldn't count as luxuries.

Or take this claim: "The proposed legislation would treat a bankrupt man's credit-card debt the same as his obligation to pay child support, meaning that MasterCard and an unmarried mother would compete for the same limited pool of cash." Actually, the bill makes it harder for fathers to avoid paying child support—by making it the top priority, ahead not only of MasterCard but of lawyer's fees (which are currently ranked above it). That's why the National Child Support Enforcement Association has endorsed the bill, along with many child-support collection agencies. Have they, too, been seduced by the credit-card companies?

For B&S, the fault for the rise in bankruptcies lies with the credit-card companies themselves, for extending credit to people who can't manage it well. (Journalists, presumably, are in a much better position to rate credit risks than people who merely do it for a living.) Other financial services, such as the "payday advance companies" that let people borrow against their next paychecks to meet a short-term need, also come in for criticism. Why B&S think that poor people are better off without access to credit is mysterious. Would little Annelise be better off if the Trapps had not been able to borrow the money to take care of her in the first place?

B&S can't even sustain their central argument for the length of their "exposé." They conclude by quoting a Harvard law professor to the effect that a bill this bad can only be a payoff to the credit-card companies. But earlier, B&S themselves have conceded that "most members of Congress believe in what they are doing." This is not a minor concession; it is a glaring contradiction.

Unable to follow an argument, B&S don't follow the money very well either. The American Bankruptcy Institute, no friend of this legislation, did a study pointing out that campaign contributions from the credit-card industry haven't been going to members of the House Judiciary Committee, which is responsible for the bankruptcy bill. They've been going to members of the Banking Committee, which has jurisdiction over matters that interest the industry more. Of the ten top recipients of industry money in the House, only one is on the Judiciary Committee—Florida Republican Bill McCollum, who's also on the Banking Committee. And the Democrat who has received the most contributions, John LaFalce of New York, voted against the bill.

The bill passed the House 313–108 and the Senate 83–14, with strong bipartisan support. Indeed, Bob Menendez, a New Jersey Democrat, sent his colleagues a letter trashing B&S's *Time* article. In their vituperation of the bill, the two are positioning *Time* to the left even of liberals such as Charles Rangel, who voted for the bill. Given their mishandling of the facts, they are also placing their magazine in a parallel universe. Is this really where *Time* wants to be? **NR**

■ **THE MEDIA II** ■

Don't Be Like Mike

What Kinsley & Co. fail to grasp

STEPHEN MOORE

OVER the past two decades, much has changed in the world of economic thought. But one phenomenon remains safely predictable: Ask a lefty about capital-gains taxes, and you are virtually certain to get a wrong answer.

Michael Kinsley is one of the worst offenders. Formerly editor of *The New Republic* and now editor of *Slate*, Kinsley has been writing tirades against capital-gains tax cuts for as long as anyone cares to remember. His columns are characterized by 1) great fervor and 2) imperviousness to evidence. He charges, for example, that this "tax break" enriches only America's yacht owners; that a rate cut would cost the Treasury $75 billion; that the supply-side economic-efficiency argument for capital-gains reduction is blather. Here's one of my favorite Kinsleyisms: The week after the Republicans took control of Congress in 1994, he wrote in the *New York Times* about the GOP's Contract with America, "with its impossible combination of tax cuts and spending increases and balanced-budget promises," and concluded: "It can't be done, of course."

Oops.

Kinsley is not alone in his relentless wrongheadedness: Hostility to cutting capital-gains taxes is part of the creed of orthodox liberalism. A few years ago, Jonathan Chait, Kinsley's understudy at *The New Republic*, attacked yours truly in an article entitled—what else?—"Less is Moore." It was a gallant attempt to overthrow the irrefutable logic of supply-side tax cuts, particular-

Mr. Moore is president of the Club for Growth.

ly the famous Laffer Curve insight that tax-rate cuts can produce more revenue for the government.

When Republicans passed the Archer-Roth capital-gains-rate cut in 1997, they set up a nifty real-life experiment. In a letter to *The New Republic*, I challenged Chait and his fellow editors to a $2,000 wager on the issue. My position was this: Over the next five years, with the new 20 percent capital-gains rate, the federal government would collect more, not less, in inflation-adjusted revenue from the capital-gains tax than it had in the previous five years (when the rate had been 28 percent). Chait declined, mentioning something about people transferring income out of wages and into capital gains, leaving overall revenues unchanged or lower.

For all their apparent self-confidence, liberals don't like putting their money where their mouth is. And it's a good thing too, or they would be a lot poorer. The Archer-Roth tax cut took effect in May 1997, so we've now had three years of experience with the lower rate. What have we learned? That those who criticized supply-side economics were dead wrong.

The latest tax-collection data from the Treasury Department indicate that capital-gains revenues have exploded. In 1996, the last year with the 28 percent rate, the government collected $62 billion in capital-gains receipts. But look what has happened:

	Tax Rate	Capital Gains Taxes
1996	28%	$62 billion
1997	20%	$79 billion
1998	20%	$89 billion
1999	20%	$110 billion (est.)

The 1999 estimate is based on IRS data collected by economist (and NR contributing editor) Lawrence Kudlow. In three years, the tax receipts are up an astonishing 74 percent, even though the tax rate is down by almost [illegible] percent. This is the Laffer Curve in spades.

But Michael Kinsley has derided tax cuts as "the politics of the free lunch." In 1989, he wrote that if a proposed capital-gains tax cut went into effect, the tax bill for people making over $200,000 a year would be decreased by an average of $25,000. The new statistics prove that this is impossible. If Kinsley is right that the rich pay most of the capital-gains taxes, and if capital-gains tax revenues have surged with the lower rate, then the rich must be paying *more* in taxes now. A class warrior like Kinsley should be in a state of euphoria.

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Cutting the capital-gains tax makes business in general instantaneously more valuable.

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Kinsley was also wrong in accepting the prediction of the congressional Joint Tax Committee that we would lose $75 billion in revenues if we cut the tax. This committee still uses "static" revenue models designed back in the Stone Age of economics, when forecasters believed that tax-rate changes didn't much affect people's behavior. That's why its crystal ball predicted a $75 billion revenue loss—when, in fact, based on current trends, we will have about a $100 billion gain for the government.

These are gargantuan errors. If you were to take a plane trip from Chicago to Detroit, and somehow ended up on a different continent, you'd be dealing in roughly the same magnitude of miscalculation. What's really infuriating is that the congressional economists are still using this same model for their economic predictions. Ask them, even now, what would happen if we cut the rate to 15 percent, and they reflexively respond that the government would lose revenue.

In the face of undeniable economic facts, some opponents of tax cuts get a little desperate. Edward Cohn admitted in the liberal *American Prospect* that capital-gains revenues are way up—how could he not?—but suggested that suppl[illegible]ders are "making wild-eyed predictions . . . and then fudging or misinterpreting the numbers." How? The revenues, he says, have been generated by the rising stock market, not by Congress's tax policy. The *Washington Post* recently made exactly the same claim. But this argument neglects the interconnectedness of the economy. If you cut the capital-gains tax, you increase the after-tax value of capital, and thus the after-tax rate of return on stocks. Cutting the capital-gains tax makes technology, computers, factories, and business in general instantaneously more valuable.

And, when you combine tax-rate reductions on capital with diminishing inflation rates, you get a glorious bull market. A 1999 study by the American Council for Capital Formation and the economic-forecasting firm DRI estimates that at least 25 percent of the stock market run-up in 1998 and 1999 was inspired by the Archer-Roth tax cut.

Let's return to Jonathan Chait and his invective against "voodoo zealotry." Chait's ostensible reason for declining my wager was his theory that a rise in capital-gains revenues would come only at the expense of lost income-tax revenues.

In this view, Chait was simply echoing a longstanding theory of Mike Kinsley. But these two have the story exactly backwards. Over the past three years, individual income-tax revenues have increased by $100 billion a year—a 10 percent annual increase. Whenever you cut one tax rate, you will almost always get more revenues from all other tax sources. For example, the Reagan income-tax-rate cuts in 1981 caused an unexpected surge in payroll-tax receipts and state and local tax collections.

So the lost-revenue argument is a hoax: Cutting taxes increases revenue. But this is, essentially, a side issue. The purpose of cutting the capital-gains tax is not to maximize revenues for the government. (Cato Institute president Ed Crane reminds me that the high revenues produced by the tax cuts are an argument *against* cutting the tax.) The purpose, rather, is to maximize the creation of private wealth. A capital-gains tax hurts the process of wealth creation, because it is merely a punitive second layer of tax. The value of a capital asset is the discounted present value of the revenue stream it produces. Under a rational tax system, we would tax the income stream or the asset value, but not both. But if we ended this double tax on investment, the economy would generate more risk-taking, more productivity, higher profits, and rising wages.

If cutting the rate to 20 percent produced more revenue and more economic growth, let's have more of the same. Congressional Republicans, along with pro-growth Democrats like Sen. Joseph Lieberman of Connecticut, should seize the moment to press aggressively for further capital-gains reductions. And they shouldn't flinch when Kinsley and his associates attack them with class-warfare rhetoric. The political constituency for growth policies like capital-gains cuts has mushroomed in recent years. More Americans than ever before—52 percent of households—own stocks. In the past ten years, the number of Americans who are millionaires has tripled. There are now three times more shareholders than union workers.

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It's paradoxical but true that the only policy that could possibly soak the rich would be a capital-gains tax cut.

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George Gilder, one of the godfathers of the supply-side revolution, recently wrote that the only policy that could unbalance the budget today would be a large tax increase. He's right. And it's paradoxical, but true, that the only policy that could possibly soak the rich would be a capital-gains tax cut. What's more, it would have the benefit of creating even more rich to soak.

Here is Michael Kinsley, one last time: "The losers [from a capital-gains cut] are many, but diffuse and largely ignorant." But there are no losers from a capital-gains cut, except for those who simply indulge in a reflexive hatred of the rich. And, yes, they are largely ignorant. NR

■ **BRITAIN** ■

Phony Tony—and Cronies

Blair at a crossroads

DAVID PRYCE-JONES

IT all began so well. Just three years ago, Tony Blair won a landslide election. Here was a prime minister with a matey grin and a majority so large that he could do with Britain whatever he liked. Socialism, Blair promised, had evolved into New Labour, quite a different thing, a Third Way, neither socialist nor capitalist, but a "project" in its own right. "Trust me," Blair likes to repeat. Politics in this view is national group therapy. The key word is "inclusive" and the purpose of it all is modernization. The next century would belong to the Left. If Blair had his way, the Conservatives would never again be in office. And this seemed possible. The outgoing prime minister, John Major, had spun in tiny circles on the great issue of Britain's future relationship with Europe, and wrung his hands about everything else. The Conservatives were in pitiful shape. Their new leader, William Hague, had to find his feet, and impose an authority of his own on his shattered party. Blair had no opposition to fear.

Blair is often accused of being a control freak. Not so. What he has done is to set in motion processes which are bound to escape control in unpredictable directions. He is what the French call a *touche à tout*, someone under compulsion to meddle with everything for the sake of meddling. Previous experience, or tried and tested tradition, do not count. As in a garage sale, everything must go.

The consequences are now visible. First and foremost is devolution, a novelty whereby the Scots have acquired a parliament of their own, and the Welsh an assembly, and Ulster has been set on a path which eventually must result in a united Ireland. There is little popular demand for all this, and no coherence in the implementation. These measures look like way-stations. The likelihood in the medium term is that the Celtic countries will become independent, thus breaking up the United Kingdom. In response, English nationalism is coming to birth. To some of the English, this hybrid creature offers a proud identity, but to others it means soccer hooliganism, hatred of immigrants, and a general cause for lawlessness.

Even more of a threat to historic identity is Blair's stated intention to take Britain into the new European state, indeed empire, which is now arising. In the current domestic climate, this is divisive enough to carry the potential for civil disobedience. Opinion polls show that three-quarters of the electorate now oppose further loss of national sovereignty, and as many as a third implacably wish to withdraw altogether from Europe. Recent elections to the European parliament in Brussels proved a disaster for Blair. For the time being he disregards this warning and continues to grin: "Trust me." But he is spinning in the same dizzy circles as his predecessor, Mr. Major, unable to advance or retreat.

What has happened already to the Westminster parliament is without precedent. Passive while its powers hive off to Scotland and Wales and Brussels, the House of Commons has been its own willing executioner. Blair himself has attended a paltry 5 percent of parliamentary votes, the worst voting record of any prime minister, and evidence of the contempt in which he holds the House. No previous prime minister had lower than a 50 percent voting record. Going further, Blair has abolished the right of hereditary peers to sit in the House of Lords, ostensibly because they do not deserve the privilege, but actually for the party political reason that they are usually Conservatives. Their successors promise to be chosen from the pool known as "Tony's cronies." Then too, London itself has a new mayoralty. Blair's candidate for the post was a New Labour apparatchik. An old-fashioned socialist, "Red Ken" Livingstone, stood and won resoundingly, blowing a huge and homegrown raspberry at Blair.

So a coalition has been building, a

■ ECONOMICS ■

The Haves and the Have-Lesses

Dealing straight about the income gap

STEPHEN MOORE

SOME people just can't stand prosperity. In January, two of Washington's most liberal think tanks, the Center on Budget and Policy Priorities and the Economic Policy Institute, released their annual joint study in which they proclaim, as usual, that the income gap between rich and poor is widening. The media trumpeted the bleak "findings" to virtually every living room in America.

What they didn't report is that the study was more propaganda than scholarship. It actually distorts what are, in reality, highly encouraging trends in wealth and poverty.

The study's data come from census statistics on income and poverty trends. But a recent Census Bureau report actually contains *good* news about the extent to which the gains from the current expansion are being widely shared across all income groups. The number of poor households is down, from 35.6 million to 34.5 million. The poverty rate is also down, from 13.3 percent to 12.7 percent. Median household income—adjusted for inflation—is up 3.5 percent, to a new all-time high of $38,885. Every income group, even the poorest Americans, saw real gains in income in 1998, and in 1997 as well.

Daniel Weinberg, the principal author of the Census Bureau report, told me that in the ten years he has been working on this subject, "this is the most upbeat income report I've ever seen."

In essence, the income-redistributionists have taken the good news (every income group is doing better) and contorted it into bad news (some groups are doing better than others); but they exaggerate even this. In an economic expansion, of course, wealth gains are never going to be shared in exactly the same measure by all groups. But it turns out that the claim that the disparity between rich and poor is widening is flat-out contradicted by the recent data. The standard (though flawed) statistic that social scientists use to measure income inequality is called a "gini coefficient." The larger the coefficient, the greater the income disparities between rich and poor. In 1998, the gini coefficient fell from 0.459 to 0.456. That's a very slight decline, but a decline nonetheless.

Nor are there any other measures indicating growing inequality. Virtually all of the Census Bureau's yardsticks show a small narrowing of the gap between rich and poor in 1998. For example, the share of total income earned by the richest fifth of Americans fell from 49.4 to 49.2 percent. Similarly, the income ratio of the top 5 percent to the poorest 20 percent declined, from 8.22 to 8.20.

These are all, to be sure, very small reductions in inequality. But the important point is that they are reductions. An accurate description of the census findings would have been, "Income Gap Between Rich and Poor Narrows Slightly in 1998."

But, say the class-warriors, the longer-term trend is toward greater inequality. Well, yes—and no. Social scientists agree that in the 1970s and 1980s the income gap between rich and poor widened. This is hardly news. What is news is that in the 1990s the income gap appears to have stopped widening. "Regardless of the measure used," says the census report, "it seems clear that income inequality rose substantially between 1967 and the early 1990s but has remained unchanged since then."

The census report also tells us that some of the apparent widening in income between rich and poor in the 1970s and 1980s is an artifact of a decline in average household size owing to social factors, such as higher divorce rates and more out-of-wedlock births. For example, a family of four with an income of $60,000 becomes—as a result of divorce—two separate households whose average income is $30,000. They appear a lot poorer, even though the total income is the same.

Starting in 1993, the Census Bureau corrected this methodological defect, and found that about one-third of the so-called "income gap" vanished.

The redistributionists' study also fails to mention that low-income households are making gains in real income. Between 1995 and 1998, the inflation-adjusted income level of the average poor family rose by almost $300, from $8,930 to $9,223. If we go back all the way to the start of the Reagan years, we find that the lowest income quintile has seen income gains of $1,100, after inflation, from 1980 to 1998. The popular mantra "The rich get richer and the poor get poorer" is false.

Nor is it true that the middle class is stuck on an income treadmill. Since the current expansion began in the early 1980s, the typical working-class family has seen real income gains of almost $4,000—an improvement of about 10 percent—after inflation. Further, this progress is severely understated, perhaps by as much as half, because almost all economists now agree that official inflation figures over the past 20 years have been vastly *overstated*.

In addition, the black–white income gap has been sharply reduced over the past 15 years, and is now smaller than ever before. In 1990, the average black woman earned about 85 cents for every dollar earned by a white woman. By 1997, that gap had closed to 95 cents on the dollar. For men, the black–white income gap narrowed from 60 cents to 69 cents on the dollar. That's a lot of ground toward equality made up in just eight years.

It's also important to remember that Americans are constantly moving up and down the income ladder. The 35 million Americans who are officially poor today are not likely to be poor five or ten years from now. For example, we now know from census statistics that a household defined as poor in 1980 was, by 1990, more likely to have moved all the way up the income escalator to the category of "rich" than to still be poor.

So why do some scholars exaggerate the income disparities? And why does the press lap up this bunk so eagerly and unskeptically? The obvious answer is that class-warfare headlines help promote the redistributionist political agenda. This agenda is harmful, and based on falsehoods. As long as we're forced to pay attention to these income-gap hoaxes we'll never be able to focus on the policy initiatives—such as Social Security privatization and school choice—that would really succeed in lifting the economic fortunes of poorer Americans. Falsehood is a costly distraction. NR

Mr. Moore is director of fiscal policy studies at the Cato Institute.

It's not just the press that isn't interested in criticisms of Bush's Texas record. Many conservatives, too, prefer to avert their eyes lest anything disturb their belief that W. will put an end to the Clinton-Gore years. And Bush has made himself acceptable to the Right—in Iowa, he won a plurality of conservative votes. After McCain's win, he's likely to become even more acceptable to many South Carolina conservatives.

Forbes attributes this support to the frontrunner's false advertising. "It is a classic case of using rhetoric to try to cloak a very unconservative agenda," he declares. He points out that Bush makes only "vague references to Social Security, and has no plan on health care." On the issue of abortion, Forbes says, Bush is "doing a ballet dance in cowboy boots."

Although Forbes enjoys the support of many former members of New Hampshire's Buchanan Brigade, his brand of populism—unlike Pat's—isn't angry or resentful. Forbes's ads in the final days of the campaign all touted his own agenda and his pro-life stand on abortion. His spots were more positive than an ad from the liberal Republican Leadership Council featuring Bob Dole bitterly blaming Forbes's 1996 attacks for leaving him too "battered, bruised, and broke" to win in November.

Forbes supporters attribute that loss instead to a weak candidate carried over the finish line for the GOP nomination by the party establishment; this view makes the Forbes backers resist the talk of "inevitability" that has many of their conservative friends backing Bush.

Like Buchanan in 1996, Forbes concentrated on reaching his core New Hampshire audience through scores of radio interviews. But at one of his few live rallies, in Nashua two days before the primary, about 300 supporters enthusiastically agreed with the Portsmouth resident who introduced Forbes by declaring, "I've chosen to fight the good fight, for a good man who talks straight." There's no doubt about any of the premises of that formulation. Catching a tailwind courtesy of John McCain, a beaming Forbes included a strong pinch of anti-Washington rhetoric in his appeal. "PACs, and power-brokers, and the Republican establishment have met their match," he told the cheering crowd. "They don't have their hooks in me. I don't need contributions from K Street."

Forbes advisers argue that only their candidate or George W. Bush can win the nomination. They believe John McCain is out of step with the party's conservative base and lacks the organization and resources to compete for very long after New Hampshire. As for Bush, the Forbes camp doubts that he has the toughness Forbes has demonstrated over four years of campaigning. "Oh, my goodness," Forbes says, in a typical turn of phrase, "wait until Gore and his supporters start to work on him. 'Hey guys, wait until the pros start to show you what a heavyweight match is like.'"

Forbes recounts that at a Republican dinner in Philadelphia last year, he "couldn't resist reminding them of the last time a convention in Philadelphia made the mistake of nominating a big-state governor who looked good in the polls." That was Tom Dewey. In 1948, Truman proved the headline writers wrong. If Forbes's warnings are correct, the Democrats might end up with the last laugh this year as well. **NR**

A Success to Trumpet, and Protect

Welfare reform and its discontents

STEPHEN MOORE

THE results are in: Welfare reform is one of the greatest public-policy successes of modern times. There are now only half as many families on welfare as there were in 1994. Some states, led by innovative GOP governors, have shrunk their rolls by more than 80 percent. And almost everyone now agrees that the former welfare recipients have moved upward into the labor force, not downward into bleaker poverty. According to the *New York Times*, "the most comprehensive study of the new system says more and more [ex-welfare mothers] are going to work."

Conservatives should trumpet these accomplishments. We should say (adapting a phrase from James Carville) that we were right, and that our opponents were wrong.

How wrong? Recall the welfare-reform debate of 1995–96. Welfare advocates jeered at conservatives who were trying to fix the system. *The Nation* editorialized: "The welfare bill will destroy America's state of grace. In its place will come massive and deadly poverty, sickness and all manners of violence." That's not all. "People will die, businesses will close, infant mortality will soar." Rep. John Lewis of Georgia compared welfare reformers to Nazis, quoting Martin Niemoeller—"In Germany . . . they came for the Jews and I didn't speak up because I wasn't a Jew. Then they came for the trade unionists and I didn't speak up because I wasn't a trade unionist"—and then bellowing: "Read the Republican Contract. They are coming for the children. They are coming for the poor. They are coming for the sick, the elderly, and the disabled." The anti-reform movement, led by groups like the Children's Defense Fund, forecast disaster—repeatedly and loudly.

But no disaster ever came. Incentive-based reform measures—such as work requirements, time limits for welfare, no extra payments for having more children, and aggressive job-placement efforts—appear to be having exactly the desired effect.

For almost three decades, the real-world impact of welfare confirmed what any sensible behavioral psychologist would have predicted from the outset: If you pay unwed teenage girls to have babies, they will have babies. If you say that a welfare check is an adequate substitute for a father's paycheck, then fathers will be expendable, and fewer fathers will stick around. And if you tell people that the checks that sustain them will keep arriving—unless and until someone in the household starts working and bringing in income—no one in the household will work.

Mr. Moore is director of fiscal policy studies at the Cato Institute.

Furthermore, even though welfare had always been sold to the public as a "temporary" safety net for the needy, by the end of the 1980s the average welfare recipient was staying on the rolls for twelve years.

In the early 1990s, some states launched elaborate systems of penalties and rewards in order to encourage welfare recipients to leave public assistance and engage in more productive activities—work, school, or training. Wisconsin governor Tommy Thompson mandated that all able-bodied welfare recipients work in order to receive benefits. In 1987, the number of welfare households in Wisconsin was about 100,000. Now it is *below* 10,000.

Many other states tried similar experiments. But it wasn't until the federal reform laws were enacted by the Republican Congress and signed into law by Bill Clinton (after two vetoes) that the national welfare system was reconstructed. This reform bill included all the provisions that the welfare lobby had vigorously opposed: work requirements, time limits, and a green light for state-level reforms. When Clinton signed the bill, Children's Defense Fund president Marian Wright Edelman castigated him for approving "the biggest betrayal of children and the poor since the CDF began."

For the first time in almost two generations, though, even most congressional Democrats had to concede that a major pillar of the New Deal/Great Society structure had failed. The initial success rate of welfare reform further exposes just how flawed the Great Society programs really were.

The initial success rate of welfare reform further exposes just how flawed the Great Society programs were.

So where do conservatives go from here? First, we have to recognize that a lot of work remains to be done on welfare reform. Despite the encouraging trends, there are still 7 million people with an umbilical cord to the welfare state. How do we get this hard core off welfare and into the workforce?

The same crowd that opposed welfare reform in the first place (Bill Bradley is one of them) now argues that to end welfare for hard-core recipients, taxpayers will have to ante up a lot more money. The Democratic pro-welfare counteroffensive is based on a politically clever pro-children theme. Liberals are designing a new welfare state that looks suspiciously like the one Congress voted just a few years ago to get rid of; this time, their selling point is that welfare is not for the parents but for the kids—who, after all, can't possibly be held responsible for their parents' refusal or inability to work.

"Compassionate conservatives" will find it hard to resist this fluff. So we could end up with free medical care, free day care, free pre-school, and so on, for children. Bill Bradley's health program would cost at least $60 billion a year—a price even Al Gore attacks as excessive.

Under this new welfare regime, the mother would be responsible for taking care of herself, but the federal government would bear the cost of just about every expense of raising her children. And this would put us right back where we started: with fathers being superfluous. It is important to remember that almost no two-parent families in America need government-subsidized health care, day care, pre-school, etc. The Census Bureau data are so clear on this point that it is beyond dispute: The best antidote to poverty is to keep father and mother together. But these new federal programs are de facto designed for families without fathers.

Charles Murray, whose 1984 classic *Losing Ground* inspired so much of the GOP welfare-reform effort, has correctly noted that ultimately, the test of welfare reform's success is whether the illegitimacy rate falls. If the percentage of children raised in a healthy family environment rises, we will have succeeded; if not, the cost savings will be mostly irrelevant, since the tragic social costs of the welfare state—largely borne by children—will remain. It's still too early to tell, but the initial signs are modestly encouraging—especially for teens. Out-of-wedlock birth rates have fallen slightly in recent years, with big declines among African-American women. But surely, creating a vast arsenal of means-tested children's programs would reintroduce the harmful incentives we have been trying to eradicate.

The best evidence we have suggests that the chief impediment to pushing hard-core welfare recipients into the workforce is that the value of benefits still remains very generous, relative to the economic return from working. That is to say, many of those on welfare today are simply making a rational economic decision: It's more financially rewarding not to get a job.

The perverse behavioral incentives erected by the welfare state remain much more of an obstacle to work than most analysts acknowledge. In 1995, my Cato Institute colleague Michael Tanner and I documented that in most states the full array of welfare programs—AFDC, food stamps, Medicaid, public housing, etc.—paid better than the after-tax payment from working in most starter jobs. In high-benefit states like New York, the value of the full package of welfare benefits can still reach $12 an hour, more than many entry-level salaries.

Our latest analysis finds that the higher the value of welfare in a state, the lower the declines in welfare caseloads. Hawaii, which offers the most generous welfare benefits of any state, totaling over $30,000 a year, has recorded the smallest caseload reduction in the nation. Conversely, Mississippi—whose welfare package comes to less than $11,000 a year—reduced its welfare rolls by 70 percent.

Fortunately, welfare-reform measures enacted at the federal and state levels have made work more financially rewarding. According to Ron Haskins of the House Ways and Means Committee, in the 1980s a typical welfare mother who went to work full-time figured to gain only about $3,000 in extra income from her efforts. Today, that same mother would gain $9,000.

The second round of welfare reform should achieve two goals: an increase in the rewards for work, and a decrease in the rewards of welfare. Work is the key. For all its faults, the one income-support program that has the fewest perverse effects is the Earned Income Tax Credit. The EITC provides working families with a livable income, by supplementing wages with a government subsidy. American taxpayers hate welfare, but they do want those who work 40 hours a week to have an income that provides them with all the necessities of life: health care, food, housing, etc.

The EITC is designed roughly along the lines of Milton Friedman's negative income tax. It has two big advantages over every other welfare program: First, the recipient gets a payment *only* by working. Second, there is no need for a vast and self-serving welfare bureaucracy (though we need to do a better job of weeding out rampant EITC fraud). The EITC is also far superior to the minimum wage, because the EITC does not increase unemployment; EITC payments above the market wage are made by taxpayers, not employers.

Republicans suffered a bout of temporary insanity last year in trying to scale back the EITC to save money. But the ideal welfare reform would dismantle all welfare programs *except* the EITC, and devote the cost savings to making the EITC somewhat more generous. Great care must be taken to reconfigure the tax system so that working families don't face insurmountable tax rates as they leave the EITC range.

The main virtue of this plan is that it would turn the work-disincentive problem of welfare on its head. It would also discourage illegitimacy as a means by which young girls can gain financial independence. Because it guarantees that working families will have the income needed to care for their children, this proposal is the best, and maybe the only, antidote to the expansions of government that Democrats are currently proposing. The plan represents truly constructive—and compassionate—conservatism.

In 1935, the founder of the modern welfare state declared: "Continued dependence on relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit." The speaker was, of course, Franklin Roosevelt. The tragedy is that it took some 60 years for policymakers in Washington to conclude that he was right.

Republicans deserve high praise for the welfare reform of the 1990s. We may be winning, but we haven't won yet—and if we lose Round II, we will find ourselves right back where we started. **NR**

Stephen Moore
NRO Financial Columnist

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November 7, 2002 3:35 p.m.

How Sweet It Is

One fine week.

I hate to say I told you so. Well, actually I love it. Moore's theorem was that if the Dow was over 8,500 the GOP would hold the House and win the Senate. What do you know! Thank you investor-class voters! Now Republicans better reward them.

Tuesday morning, I reported on what I believed to be the ten most-important election races for the conservative movement. I wanted to devote today's column to how those races turned out and what those (mostly) victories mean.

But before I do, let me make one comment. This election was a resounding affirmation of President Bush's agenda and his presidency. He now has the voter mandate to move ahead with tax cuts, Social Security reform, school choice, and free trade — all issues that have been bottled up for the past two years by the Daschle Democrats.

Also this election was a ringing endorsement of term limits. Something like 95 percent of incumbents won. The good news is that the outrageous gerrymandering the Democrats did in the redistricting, backfired. By protecting incumbents, they took so many seats out of play that it was nearly impossible for the Democrats to take the House.

As for the races: First, you may recall that in my last column I asked the question: Does any conservative really care if Connie Morella loses? The answer, we now know, is "no." Good riddance to Mrs. Morella. Now maybe she can switch parties.

I also noted that for conservatives it is quality that matters as much as quantity. And, boy, did the GOP add quality. The House members who won — people like Scott Garrett in New Jersey and Chris Chocola in Indiana — are solid free-market conservatives. The House and Senate have not just become more Republican, they have become unquestionably more conservative.

Now, here is the recap on the top-ten races.

1. **California Governor:** No one would listen. I said this race was going to be close. I said that there was so much antipathy toward Gray Davis that Bill Simon could win. This race was the big enchilada. In the end, though, free-marketer Bill Simon lost.

What does this mean? The left coast isn't completely lost after all.

2. **Florida Governor:** It wasn't even close. Bush was rewarded for being a superb governor.

What does this mean? There is no Kennedy dynasty, but there is a Bush dynasty. Bush-Owens in 2008!

3. **New Hampshire Senate:** Sununu wins.

What does this mean? Sununu will be the next Phil Gramm in the Senate. Also, you can win as a pro-free trade, pro-Social Security privatization candidate.

4. **Indiana District 2:** Chris Chocola, the Reagan Republican triumphs over feminist Jill Long Thompson.

What does this mean? Lord did Emily's List ever have a bad hair night!

5. **South Carolina Governor** — Mark Sanford wins.

What does this mean? I said that Sanford has a free market reformist agenda (including eliminating the state income tax and school choice) that will make conservatives drool. Start drooling.

6. **South Carolina Senate:** Lindsey Graham wins.

What does this mean? Don't be surprised if Graham dies in this seat. His successor Strom Thurmond held it for 40 years. Also, another win for social security privatization.

7. **Arizona Governor:** Though the Associated Press has projected Napolitano the winner, the race is still a toss-up. Go Mat go!

8. **Wisconsin Governor:** Scott McCallum vs. Jim Doyle - Democrats win one.What does this mean? Democrats will try to overturn the historic and fabulously successful school voucher program in Milwaukee. Never mind that it raises test scores and the mostly minority parents like the vouchers. The teachers union doesn't, and they pay the Democrats' bills.

9. **Pennsylvania District 15:** Pat Toomey vs. Ed O'Brien — Toomey wins again. What does this mean? How does this guy always win this brutal steel town, unionized Democratic district. Because he is principled and right on the issues like tax cuts and smaller government.

10. **New Jersey Senate:** Doug Forrester vs. Frank Lautenberg — The battle for the New Jersey Senate seat goes Democratic. What does this mean? Sometimes cheaters do prosper.

A final word: Republicans now have a monumental mandate to lead-on tax cuts, on free trade, on Social Security choice, and on fighting terrorism.

Use that mandate, W., or 2004 may not be nearly as happy as election as this was.

— Stephen Moore is a senior fellow at the Cato Institute and president of the Club for Growth.

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http://www.nationalreview.com/moore/moore110702.asp

Stephen Moore
NRO Financial Columnist

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November 5, 2002 9:00 a.m.

What to Watch

The 10 races that matter most to conservatives.

For obvious reasons, most of the hullabaloo over the elections has revolved around the issue of which party will win the Senate and the House. That matters a lot, but some races matter a lot more for conservatives than others. (Does any conservative really care whether Connie Morella, who is trying to get to the left of her Democratic opponent, wins?)

Quality matters too. Republicans might win the Senate, but conservatives could quickly become disenchanted with the way the weak-kneed moderate-centrist Republicans govern.

So as an election-night primer, I've made a list of the ten top races for conservatives. These are races involving a clear clash in ideology between the candidates and where public-policy directions could be altered depending on who wins.

1. **California Governor Gray Davis vs. Bill Simon**: California is the big enchilada. Davis has been a catastrophically bad governor for four years. He has swung a wrecking ball at the economy, dug the state into a monstrous budget-deficit ditch, and completely mishandled the electricity crisis, by buying up electric power at twice the market rate — a boneheaded move that is costing Californians billions of dollars. Bill Simon, despite a number of dreadful campaign gaffes, would be a free-market conservative in the governor's office.

What's at stake? If Davis wins, it confirms that California has been converted hopelessly into a one-party state.

2. **Florida Governor Jeb Bush vs. Bill McBride**: Bush should (must) win. He's been a superb governor.

What's at stake? If Jeb wins, he becomes the frontrunner for the presidential ticket in 2008.

3. **New Hampshire Senate John Sununu vs. Jeanne Shaheen**: The race is a toss-up.

What's at stake? First, conservatives need the smart free-market Sununu in the Senate so he can be groomed to be the next Phil Gramm. Second, Republicans can't let New Hampshire, the one conservative foothold in the northeast, go Democratic.

4. **Indiana District 2: Chris Chocola vs. Jill Long Thompson**: Pits a classic Reagan Republican versus a Clinton Democrat.

What's at stake? If Chocola wins, it drives a stake through the heart of Emily's List and other radical feminist groups that have spent millions on this race.

5. **South Carolina Governor Mark Sanford vs. Jim Hodges**: Sanford, the challenger and

former stellar conservative in the U.S. House against a bumbling incumbent.

What's at stake? Sanford has a free market reformist agenda (including eliminating the state income tax and school choice) that will make conservatives drool.

6. **South Carolina Senate Lindsey Graham vs. Alex Sanders**: This is the Strom Thurmond seat. What's at stake? Whoever wins will likely hold the seat for 50 years.

7. **Arizona Governor Matt Salmon vs. Janet Napolitano**: Salmon, another star conservative congressman from the class of '94 against the trial lawyer 's best friend.

What's at stake? If Napolitano and her trial-lawyer funders win, they will move this conservative state in a dramatically Left-wing direction.

8. **Wisconsin Governor Scott McCallum vs. Jim Doyle**: Democrats favored to win here after 4 Tommy Thompson's four-term stint. What's at stake? Priority #1 for the teachers unions and the Democrats is to defund the historic and fabulously successful school-voucher program in Milwaukee.

9. **Pennsylvania District 15: Pat Toomey vs. Ed O'Brien**: Toomey should win again in this brutally tough union district whose biggest town is Allentown.

What's at stake? A Toomey victory proves that pro-free trade, pro-Social Security choice, pro-tax cut Republicans can win in Democratic districts. Voters respect legislators who stick to their guns. And they like tax cuts too. All wobbly Republicans should pay attention.

10. **New Jersey Senate Doug Forrester vs. Frank Lautenberg**: The battle for the New Jersey Senate seat leans Democratic. Forrester is no great shakes for conservatives.

What's at stake? The principle that cheaters never prosper.

So there you have my top ten list. Did I leave any high-priority races off the list? E-mail me at smoore@clubforgrowth.org.

— Stephen Moore is a senior fellow at the Cato Institute and president of the Club for Growth.

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http://www.nationalreview.com/moore/moore110502.asp

Stephen Moore
NRO Financial Columnist

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November 1, 2002 8:30 a.m.

And the Winner Is...

Governor predictions.

With nearly the entire media spotlight focused on the race for the control of Congress, little attention is being paid to the governors races this year. This year there are 36 of them, and many of them are nail-biters.

Arguably, the three most-important elections on November 5 will be the gubernatorial races in California, Florida, New York, and Texas. The GOP will win three of four and maybe all four! And since governors can actually do things — cut taxes, launch welfare, fix the schools, muzzle the trial lawyers, balance the budget — these are powerful public figures that have a profound impact on policy.

The GOP has had majority control of the governorships since the grand conservative landslide election of 1994. That's likely to shift back to the Democrats after Tuesday. But what is exciting is that four or five real conservative policy pioneers are going to win on Tuesday and then push through dramatic free-market changes in their states. Case in point: Mark Sanford of South Carolina wants to abolish the South Carolina income tax. Name a member of Congress who has a big idea like that.

So without further ado, here's my smart-aleck assessment of many of the hottest races:

Alaska: Frank Murkowski wins back Alaska for the GOP. This will be a boost for drilling in ANWAR.

Arizona: Matt Salmon is down in the polls, but still has a good shot at winning. Salmon is a free marketer who loathes big government and bureaucracy. Janet Napolitano, the Democrat, is bosom buddies with the trial lawyers. She represented Anita Hill. She's bad news.

California: Call me a hopeless romantic, but I still think that Bill Simon has a shot at besting Gray Doofus. Doofus has approval ratings in the 40s, which is dreadful for an incumbent.

Colorado: Bill Owens, America's best governor, wins in a landslide and preps for a seat on the GOP ticket in '08.

Florida: Don't believe the hype. Jeb wins easily. How about Bush-Owens in '08, or vice versa?

Georgia: Roy Barnes is my favorite Democrat. He should win, continuing the GOP's 150-year lockout of the governors' mansion.

Hawaii: Sakes alive, Hawaii goes Republican! But Linda Lingle is no conservative.

Illinois: Republicans lose. What a relief. The brain-dead Illinois Republicans are out of power. Now they can spend the next four years thinking about all the things they did wrong.

Kansas: The Dems will likely win here because the backstabbing liberal Republicans (read: Bill Graves and co.) would rather have a liberal Democrat in office than a conservative Republican. So much for the big tent!

Maryland: Ehrlich wins. KKT turns into TNT.

Michigan: Dems win. Thank God that Jennifer Granholm is a Canadian, or she would be running for president next.

Nevada: Safe Republican — can we put the nuclear waste in Yucca Mountain?

New York: Hopefully the Dems finish in third place. Let's also hope Pataki's third term is more like his first when he was cutting taxes, not his second, when he was raising them.

Ohio: Taft wins. But he is still one of America's worst governors.

Oklahoma: Now let's see what Steve Largent can really do!

Pennsylvania: Rendell wins. Okay, Pennsylvanians, hold on to your guns and your wallets. The governor's coming after both.

South Carolina: Mark Sanford wins and becomes this generation's Tommy Thompson.

Tennessee: This one's a toss pup, but my crippled dog could do a better job as governor than Don Sundquist.

Texas: Did you really think that George W. Bush would let the Democrats win his home state? To quote papa Bush: "Not gonna happen."

— Stephen Moore is a senior fellow at the Cato Institute and president of the Club for Growth.

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http://www.nationalreview.com/moore/moore110102.asp

Stephen Moore
NRO Financial Columnist

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October 2, 2002 9:00 a.m.

The Good Governors Guide

A bi-annual fiscal-policy report card.

Governors are powerful people. Next to the president, they arguably have more sway over public policy (and thus our lives) than any other elected officials. Four of the past five presidents — Carter, Reagan, Clinton, and George W. Bush — all were promoted from the state house.

It is for this reason that every two years I prepare a fiscal-policy report card on the nation's governors for the Cato Institute. It is a report card that measures the performance of governors based on the criteria of promoting economic growth and controlling state-government spending and taxes. Typical rankings give the highest ratings to those governors who expand government the most. This takes the opposite approach: Those who keep government on a tight leash get the best grades.

So take a moment and scan the table below to discover how your governor fared this year. (Governors Bob Holden of Missouri, James McGreevey of New Jersey, Mike Easley of North Carolina, Mark Schweiker of Pennsylvania, Rick Perry of Texas, Mark Warner of Virginia, and Scott McCallum of Wisconsin all assumed office too recently to fully assess their records.)

Fiscal Policy Grades for America's Governors

By Stephen Moore for Cato

Governor	State	Score	Grade
Owens (R)	Colorado	76	A
Bush (R)	Florida	67	A
Barnes (D)	Georgia	64	B
Guinn (R)	Nevada	63	B
Pataki (R)	New York	63	B
Janklow (R)	South Dakota	60	B
Johnson (R)	New Mexico	60	B
Locke (D)	Washington	60	B
Engler (R)	Michigan	58	B
Martz (R)	Montana	58	B
Keating (R)	Oklahoma	58	B
Rowland (R)	Connecticut	58	B
Swift (R)	Massachusetts	56	B
Minner (D)	Delaware	54	C
Patton (D)	Kentucky	53	C
Musgrove (D)	Mississippi	53	C
Kempthorne (R)	Idaho	53	C
Cayetano (D)	Hawaii	52	C
O' Bannon (D)	Indiana	52	C
Huckabee (R)	Arkansas	52	C
Geringer (R)	Wyoming	52	C
Johanns (R)	Nebraska	52	C
Almond (R)	Rhode Island	50	D
Hodges (D)	South Carolina	50	D
Hull (R)	Arizona	49	D
Ryan (R)	Illinois	49	D
Leavitt (R)	Utah	48	D
Graves (R)	Kansas	48	D
Shaheen (D)	New Hampshire	48	D
Ventura (I)	Minnesota	48	D
Siegelman (D)	Alabama	48	D
King (I)	Maine	47	D
Vilsack (D)	Iowa	46	D
Glendening (D)	Maryland	46	D
Dean (D)	Vermont	46	D
Hoeven (R)	North Dakota	45	D
Foster (R)	Louisiana	44	D
Wise (D)	West Virginia	44	D
Davis (D)	California	42	F
Sundquist (R)	Tennessee	40	F
Taft (R)	Ohio	40	F
Kitzhaber (D)	Oregon	30	F

The highest-rated governor this year is Bill Owens of Colorado.*National Review* recently touted Owens as America's "best governor," and this report confirms the accolade. The other A grade went to Jeb Bush, who is proving that he's the biggest tax cutter in the family. The highest-rated Democrat this year was Roy Barnes of Georgia, an old-fashioned, fiscally conscientious southerner in the vein of his predecessor Zell Miller.

Oh, and as you can see, there were four Fs awarded this year for fiscal incompetence. They went to Don Sundquist of Tennessee, Gray Davis of California, Bob Taft of Ohio, and John

Kitzhaber of Oregon. Sundquist and Taft are allegedly Republicans.

There are several trends in this study worth commenting on.

First, the state fiscal crisis that governors are now confronting has been a result of excessive spending, not insufficient tax receipts. In the decade of the 1990s state expenditures soared by $176 billion. Between 1996 and 2000, for example, state spending grew at roughly twice the rate of federal spending. The governors managed to make Bill Clinton seem like a penny pincher. Governor Owens said it best: "The states don't have a revenue problem, they have a spending problem." Gary Johnson, the combative governor of New Mexico, has remarked that "in the 1990s many governors believed that government was the solution to every problem."

Second, many governors are foolishly trying to rebalance their budgets by raising taxes. The American Legislative Exchange Council (ALEC) finds that at least half the states raised taxes in 2001 and 2002 to the tune of $15 billion. As many as 30 states are expected to consider major tax hikes in 2003. Leading the pack are California and New York, which have a combined $30 billion potential deficit next year. If history is any guide, the states that raise taxes will be the states that remain mired in recession as the higher taxes continue to depress economic activity inside their borders.

Third, Republican governors have been a disappointment of late. Three of the biggest tax increases this past year were signed into law by Republican governors: Bob Taft of Ohio, Bill Graves of Kansas, and Don Sundquist of Tennessee. The good news from 2002 was that attempts to implement first-ever income taxes in New Hampshire and Tennessee were foiled. An attempt to pass a multi-billion-dollar expansion of the sales tax in Florida was also thwarted. Just because a politician has an R next to his name doesn't make him a tax cutter.

Fourth, it appears that few governors learned the fiscal lessons of the previous recession of the early 1990s. During that recession, about half the states — led by Arizona, California, Connecticut, New Jersey, and New York — tried to close yawning budget gaps by enacting major tax hikes. Most of those tax-hiking states had the most persistent budget woes and the slowest economic recoveries.

In fact, the states that cut income taxes in the 1990s had double the population growth, nearly three times the job growth, and about 25% faster income growth than the states that raised tax rates. For those governors who believe that tax hikes can rescue a state from decline, I would love to introduce them to Jim Florio of New Jersey, whose soak-the-rich tax increases in the early 1990s sunk the Garden State's economy in a swamp of financial malaise for years.

The fiscal-policy experience of the 1990s proves that taxes don't just matter at the state level, they matter a lot. As governors combat combined budget deficits of as much as $40 billion next year, they must learn that tax hikes will balance budgets today about as well as blood letting promoted good health in the Middle Ages.

States can't possibly tax their way back to prosperity. Hopefully, the governors will be smart enough not to try to.

— Stephen Moore is a senior fellow at the Cato Institute and president of the Club for Growth.

Stephen Moore
NRO Financial Columnist

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September 18, 2002 9:35 a.m.

A GOP Surrender On Social Security?

Private investment accounts are a political winner.

By Stephen Moore and Thomas L. Rhodes

Last week the *Washington Post* reported that congressional Republicans are in full-scale retreat on Social Security. The National Republican Congressional Committee (NRCC) has urged candidates to disavow their association with the concept of privatization. This is dreadfully bad policy — it could stunt the movement toward reforming the biggest entitlement program in the federal budget by 5 to 10 years. But it is also questionable politics. Optional private investment accounts are a political winner that can attract a new generation of voters to the GOP.

Around the country Republicans now find themselves cornered in the worst possible strategic position on this hot-button political program: they are increasingly perceived as unprincipled flip-floppers on the issue. The Republicans now have a number of candidates in close races being forced to explain why they were once for private investment account options and now are against them. The explanation is almost always feeble and unpersuasive.

Republican Senate candidate John Thune of South Dakota now says he absolutely opposes personal investment accounts as an alternative to Social Security and he is blasting his opponent, the Democrat Tim Johnson, for supporting privatization. If all these charges that Thune is alleging are true, then perhaps free-market conservatives should be supporting Johnson in this pivotal race.

Republicans and sensible center-oriented Democrats — many of whom support private retirement accounts themselves — are best off seizing the offensive on this issue, rather than cowering from it. They might want to take a page out of Pennsylvania Republican Pat Toomey's playbook. Toomey talks about private Social Security accounts as a citizen-empowerment issue. He also touts private investment accounts as a civil-liberties issue for black and Latino voters who have the most to gain financially from establishing personal accounts. By the way, Toomey represents Allentown, Pa., which is one of the toughest districts for a Republican in the country.

Democrats smell Republican blood on Social Security. They say that the stock-market collapse and the corporate scandals make Social Security reform a financially irresponsible option that will lead to the looting of retirement earnings. Left-wing political operatives are running shameless senior-citizen scare campaigns that accuse Republicans of wanting to steal grandma's Social Security check and use the money to enrich Wall Street investment houses. But the amazing news is that the public doesn't buy it — not even the seniors.

In July the Cato Institute sponsored a poll by John Zogby on public attitudes regarding private investment accounts. The poll found that even in the wake of the bear stock market and the corporate scandals, 68% of Americans support Social Security choice options and only 29%

oppose them. Support is off the charts among young workers (more than 80% are in favor of private options). Among seniors, 54% support the choice for young workers.

Advocates of private investment accounts should be eager to engage the anti-choice Democrats in a debate on Social Security. They should ask:

— Why do Democrats oppose giving young people choices?

— Why should young workers be condemned to a program that will give them an average rate of return of 1% going forward?

— What is the Democrat plan to save Social Security? (Answer: They have no plan. This Titanic is headed toward the iceberg and Democrats are looking off the rear of the ship.)

— Why has Congress done nothing about the $500 billion that has been plundered from the Social Security fund by Congress over the past 20 years?

The private investment plans are politically invulnerable to attack as long as they are based on three pre-conditions. First, the private accounts are optional. Every American should be permitted to stay in Social Security if that is his or her wish. Second, Social Security benefits to current and soon-to-be retirees should be guaranteed. Private accounts mean no benefit cuts — not now, not ever. Third, the federal government will provide a safety net for any young worker who reaches age 65 and does not have a sufficient income to retire on.

Even the decline in the stock market is no argument against private investment accounts. After all, two years ago privatization opponents said it would make no sense to invest when the stock market was at the top (Dow 10,000 and Nasdaq 5,000). So today, doesn't it make sense to start the investing when the market is near a bottom?

More, when investing for the long term, it doesn't much matter what day you start on. There is no 40-year period in U.S. history in which the Dow returned less than an 8% annual return. In addition, by investing a constant dollar average every month in the market, investors are protected from wild swings in prices, because the investor automatically buys more shares when prices are low than when prices are high.

Most importantly of all, private investment accounts can be established without any dollars being invested in the stock market. Workers could be given the option of investing their retirement dollars in risk-free United States government securities. These totally risk-free accounts would still pay the worker at least twice the rate of return that Social Security offers.

If Republicans take the questionable advice of the NRCC they may unwittingly cast aside an opportunity to capture millions of young voters for years and years to come. If Republicans want to disengage themselves from the term "privatization," that is fine. But the plan for private accounts needs to be embraced and defended for the good of the party this year, and for the good of our economic security as a nation for decades to come.

— Stephen Moore is president of the Club for Growth. Thomas L. Rhodes is president of National Review *and co-chairman of the Club for Growth.*

Stephen Moore
NRO Financial Columnist

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September 6 , 2002 12:15 p.m.

Red, White, and Blown Out!

U.S. basketball losses.

I hate to say I told you so (no, actually, I don't), but I did tell you so.

During the summer Olympics when the NBA all-star crybabies (Dream Team #6 — yeah-right!) nearly lost the gold medal, by being out-hustled and out-smarted by inferior and much smaller South American and European teams, who at least played with heart, I predicted that within the next five years America would suffer ignominious defeat by depending on overpaid and over-pampered NBA stars. I even said, not to sound unpatriotic, mind you, that I would relish that day. I argued that the U.S.A. should dump the NBA primadonnas and go back to playing with amateurs — the college kids, who play for the joy of it, and who don't have $6 million homes, with Olympic-sized pools, saunas, $250,000 home-entertainment systems, and two Jaguars in the driveway.

I said then that I'd rather lose with the kids than win with spoiled brats, whose behavior is often an embarrassment to the country. Hey, why not get Rodman to play next go-around?

Let me be clear on this: The U.S. losses in the World Basketball Championships (on our home soil, no less) is no embarrassment for America. But it is a well-deserved black eye for the NBA. And please, please, please, I don't want to hear any pathetic excuses that *if only* we had had Shaq, or Alan Iverson, or Hercules, or Spiderman, we would have won. Goodness, the game against Argentina wasn't even close. The U.S. was down 20 at half-time to players who make less money in a year, than the all-stars on U.S.A. Nightmare Team #1 make playing one-quarter of an NBA game. What do we pay these people for anyways?

What's next? What could be humiliating? A three-point loss to the Iraqis? Pretty soon the NBA players association is going to be lobbying Congress for import quotas on foreign hoospsters.

My point, and I do have one, is that the quality of U.S. basketball is in decline in direct proportion to the stratospheric rise in NBA salaries. It is astonishing to watch the top Americans — in grade school through high school — and realize that no one can shoot any more and no one can pass anymore. DuJuan Wagner scored 100 points in a high-school game, against a far inferior team, and for months afterward he is celebrated with the adoration normally reserved for an MTV rock star. Hey, DuJuan, how many assists did you have? Pass the rock now and then, for goodness sake!

Oh guess what, turns out Wagner can score 100 points in one game, but he can't shoot either. But I digress.

I remember vividly at the height of the Cold War, a summer night in 1972 watching the U.S. versus the USSR basketball game. You know, the one where the Commies cheated by replaying the final three seconds of the game three times until the Russians finally got it right.

I cried, I flew into a rage. I wanted Nixon to nuke those lowdown, no good anti-capitalist bastards back to the stone age. The U.S. college kids played their hearts out. I was so proud that they never showed up for the silver medals when they actually won the gold.

But at this defeat I feel only disgust and even bemusement. No more NBA-BIES playing under the guise of the American flag. How could they do this to us on the eve of the anniversary of September 11?

As a group, they are as contemptible as the members of Congress. I say, cut their pay, and send them home!

— *Stephen Moore is president of the Club for Growth.*

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http://www.nationalreview.com/moore/moore090602.asp

Stephen Moore
NRO Financial Columnist

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August 28, 2002 9:00 a.m.

Real Aid

Save the planet with capitalism.

Whenever delegates from countries around the world get together it is almost always bad news for freedom and capitalism. The earth summit on "sustainable development" that is currently being held in South Africa is no exception.

So far the conference has been an all-too-predictable bashing of rich nations for holding back the poor nations. The rich nations (the United States) are asked to do more to alleviate AIDS, more to reduce global poverty, more to protect the earth's natural resources, more to feed the hungry, and more to stop mythical global warming. All that was left off the list. Instead, we hear the familiar refrain from self-righteous-and-yet repressive leaders of poor nations that the U.S. with five percent of the world's population uses 25 percent of the world's resources. (No mention that the U.S. also produces more than 25 percent of the world's output — of AIDS drugs, food, vaccines, infant formula, humanitarian aid; the list goes on.)

There is an overall false message of doom and decline at the earth summit, as if the earth's ecosystem is on the verge of collapse and that human beings are worse off now than in the past. It isn't true. Sure, in some of the heartbreakingly repressed nations of Africa things are getting worse. But in the rest of the world things are almost universally getting much better — in terms of health, in terms of material progress, and in terms of a cleaner environment.

Here are some of the most encouraging trends that you will not hear about among the elite gathered in South Africa this week.

Life Expectancy: In the rich countries life expectancy — the broadest measure of health and a safe environment — has increased by 30 years over the past century. Even in poor countries life expectancy has risen at an astonishing pace. The average resident of a poor nation can expect to live nearly twice as long as his or her 19th-century counterpart. Most of humanity enjoys better health and longevity than the richest people in the richest countries did just 100 years ago.

Health: Parents should reflect long and hard on one statistic whenever they think life isn't treating them well these days: The death rate of children under 14 has fallen by about 95 percent since 1900. The child death rates in just the past 20 years have been halved in India, Egypt, Indonesia, Brazil, Mexico, Chile, South Korea, Israel, and scores of other nations. Almost all of the major killer diseases prior to 1900 — tuberculosis, typhoid, smallpox, whooping cough, polio, malaria — to name a few, have been nearly eradicated thanks to medical progress, most it coming from the evil capitalist United States.

Nutrition: Nutrition and diets have been improving the world over. Gale Johnson the agriculture expert at the University of Chicago has discovered that fewer people worldwide died from famine in the 20 century than in the 19th century — not just as a percentage of the population, but in absolute numbers. That is a spectacular achievement in our ability to feed

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the planet, given that the world population is some four times higher today than 100 years ago.

Education: The world's inhabitants are better educated than previously. Illiteracy has fallen by more than two thirds in the U.S. and by an even greater percentage in many poor nations.

Environment: Economic development is the best way to clean the environment. Poverty is the biggest impediment to clean air and water. Consider the U.S.: Smog levels have declined by about 40 percent, and carbon monoxide is down nearly one third since the 1960s despite nearly twice as many cars. Some of the most impressive advances in cleaning the air have been recorded in the dirtiest cities, including Los Angeles, Pittsburgh, and Chicago. Airborne lead is down more than 90 percent from 40 years ago. Contaminated drinking water killed hundreds of thousands of Americans annually 100 years ago, versus very few deaths today.

Natural Resources: By any measure, natural resources have become more available rather than more scarce. Consider copper, which is typical of metals: The cost of a ton is only about a tenth of what it was 200 years ago. There is evidence that oil — the most worrisome of resources because it is mostly burned up and therefore cannot be recycled — has actually been getting cheaper to produce.

What has been the driving force behind this miraculous progress? Three words: free-market capitalism. If only the intellectual elite and the power holders in South Africa this week would go home and deregulate their economies, cut tax rates, expand democracy, and cut government rules and bureaucracies, we could blaze a path to alleviating world poverty in a generation or two. If only markets, not governments, controlled the price and usage of natural resources, we would see a further abundance of food, minerals, and energy — enough for the entire world to share in the bounty.

The earth summit is based on a cancerous and discredited creed of limits to growth. It is insane to hope that people who believe in limits to growth will create the conditions that nurture growth. Even the term "sustainable development" is offensive and suggests that economic development and improving the environment are somehow incompatible — which is precisely the opposite of the historical record. Where there is economic development and capitalism, there is clean air and water, well-educated citizens, abundant resources and low disease rates. Where there is no capitalism, there is an abundance of these maladies.

It really is all that simple.

The only real limits to growth are created by wrong-headed conferences populated by unthinking do-gooders.

Freedom will save the planet — if only governments will allow it.

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore082802.asp

Stephen Moore
NRO Financial Columnist

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August 13, 2002 8:45 a.m.

Move Over Babe Ruth

Barry Bonds bats 600.

With Barry Bonds now a member of the ultra-elite 600-homerun club — joining Willie Mays, Henry Aaron, and Babe Ruth — isn't it time that we recognize and pay proper homage to the spectacular feats of this prodigious slugger? We are now as fans privileged to witness the feats of a man who I would argue is the greatest power hitter in baseball history with the exception of Ruth himself. Bonds is the type of explosive and record-shattering athlete that we will tell our grandchildren about.

Love him or hate him — and most people hate him — Barry Bonds's hitting statistics are astonishing and unrivaled on the chronicles of the game. Anyone who watched the last two months of last season could not but marvel at his performance. In those final scintillating weeks of the 2001 season when BB hit homers 66, 67, 68, 69, 70, 71, 72, and then the magical 73rd, he rarely saw more than one strike per at bat, if that, and yet nearly every strike he saw went soaring out of the park.

This Olympian performance was achieved under intense pressure and media scrutiny. Mark McGwire whined that his 70 homeruns — crushing Roger Maris's near-four-decade-long record of 61 homers — were a greater accomplishment than what Bonds accomplished. Hogwash. This was the gibberish of a selfish star who had to excruciatingly witness his own record being hijacked. Opposing pitchers were throwing fastballs down the middle of the strike zone to the popular McGwire. If you ever saw the gopher ball that McGwire hit out for his 70th — well, let's just say that just about anyone could have hit that pitch out of the park.

But even putting aside his shattering of baseball's greatest record for homeruns, Bonds has recorded god-like statistics in so many other areas. It's hard to say what is most impressive. Over the past two seasons Bonds has amassed a stratospheric 55 percent on-base percentage — he simply and admirably refuses to swing at balls. If he didn't walk 150-200 times a season he would have closer to 650 homers today.

Or how about this record? Bonds has an unthinkable .800 slugging percentage. No one else even comes close.

Barry Bonds is as dominating in baseball today as Michael Jordan was in basketball before his second retirement.

Now I can already hear the stodgy complaints — all of which have validity. Bonds is an average fielder at best. Okay, I grant that, but so was Ruth. Bonds is a jerk. Okay, I grant that, too. So what? We are talking about hitting, not chivalry.

The biggest blemish on the Bonds record is that he has never won the big one. He has never won a World Series, unlike Ruth and Jordan whose teams dominated. In fact, his post-season record has been less than stellar to put it charitably. He still has time to rectify that defect in his career.

Nonetheless, it has been a joy to watch Bonds over the last two seasons. He is one of those rare athletes whose skills are so far ahead of the rest, that it is worth purchasing a ticket just to watch him play. I hope he breaks Henry Aaron's career homerun record. He will if pitchers will just get it over the plate.

Here's my rating of where Bonds falls among the greatest sluggers of all time:

1. Ruth
2. Bonds
3. Williams
4. DiMaggio
5. Aaron

Any arguments?

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore081302.asp

Stephen Moore
NRO Financial Columnist

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July 24, 2002 8:45 a.m.

What the World Needs Now . . .

. . . is the Bush tax cut.

With market losses now approaching $1.5 trillion this year, along comes a clean-shaven Al Gore advising President Bush to scrap his economic agenda and start over.

On this occasion, Gore is half-right in his attacks against the president. That's a far higher batting average than we're used to from the former vice president.

Gore is correct that George W. needs to get back to a pro-investor economic message of growth and wealth creation. That was the message that helped defeat Gore. Instead, what we get now from the White House are daily pronouncements of "don't worry, be happy." These pep talks are starting to infuriate investors, who are watching their wealth disappear on an hourly basis. Instead, investors want positive policy initiatives to reverse the market skid.

Bush's lack of a positive growth agenda suggests that this administration just doesn't appreciate the fact that we are in the midst of a real honest-to-goodness financial crisis of major proportions.

A major contributor to the market meltdown is the fact that the policy environment in Washington has turned ferociously bearish. Since President Bush's tax cut was enacted some 18 months ago, almost everything the Congress has done to the economy has been harmful. Case in point: the budget is up nearly 20% in just two years.

Another more immediate example is the Sen. Paul Sarbanes corporate-responsibility act, which was supposed to soothe investor fears of runaway corporate criminal behavior. Instead, this bill has sent the market into a tailspin. The market will collapse even further if Bush signs the bill. The Sarbanes bill must be amended to omit the civil-litigation provisions, which would create a massive windfall gain for trial lawyers at the expense of every one of the 90 million American shareholders. Morris Mark of Mark Investments in New York calls the Sarbanes bill "a disaster in waiting for the markets. Corporate CEOs will spend most of their days fending off frivolous, but costly lawsuits." What a bonus for the financial markets.

But here is where Al Gore is all wet. (And it's not just from the polar ice caps melting.) Gore believes in the cockeyed theory that the Bush tax cut should be canceled because it isn't working. Message to Al: It is not working because we are not living in 2005 or 2006 when the tax cut starts to take real effect.

Bush should not scuttle his tax cut, he should speed it up so the economy gets relief now.

The Bush tax reductions are phased in over 10 years — which in political terms is eons from now. The big supply-side shot of adrenaline from the Bush tax cuts doesn't occur until around 2005 and thereafter. The top income-tax rate has been reduced only by 1 measly percentage point. The anti-tax-cutters in the Democratic leadership insisted on a gradual phase in of the tax cuts.

We now know that the crafty team of Tom Daschle and Dick Gephardt had two objectives here: First, limit the short-run financial impact of the tax cuts in order to damage President Bush's economic record. And second, Daschle et al have always harbored hopes of canceling future tax cuts before they ever see the light of day.

But here is the paradox: It is precisely this uncertainty about whether the president's future tax-rate cuts will eventually become the law of the land that has limited the anti-recession effectiveness of the package. No one is willing to bank their fortunes on whether Daschle will scrounge up the votes to cancel the tax cuts tomorrow.

Republicans are correct when they argue for tax-cut permanence. And the investor class of voters are solidly behind them. But there is even a higher economic priority to making the tax cuts permanent. Bush's tax cuts need to be made effective immediately.

Under this proposal, the top income-tax rate would be immediately reduced to 35% from the current 39%. (If I had my druthers the top rate would come down to 25% or less, and the revenue losses would be minimal. In any case, 35% would be a start.) And the estate tax should be terminated right now. (Through a freakish accident in the tax bill, the estate-tax burden will actually be higher, not lower in 2003, '04, and '05 in nearly half the states.)

The Democrats will certainly howl in protest against this plan, but so what? How will pro-tax-cut Senate Democrats in tight races this year — including Senators Carnahan of Missouri, Johnson of South Dakota, and Baucus of Montana — respond to this proposal of fast-forwarding tax cuts? We suspect that the congressional leadership could peal off enough Democrat votes to enact precisely this anti-recession tax-cut measure. After all, if lower tax rates make sense in 2006, why don't they make sense now with the economy wobbling along as it is.

So Gore is right that the Republicans need a new plan — but not the disastrous one he is endorsing. Republicans have drifted off into dangerous territory: passing disgraceful farm bills, a pork-barrel emergency-spending bill, steel tariffs, and now a $350 billion new entitlement for prescription drugs. Now they want to over-regulate businesses and give expensive treats to the trial lawyers.

If this agenda sounds familiar, it should. It is Al Gore's presidential agenda. No wonder it isn't working.

— Stephen Moore is president of the Club for Growth.

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Stephen Moore
NRO Financial Columnist

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July 17, 2002 9:05 a.m.

Death to the Corporate Infidels!

The Dems get tough.

Washington, D.C. — Associated Press

Today Senator Daschle called for the imposition of the death penalty for CEOs and members of the board of directors of any company that has committed accounting fraud. These would be the toughest new penalties proposed for the wrongdoers in the growing corporate accounting scandals. "Republicans want to coddle their cronies and contributors in the corporate criminal world," Daschle announced. "We Democrats think that prison sentences are insufficient penalty for these corporate crooks."

Standing next to Mr. Daschle were dozens of other Senate and House Democrats who support the call for the toughest penalties yet to deal with the burgeoning scandal in corporate America. Rep. Maxine Waters of California said she will introduce the proposal in the House. "Normally I am against the death penalty, because it is racially applied against low-income African Americans, she said. "But because of the ingrained racism, sexism, and classism that is so epidemic in the boardrooms of Fortune 500 companies, I believe in these cases of corporate white-collar crimes, the death penalty could be fairly applied." "We will see if the Republicans are still so enthusiastic about the electric chair, when it is rich whiteys who are going to be strapped in."

The Daschle plan would impose the death penalty against any CEO or member of the board of directors of any company that has been found guilty of accounting fraud. "We believe that in order to contain these widespread accounting scandals," Daschle stated, "the death penalty will have a severe deterrence effect. We want to send a resounding signal to Wall Street and Main Street that Democrats will take necessary steps to protect Americans' nest eggs from fraud."

Bush administration spokesman Ari Fleisher said that the administration was looking into the details of the proposal. "Rest assured," Mr. Fleisher said, "no one in Washington is going to be tougher on these corporate criminals than this president.

Some critics believed the Democratic bill is a case of corporate bashing. "What is next?" asked Jude Wanniski a Wall Street investment adviser, "A firing squad for corporate polluters and corporate tax evaders?"

Ralph Neas of the People for the American Way said that he wished the Democratic death-penalty proposal would apply to "corporate polluters and tax cheats."

Speaking at the press conference were Bill and Dorothy McArthur of Youngstown, Ohio. The McArthur's are 92 years old and had just last year on a stock tip put all of their savings into WorldCom stocks. Now the McArthurs are hungry, homeless, and penniless. "We have lost the money that we needed to pay for Dorothy's treatments for Arthritis, dementia, diarrhea, attention-deficit disorder, and her third hip replacement surgery," a tearful Bill McArthur

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reported. "Thanks to these corporate crooks, we don't even have the money to pay for the glue to hold in our dentures," he sobbed.

The Democrats at the press conference noted that George W. Bush and Dick Cheney care more about protecting their "robber-baron corporate friends" than the innocent victims of these scandals, people like the McArthurs.

Meanwhile, in another get-tough-on-crime proposal, Charlie Rangel of New York and the ranking Democrat on the Ways and Means Committee suggested that we should torture corporate criminals and accounting-firm CEOs, who are found guilty of defrauding investors. "I say, torture them with electric-shock treatment, then put them to death," Mr. Rangel announced.

In a press-release response, Speaker Denny Hastert said that House Republicans would "look into the viability of the Rangel proposal, "but we wonder whether this might not be a violation of the Geneva Convention."

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore071702.asp

Stephen Moore

NRO Financial Columnist

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June 27, 2002 8:45 a.m.

Larry Craig's Poison Pill

A good senator's bad amendment.

Over the years it would be hard to find a more stalwart free marketer in the United States Senate than Larry Craig of Idaho. Craig has one of the highest National Taxpayers Union marks in fighting against big government. He has lead the charge on supply-side tax-cutting. I have worked with him and his staff on capital-gains tax reduction — which is so critical to getting the financial markets out of their 24 month-long slide.

So why in the world has Larry Craig teamed up with ultra-liberal Democrat Mark Dayton of Minnesota to sponsor a poison-pill amendment to President Bush's free-trade bill? This amendment, as the *Wall Street Journal* recently noted "strikes at the very heart of fast track trade negotiations." Under the Trade Promotion Authority bill, the president negotiates a trade agreement, and Congress agrees to vote up or down on the trade treaty without amending it. Without this assurance, foreign leaders are unlikely to bargain trade agreements that could be eviscerated later by the protectionist twinges that always are present among the parochial interests on Capitol Hill.

The Dayton-Craig amendment would allow Congress to reject any provision of a trade bill that weakens so-called "anti-dumping" laws. This is a really lousy amendment on so many grounds, one hardly knows where to start attacking. It clearly violates the fast track "no-amendment" policy. Once, one amendment to a trade treaty is allowed, the dam is broken. So Larry Craig's rider would destroy the whole free-trade process that is rolling along here.

Unfortunately, Craig's amendment plays to the ingrained protectionist reservations about trade agreements among congressional members. With the strong support of the labor unions and the "fair trade" lobby, it actually passed in the Senate. The anti-free-trade-and-free-markets publication *The American Prospect* wrote approvingly of Craig's creation: "this is exactly the kind of mischief the Senate always keeps out of trade agreements, because it gums up the works in trade accords."

President Bush has said that he will veto the trade bill if the Dayton-Craig amendment isn't extracted. Good call, Mr. President.

This amendment is also boneheaded policy. There is no worse feature to our trade laws than "anti-dumping" penalties. Dumping laws forbid foreign companies from selling products here in the U.S. for below production costs. Why in the world should that be illegal?

If a Panamanian fruit and vegetable firm is dumb enough to sell us bananas at a loss, or if the Koreans want to sell us steel for below cost, why would we outlaw the importation of these products. What if the foreign companies wanted to give us the bananas or the steel to us as a gift — for free. Would we object to that as against our national interest? Moreover, best-selling author Jim Bovard has shown over and over again that when nation's "dump" products here in the U.S., the biggest winner is American consumers who get low cost goods and services. He has also shown that any time an American company that is reporting losses in a given year — as most U.S. companies did last year — exports products abroad, those firms are technically guilty of illegal dumping. After all, since they lost money, they by definition were selling goods below cost.

Anti-dumping laws reflect an "exports good, imports bad" view of trade that is economically misguided and anti-consumer. The lower the price of imports, the higher Americans' real incomes rise, because we can all buy more products for the money we make in an hour's worth of work. This is precisely why a strong dollar is good for America. It makes us richer relative to workers in other nations. I call this Kudlow's law.

So shame on Larry Craig — and I say this with great reluctance because Larry is a personal friend. But if he wants to be a friend of the American worker and our high-tech, high-wage, free-trade-driven economy, he will repudiate his destructive amendment.

To paraphrase Woody Allen: Larry, you never want to be part of a club that would have Mark Dayton as a member.

— Stephen Moore is president of the Club for Growth.

Stephen Moore
NRO Financial Columnist

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June 26, 2002 8:45 a.m.

Redundant Department

We already have a department of homeland security.

George W. Bush should rethink his proposal to create a new "Homeland Security" Cabinet department. Once upon a time — as recently as 1995 — Republicans wanted to reduce the size of the Cabinet, not add to it. If a Homeland Security Agency is truly necessary, the Commerce Department or HUD must be closed down to make room for it. If the Republicans won't shut down agencies that long ago outlived their usefulness, they should at least adopt a policy of no net increase in Cabinet departments.

Creating this new department is likely to be highly expensive (at least $4 billion for just reorganization costs), and it may very well create more, not less bureaucratic overlap and redundancy in Washington. Before Congress signs off on President Bush's proposal to create another new agency, we should consider the inglorious history of new Cabinet departments.

Let's start from the beginning. When the United States government was first founded there were just three Cabinet agencies: a Department of War, a State Department, and a Department of the Treasury. In those founding years of our nation, all domestic government activities, outside of delivering letters, were handled by the Treasury Department. The Treasury Department's first entire budget to deal with all civilian concerns was less than $1 million. Congress now spends that roughly every five seconds.

Today, we have 15 Cabinet agencies — and 13 of them deal with domestic social-welfare issues. Jimmy Carter created two Cabinet agencies: Energy and Education. The education and energy crises deepened after their creation. Both should be terminated. In 1995 the newly elected Republican Congress was going to get rid of three Cabinet departments, Energy, Education, and Commerce, but all of them still remain. The point, of course, is that it would be hard to argue that creating Cabinet agencies solves national problems and in most cases, as with energy and education policy and hundreds of billions of dollars spent, they have made matters worse.

Now, there are strong arguments for creating a Department of Homeland Security. Not the least among these is that by consolidating all border enforcement, intelligence gathering, and national-security concerns under one roof, there should be a lot less duplication of effort and a lot less of the bureaucracy working at cross purposes — which happens a lot in our $2.2 trillion government. Washington has more than 50 job-training programs, more than 60 low-income housing-assistance programs, and some 25 programs for vocational training. Washington invented the Department of Redundancy Department. So there is value in letting Governor Ridge house all these functions under his direct control.

There are a number of problems with the proposal, however. First, and most importantly, we already have a Department of Homeland Security, and it is called the Defense Department. After all, if the Defense Department, which spends some $350 billion a year — or more than twice what any other nation spends on military concerns — isn't spending that money on protecting the homeland, what is it spending these funds on? The very reason we had a 9/11 attack was that our $2.2 trillion government wasn't doing the one thing it is supposed to do, which is to keep us safe from foreign harm. Our Defense Department spends tens of billions of dollars on troops in Korea, troops in the Middle East, troops in Europe, and even Africa. The fact that the Pentagon doesn't have the money or resources to keep our borders secure and to do the intelligence gathering to keep us safe is lunacy. Foreign entanglements have gotten us so unfocused on the real priorities of national security that life-and-death issues like protection from terrorists on the home soil is an afterthought for the Pentagon. Meanwhile, we do have money for "peacekeeping operations" in Somalia, IMF funding for Argentina, and AIDS funding for Africa.

The crisis is here, Mr. Daschle and Mr. Hastert, not overseas.

A better solution than creating a new Department of Homeland Security would be to rename the Defense Department the Department of Homeland Security. That will get our priorities realigned with the new realities of the national security crises of this post Cold War world. All expenditures by this new Department should be judged on the basis of whether they enhance our security here at home. Under this plan, we save tens of billions of dollars, rather than spend another $4 to $5 billion.

There is also reason to suspect the size of the bureaucracy will increase, not decrease, under the White House plan. Historically, new Cabinet agencies have not lead to a reduction in bureaucrats in old agencies, but just thousands of new government hires in the new agency. This was true when the Education Department was broken off from the old Health, Education, and Welfare Department, for example.

Finally, the president needs to move away from bureaucratic solutions to the terrorism crisis and take concrete steps to reduce the real and perceived threats of further violence, for example, by tracking down the thousands of known visa abusers who have connections with terrorist cells. Shuffling around chairs in Washington will do little to make Americans safer.

President Bush must recognize that the proliferation of Cabinet agencies over the last 50 years has not solved a single problem in America. And it certainly not helped in any way to increase homeland security. Just the opposite is true. The bureaucratization of government in Washington has weakened and strained the federal government's ability to use its resources at all effectively. As Texas Senator Phil Gramm has said many times before: "A government that tries to do everything, ends up doing nothing well." That is the very essence of our current crisis in national security. When our Defense Department is spending money on breast-cancer research, fruit and vegetable stands, and day-care-center construction projects, priorities in Washington are out of whack.

How ironic that President Bush is now forced to create a new Cabinet department in Washington to do the one thing that government is expected to do above all else: Provide safety here at home.

— Stephen Moore is president of the Club for Growth.

Stephen Moore
NRO Financial Columnist

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June 3, 2002 8:45 a.m.

This Axe Is Sharp

An Arkansas tax-cutting initiative has liberals lip locked.

Liberals love to rail sanctimoniously against "regressive taxation," and they now have a chance in Arkansas to defeat a levy that falls most heavily on the poor. But so far, their silence has been deafening. And their hypocrisy is sounding oh so very loud.

Here's the situation. A group of taxpayer advocates — spearheaded by the political activist, businessman, and Arkansas Public Policy Foundation chairman Steve Stephens — is seeking to put an ingenious initiative on the ballot this November to "abolish and forever prohibit the taxation of food and medicine within this state." That is to say, they want to exempt from taxation the necessities of life. That sounds fair. The best feature of the initiative is that they propose to replace these taxes with . . . get this, nothing.

"We're eager to see how liberals react to our initiative," says Stephens. "The issue at stake is whether liberals love taxes more than they do poor people."

Well, the answer to that seems self-evident. The left-wing special-interest groups who are funded by government aren't likely to be very enthusiastic about a ballot measure that would gore their cash cow. After all, liberals would tax Girl Scout cookies and grandma's false teeth if they could get more money out of it. There are already grumblings about how fiscally irresponsible this "axe the tax" campaign is.

A whole lot of country-club Republicans aren't too thrilled with the initiative either. The GOP party regulars fear that they'll have to cut back on state spending if the initiative passes. Well — isn't that the whole idea?

There's a lot of money at stake here. If the measure passes, the state of Arkansas would have to live without a half billion dollars in revenues every year. But that would be desirable. Arkansas is still a poor state, ranking 46th in personal income. But it ranks 11th in per-capita taxes. Those two figures may very well be interrelated.

So if the axe-the-tax crowd has its way in November, groceries in Arkansas will go untaxed, the poor will be able to keep more of their earnings, and the Left is going to be in a grand funk. I love it.

We should axe the tax in every state.

AXE LINKAGE
To find out more about the Arkansas axe-the-tax campaign, go to http://web.archive.org/web/20021002102838/http://www.foodtax.org/.

— Stephen Moore is president of the Club for Growth. This article originally appeared in the Wall Street Journal on May 13, 2002.

Stephen Moore
NRO Financial Columnist

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May 17, 2002 8:45 a.m.

Worse Than Drunken Sailors

Today's government-spending pace would make Tip O'Neill blush.

Despite the fact that the Republicans control the White House, the House of Representatives, and 30 governorships, the nation is now in the midst of the biggest government spending spree since LBJ. Incredibly, the domestic social welfare budget has expanded more in just two years ($96 billion) under George W. Bush than in Bill Clinton's first six years in office ($51 billion).

Although many economists portray this surge in spending as a stimulus to growth, the opposite is true. The runaway federal budget, which is up nearly $300 billion in just the last two years, and the parallel hike in taxes and debt needed to finance this spending binge, is America's single most ominous domestic economic danger sign.

Governments can only grow by capturing resources at the private sector's expense. That's what's happening now. Over the past year and a half, government has been the single fastest growth sector of the economy. It has grown faster than construction, services, housing, and even consumer spending. In 2001 the recession-racked private-sector economy grew by a microscopic 0.5%. But there was no recession in government: its spending was up 6% for the year. For the first quarter of this year, data indicates that private-sector activity rose by 5% as the economic recovery has taken hold. But government's spending soared twice as fast. This pace would make Tip O'Neill blush.

Even more discouraging is the spending trend line. Every year since the Republicans first took control of the House in 1995, spending roadblocks have been further removed. Domestic spending actually fell by an impressive 3% in real terms in the 104th Congress (1995-96) when Republicans seized control of the House and Senate for the first time in 40 years. The next Congress raised spending by 4%, the next by 11%, and this one is on pace to raise the budget by 15%. All of this is reminiscent of the old Reagan quip that to say that Congress spends like drunken sailors is an insult to drunken sailors.

Sure, the Democrats in Congress share a big part of the blame. The spending spree has worsened now that Tom Daschle is running the Senate and that prince of pork, Robert C. Byrd, is ruling the appropriations process. But one only need look at the vote on the Farm Bill — a bill that will distribute million-dollar welfare checks to America's wealthiest farm businesses — to see that the pro-spending virus endemic in the Democratic party has spread to the GOP.

I've covered federal budget issues for nearly two decades. If the Farm Bill wasn't the most fiscally rancid legislation I have seen, it's certainly in the top three. Yet two out of three Republicans voted for it, and, worse yet, Mr. Bush not only signed it, he crowed that it would secure the "independence of the American farmer." Independence from what exactly? The free market?

The bill is only the first of many budget-busting, anti-enterprise spending bills that are racing toward the president's desk. The emergency military supplemental spending bill has become a Christmas tree for special interests and is $3 billion over budget. The energy bill, with its emphasis on tax credits for windmills and boondoggle oil-conservation projects, is a bill that only Al Gore could love. Congress will also soon send Mr. Bush a $100 billion bill to provide free prescription-drug benefits for seniors, and a $6 billion bill for baby-sitting subsidies. And the president says he wants $5 billion more for failed foreign-aid programs. All this comes after last year's education bill that will nearly double the Department of Education budget over the next six years and institutionalize a federal presence in our local-school system.

The immediate way to reverse the fiscal collapse in Washington is for Mr. Bush to start dusting off his veto pen. The energy bill, the appropriations bills, the prescription drug bill all should be rejected in the name of fiscal sanity. This president has no vetoes so far. The White House has been reluctant to wield the veto power because they see this as a huge withdrawal of scarce political capital. Wrong. History proves that strong presidents — from Roosevelt to Reagan — make strong use of the veto. Mr. Bush can make a powerful case for rejecting obese spending bills: They are not just economically wrongheaded, they weaken the critical war on terrorism by diverting scarce tax dollars away from our vital national-security needs.

Republicans wrongly believe that they can bank on a spend-and-elect model to secure their House majority and then capture the Senate this November. The opposite is likely: The current spending binge, on top of the president's steel tariffs and his signature on the anti-First Amendment campaign reform bill, may severely demoralize conservative voters and set the stage for an electoral surge back to the Democrats. After all, if it really is big government that the voters want, why not pull the lever for Democrats, who are not amateur, but major-league big spenders.

John Boehner, the savvy Republican from Ohio who was a major part of the Republican Contract with America revolution in 1994, recently lamented that "we Republicans seem to have forgotten who we are and why we're here." He's right. Republicans are suffering from a politically lethal identity crisis. If the budget bulge that we're now witnessing were happening under a Democratic presidency, Republicans would be howling in indignant outrage. If the tidal wave of spending isn't soon reversed, the Republican Party may soon discover that it is both redundant and replaceable.

— Stephen Moore is president of the Club for Growth. This article originally appeared in the Wall Street Journal on May 13, 2002.

http://www.nationalreview.com/moore/moore051702.asp

Stephen Moore
NRO Financial Columnist

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April 17, 2002 10:20 a.m.

Virginia Is for Taxers

And you can blame the Republicans for allowing it to be so.

Lord what fools these Republicans be!

Today, Wednesday, the Virginia GOP is preparing to swallow a live political hand grenade — figuratively speaking. The Republicans in the Richmond legislature are going to approve a referendum for a half-cent sales-tax hike.

Just six months ago Republicans in Virginia won control of the state legislature for the first time in decades. They were propelled into office by the locomotive of the anti-tax issue. Now, under pressure from the business community, they are poised to vote in favor of the unpopular sales-tax referendum. If they do, the Republicans will have somehow allowed the Democratic Gov. Mark Warner to slide to the right of them on the tax issue.

I'm a Virginian. The last thing we need is new taxes. The state budget has doubled since 1990. It has recorded the ninth fastest growth of expenditures of the 50 states over the past decade. It has increased transportation spending by 60% — which is at issue in this referendum.

The pro-tax lobby is presenting northern Virginians' with a false choice: Either pay higher taxes or get used to worse and worse traffic congestion. This is as balanced a choice as when the robber offers "Your money or your life."

If Virginia — like so many other spendthrift states — had only held the rate of growth of tax revenues to the rate of inflation plus population growth over the past decade, a family of four would be paying $1,500 less in taxes this year. We Virginians are hardly feeling under taxed. If all that extra money had gone to roads, we could have paved them in gold.

Virginia is an attractive place to live and work in part because it has a tax-friendly environment for businesses and families. Here I speak from personal experience. I transplanted our family from Maryland to Virginia ten years ago to escape the high taxes and poor public services on the other side of the Potomac. But that tax advantage may be eroding. Since 1992 the Virginia budget has bloated by 80% versus 59% for Maryland. Maryland has cut its income-tax rate. Virginia hasn't.

Virginia was once for lovers. Lately it is for taxers.

If the Republicans in Richmond really believe that Northern Virginia can tax itself back to prosperity, then it only goes to show that what is wrong with our state is not the roads, but the Republicans.

Virginia Is for Taxes
1992-2000

Population Growth 11%
Inflation 23%
Population Plus Inflation 34%
Tax Revenue Growth 80%

Source: Cato Institute based on U.S. Census Bureau data, 2001.

— Mr. Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore041702.asp

Stephen Moore
NRO Financial Columnist

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April 11, 2002 8:30 a.m.

Armey Loss

Big Media wins.

This week conservatives suffered a heartbreaking setback and the media scored a stupendous victory. Both of these things happened when Scott Armey, son of the retiring conservative icon Dick Armey, lost his bid to replace his father as a congressman from Texas. That seat will now be held by a fairly liberal Republican by the name of Michael Burgess, a gynecologist by trade.

What is interesting about this race is how Scott Armey lost. It turns out that this race is a fairly accurate peek into the future of what campaigns will look like when issue advertising is banned and the mainstream media is given almost monopoly power in using its megaphone to editorialize and smear candidates.

Let's set the stage. Scott Armey had a commanding lead in this race. He was well liked by voters. He had a substantial money advantage. He had high name recognition. He had Club for Growth support (full disclosure) and help from conservative groups. This is also a very conservative Texas and Scott had a proven conservative record as county supervisor. In sum, Scott Armey fit the district ideologically like a glove — just as his dad does. Or so it seemed.

How in the world did he lose?

The answer: a furious and quite savage last-minute media blitz by the *Dallas Morning News* intended to torpedo the Armey candidacy. It wasn't the DMN's editorial endorsement that hurt Armey. Does anyone read or care about newspaper endorsements?

The *Dallas Morning News* simply ambushed Armey. One story lambasted Armey for allegedly giving county contracts to his friends when he was on the board of supervisors. (Armey unabashedly denies the truth of the story.) A few days later another story reported that Armey caused a car crash ten years ago and that he didn't have insurance. The story alleges that Armey showed a lack of regret for the accident. They portray him as a heartless soul, who was unapologetic to the person who was injured. (Scott, by the way, denies this and he paid all injury and hospital bills.)

Even Richard Nixon didn't get this kind of shabby and one-sided treatment from the press during the last days of Watergate.

These innuendoes couldn't have been better timed if James Carville had planted them. They were devastating because they reinforced lingering doubts that voters had about Scott Armey — i.e., that he wasn't suited for the job, that he was too immature, and that he was merely an opportunist riding on the coat tails of his famous father.

Incidentally, these stories had the same impact as the George W. Bush revelation on election eve about the drunk-driving arrest that nearly cost W. the election. In this case, Armey's numbers sank like a rock and caused his stunning defeat. Does anyone believe that these "revelations" were not known until a few days before the election? It's one thing for an opponent to drop bombs like this on the eve of the election. But the "impartial" media?

Armey was never able to adequately respond to these "Are you still beating your wife?" stories because they were packed inside the last week or so. He did run some ads defending himself, but the damage had already been done.

Get used to this. Under John McCain's campaign-finance reform, CNN, the *Dallas Morning News*, the *New York Times*, etc., will have near monopoly power over election propaganda within 30-60 days of the election. Outside groups will be blackballed from criticizing or praising a candidate. Only the disinterested media will be permitted to do that. He who controls the message, largely controls the election.

Starting next year, there will be almost no way to counter attack against media propaganda that masquerades as news. Get used to newspapers and network news serving as judge, jury and executioner in election campaigns. We have John McCain to thank for that.

The irony is that this law was meant to limit the evil forces of money by special-interest groups who try to buy elections. Yes…those evil well-funded special-interest groups like, hmm, the *Dallas Morning News*.

— *Stephen Moore is president of the Club for Growth.*

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http://www.nationalreview.com/moore/moore041102.asp

Stephen Moore

NRO Financial Columnist

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April 1, 2002 12:00 p.m.

The Final Final

Don't stop (the March Madness).

April is indeed the cruelest month. There's no bluer feeling than when the NCAA tournament comes to an end. It's 11 months until the NCAA tournament-selection show.

This year's tournament lived up to the hype once again. Here's a quick recap of the last 3 weeks of mayhem and, of course, the fearless prediction for tonight's game.

1. Why are these no longer Bobby Knight's Hoosiers? Every one of them was recruited by Bob Knight — not one by Mike Davis.

2. If Maryland wins Monday night it will be the first team in 20 years to win a national championship without a single McDonald's high-school all-American on the squad. That compares with Duke, which has seven and is watching on TV. Boohoo! Gary Williams is a master at developing talent, rather than inheriting it.

3. If Indiana should win on Monday, it will be the worst team to cut down the nets since Jimmy Valvano's Wolfpack beat Houston's Phi Slamma Jamma. Go Hoosiers!

4. I saw a preposterous quote by Bo Schembechler (former Michigan football coach) who was criticizing the Fab Five for failing to win the national championship. Gee they got to the final game twice and had a remarkable 13-3 record in the NCAAs, and they're attacked for "not winning the big one!" In any case, how can Bo Schembechler of all people criticize anyone for not winning the big one? Let's see, Bo, your record in Bowl Games was what 2-15? And how many national championships did you win again? Nada!

5. Let's call this Indiana team the "Don't Hurry-Up Hoosiers."

6. Speaking of mascots, how can this Maryland team be called Terrapins? Although you've got to love their slogan: Fear the Turtle.

7. I've never been a great Billy Packer fan, but he did call a great game in the first half of the double-header on Saturday. Oklahoma Coach Kelvin Sampson made a series of critical errors. Why not press Indiana (4 slow white guys) all over the floor all game long?

8. Best game of the tournament this year? Kansas versus Holy Cross. Holy Cross came within a whisker of pulling off the biggest tournament upset in 20 years.

9. If Indiana doesn't nail that three-pointer at the end of the first half, Indiana doesn't win that game against Oklahoma — period!

10. Several readers (all women) have called and e-mailed complaining about my last column as "sexist" because I said that women shouldn't be permitted to ref the men's game. Their

retort was: "Well then why should men ref the women's games?" Look, for all I care the women can use chimpanzees to ref their games. I hate women's basketball.

11. The rumors are true: Kansas is soft — as always. They take after their coach.

12. Is Chris Wilcox really only 19?

13. Juan Dixon is a Jason Williams who can hit free throws.

14. Did I mention how much fun this Final Four weekend has been without Duke?

15. Quote of the tournament: Dick Vitale after Duke built a 26-9 lead over Indiana. You can turn on pro-wrestling now.

16. Of the seven "experts" that CBS had previewing the Final Four games, not one picked Indiana. They have all the intelligence of a blue-chip economic forecaster.

17. And now what you've all been waiting for: And the winner is...
Indiana 65
Maryland 54

April Fools!

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore040102.asp

Stephen Moore
NRO Financial Columnist

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March 25, 2002 9:40 a.m.

Foreign-Aid Foolishness

There is no such thing as a generous government.

I'm fuming because I just got done watching Jimmy Carter on CNN lobby for more foreign aid to help the world's poor. It reminded me that Carter is a very, very good-hearted man with a lot of very, very dumb policy ideas. I've always contended that it was divine intervention that allowed Reagan to derail Carter's reelection bid in 1980.

What was infuriating was Carter's claim that Americans are being skinflints because other nations waste far more money as a share of their GDPs than we do on foreign aid. Carter said that the U.S. only spends 1/1000th of our GDP on foreign aid, which is three to four times less than most European nations spend.

This has become the mantra of the Left: The U.S. is a rich nation of cheapskates who won't help poor and starving people around the globe. George Soros says the same thing. He wants the U.S. to give more than $20 billion to the IMF to lend to the developing world. This would be the righteous thing for America to do, Soros preaches.

Before George Soros starts sermonizing U.S. taxpayers to give $20 billion to the world's poor, why doesn't he do this himself?

There is no such thing as a generous government. Governments take money involuntarily from their citizens. When the U.S. takes money from me in the form of taxes and then gives that money to some foreign-aid bureaucrat in Brussels, I am not being generous, I am being shaken down.

I'm sick of foreigners and lots of homegrown folks too-Carter and Soros are just two of a growing fraternity of 21st-century blame-America-first-ers — who browbeat Americans for our lack of generosity simply because we don't buy into the Left's warped utopian vision of international development. Americans are practical people. There's one good reason why 2/3rds of the public hates foreign aid — and want none of it. Because it doesn't work. In fact, recent studies by Ian Vasquez at the Cato Institute show that organizations like the IMF do more harm than good to countries we are trying to "help." If you want to see what foreign aid does to countries, go to Africa or Bangladesh. Or better yet: visit Argentina.

The claims that Americans are not helping the poor in the third world is absurd. First, Americans are by far the most generous in the world when it comes to private humanitarian aid to victims of earthquakes, famines, floods, etc. We're more generous than all the rest of the nations in the world — combined. Just look who gives to the International Red Cross and the Salvation Army. Americans. Does anyone ever really want to count on the French, the Swedes, or the Dutch if they are facing a crisis?

But we also lift up the world's poor in a more fundamental way. We develop the drugs, the products, the inventions, the know-how that raises the standard of living everywhere. AIDS activists complain that America isn't pulling its weight in fighting AIDS in Africa, etc. Nonsense. Who is going to develop the cure for AIDS? Surely not the Europeans or the Japanese? Who developed the vaccine for tuberculosis and polio? Those terrible capitalists in the U.S.

There are poor people in the world because corrupt and self-serving governments snatch away basic freedoms from their citizens. It's that simple. Poor nations have taxes that are too high, regulations that are too weighty, trade barriers that are too tall, and private-property rights that are too insecure. Our fundamental message to the poor nations of the world should be that your governments are too intrusive. How does it make any sense to turn around and then give these governments that are too intrusive more money? This is essentially providing sustenance to these nations' evil captors.

Unfortunately, that's pretty much what George Bush now wants to do. He has caved in to the Left-wing foreign-aid establishment — both inside and outside his own state department — and has called for another $5 billion in development aid.

The Bush team should know better. The best development principle is trade not aid. But combining the steel tariffs with the new aid replenishment announcement suggests that the Bush foreign-policy doctrine is aid, not trade.

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore032502.asp

Stephen Moore
NRO Financial Columnist

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March 19, 2002 9:40 a.m.

March Madness

Seven ways to make it even better.

Ah, March, the greatest month of the year. This is the season where I return to bachelorhood, lock myself into the TV room and tell my wife that I'll see her sometime in April. Oh, and by the way, keep those three crying kids out of my hair for the next three weeks.

Unfortunately, the greatest 96 consecutive hours of sports is now over. For me, the rest of the NCAA hoops tournament is always an anti-climax after the first roller-coaster weekend, when the little guys like Kent State and Southern Illinois rock the worlds of the USCs and Georgias of the overrated major conferences. Of course, the single most joyful moment of every tournament is watching Duke lose. (PLEASE, someone beat Duke!!)

But something is different this year. Social engineers are tinkering with a system that isn't broken. The magic of March madness is being ruined by reformers. Here's my list of the annoying new features of the tournament that are simply un-American and must be stopped. I also add some thoughts on other ways to improve the tournament.

1. **No Women.** How outrageous is this? This year they allowed a woman ref a men's NCAA game. Liberals celebrate this breakthrough as a triumph for gender equity. The NCAA has been touting this as example of how progressive they are. I see it as an obscenity. Is there no area in life where men can take vacation from women? What's next? Women invited to bachelor parties? Women in combat? (Oh yeah, they've done that already.) Why can't women ref he women's games and men the men's games.

I can't wait to see the first lady ref have a run in with Bobby Knight.

This speaks to a bigger and more serious social problem in America: the feminization of basketball generally. Turn on ESPN or even the networks these days and you're as likely to see women playing as men. *USA Today* devotes nearly half its basketball coverage to the gals: Stephen F. Austin beat Mary Washington 65-62. Do I have to shout in on a mountaintop? I don't care!

No one does. We are being force fed lady hoops. I have never in my life met anyone who actually liked watching women's basketball. I don't even know any women who like women's basketball. There's no such thing (I hope) of an office pool for the women's NCAA tournament.

And while I'm venting on the subject, here's another travesty: in playground games and rec leagues these days, women now feel free to play with the men — uninvited in almost every case. Look, I acknowledge that some of the girls these days are half decent. They can shoot the rock. But that's not the point. When I play basketball, I push, I hack, I elbow, I bite, and I swear like a sailor. It can get pretty competitive and, well, vulgar. I think I speak for almost all men when I respectfully tell the ladies that we don't want you anywhere around during these precious moments of male bonding.

There's no joy in dunking over a girl. Never mind that I can't dunk (except on the eight-foot baskets). If I could, I wouldn't celebrate dunking over someone named Tina. I can't see myself staring her down and roaring: "In your face, sucka!!" And the girls are always trying to fast break. Look, I'm 42 years old, if I try to get out on the break, I'm likely to pull a hamstring.

But I digress. Back to the NCAAs. Here's the rule change I propose: No more women refs, no women announcers, no women beer venders, no women anything. There is, of course, an exception to this rule. Women are permitted to participate, if and only if, they look like Bonnie Bernstein. The fact that Bonnie knows nothing about basketball is entirely irrelevant.

2. **Bonnie Bernstein should wear a halter top.** This is a no-brainer, CBS. What in the world are you waiting for? To quote the immortal Wayne of *Wayne's World*, "If Bonnie were president of the United States, she'd be Babe-raham Lincoln.

3. **No more home cooking.** The tournament was changed this year to allow teams to play closer to home. I love this excuse: cut down on travel expenses. Oh yes, the tournament only makes $2 billion a year for the NCAAs and the schools and they can't afford to charter a plane to Boise, Idaho? If sites can't fill the seats without home teams, hold the games somewhere where fans will come.

This year, four teams got outrageous advantages: Illinois (playing in Chicago), Maryland (playing in D.C. — I think the Twerps took the Metro to the game), Texas (playing in Dallas), and Pittsburgh (playing in Pittsburgh). Big surprise: They all won and advanced. If the idea of the NCAAs is to pick a national champ, how is giving teams a home-court advantage fair? (I usually hate that word, by the way.)

Here's the rule change: No team may play in its home state or within 20 miles of its campus. How hard is that. By the way: I suspect that if each of these four schools had been playing on neutral courts, they all might have been bitten by the upset bug.

4. **Adopt the NBA rule that you can't take a charge standing under the basket.** Duke would have lost to Notre Dame had it not been for an absurd charging call in the last minute of a tied game.

5. **Split screens for twice as much action and switch away from blowouts more quickly.** Are the CBS sports execs morons? Maryland is up by 25 points over Wisconsin with three minutes to go and Southern Illinois is up by 2 against Georgia with three minutes to go in a tense nail biter. But CBS sticks with the Maryland blowout and we have to listen to Billy Packer say inane things like: "Wisconsin's going to have to throw up some 3s if they hope to get back into this game." Yeah, throw up 3s until 2 in the morning.

6. **Get neutral refs for the Duke games.** I laughed when people complained about the bias of the Eastern European judges during the Olympic skating. The Ukrainians and Russians couldn't hold a candle to the NCAA refs during a Duke game. Excuse me, you inadvertently touched Jason Williams — brushed against his uniform. That's a foul. To beat Duke you better bring you're A game. You have to outplay eight high-school all-Americans and three prejudiced refs.

7. **More probing interviews by Bonnie Bernstein.** Did I say this already? I welcome readers' ideas about further reforms in this sacred institution.

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore031902.asp

Stephen Moore
NRO Financial Columnist

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February 27, 2002 8:45 a.m.

Liberating the Internet

Picking telecom sides.

The big vote on telecom deregulation in the U.S. House ("Tauzin-Dingell") happens today or tomorrow.

In this heavyweight prizefight among huge corporate interests, there are no angels on either side. It's easy to hate your local phone-company monopoly every time you get your phone bill. And AT&T has a dreadful record of supporting free-market deregulatory policies in telecom and in economic policy generally. (AT&T has consistently had the most left-wing corporate foundation giving of any major Fortune 500 company.) This is like the Iran-Iraq war. It's hard to root for either side.

But this is a hugely important economic issue — and has enormous potential gains for the U.S. economy if we can just get broadband policy right. No industry needs more intelligent help than the embattled telecommunications sector, where profits and investment spending have vaporized.

So who is right in this fight, AT&T or the baby bells?

The bells are and here's why. If approved, the Tauzin-Dingell bill has the potential over the next decade to bring high-speed web service to nearly every U.S. home.

Broadband service is the lightning-quick Internet technology that will bring to Americans the next generation of web services. This technology could possibly transform the web from a device for exchanging e-mail and checking stocks into a tool that will link all businesses in an e-commerce web, allow users to quickly download video or music on demand, and give rise to products and applications we only dream of today.

Economist Robert Crandall of the Brookings Institution, and a top deregulation scholar, calculates that if we can accelerate broadband deployment, the value to the U.S. economy could reach $500 billion a year.

That's more than the entire economies of most nations.

Very few actions that Congress could take — short of scrapping the income tax for a consumption tax or privatizing Social Security — could deliver those sized benefits to workers and consumers.

Today, eight of ten homes and businesses still use clunky dial-up technology to access the web. Broadband technology is more than a decade old and still it's a rarity in most areas. This makes no sense: It's as if we're still playing phonographs or using rotary phones. A hallmark of the U.S. era of high-tech innovation has been to spread the technological breakthroughs to the great middle class in short order. But after a decade, few Americans are hooked up to broadband service.

Why the still-lingering digital divide between the information haves and have-nots? Because outdated government regulation is stifling the private-sector investment needed to build the network.

Technology analyst George Gilder argues that today's regulation "privatizes the risk and socializes the benefit." Here's how it works: When a phone company risks its own money to wire homes and businesses to broadband, the federal government forces it to open its network to competitors at money-losing, government-set rates. This prevents the original investors from capturing the full value of its risk-taking expenditures.

A predictable result was the collapse in telecom investment over the past 18 months. In 2001, telecom investment contracted by $75 billion, a 15% decline, according to *NR*'s own Larry Kudlow. That's one of the biggest reasons why the telecom industry shed over 317,000 jobs last year — the largest job loss for any industry ever recorded in a single year.

By some estimates, it will cost telecom companies some $200 billion of added broadband investment to lay down the cables to bring this technology into most homes and businesses. How can this investment be accelerated? One answer is for Congress to allow businesses to write off their mega-investments the year they're made. But it must also create a fair-minded regulatory structure that allows those firms that make the investments to reap financial rewards. This means eliminating free-riding competitor access without fair payment.

What's the alternative to Tauzin-Dingell? Sen. Daschle wants tax credits, business subsidies, and a concoction of other corporate welfare giveaways. That's a recipe for destroying the industry, not for reviving it.

The Left talks a lot about closing the digital divide between the information haves and have-nots. This week Congress has an opportunity to do just that.

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore022702.asp

Stephen Moore
NRO Financial Columnist

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February 14, 2002 8:30 a.m.

Tom Dash-Left

No growth.

This week Sen. Joseph Loserman (er Lieberman) lashed out at my organization the Club for Growth for running what he described as "gutter ads" against Tom Daschle. He was referring to TV ads the Club has been running in South Dakota for the past month which rather innocently point out that Mr. Daschle is the one man in Washington who is single-handedly blockading passage of an economic stimulus plan.

Don't get me wrong, I'm not averse to running "gutter ads," but our Daschle ads have the virtue of being absolutely factually correct. After four months of imprisoning the emergency-jobs/tax-cut bill in the Senate chamber, Daschle finally and officially decapitated the legislation last week. The Club for Growth ad makes the charge that Daschle has put "petty politics ahead of jobs and economic security," and we challenge any reasonable minded person to refute that claim.

All of this means that thanks to Senator Daschle's dash to the left, there won't be a pro-growth tax cut this year — despite the fact that 1 million Americans have lost their jobs in the past 12 months. If the economy is going to recover from recession, it will have to do so without any help from Congress.

From the start of the economic-stimulus debate right after the September 11th attacks, Daschle has refused to be coaxed from a hard-left stance on the economy. He said no to a capital-gains tax cut. No to income-tax-rate cuts. No, to the elimination of the unfair death tax. No to accelerating implementation of President Bush's tax cut passed last May. He blew up a compromise stimulus plan right before Christmas because that plan would have given health insurance to unemployed workers through a system giving workers health-care choices, rather than forcing them into a one-size-fits-all government command-and-control plan. Throughout this whole ugly process, Daschle has been dogmatically left wing and President Bush was wise not to negotiate with someone who refused to negotiate.

Fortunately, South Dakotans are paying attention to Daschle's obstructionist behavior. Recent polls show that Daschle's support back home is eroding. A recent poll by the ABC News affiliate in Sioux Falls found that 59% of South Dakotans disapprove of the job Mr. Daschle is doing. That's lousy news for a man who harbors hopes of winning the Democratic nomination for president in 2002. The Dems aren't likely to nominate another Al Gore: i.e., a candidate who can't even carry his own state. (Though there is still lively debate about whether Al Gore was ever a Tennessean.)

We would like to think we've had something to do with that bubbling voter discontent in South Dakota, but mostly Daschle has only himself to blame. The past few months have brought one political miscue after another. Here's just one example: Daschle continues to rail against death-tax elimination "for the super wealthy." But just a little over a year ago 80% of South Dakota voters approved a ballot initiative to eliminate the state inheritance tax — for everyone. This is a small state. Daschle is damned near the only South Dakotan who does support retention of the death tax.

For months now Daschle has been protesting against tax cuts "for the rich," which he lambastes as fiscally irresponsible and bad for the economy. But Daschle gets an F in economics. In the 1960s and 1980s income-tax-rate cuts for all Americans caused dramatic and lost-lasting economic recoveries in America. John F. Kennedy sagely observed in 1963 that "an economy hampered with excessive tax rates will never produce enough revenues to balance the budget and it will never produce enough jobs." JFK believed that a rising tide would lift all boats. So did Reagan. In the 1980s, Reagan's 30 percent tax cut in the midst of the mini-depression he inherited from Jimmy Carter led to the creation of 17 million jobs over the next decade, helped conquer inflation, and doubled federal tax revenues.

Daschle says he's worried about the budget deficit exploding. But to deal with federal red ink he'd rather put American families on a Slimfast diet than the federal government. Last year Congress allowed federal spending to soar by 11% — even though president Bush asked for just a 4% hike in outlays. Obviously, the war on terrorism will require new security spending both here and abroad. But certainly domestic social spending could be curtailed. If overall federal outlays were held to the rate of population growth and inflation (a budget limitation formula many states must live by), the federal debt over the next decade would be some $500 billion lower. Would that really be so hard to do, Tom?

By torpedoing the stimulus bill, Daschle has left all national Democrats nakedly vulnerable to the charge that they refused to help rescue the economy when they had the chance. They refused to even temporarily call a time-out on their class-warfare crusade in order to get Americans back to work. Republicans can now very conveniently and plausibly make the case that if the nation enjoys an economic acceleration and a stock market surge anytime soon, it will be the Bush recovery. If the U.S. remains stuck in a rut of anemic or even negative GDP growth with a continuing decline in equity values, Americans will call it the "Daschle recession."

And in large part, they will be right.

— Stephen Moore is president of the Club for Growth.

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http://www.nationalreview.com/moore/moore021402.asp

Stephen Moore

NRO Financial Columnist

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February 8, 2002 9:00 a.m.

Train Wreck

No way to run a railroad.

It's official: Amtrak, the monopoly provider of the nation's intercity rail passenger service, is rolling straight toward a financial train wreck. The Amtrak Reform Council announced this week that unless major management changes are adopted and unless private-sector options are implemented, the train service will have to cease operations within the next year or two. Amtrak's own management team acknowledges that without more congressional handouts, train service will have to be discontinued for the long distance routes.

John Norquist, the Democratic mayor of Milwaukee and a commission member says that Amtrak has been lying about its financial situation for years. Another commission member, Wendell Cox, a transportation consultant urges the privatization option. "Only the private option can prevent billions of dollars of future losses," Cox writes.

He is right. This is at lest the sixth time in the last 25 years that the railroad has run critically short of funds. Under one plan in the Senate, Amtrak would receive some $50 billion in loans and grants over the next decade to head off insolvency. When does this madness end?

Five years ago the Republicans in Congress commanded Amtrak management to wean itself off federal operating subsidies once and for all. The congressional plan required Amtrak to reach financial self-sufficiency by 2002. Amtrak is in worse financial shape today than it was when the new legislative plan was enacted back in 1997. Amtrak makes Enron seem like a well-run firm by comparison.

Amtrak was formed in 1970 when the Nixon administration agreed to federalize passenger trains in the wake of the Penn Central ("PC") bankruptcy. The subsidies were to be temporary. But nothing in Washington is ever temporary (except for tax cuts). So some $50 billion (in today's dollars) has been burned by Amtrak locomotives already and the subsidies are getting fatter every year.

It cost taxpayers nearly $100 for every Amtrak rider. On some routes the subsidies can reach $300 a passenger. It would be cheaper for taxpayers to get these folks roundtrip tickets on Southwest Airlines.

Amtrak has invested billions of dollars in high-speed rail along the Northeast corridor. That's been a colossal waste of money. The high-speed trains are only running at about 50% capacity. Some of these "super expresses" have carried as few as 40 passengers — one busload — in a 304 seat, 12,000 horsepower, 8-employee train.

Despite all the money losses and broken promises of "financial solvency right around the corner," Congress is likely to ignore the council's recommendations and instead approve a "more of the same" option for Amtrak. Amtrak's management will interpret this copout as a sign that Congress was never really serious about requiring the railroad to shed hopelessly unprofitable routes, to find ways to replace tax subsidies with ticket revenues, to tighten its belt for cost-cutting purposes, and to slash layers upon layers of redundant managerial positions.

Only private ownership will force these cost-cutting reforms. Congress must understand that it is precisely the existing federal monopoly-management structure of Amtrak that is ruining rail-passenger service in America.

There is no law of economics that says that Amtrak has to lose money. It has been Amtrak's ready access to tax dollars that has impeded financial progress and service improvements.

Privatization would not mean the end of rail-passenger service. Under one viable plan, proposed by the United Rail Passenger Association, the government would retain control of ownership and maintenance of the tracks and the rest of the physical infrastructure, just as the government builds and repairs the roads. But operational costs would be covered by private for-profit railroad entities. Congress should immediately lift the monopoly protection of Amtrak, which prohibits private operators from running rail service on government tracks. Amtrak says it needs this blanket of legal protection to keep out competitors who might "skim the cream" and take away passengers on the most profitable routes. Since none of its routes make money, Amtrak has no cream to skim. Private operators could demonstrate that rail

Passenger service, if operated efficiently, can indeed make money. Amtrak is a $50 billion lesson in economics learned the hard way-and at the taxpayers' expense. Monopolies provide lousy service, with few consumer choices, and ever-rising costs. The new Amtrak report confirms this and warns Congress not to throw another $50 billion away. Only the privatization option can save the railroads.

— *Stephen Moore is president of the Club for Growth.*

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http://www.nationalreview.com/moore/moore020802.asp

National Review Online Financial...............print version

Stephen Moore
NRO Financial Columnist

The Daschle Deficits

Who to blame.

Stephen Moore is president of the Club for Growth.
January 4, 2002 8:20 a.m.

The national Democratic party wants to start a national debate over the issue of who lost the budget surplus. The latest projections from the Office of Management and Budget foresee a deficit in each of the next 3 years. Democratic pollster Mark Penn told the *Washington Post* that the budget deficit is "Bush's mess and he's going to have to fix it."

But if there's any single culprit for the return to deficit spending it is Mark Penn's boss, Senate Majority Leader Tom Daschle. Daschle's pro-spending and anti-tax-cut crusade over the past year has contributed mightily to the twin deficits that now befuddle Washington: the budget deficit and the economic-growth deficit.

Daschle-nomics is a version of the European welfare state creed of economic growth through government growth. At Daschle's pit-bull insistence, this past fiscal year we have seen the most gigantic inflation-adjusted increase in government spending since the days when Jimmy Carter was president. President Bush requested a pro-taxpayer budget at the start of the year. The White House suggested a 4 percent increase in discretionary-spending increases to roughly $660 billion. Instead the final tally is closer to $706 billion. It was Daschle and his Democratic-committee chairmen who took the lead role in larding the appropriation bills with fat slabs of bacon (though Republicans could hardly be heard howling in protest). Yes, it's certainly true that the Republican-controlled House of Representatives also participated in the spending spree. But in almost every instance it was Daschle and the Senate that shoveled on billions of dollars of extraneous spending.

Thanks primarily to Daschle, this year's discretionary spending will not rise by the 4 percent that Bush sought, but 8 percent, according to the latest analysis by Congressional Quarterly. (I have excluded the 3 percent spending hike that was a result of 9/11 emergency spending.) This additional federal spending cost taxpayers about $25 billion in 2001 and will cost another $30 billion in 2002.

Even that avalanche of funding was insufficient for the South Dakota majority leader. The Daschle economic-stimulus proposal would have forced taxpayers to play Santa Claus to every conceivable interest group in Washington. There was $9 billion for Amtrak, millions for Indian reservations, and hundreds of millions for Montana Bison ranchers, California cranberry growers, and other aggrieved farmers. The Senate Democratic bill would have added another $40 to $50 billion on to the bloated appropriations bills the Senate had already passed. Wisely, Bush squashed the deal with Daschle, or else the budget deficit in 2001 and 2002 would have been tens of billions of dollars larger.

Daschle's most insidious impact has not so much been to accelerate government growth as to derail economic growth policies that could get Americans back to work, return companies to profitability, and raise federal revenues to return to balanced budgets. Daschle lead the Democratic opposition to the Bush tax-relief plan back in May and though he didn't succeed in preventing a tax-cut plan from passing, he did help neuter the bill by delaying most of the rate cuts into 2005 and beyond. Now he wants that tax plan repealed even before any of the growth-stimulus measures have been permitted to take hold. He savagely attacked a plan by GOP Senators Wayne Allard and Judd Gregg to cut the capital-gains tax. He opposed the death-tax-repeal plan and was instrumental in making sure that the inheritance tax will be reinstated in 2011. He slams business tax relief as "corporate give-aways" in one breath and in the next, he sanctimoniously decries savage corporate layoffs. One moment Mr. Daschle is on the Senate floor pleading for the most expensive farm bill in U.S. history, the next he screams that George W. Bush is squandering the budget surplus. He is endowed with a Clintonesque talent for refusing to allow the observable truth ruin a good story.

It gets worse. There was no economic-stimulus bill in the last days of 2001 because Daschle rejected any tax-reduction measure that would have actually created jobs and wealth. There was no energy plan to allow the U.S. to drill in Alaska and to become more energy self-sufficient because Daschle refused to bring the president's plan up for a vote. Of course, the biggest beneficiaries of Daschle's gridlocking maneuvers are the oil ministers of the Middle East. We might as well be writing checks directly to the agents of terrorism.

Mr. Daschle either doesn't understand or doesn't much care that it is precisely the curse of slow economic growth that is the single largest factor behind the disappearing surplus. At least $100 billion of the squandered surplus from 2001 was a result of the economy downshifting from 3.5 percent growth to 1 percent growth. Without a return to the high growth path of the late 1990s, there will be no return to surpluses — at least not anytime in our lifetimes.

Daschle always speaks soothingly in TV interviews of the need for bipartisanship in Washington. But his actions belie a ferociously partisan agenda that is single-mindedly meant to destroy George W. Bush. If the cost of bringing down the president is to torpedo the U.S. economy and to keep workers unemployed, that is a price the nation's leading Democrat is evidently willing to pay.

There is, alas, some truth in the Democratic charge that Republican policies have caused the surplus to vanish into thin air. But tax cuts are not the explanation for budget deterioration. Congressional Republicans have been converted into minor league big spenders over the past several years, with each passing year since the Gingrich revolution began bringing about more obese domestic-spending budgets and more failing fiscal grades on the National Taxpayer Union budget report card.

But Washington's unrivaled big-league spender these days is Mr. Daschle. George W. Bush's guardian of the federal Treasury, Mitch Daniels has announced that "we are unlikely to return to a balanced budget before fiscal 2005." The truth is that we are unlikely to rebalance the budget until the day Tom Daschle leaves the Senate and Washington for good.

National Review Online Financial................print version

Stephen Moore
NRO Financial Columnist

The GOP-Daschle Debacle
The bipartisan stimulus deal must be stopped.

Stephen Moore is president of the Club for Growth.
December 17, 2001 8:00 a.m.

What is it with Republicans that every time they get in a closed-door smoke-filled room negotiation with Democrats, they always emerge having lost their shirts.

This year's "economic stimulus summit" unfortunately fits the pattern of every "bipartisan deal" the GOP has negotiated with congressional Democrats since Reagan was in the White House and was promised "$3 of spending cuts for every $1 of new taxes" as part of the infamous TEFRA fight of 1982. Carrying on the tradition, George Bush Sr. held a bipartisan summit in 1990 with George Mitchell and Senate Democrats at Andrews Air Force Base, and signed away his no-new-taxes pledge and his presidency.

The Republican party should pass a resolution at its next convention outlawing "bipartisan summits."

Until then, the bipartisan deal between George W. Bush and Senator Daschle must be stopped before it does real damage to the economy and the Republican party. Bush is this close to agreeing to a $100 billion deal that is long on social-welfare spending and woefully weak on supply-side tax-cut stimulus.

Out of the deal now taking shape, the Democrats get $30 billion for unemployment insurance and taxpayer-subsidized health insurance, more money for "infrastructure" spending for white elephant projects like Amtrak, and funding for an inane tax-rebate scheme for people who don't pay income taxes. All of these things will hurt the economy and add to the unemployment lines.

The Republicans get . . . well, nothing really: No reduction in the income-tax rates, except for an insultingly trivial chopping of the 27% rate all the way down to 25% rate. (The Democrats even fought that cut.) The highest and most economically punitive tax rates remain cemented in place — at Tom Daschle's insistence. And there's no reduction in the capital gains tax. Sorry, that was left on the cutting board table.

What about the unfair corporate alternative tax? Has that been terminated once and for all? Nope. That will live on. Was the death tax repealed? Dream on. Daschle vetoed every pro-growth idea, and the GOP capitulated at every turn.

This deal looks like the houses in Whoville after the Grinch has stolen Christmas. Daschle even greedily stashed away the crumbs on the floor. It makes you want to go up to the White House negotiators and smack them and ask, "What in the world were you thinking?"

Here's my simple advice to the president: Walk away. Save yourself from this insanity while you still can. There's no shame in stepping back from the table when your adversary isn't negotiating in good faith. There's still time to start over and get it right.

If we must have a bipartisan plan, fine. Here's how to do it. The package is $100 billion. Daschle gets $50 billion. Republicans get $50 billion. Under this deal, the Dems are free to do whatever they want with their $50 billion. They can build a 500-foot monument to Karl Marx and put in the town square in Sioux Falls, South Dakota. They can purchase postage stamps. They can buy pardons for convicted felons. They can make reparation payments to eighth-generation descendants of the slaves. They can spend the money on new Amtrak trains laced in silver and gold. They can stuff the dollars in suit cases and ship it off to big town mayors. Nothing can be nuttier than the stimulus bill that Daschle has already proposed.

But . . . the Republicans get to do whatever they want with their half. With $50 billion, they could actually do some real good for the economy. I would start by cutting the capital-gains tax in half, if only because this is a freebie — it doesn't cost any money and may even raise funds. (The last capital-gains cut doubled revenues.) Then I would cut all the personal income-tax rates immediately. This would leave enough money left over to buy out Paul O'Neill's contract as Treasury Secretary.

These measures would do enough good to counteract the negative impact of what the Democrats would do with their half, and *still* provide a real shot of adrenaline into the economy in 2002.

If the Democrats reject this olive branch, then I'm with Arthur Laffer and the folks at the National Taxpayers Union. The current "stimulus" plan is a lot worse than doing nothing at all.

National Review Online Financial..............print version

Stephen Moore

NRO Financial Columnist

Bowled Over.

The BCS is BS.

Stephen Moore is president of the Club for Growth.
December 10, 2001 12:55 p.m.

You know computers have gone too far in running the world when they can't even pick the right teams to play in the college-football national championship game.

I am referring, of course, to the miscarriage of justice that occurred over the weekend when the NCAA's computer programmers somehow selected Nebraska for the right to play undefeated Miami in the Rose Bowl. Even my diehard Husker friends from Nebraska are a bit embarrassed by this result. Did the brainy computer programmers who are responsible for this outrage even bother to watch the Cornhuskers get their clocks cleaned by Colorado a mere two weeks ago? This was a game that was competitive for roughly six minutes. After 14 minutes mighty Nebraska, who the computers say is the second best team in the nation, was behind 35-3 before eventually losing by 26 points.

I have to confess that as one who loathes the BCS system (see my earlier column "The Bloom Is Off the Rose") and wants a 16-team playoff system modeled after the highly successful Division III format, I was praying for LSU to beat Tennessee. I knew that if the Vols lost and the Cornhuskers were chosen for the Rose Bowl this would incite a near riot on the West Coast. And it has, as it should have. The Oregon athletic department has called the BCS "a cancer" on college football. It is. ESPN last night said that the BCS is now in a meltdown. It should have melted down long ago.

BCS sympathizers moan that this was an especially tough year to pick the top two teams. Hogwash. Picking the top two teams should have been a piece of cake. Miami was undefeated and unquestionably #1. Oregon was 10-1 and won the PAC 10, which was arguably the toughest conference this year. Every other team that had a claim on the championship game lost their last game: Nebraska, Oklahoma, Texas, Florida, and Tennessee. This leaves Oregon as the last team standing. (By the way, I've never even been to Oregon, so I don't have an ax to grind. But I did go to Illinois and even the Illini have a much stronger case than does Nebraska for the Rose Bowl, but not nearly as strong a case as Oregon.)

How can Nebraska possibly make a claim to being the best team in the nation when they're not even the best team in their conference? An even bigger joke is that Colorado is ranked ahead of Oregon and Illinois in the BCS. Excuse me, Colorado lost twice! But then the BCS computer guys say: "Well, yes, Colorado lost twice, but they're hot now." That's true, but if being "hot" is a criterion, how in the world is Nebraska even in the top five?

I'm not done yet with my tirade. To add insult to injury, the BCS system failed to pit the Pac 10 winner (Oregon) against the Big 10 winner Illinois, which would have been a marvelous substitute Rose Bowl. So the grand tradition is dead. Look at the bowl match-ups. They're as appetizing as day old oatmeal.

I've always believed that there's an anti-Big Ten and anti-Pac Ten biases in the rankings. I first suspected this back in the early 1990s when Penn State went undefeated, won the Rose Bowl, and ended ranked second in the polls, even though that was perhaps the best college-football team in 20 years. Then a few years later Michigan went undefeated and won the Rose Bowl and had to share a national championship because several writers ranked Michigan third in the polls.

The bottom line is this. The BCS is a travesty. The Pac 10 has been threatening for years to leave the BCS because its teams are always getting the shaft. Now there is no doubt. The Pac 10 and Big 10 should go back to playing its champions in the Rose Bowl every year in college football's greatest event and the BCS can use its garbage-in-garbage-out computer model to crown a make-believe national champion.

National Review Online Financial..............print version

Stephen Moore
NRO Financial Columnist

"I Heard the News Today"

George Harrison, R.I.P..

Stephen Moore is president of the Club for Growth.
November 30, 2001 1:00 p.m.

About six months ago I bought my kids (eight and ten years old) the new Beatles CD "1" — which, of course, is the best-selling CD in a decade.

The kids were somewhat puzzled and disappointed by the gift and asked who the Beatles were. I said they were the hottest band back when I was growing up. They asked if the Beatles were bigger and better than the Backstreet Boys, and I said absolutely not, but you listen to the CD and tell me what you think. Big mistake.

They are now both unremitting Fab Four fanatics. I come home and they've got the CD player revved up to full-volume blasting "I Wanna Hold Your Hand," "Can't Buy Me Love," ""Hey Jude," or some other Fab Four hit. They're favorite is "Yellow Submarine," which if I hear one more time, I will smash that CD player into 1,000 pieces. But the great joy of kids is they allow you to relive your youth and I come home and I hear that music and I think , damn, I had forgotten how good a song "Day Tripper" is.

Justin was asked to write a poem in his fourth-grade class and he had writers block so he plagiaristically wrote:

> Dear Sir or Madam will you read my book, it took me years to write, will you take a look....

He got busted. Justin didn't understand that EVERYONE, including his teacher knows the words to "Paperback Writer." But it was impressive that he could recite every word to the song.

Justin and Will represent the third generation of kids who think that the Beatles music is the best thing they've ever heard. For the Beatles to be the number-one band in America today, is the equivalent of the kids in the 1960s listening to the music of the 1920s on their record players. My prediction is that my great great great grandchildren will be listening to the Sgt. Pepper's Lonely Hearts Club Band and that in 2050 the best-selling album will be Abbey Road.

It's cliché to say that Lennon and McCartney wrote the soundtrack of the '60s. The truth is that they've written the soundtrack for every subsequent decade. They were quite simply history's greatest entertainers. Any arguments?

This morning it was painful to tell the kids at breakfast that George Harrison was dead. Will was adorable, he said, "But dad, I thought Paul was the one who was dead." And Justin thought about it and said: "Now I guess there can never be a reunion." That made me incredibly sad. I remember when I was in college and heard the news that John Lennon (my favorite Beatle) was dead and I felt the world had been raped. I wore black for a week.

Conservatives should forever appreciate George Harrison for a lot of reasons. Not the least of these is that he wrote our anti-tax anthem "Taxman." It goes like this:

> Let me tell you how it will be, here's one for you 19 for me.
> If 5% appears too small, be thankful I don't take it all.
> 'Cause I'm the taxman, and you're working for no one, but me.

That was written when Britain had a 95% top tax rate (thus "one for you, 19 for me). George was one of the first supply siders.

George's "Concert for Bangladesh" in Madison Square Garden — a terrific soundtrack, by the way — was really the first rock charity concert and raised several million dollars for the starving people in that heart-breaking war-torn country. His song My Sweet Lord, for which he was unfairly sued for plagiarizing the tune of the Chiffon's "He's So Fine," is one of the great religious rock songs ever.

John and George are dead. They're in rock'n'roll heaven. And you know they've got a helluva band.

National Review Online Financial..............print version

Stephen Moore
NRO Financial Columnist

The Bloom is Off the Rose

The case for a college-football playoff system.

Stephen Moore is president of the Club for Growth.
November 28, 2001 10:25 a.m.

Thanks to a shocking and wonderful Ohio State upset of Michigan on Saturday, my beloved fighting Illini have won the Big Ten championship and will play in the Rose Bowl for the first time since 1984. Or check that. Thanks to an insane Bowl Championship Series format — which is meant to match the two best teams in the country against each other, but never succeeds in doing so — this year's Rose Bowl will not pit the Big Ten and Pac 10 champions against each other, for the first time in a gazillion years. And thus one of college football's grandest traditions has been tossed into the dustbin of history.

The Illini's prize for winning the Big Ten is to play in Phoenix, in the Fiesta Bowl, against God knows who. All this so that college football can crown a mythical national champion.

Is nothing sacred anymore? The granddaddy of them all has lost its luster.

For 30 years now, the Rose Bowl has been for me the only bowl that ever mattered. Was there ever a better way to start a new year than to park in front of the TV at 4:00 p.m. on January 1 and watch the Rose Bowl in the setting sun of Pasadena — with, of course, the added bonus of listening to the voice of college football, the incomparable Keith Jackson? Life doesn't get much better than that. And now it's just gone.

The BCS bowl format is the worst of all worlds. It has greatly diminished the grandeur of the college bowls by establishing only one that really matters. And it does a lousy job of actually choosing a legitimate champion. Why should Florida, with one loss, go to the Rose Bowl over Illinois or Texas or Nebraska (also with just one loss)? Better still, why should the Gators go ahead of BYU — which hasn't lost any games?

So, either go back to the old bowl format, and play all the major bowls on January 1, when God, not CBS meant them to be played.

Or... really go for the gold — and the billion-dollar TV contract — and let's crown a real national champion. What's needed for big-time college football is what Division II and Division III have used successfully for years: a playoff system. I'd create a 16-team playoff. Teams would be seeded on the basis of their rankings, so that the #1-ranked team would play #16, #2 would play #15, and so on. Every major conference champion would be assured a spot in the playoffs. The semifinals could be played in the Orange and Sugar Bowls. The championship would be in the Rose Bowl.

Imagine the incredible first- and second-round match-ups this year, and think how hard it would be to fill out your tournament grid.

Miami-Michigan winner plays
Illinois-Maryland winner

Texas-South Carolina winner plays
Nebraska-Stanford winner

Tennessee-Washington State winner plays
Oregon-Colorado winner

Florida-Fresno State winner plays
BYU-Oklahoma winner

Done right, this would be potentially bigger, and make more money, than the NCAA basketball tournament, which is a veritable pot of gold. It would prevent schools like BYU — with an undefeated record — from getting shafted by the BCS, and not having a shot at the national championship. It would create intriguing match-ups and unbelievable upsets. It would lead to a better overall college season, because teams wouldn't be terrified of losing a single game and being out of the BCS game. Miami would stop scheduling games against Northern Illinois and Troy State.

It would practically put the booooring NFL out of business, and would make the Super Bore second fiddle in the world of football. It would bring Las Vegas out of its recession.

The NCAA has completely messed up the bowl season. Most of the lesser bowls are now at risk of going bankrupt, with dwindling viewership and empty stands. Something radical needs to be done. Let's hope that greed takes over, and the NCAA and the TV networks come to their senses and adopt a 16-team, winner-take-all playoff system starting next year.

As Keith Jackson would say: WHOA NELLY!!!

National Review Online Financial................print version

Stephen Moore

NRO Financial Columnist

Airport Insecurity

A complete cave.

Stephen Moore is president of the Club for Growth.
November 16, 2001 1:15 p.m.

Here is how John Shadegg of Arizona, one of the rising conservative stars in the House, describes the airport-security bill "compromise": "A complete cave. We gave the Democrats everything. I'm furious."

So am I. The airport-security bill is a complete capitulation to the Left's position on federalizing airport personnel. And the GOP's negotiating from the fetal position hardly inspires confidence as it starts duking it out with Daschle and Gephardt on issues like the fiscal stimulus.

Just how bad was this deal? Probably the most honest assessment was made by Peter DeFazio, the ultra-left-wing representative from Oregon. DeFazio refused even to play the role of the modest winner. "This was no compromise," he exalted. "We promised we would never compromise on safety. This was the Democrat bill." Alas, he is right.

But DeFazio is dead wrong on one issue: This is not a bill that puts safety first. In fact, it could undermine airport safety, by turning the entire security infrastructure over to federal bureaucrats. As *NR* has reported many times throughout the last few weeks, the best scholarly work on airport security has been done by transportation expert Robert Poole of the Reason Foundation. Poole's research has found strong evidence that those countries with the best records on safety are the ones that use private contractors, not government workers, for inspections.

This bill does not allow private screeners in airports for the next five years. In reality, that probably means they are banned forever. Once these employees become federal, unionized AFSCME workers, we will never be able to contract out this work to private security agencies.

The bill does require that screeners speak English, and that they be U.S. citizens — which is a vast improvement over the current system. Under the current procedures, the screeners are scarier looking than the passengers they're strip-searching. Last week, an Arab screener was shaking down a blue-haired, 75-year-old woman. What's wrong with this picture?

National Review Online Financial...............print version

Stephen Moore

NRO Financial Columnist

A Different Kind of Dem

Democrats for smaller government.

Stephen Moore is president of the Club for Growth. Jeff Bell, a former Senate candidate in New Jersey, is a political analyst for the Club.
November 7, 2001 12:25 p.m.

Democratic victories in the New Jersey and Virginia gubernatorial elections on Tuesday are, predictably, being characterized as proof that the era of big government is back. Political pundits are also suggesting that the tax-cutting message of the GOP, which was pay dirt for Republicans in the 1990s, is no longer appealing to the median 21st-century voter. Only people who paid zero attention to what was said in these two races could make that claim.

Surely the defeats of Bret Schundler in New Jersey and Mark Earley of Virginia are blows to conservatives. Both ran as strong anti-tax candidates. Both attacked the victorious Democrats (Mark Warner in Virginia and Jim McGreevey in New Jersey) for their secret plans to raise taxes. And both lost. But not because New Jersey and Virginia voters opted for a return to Democratic tax-and-spend policies.

Just the opposite. One of the most remarkable features of these two races was that Warner and McGreevey both veered as far to the right on fiscal issues as Democrats are permitted to without entirely alienating the left-wing base of their party. They ran successful campaigns as Bill Clinton new Democrat fiscal conservatives eschewing the era of big government. They both pledged in their debates that they would not raise taxes to balance the state budget. In fact, as any Northern Virginian knows full well, Warner spent millions of dollars on omnipresent TV ads to tell voters exactly that. Warner described himself as a pro-George W. Bush "fiscal conservative" and touted his "plan for action" indicating how budget deficits could be avoided without raising taxes. He pledged allegiance to the car-tax elimination, which had been a polar star for Republican Jim Gilmore back in 1997. Warner sounded, in short, like a 1990s taxaphobic Republican.

McGreevey's 11th-hour conversion to the no-new-taxes camp was even more dramatic. At the start of the campaign McGreevey refused to pledge not to raise taxes, trotting out the traditional Democratic mantra that such a promise would be fiscally irresponsible. But as Schundler showed signs of resurrecting his dormant campaign and gaining ground on McGreevey, the Democrat's message became intensely anti-tax. In the last debate, McGreevey was again asked if he would raise taxes. Point blank, he responded that there was no need to raise taxes and that through streamlining government and agency consolidation, expenditure cutbacks could keep the budget out of red ink. McGreevey even criticized the New Jersey Republicans (with much accuracy) for fiscal mismanagement and overspending and excessive reliance on debt during the Christie Whitman years. At the Cato Institute, one of us (Moore) had been attacking Whitman and the New Jersey legislature for exactly this fiscal profligacy.

What was most excruciating for New Jersey liberals was when McGreevey was asked about his vote in 1991 for the giant Jim Florio tax hike. For years this vote was a badge of honor for leftists, who still maintain that Florio did the right thing. New Jersey voters sure don't. So McGreevey pulled a stunning mea culpa, saying that if he knew then what he knows now, "no, I clearly wouldn't have voted for that tax hike." You could just see James Carville, the political architect of that soak the rich tax hike, cringing in embarrassment.

Now, we've both been around politics long enough to be deeply skeptical of the Warner and McGreevey oaths not to raise taxes. Our hope is that Warner keeps his promises and turns out to be another Doug Wilder, the Old Dominion's most fiscally tightfisted governor in 20 years, despite being a Democrat. But fiscally stressful times are ahead for the states, and new taxes are going to be mighty tempting option for these Democrats. But in both states, any such tax flip-flop will prove mighty costly politically. Our advice to McGreevey and Warner: Don't go there.

If Warner or McGreevey doubt the political penalty they might face for flip-flopping on taxes, they might put in a call to former New Jersey Gov. James Florio. Twelve years ago, Florio won a record Democratic landslide against GOP Congressman Jim Courter by, among other things, ruling out an increase in state taxes. By January 1990, Florio's first month in office, he had "discovered" a fiscal shortfall that necessitated one of the steepest, most punishing tax increases in the history of New Jersey or any other state. And, of course, the rest is history: Christine Todd Whitman rode the income-tax-cutting agenda to a stunning victory, presaging the landslide for Republicans in 1994.

One other factor played a big role in both these GOP defeats: party disunity. In New Jersey, Bret Schundler is still waiting for an endorsement from Gov. Donald DiFrancesco, the liberal acting Republican governor who was forced out of this race in the spring because of financial scandals. Christie Whitman's endorsement was tepid at best. She played into McGreevey's hand by remarking that Schundler had some positions "outside the mainstream" of New Jersey. To all too many liberal Republicans, particularly in the northeast, the "big tent" of party unity is a concept apparently meant to be binding on conservative primary losers, but not on liberal primary losers like DiFrancesco.

There's no sugarcoating it: November 7th was a bad day for Republicans. Democrats are sure to tax a page out of the McGreevey and Warner playbooks and run carbon-copy campaigns as they attempt to take the House in the critical 2002 midterm elections. This is all the more reason that congressional Republicans cement themselves to a strong pro-tax-cut position so that Democrats can't move to the right of them on fiscal issues this year and next.

The New Jersey and Virginia elections were a vindication, not a repudiation, of the power of fiscal-conservative values in America. When Democrats have to run as anti-tax advocates of fiscal restraint to win office, and when they have to distance themselves from the party's tax and spend liberal roots, the battle for pro-growth economic policies is being won.

National Review Online Financial................print version

Stephen Moore

NRO Financial Columnist

Green-Light Halloween

Don't let Bin Laden steal this treat.

By Stephen Moore, president of the Club for Growth, and Phil Kerpen, a research assistant at the Club
October 31, 2001 8:35 a.m.

The scariest Halloween I ever experienced was four years ago when my then six- and seven-year-old sons decided that they were going to dress up as the Menendez brothers. That just seemed kind of demented. For the rest of that year my wife and I slept with our bedroom door securely locked. If their point was to spook us, they succeeded in spades.

Some of my fondest memories of youth were of Halloweens in Winnetka, Illinois. Back in those days, Winnetka allowed trick-or-treating on October 31st, but the next town over Kennilworth, celebrated Halloween on the 30th, Halloween eve. So we used to go out trick-or-treating two nights in a row and we were quite systematic about it. We would start right smack at 6:30 until well after 10:00. A lot of times the parents would be irate because they'd already gone to bed by the time we arrived at their house. Look, we'd say, just give us the candy and no one gets hurt. We used to spend several weeks constructing a detailed map that would send us on the route maximizing the number of houses we could hit in the allotted time. (Even at that young age I was an efficiency expert — born to be an economist I guess.)

We used to stash our loot in those huge six-foot-high trash bags, and by the end of the night the thing weighed something like 30 pounds. By about November 6th all I would have to do was glance in the direction of a Three Musketeers bar and I would get sick to my stomach.

Trick-or-treating in Kennilworth was a real trip. The average per capita income in Kennilworth is bigger than the entire GDP of Afghanistan. And these people gave away awesome treats for Halloween. One house I remember used to give away silver dollars, and that was back in the late 1960s before Nixon, Ford, and Carter devalued the currency and the dollar was really worth something. We used to change into different costumes and keep coming back for more. This was our way of soaking the rich. Back then I was a big class-warfare zealot.

There was one palace in Kennilworth owned by W. Clement Stone, where even the carriage house was a mansion. Every year Mr. Stone would give away lavish gifts. One year when the stock market had done particularly well, he gave people cars. No not Matchbox cars, *real* cars. After leaving the Stone residence, you would walk down the street and ask your buddies: Whud you get? And one person would say, I got a BMW. And someone else would say. I got a Jaguar. And then I would say, dang, I only got a Chevy. That was a terrible Halloween.

In those days the question of who you would go trick-or-treating with was a big status issue. Sometimes nobody would invite unpopular kids to go trick-or-treating at all and those unfortunate souls had to be escorted by their parents, which was really embarrassing if you were over the age of four. This is probably one of the great differences between growing up today and growing up 30 years ago. Nowadays, parents are omnipresent — they escort their kids everywhere. They set up play dates for their fifth grade kids. Everything is organized by parents and run by parents and... well if you ask me, ruined by parents. I truly believe that all these idiot soccer leagues are much more for the insufferable modern-day parents than the kids.

I used to go whole summers without seeing my parents — except for when they fed me. I don't think there was ever a time after about the second grade that my parents worried about where I was. (I was a bit of a problem child, so I think they half hoped I had been kidnapped whenever I didn't show up for dinner on time.)

Oh sorry, yes, about Halloween. There was a brief and forgettable time in the late '70s and early '80s when Halloween became an adult holiday. People started throwing lavish costume parties, but the part for kids was phased out. Trick-or-treating was confined to the daylight hours, which was about as much fun as having the senior prom on a Tuesday night. Parents became terrified that their kids were going to eat a Mars bar laced with cyanide or containing razor blades. <u>The good folks at STATS, the research organization that pummels media myths, have found that this was one of the great hoaxes of all time.</u> There never were razor blades in Halloween candy.

Now Halloween is a big deal again for kids. And thank God. I have a sister-in-law, a real Bible thumping' southern Baptist, who doesn't allow her kids to participate in Halloween. Why? Because "it's a pagan holiday." Well, thanks to the ACLU, aren't they all now.

George W. Bush has asked us to get back to the normalcy of our lives as the best way to defeat the evil intent of the terrorists. That means, yes, Virginia, there should be a Halloween this year. And any insecure parent out there who won't let their kids out on this wonderful evening of fun and mischief, BEWARE. I know where you live, and I'm coming to egg your house.

National Review Online Financial...............print version

Stephen Moore
NRO Financial Columnist

The Dem's Feeding Frenzy
Some kind of stimulus.

By Stephen Moore, president of the Club for Growth, and Phil Kerpen, a research assistant at the Club
October 30, 2001 8:00 a.m.

Private charities have received between $700 million and $1 billion in response to the terrorists attacks of September 11. This is a staggering number and demonstrates the great compassion of the American people. In fact, the generosity has been so boundless that many charities are having difficulty deploying the funds. They have more money than they know what to do with. This is because most charities don't spend money frivolously.

Not so, Uncle Sam. The federal government has already allocated $50 billion, roughly sixty times the amount of money that private relief charities have received. And yet lawmakers have no trouble finding places to spend the dough. They continue to clamor for at least $100 billion more.

Mitch Daniels, the White House budget director, was dead on target when he recently commented: "With a little imagination, any straight-faced advocate can recast his pet program somewhere under the inviting headings of war, recession, or disaster recovery." And the feeding frenzy is not just for the $50 billion that has already been approved. There's a parade of elephants and donkeys lined up all the way down Pennsylvania Ave. waiting to get into the Capitol. They have their paws out and their palms up seeking dollars for pet projects that have nothing to do with the war. How else do we explain a $70 billion request for Amtrak funding the rolling tax-dollar-burning machine, or $3.5 billion for peanut farmers?

How can $2.5 billion for health insurance for unemployed workers be an economic stimulus? This will only insure that we have more unemployed workers. And something tells us that this new entitlement for unemployed workers won't be "temporary." Name any entitlement program that has been?

Ron Utt, the insightful budget analyst for the Heritage Foundation, notes that this is the biggest request for federal dollars we have seen in Washington in at least a decade. Utt documents in a new study that "lobbyists are using the tragedy of September 11th to raid American taxpayers." Even travel agents and Las Vegas casinos want federal handouts.

Democrats on Capitol Hill say they want half of any fiscal-stimulus plan to go to Keynesian federal spending programs. Fine. They've already got their half. The $50 billion already approved is all — every shiny penny of it — for federal spending. This is why the *entire* stimulus bill must be dedicated to tax cuts to ensure that half of all the post-September 11 response is for tax cuts.

Perhaps the worst example of opportunism to promote big government is the agriculture bill, and Republicans and Democrats are both guilty. The bill was renamed the "Farm Security Act," and the farm lobby and farm congressmen pushed hard for it based on arguments about the security of the

U.S. food supply. These arguments are ridiculous; the United States is the world's largest food exporter. The bill not only extends subsidies that are scheduled to end in September 2002, it massively expands farm subsidies, including a brand new $3.5 billion support for peanuts. The total price tag for the bill is over $170 billion in the next ten years. Senator Lugar of Indiana, who is fighting a lonely but pro-taxpayer battle against the giveaways in the farm bill, notes that the agriculture budget would go up faster than the defense budget, if this expensive legislation were approved.

During the tax fight in the House, Democrats pilloried Republicans for passing tax cuts to "exploit the economic and national crisis." But the people who are truly draping their self-interest agenda around the flag are the spending parasites. More government spending cannot possibly stimulate economic growth. If it could, Japan, which has the fastest rate of growth of spending and deficits of any country in the world over the past decade, would be celebrating unprecedented prosperity, not her 11th year of depression.

Nobel Prize winner Milton Friedman is perhaps most famous for reminding us that "there ain't no such thing as a free lunch." The money to pay for the government spending doesn't fall out of Heaven. The government spending is either financed through higher taxes, higher federal borrowing, or by printing money. But all of these financing mechanisms depress the economy at least as much as the new spending stimulates it. Government taxes reduce consumer and business investment and spending. Government borrowing increases interest rates (or so we are told by Robert Rubin). Printing dollars causes inflation and therefore makes every dollar that we all hold in our pockets worth less in purchasing power. In other words, all these financing techniques make private citizens poorer, so how can the government spending make us richer?

The Republicans, of course, are guilty of running up the budget themselves. But what are we to make of the truly loony ideas that reign as economic "thinking" on the part of the Democrats? The Democratic "stimulus" plan would spend another $40 billion this year on domestic programs and finance that funding by raising taxes on the rich by increasing income-tax rates. In other words, this plan takes money from wealth producers and redistributes the money to nonwealth producers and the idea is that this scheme is supposed to create wealth and prosperity. It reduces incentives to work and therefore is supposed to create jobs. It makes the return on capital spending lower and therefore is expected to increase capital spending. Neither of us have a PhD in economics, so we confess that the sophisticated logic here eludes us. But if someone out there does get it, we want to be educated.

If in the name of bipartisanship, the White House allows Tom Daschle and Dick Gephardt to pass a stimulus bill that grows the government but not the private sector, then our nation would be much better off with no stimulus bill at all. If this turns out to be the case, pro-growth Republicans must vote no.

If freedom, trade, lower tax rates, and private charity cannot repair the damage caused by the attacks — nothing else will.

National Review Online Financial................print version

Stephen Moore

NRO Financial Columnist

The Economic Imperative

Bush and the Republicans *cannot* let this drop.

By Stephen Moore, president of the Club for Growth, from the November 5, 2001, issue of *National Review*
October 25, 2001 8:00 a.m.

2704417312 8

The post-September 11 spirit of bipartisanship was suddenly shattered during a House Ways and Means Committee meeting, when Republicans suggested a capital-gains tax cut as an emergency economic stimulus. Charlie Rangel of New York, the ranking Democrat on the committee, embarked on a fist-pounding tirade denouncing the Republicans for exploiting the tragedy of terrorism to advance their "right-wing tax-cutting agenda." A few days later, John Spratt, the ranking Democrat on the House Budget Committee, lambasted the capital-gains discussion as "unconscionable" in a time of national crisis. Senate majority leader Tom Daschle piled on, advising the White House not to cave in to the "extreme voices" advocating a "divisive approach" to the stimulus bill. Translation: Even in a plunging economy, congressional Democrats will never abandon their quasi-religious opposition to capital-gains cuts.

Unfortunately, to preserve the veneer of bipartisanship, the White House has succumbed to these tirades. President Bush's economic advisers have always — inexplicably — been unenthusiastic about capital-gains cuts anyway, so the passionate opposition by liberal Democrats has convinced the Bush political team that it's now doubly wise to shelve the idea. In a meeting with investment icon Charles Schwab, Treasury secretary Paul O'Neill rebuffed Schwab's plea for a capital-gains cut, calling it a "deal-breaker." But it's only a deal-breaker because the Bush economic team, representing a president with an 85 percent approval rating, refuses to endorse the idea.

O'Neill's quick surrender has only emboldened the left-leaning Democratic leadership. They are now insisting that any speed-up of income-tax-rate cuts should apply only to the lower brackets, not to the highest and most punitive rates.

So the White House, which has handled the military and coalition-building aspects of the current crisis with such mastery and professionalism, is fumbling the economic-stimulus plan. Republicans are inching closer to agreeing to a stimulus plan with tens of billions of dollars in new government expenditures (which will depress the economy instead of resuscitating it), more tax rebates (which are close to being economically worthless), and targeted tax-rate cuts (which avoid cutting the rates that matter most).

One problem is that the White House apparently gets its economic advice from all the wrong places. Bush has announced that he is "listening to the voices of leading economists" in constructing a stimulus package. This is dreadful news, because the vast majority of modern business and academic economists have a wrong-headed view of how the world works. The supply-side model that Ronald Reagan and Margaret Thatcher employed to change the world in the 1980s is still in disrepute with most traditional Keynesians, who found themselves cast aside in the low-inflation, low-tax prosperity of the 1980s and '90s.

Most "leading economists" opposed Reaganomics. As a consequence, it is now Clintonite Robert Rubin and Fed chairman Alan Greenspan, not Reagan supply-siders, who are crafting the president's stimulus plan. This administration is clearly in search of its economic orthodoxy, and it's being tugged in multiple directions. Bush has described his administration's economic philosophy as "both supply-side and Keynesian"; of late, the emphasis seems to be on the Keynesianism, as with the administration's absurd claim that the $40 billion emergency spending enacted the week after September 11 would provide a quick "stimulus to the economy." (This contention prompted Congressman Paul Ryan of Wisconsin — one of the rising stars of the House GOP — to send around a copy of a famous chapter from Henry Hazlitt's classic *Economics in One Lesson*. The chapter, entitled "Broken Windows," reminds us that breaking windows so as to create jobs repairing them is not an intelligent way to build prosperity.)

Of course, the demand-side Keynesian model preaches that economic growth is driven by consumer and government purchases, and I am told that the Fortune 500 CEOs who have visited the White House since September 11 are almost universally obsessed with this idea. They have begged the president to get customers into their stores. The problem with this idea is that it has already been tried, and failed. Japan — with the fastest-growing government spending and debt of any nation in the industrialized world — has been trying it for eleven years now, and continues to sink deeper into the economic mire. In early October, the despairing Japanese finally cut their capital-gains tax.

The alternative, supply-side worldview holds that prosperity is achieved by driving down the cost of capital through sound money, low tax rates, a non-intrusive government sector, and free trade. Today's supply-siders generally believe that the economy is being dragged down not by insufficient consumer demand but by a virtual disappearance of investment capital over the past year or so.

And to fix this, capital-gains tax cuts are crucial. They would raise asset values instantaneously, by reducing the tax penalty on all new and existing capital investment. They would reverse stock losses and stimulate new investment — which is what the economy needs most. Former Reagan economist Gary Robbins, now of the Institute for Policy Innovation, has found in a new study that dollar for dollar, there is no tax cut that is more stimulative to the economy than a capital-gains cut: You get $10 of economic stimulus for every $1 revenue loss. (By contrast, the Democrats' payroll-tax rebate is worth less than 50 cents for every dollar of cost.)

Here again, the president is receiving bad advice. The Bush team has apparently been frightened by the argument that a capital-gains cut would lead to a quick sell-off of stocks, as investors rush to cash in on past gains; this would further depress the stock market. Historically, however, the stock market has risen, not fallen, after a capital-gains cut. After the most recent capital-gains cut in 1997, the Dow went from 7,000 to a peak of 11,000. Here's why: A share of stock is valued at the expected future earnings of the company — after all taxes are accounted for. When the capital-gains tax is lowered, the after-tax value of the earnings of every company in America rises. The only possible way that the stock would fall in value is if investors were willing to sell stock that is now worth more, for a lower price.

There's also a way to guarantee that a capital-gains cut won't depress the market: Cut the rate from 20 percent to 10 percent on all gains earned after September 11, 2001, but not on gains earned before then. This would mean that no investors would have an extra incentive to sell stocks, because they would still have to pay the old rate, but new investors would have a strong incentive to buy stocks because the tax in later years would be cut in half. The value of stocks under this plan would have to rise. (House Whip Tom DeLay has already proposed this sensible compromise.)

This debate, alas, is not primarily about economics, but about diplomacy with the Democrats. The Bush policy team's preference on almost all domestic issues now is to advance issues that are perceived as less partisan. This makes some sense: Bush has risen above politics and party in recent weeks, to the level of a statesman trusted by almost all Americans. The problem is that when this principle is extended to economics it means that we get a steady onrush of bad policies: lavish giveaway packages to the airline industry, extended unemployment benefits, the federalization of 15,000 airline workers, another $5 billion in Department of Edu cation spending, the most expensive farm bill in American history, and so on.

Worst of all, bipartisanship has given Tom Daschle and Dick Gephardt a de facto veto over economic-policy decision making. There are two problems with that: First, Gephardt and Daschle are clueless as to how to stimulate the economy. Second, even if they weren't economically illiterate, they might not support an economic-revival plan that would ensure that Republicans retain the House and recapture the Senate in 2002. As Rep. Pat Toomey, the Pennsylvania Republican, notes: "Our GOP leaders need to understand that a slumping economy is not necessarily contrary to Dick Gephardt's political interest."

So in the name of bipartisan cooper ation, George W. Bush may commit a grave political and economic sin: signing a bipartisan stimulus package that doesn't stimulate. And if that happens, even a great military victory may not be enough to maintain these stratospheric approval ratings for long. Just ask the president's dad.

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National Review Online Financial................print version

Stephen Moore

NRO Financial Columnist

Misplaced Trust

Is government back? Let's hope not.

Mr. Moore is president of the Club for Growth
October 16, 2001 9:10 a.m.

One of the most puzzling repercussions of the September 11th attacks has been the polling data that shows that Americans' trust for government has surged. When the public is asked whether they "trust the government to do the right thing most of the time," more than half of voters now say they do. This is up from less than 1/3rd in recent years past. Liberal newspaper commentator David Broder has celebrated this increased trust in government as a sign of civic cohesiveness.

One of America's most annoying commentators these days, Paul Krugman of the *New York Times*, wrote earlier this week that the need for big government is more apparent now than ever. You see, he says, we need policemen and firemen and federal bureaucrats to run the security at the airports. He ridicules the notion of conservatives who would privatize public services just because they "are motivated by a hatred of government." He even blames the hijackings on private security guards at the airports.

Now, it is certainly encouraging that we Americans have experienced a surge of patriotism as a result of these murderous attacks against our nation. To some extent these polls showing a rise in trust in government are simply capturing the "rally around the flag" phenomenon that is healthy and common during times of national disaster.

But to feel patriotic about our country does not mean that we should rush to embrace big government or the bureaucrats who run it, as Krugman suggests. In fact, just the opposite. The successful acts of terrorism of September 11th were quite possibly the greatest failure of our government in the last 50 years. After all, we spend $2 trillion a year on our government — the most expensive government in the history of the world — and the one thing this massively expensive federal enterprise is supposed to do is protect us from foreign enemies. It is not being unpatriotic to say that our government failed us big time.

So herein lies the paradox: Why would Americans feel more trust for our government now than we did before September 11th. Rationally, we should feel much, much less trust in our government. And what is much more troubling is that so many people in Washington are now arguing that the lesson of September 11th is that we need even more government than the $2,000,000,000,000 one we already have. We here talk of national ID cards and federalizing 15,000 airport workers, and huge new expenditures on white elephant government infrastructure programs like Amtrak. How in the world does what happened on September 11th argue for even more money for a railroad that costs taxpayers nearly $75 every time someone climbs aboard?

The lesson of September 11, 2001 is not that we need bigger government. It is that we need much smarter government. Sen. Phil Gramm of Texas, who will soon be terribly missed, has said it best when he noted that "a government that tries to do everything can't do anything very well." Precisely. We should stop subsidizing day care and sheep herding, and high-tech companies, and expensive drugs for 85-year-old geriatric patients, and mass-transit projects to nowhere, and Lawrence Welk museums, and shark research, and an utterly worthless education department, and freedom fighters in every corner of the globe, and foreign-aid payments to corrupt and free-market hostile governments, and tens of thousands of troops in Europe protecting we don't know whom from we don't know who, and start investing massively in counterterrorism activities that will keep us safe from our enemies.

If the federal government can't protect our national security, it is the height of folly to empower it to do much of anything else.

National Review Online Financial...............print version

Stephen Moore
NRO Financial Columnist

Window on the Capital City

In praise of the world's greatest airport.

Mr. Moore is president of the Club for Growth
October 4, 2001 9:15 a.m.

I'm not usually one who gets sentimental about buildings or monuments, but the Reagan National Airport is a great American icon. It is very good news for the country that this spectacular and stately airport reopens today. Suddenly the skies seem a lot friendlier with Reagan National back in business.

My first trip ever into what was then just "National" airport was probably not much different than for so many other Americans. It was during our Saints Faith, Hope, and Charity eighth-grade fieldtrip to Washington back in 1973. And what I will never forget about that trip (other than getting nearly sent home by Monsignor Flanigan on the first night for smuggling beer and cigarettes into our Marriott Hotel room) was gazing out of the window as we descended into National on a crystal-clear May evening in 1973. "There is the Washington Monument!" we all blurted in unison, like a bunch of well-giddy school children. "I see the Capitol," hollered someone in the seat behind me. The photos in the civics textbooks just don't do justice to any of these resolute symbols of freedom.

Over the past 20 years that I have now lived and worked in Washington I would venture to guess that I have flown into National perhaps 250 times. I'll be damned if I don't still get the same goose bumps staring out the window at those magnificent and muscular marble monuments that I did some 25 years ago. It's just the best way to capture the grandeur of our capital city unless you have the money to rent a hot-air balloon and float down Pennsylvania Ave.

Now I have to confess that I also love National for purely selfish reasons. Has there ever been a more convenient airport to any city in the world? I mean really? Before September 11th, I could leave my office at 18th and K and be aboard a shuttle to New York in 23 minutes — if it wasn't rush hour. It practically takes 23 minutes to take those blasted shuttle trains just to get to your gate at Dulles Airport. And from now on, alas, it will take 23 minutes just to get through the lengthy security lines and the metal detectors. At New York's LaGuardia it can take 23 minutes just to wait for a cab.

The design of National airport is superb in every regard. Its glass and stone façade with high curving ceilings are like those of a cathedral. It is spanking clean. It is comfortable. It seems — and what a novel idea — designed to maximize the satisfaction of its customers. One reason the airport is back in business is that members of Congress, who appropriate funds to help pay the airport's bills, are heavy users — and they were no more thrilled about the prospect of flying out of Baltimore than I was.

Despite servicing hundreds of flights a day, National is easily the least congested and least claustrophobic airport on the east coast. This is no small point: There is plenty of parking in the nearby garage, meaning that you don't have to take a shuttle bus from some remote "satellite" lot three miles away from the terminals. Every departure gate is easily accessible in about six or seven minutes walking time. At DFW in Dallas or Chicago's O'Hare, you could run a marathon in the terminals and still not arrive at your departure gate.

The security concern over National Airport's proximity to downtown Washington, the White House, the Capitol, and the Pentagon is admittedly no small problem. The Defense Department would have less than ten seconds to distinguish between a plane descending into the airport runway and one crashing as a missile into the Pentagon. But this closeness to D.C. is also its great attraction. The new-style mega-airports sprouting up around the country seem to be built with the intention of milking out-of-towners with the maximum cab fare possible. The new Denver airport is an abomination in this regard. You drive 15 miles just to get close to civilization and another 15 to get into downtown Denver. By contrast, I feel almost sorry for the immigrant D.C. cabbies who wait in line for an hour or two for passengers at National and then often get rewarded with a puny $16 fare.

It makes great sense that private jets will no longer be serviced in and out of National. The landing slots are so valuable, it was sheer idiocy to allow Cessna's to fly in and out with three or four fat-cat passengers, thus bumping out of the queue jumbo jets with 200 passengers. It's high time that our airports charged competitive market rates and peak-hour pricing for landing slots.

Kudos to George W. Bush for reopening National — albeit on a much slimmed-down flight schedule. Bush was right to proclaim that by opening up Reagan National for business again, we say to the terrorists: You bastards failed. We're all systems go. (Here I'm paraphrasing the president, of course.)

A great city deserves — no, it needs — a great airport. It's the world's window to the city. (When you arrive at the dilapidated airport in Detroit you just somehow get the sense you're in a city that you don't want to stay too long in.) Reagan National is as much a monument to Washington, D.C. as is the Jefferson or Lincoln Memorial or the Kennedy Center. It should remain open for at least another 100 years.

National Review Online Financial..............print version

Stephen Moore
NRO Financial Columnist

No War for Big Brother

No need for ID cards.

Mr. Moore is president of the Club for Growth
October 2, 2001 8:40 a.m.

One historical lesson of wartime is that government grabs new powers that it could never secure during times of peace. War has been an engine of government growth and invasiveness because the state very rarely gives back the freedoms it has usurped during the time of crisis. In fact, in his famous and brilliant book *Crisis and Leviathan*, historian Robert Higgs provides dozens of examples of how government has nearly doubled in size after every major war.

The new war on terrorism is especially frightening in this regard. Obviously, in the wake of the heinous events of September 11th, everyone wants the government to take extra prudent security measures to prevent the recurrence of these murderous acts. But almost every new security step that the government has taken in the last several weeks will do little to avoid terrorism, but will do a lot to place new burdens on the rest of us. The examples are mounting up: ending curbside check in at airports, not allowing e-ticket holders to go straight to the airport gate, requiring motorists to wait in lines for hours to get into Manhattan, creating five and six hour waits at the border for truckers to bring their cargo into the country, shutting down Reagan National Airport (which will probably be opening by week's end).

One really bad idea that scares me is the rush to institute a national ID card. The idea is to require every American to carry a secure identification card that would include a photograph and some biometric identifier, such as a fingerprint. These kinds of internal passports were the hallmark of totalitarian nations and other police states. Almost every national ID card proposal would include a national computer database that would or could contain all sorts of information about you and me. Police, employers, school officials, etc. would phone into this database to verify our citizenship and records. I have suggested that the government use the easy to remember number: 1-800-BIG-BROTHER.

With a small microchip on the card, the government could storehouse every conceivable piece of data about our private lives on the card: extensive health and education records, our job histories, our past residences, information about whether we own a gun and how many, perhaps income and IRS data, etc. It is also interesting that every time a big government liberal suggests some new expansive governmental power, it is often linked to setting up a national ID card. For example, gun-control fanatics have always lusted after the idea of a national registry of gun ownership in America — which would, of course, facilitate rounding up the guns if the government ever tried to disarm citizens.

Conservatives should never forget that the last major politician who called for national identifier card was none other than Hillary Clinton when she wanted to nationalize the health-care system in America. If we already had a national ID card to "fight terrorism," this would only make Hillary's socialistic dream all the more achievable.

We have seen time and again throughout history that when the government gathers information about us, it often uses that data for illegal and unconstitutional purposes. The IRS just a few years ago admitted, for example, that the "confidential" IRS records of thousands of Americans were invaded by snooping IRS agents. The government used supposedly confidential Census Bureau information to track down Japanese Americans during the internment during World War II.

I confess here a strong libertarian bias. Call me a natural skeptic, but I refuse to believe that an ID card system would only be used by government officials for legitimate purposes. The idea of a national id card system with another Janet Reno in the Justice Department is frankly very frightening. My belief is that the less the government knows about me the better. And I'm no terrorist; nor am I an illegal immigrant.

Here's the clinching argument against the id-card scheme: It won't work. The objective of the ID card is to keep out terrorists and to reduce illegal immigration. But terrorists can come to the United States in any one of dozens of ways legally. They can come as tourists, students, legal immigrants, diplomats, and on and on. A national ID card scheme would have done nothing to deter the September 11 calamity. These terrorists were here in the country legally. For those foreigners who do enter illegally, falsified documents are available quickly and at a low cost. Any design of a card the government can come up with, counterfeiters can easily copy. You can obtain half decent forgeries of drivers licenses and birth certificates for less than $200 at the border in California. A more secure system might double that price, which could potentially deter some poor Mexican agriculture workers from trekking across the border illegally, but a $500 "fee" to obtain false paperwork would hardly be a deterrent against well financed militant terrorists who plan multi-billion dollar operations.

We can defeat terrorism — by defunding the murderers and by systematically tracking their operations down. We don't have to forfeit fundamental freedoms and civil liberties to the agents of government. After all, we love America because it is the freest land in the world. It is our freedoms and our wealth that make the terrorist hate us so much, and that we have set out to protect. If we do decide, one by one to voluntarily surrender our bundle of rights, I believe we will have allowed the terrorists to achieve a great victory over the American way of life.

National Review Online Financial..............print version

Stephen Moore
NRO Financial Columnist

What Kind of Sacrifice?

Winning the economic war.

Mr. Moore is president of the Club for Growth
September 19, 2001 7:30 a.m.

New York Senator Hillary Clinton announced Monday on the floor of the New York Stock Exchange that if her money (from cattle-future trading no doubt) weren't tied up in a blind trust, that she would be buying stock today. This may be the first time in her political career that Hillary has expressed any concern for helping the stock market, but it turns out her strategy of buying share to pro-up stock values is misguided.

Many economic commentators have urged the same response from patriotic Americans this week. Buy stocks; invest in America. My friend Bruce Bartlett has recommended this strategy as a way to prevent a market free fall. Millions of Americans took this advice and bought stocks Monday. Good for them.

This may help boost confidence in the days ahead, and we all know that for long term investing, stocks always offer a terrific rate of return.

But the stock market is as close as it gets in this world to a perfect market. No one individual, or even large group of individuals — even a mass effort in the millions — can long influence market prices or hold them above or below their value based on future earnings potential. (The big industrialists tried to prop up the stock market after the crash of 1929. It was a grand failure.)

Take the situation of our airlines. No amount of buying stocks can alter the fundamental fact that these companies have lost tremendous value in the last week (airline stocks were down almost 40% on Monday). Running an airline is not going to produce profits for a long time to come. Travel agents say that air reservations are down almost 50%. If the future profits of these airlines fall to zero, it doesn't matter how much of the stock we all buy — the price will eventually fall to zero. Buying United Airlines stock won't get people to fly the friendly skies.

Here's the good news. There is a step that Hillary Clinton could and should take with her congressional colleagues to boost stock values: Cut the capital-gains tax in half. Do it today. Make it retroactive to 9/11/2001. If you cut the capital-gains tax you will instantly increase the underlying value of every share of stock of every American company. People like economist Paul Krugman say that this is ludicrous. That we need sacrifice now — not "tax cuts for the rich." The *USA Today* poll today asked Americans if they would be willing to pay more taxes to finance a war on terrorism. Raising taxes now, on this fragile economy, would be about as logical as taking another plane and flying it into the Empire State Building.

Krugman and the media don't get it. If we can keep stock values high and reinvigorate the economy, every American gains: our soldiers, our union workers, our 100 million share holders, and our children.

Ronald Reagan proved in the 1980s in winning the Cold War that the optimal constellation of policies at a time of national emergency is a muscular military machine and a mighty economic engine to finance that defense system. That is a valuable line of defense against those murderous villains who want to destroy our economic way of life.

Finally, we ought to never forget the wise counsel of the great General Patton who said that the goal of war is not to die for one's country but to make the other bastard die for *his* country. The best type of sacrifice is that required of our enemies, not of ourselves.

National Review Online Financial..............print version

Stephen Moore
NRO Financial Columnist

Don't Fear Flying

Flying is a lot safer than most Americans think.

Mr. Moore is president of the Club for Growth
September 17, 2001 10:10 a.m.

On Thursday President Bush was asked about whether he felt it was safe for people to fly again. He responded that he would have no reservations about putting his own family on a commercial plane.

Whether Americans share that sense of confidence is another matter altogether. Americans will undoubtedly be even more terrified of boarding an airplane than normal — and fear of flying is one of America's national pastimes. Even many major American corporations have banned air travel for at least the next week or two.

But flying is a lot safer than most Americans think. Statistically speaking, commercial airplane crashes — whether caused by bad whether, pilot error, air-traffic mistakes, or even hijackers — are extremely rare.

Even accounting for the four hijackings last week, it is still true that airplane travel is now the safest form of transportation ever devised. In 1998, for example, there were 14 million commercial airline flights carrying 615 million passengers. There were zero crashes and zero fatalities. In 1999 and 2000 there were less than five in each year. According to the research organization STATS, "your odds of dying in a plane crash [based on recent experience from the 1990s] and based on flying 100,000 miles a year on large commercial jets, are about 1 in 500,000." STATS also finds that if you fly just 2,000 miles a year, your odds of dying in a plane crash are roughly equivalent to your odds of being hit on the head by a plane falling on you.

I have talked to many people in recent days, including my wife, who say that they will from now on drive or take the train, whenever they have those options, rather than fly. This is the height of irrationality. The death rate from flying on commercial airlines is at least four times lower per mile traveled than driving a car. Train crashes are far more common than airplane crashes. In other words, if you are you are motivated by fear to drive to your out-of-town destination, your chances of dying are much, much higher than if you fly.

But more so than ever Americans will think that flying is dangerous because that horrible scene of the jet slamming into the World Trade Center is now indelibly sketched in our minds. There but through the grace of God could have gone you or me. Yet if we are going to be frightened of such random acts of terror — that have minute statistical probabilities of occurring — then are we also going to fear entering tall buildings (probably), going to a shopping mall, a football stadium, a bus, Disney World? Are we going to fear sending our kids to school?

To live in such terror is to...well, allow the terrorists to accomplish their objective: to defeat capitalism by bringing American commerce to a standstill.

Prior to this week, the odds of dying in a terrorist incident were far less than the odds of dying from falling off a ladder at home or from riding a bicycle. The rate of death from catastrophic events (accidents killing at least five people), had fallen about threefold over the past 50 years. You have a microscopic 1 in 400,000 chance of dying in a catastrophic accident. This may not seem very reassuring given that we have just suffered the worst catastrophic event on American soil in at least 100 years. But if you are worried about premature death, the best course of action is to stop eating, drinking, and smoking to excess and you will do far more to extend your life span than by avoiding flying on an airplane.

In fact, it is precisely because acts of terrorism have been so rare in recent times that we were so caught off guard and had become so lax in security to allow these monsters to succeed in their dastardly deeds. The best way to avoid future acts of terrorism is through rational acts of prudent security and precaution and, of course, by seeking retribution as a means of deterrence.

Whenever we radically alter our lifestyle out of irrational fear (for example, by driving not flying), then we often engage in more dangerous behavior, not less. The journal *Psychological Science* recently found that one risk of early death is fear itself. The journal found that "people who catastrophize experiences suffer from poor decision making and are more likely to be in the wrong place at the wrong time."

In other words, we must not allow terrorists to literally scare us to death.

National Review Online Financial...............print version

Stephen Moore
NRO Financial Columnist

Bush's Other Battlefield
He's got to lead the economy.

Mr. Moore is president of the Club for Growth
September 24, 2001 8:30 a.m.

Last Wednesday House Speaker Dennis Hastert convened a meeting of the congressional leadership and three economists to discuss an economic stimulus package to reverse the sinking stock market. The principals in the meeting included Hastert, Trent Lott, Tom Daschle, and Dick Gephardt. The economists Hastert invited were Fed Chairman Alan Greenspan, Clinton Treasury Secretary Robert Rubin, and Bush economist Larry Lindsey.

The meeting couldn't have gone worse and is an indication of the lousy advice Republicans are getting on the economy. Incredibly, not a single one of the economists there supported the most urgent stimulus measure of all: a capital-gains tax cut.

Greenspan told the congressional leaders that they should wait two or three more weeks until he has "better data" before Congress passes an economic-rescue plan. (Apparently the near 1,000-point decline in the Dow Jones isn't plain enough evidence that the economy is in a world of hurt right now.)

Robert Rubin then chimed in to spout traditional Keynesian orthodoxy, arguing that any tax-cut plan should be "temporary." That is to say that it should have no lasting positive effect on the economy. Rubin advised Congress to expand the earned-income tax credit to low-income people who don't pay any income taxes, so they will go out and spend.

Lindsey argued for a package of business tax cuts, including a corporate income-tax rate cut, which will help the economy, but not nearly as much as or as rapidly as a capital-gains cut to 10%. I find myself totally mystified by this White House: The Bush team seems inflexibly opposed to capital-gains reductions even though almost every supply-side economist has continually advised them that this would help the stock market more than any other policy change on the table. We could have had a capital-gains tax cut four months ago as part of the original Bush tax plan if the White House had shown even a scintilla of interest. We could have one right now if Bush would simply endorse it. So far, excruciating silence from 1600 Pennsylvania Ave.

Finally, Gephardt and Daschle reportedly advocated "more infrastructure spending" to get the economy moving again. This idea is almost laughable. The federal appropriations have been growing by about 7 percent per year for the past three years. This year federal spending is likely to rise by at least $100 billion, not counting the extra $40 billion just recently approved for "emergency spending" for the military and the massive clean-up job that lies ahead. As NRO's Larry Kudlow has shown, the only sector of the American economy that has been growing since the start of the year has been government--state, local, and federal.

Lindsey, to his credit, zinged the Democratic leaders by noting that they are in effect endorsing the Japan recovery plan for America. The Japanese government has virtually paved over the entire island with public-works spending, and this former economic superpower is now entering its 11th year of recession.

The only two people in this meeting that had the right idea on the economy were Hastert and Lott. They both want to cut the capital-gains tax to 10%. But they were isolated--surrounded by a sea of boneheaded thinking on the economy.

The good news is that House Republican leaders Dick Armey and Tom Delay are unflinchingly committed to capital-gains reduction as a "must pass" item of any economic stimulus bill. Increasingly, they are confronted with the astonishing argument that a capital-gains tax cut will cause a wave of selling and thus depress the stock market. Henry Aaron of the Brookings Institute made this silly argument in the *Washington Post* the other day. And the White House has similar concerns. But every capital-gains tax cut in history has raised stock values, not lowered them. A capital-gains tax cut increases the after tax value of stocks, so it is impossible for the stocks to fall in price. A capital-gains tax cut is desirable now precisely because it will raise stock values and reverse the catastrophic market slide over the last week.

I am increasingly worried that Bush and Congress — in the name of bipartisan unity — will enact a completely impotent economic stimulus plan. This is the greatest economic emergency our nation has faced since the stagflationary 1970s when we faced a gusher of double-digit inflation. This is not the time for half-measures or for tinkering. In just the past week American investors have lost a horrific $1 trillion in asset values. The entire budget surplus--or the $80 to $100 billion or so that is left of it--should be devoted to growth-stimulating tax cuts. If Democrats won't go along, let them have $40 billion for new spending. That is a trivial price to pay in exchange for capital-gains tax cuts, expensing for big-ticket business capital purchases, and acceleration of tax-rate cuts in the original Bush plan. Why cut tax rates in 2005 and 2006? Do it now!

Bush needs to lead on the economy — not follow a rudderless Congress. He now has an 80% approval rating with voters. Like his father exactly 10 years ago, who had a 90% approval rating at one point, George W. can command almost whatever he wants out of Congress. Bush Sr. frittered away that political capital through indecisiveness and lack of action.

Bush must immediately send an economic-rescue plan to Congress insisting on three items: Cut the capital-gains tax in half; give businesses real tax relief; and fast forward all the tax-rate cuts in his original tax plan to an effective date of 9/11/01.

It took just 48 hours for Congress to pass an emergency military appropriations to fight the war against terrorism. It shouldn't take more than 48 hours for an emergency plan to fight the war at home against recession.

National Review Online Financial...............print version

Stephen Moore
NRO Financial Columnist

A Dem Plot to Raise Taxes

The real budget story.

Mr. Moore is president of the Club for Growth
August 30, 2001 9:00 a.m.

Earlier this week, Sen. Kent Conrad, the left-wing senator from North Dakota, said that if the surpluses continue to disappear, we may have to start looking at "revenue options." Well, there they go again. "Revenue options" is one of those lovely Washington euphemisms for "tax increase."

Question: What kind of an economic illiterate would call for a tax increase just as the economy is tanking? This is about as sane as lighting a blowtorch in a munitions factory. And folks, this is the man that the Democrats have chosen to run the Senate Budget Committee. Even most left-wing economists would denounce a tax hike as ludicrous given the precarious nature of the nation's finances.

Though not all. In the August 28th *Washington Post*, Bob Kutner provides another dose of boneheaded advice to deal with the shrinking surplus: First, repeal the Bush tax cut to regain the lost surplus, he says, then increase government spending as much as possible to pump up growth. This is a demented bit of logic we have here. Kutner says that giving people like you and me a tax cut so they can we spend it on what we want to is economically depressing, but letting Hillary Clinton and Robert C. Byrd spend those same dollars on government programs is a wise investment in the future and an economic stimulus to boot. Of course, if Kutner's prescription were right, the economy would be soaring and the Dow Jones would be surging into the 20,000 territory. Federal spending this year is already sprinting along at a nearly 10 percent growth pace.

This rush by Democrats to raise taxes is the first good news that Republicans have had in weeks. As the economy slows, Democrats are so thirsting for more revenues that they're now publicly endorsing tax hikes. Since, the Bush tax plan is now the law of the land, repealing it would require raising taxes on at least 75 million people. By all means, let them run in 2002 on that message populist message.

The Democrats are also fiscal hypocrites when it comes to the tax issue. The Capitol Hill newspaper *The Hill* reported last week that the vast majority of the Democrats who opposed the Bush tax cut are intending to cash their rebate checks rather than send it back to the Treasury. One congressman was quoted as saying: "I have bills to pay." I only wish he could feel my pain.

The tax rebate, which has caused the surplus to shrink by $40 billion this year, was originally the Democrats' own idea. In fact, when the White House sent out letters reminding voters that the tax-rebate checks were thanks to George W. Bush's commitment to tax relief, Democrats howled to high heaven in protest, charging Bush with hogging all the credit. Tom Daschle originally wanted to widen the tax rebate to 35 million Americans who don't even pay taxes. Now he and his colleagues are threatening to cancel the tax cut that they still say they wanted to go to more people.

The Democrats' fuzzy tax logic goes further back than that. During the presidential campaign Al Gore and the Left's spin machine complained that the Bush tax cut would "overheat" the economy. Then when it became clear earlier this year that the economy was on rocky ground, an army of left-wing economists said the slowdown would be over before any tax relief could possibly arrive. There is always an excuse with these folks not to cut taxes. Then in the first months of this year Dick Gephardt thrashed the White House for "talking down the economy" to build support for the tax cut. Now, with the economy and the stock market reeling worse than ever, logically they should be in favor of an even larger tax cut rather than repealing the meager one we just got.

Nothing would better aid Republicans in regaining their political balance than a clash over whether taxes should be raised or lowered. Now that the Democrats have staked out their position, Republicans need to counter with an entirely alternative vision: one that includes a big plate of growth enhancing tax cuts. The shrinking surplus is a result of slow growth. Slow growth is a result of a tax anchor on businesses and workers that still hasn't been lifted. Liberate the economy from that burden and the economy will rise back to life and the surplus will again surge. Mitch Daniels is the one (and perhaps only) administration top dog who has this story right: The surplus is a consequence of economic growth, not the cause of growth.

There's one problem. Republicans have not articulated a comprehensive economic recovery tax plan containing capital-gains relief, genuine death-tax repeal, and business tax incentives to encourage capital investment and hiring. There is nothing to counteract the Daschle-Gephardt agenda of higher taxes and fattened government. The Democrats have an economically debilitating game plan to resurrect the economy. But at least they have a plan.

National Review Online Financial................print version

Stephen Moore
NRO Financial Columnist

Bulletproof

A plan for Social Security reform the Dems will hate.

Mr. Moore is president of the Club for Growth
August 22, 2001 3:10 p.m.

Today the President's Commission to Save and Strengthen Social Security reconvenes to look at reform options. The commission has shown in its first report that doing nothing is about as sensible an option as allowing the Titanic to move full-steam ahead to the iceberg,

Left-wing fringe groups want to do just that and are expected to protest the commission's deliberations with hysterical claims that the Republicans want to "destroy Social Security," as Dick Gephardt and so many others have alleged. But the hysteria is a proof-positive sign that opponents of personal accounts are getting desperate and are losing the hearts and minds of American workers, who want to get more for their money. Privatization is regarded by liberal Democrats as a frontal assault against the nanny state cradle to grave fortress that was first erected by FDR some 60 years ago. They are actually quite right about that. Privatize Social Security and the rest of the New Deal/Great Society welfare state will come a tumblin' down.

So the stakes are high here. The commission had better get the plan right — both from a financial and political standpoint — so that they don't give Gephardt and his cronies a big red round bulls eye to shoot at.

The first thing they ought to do is call on Congressman Jim DeMint, the 3rd term South Carolina Republican, who has drafted a savvy and salable private investment plan. DeMint's brainchild promises to get us to a fully private retirement system faster and with less political resistance than any plan I have seen.

DeMint recognizes that tactically, it makes sense to preempt the strongest argument that the left has against private investment accounts. Opponents really only have one semi-persuasive argument: that private investment in the stock market is "too risky." In this god-awful stock market that argument has an aroma of truth to it. Most Americans lost money in their 401K plans last year for the first time in anyone's memory. The bearish market reinforces the message that stocks are too risky to gamble your retirement dollars on. (Let's set aside the fact that now may actually be the ideal time for workers to begin investing their payroll tax dollars, when the market is down, down, down. Buy low, sell high is the first rule of investing.)

The brilliance of the DeMint plan is that it removes virtually all of the "risk" from private investment accounts and thus clears away the biggest obstacle to privatization. His legislation, called the Social Security Personal Ownership Plan, has the added attraction that it is completely voluntary for workers. It also allows lower income workers to privately invest a much higher portion of their payroll tax dollars in these accounts than even President Bush is seeking. A McDonalds burger flipper would be able to put up to 8 percentage points of the 15.3% payroll tax into private investment accounts. In other words, lower income workers would be able to acquire real wealth much faster than under the Bush plan. This progressive feature of the plan gets around the practical problem that lower wage workers wouldn't be able to put enough money into their personal accounts (if the cap was 2%) to cover the administrative costs of private accounts.

The DeMint plan also masterfully overcomes the "transitional financing" problem that has liberal critics of privatization all hot and bothered about. The DeMint plan would pay for current benefits out of payroll tax revenues plus borrowing from the on-budget surplus that is projected over the next dozen years or so. In fact, DeMint has run the numbers with the help of Social Security actuaries, and what he has found is that his plan requires several trillion dollars less debt over the next 50 years than if we were continue with this insane pay-as-you go recklessness. Any American 20 years of age or younger, could rely exclusively on the earnings from the personal accounts, and wouldn't need a dime of Social Security.

I have always believed that the three key components of Social Security private accounts are as follows:

1) No benefit cuts for seniors or near seniors. Social Security's promises need to be kept for the elderly and near-elderly.
2) The plan should be voluntary. No one should be forced to join.
3) Every worker should be guaranteed a minimum benefit payment when they retire, regardless of how poorly their accounts might do.

To my delighted surprise, I learned last week in a meeting with Rep. DeMint in his Capitol Hill office that these are precisely his priorities as well. (Great minds think alike.) The DeMint plan offers an actuarially sound mechanism for getting the U.S. to a fully private retirement account system within 20-25 years — or within about one generation. "Access to real personal financial wealth should not be reserved for the privileged few," DeMint's proclaims.

President Bush and the members of his Commission to Save and Strengthen Social Security should adopt this model plan as their own. Congress should pass it into law pronto. No other plan to my knowledge allows even the lowest income workers to build-up real castles of wealth, more quickly and efficiently than the DeMint plan. The plan is bulletproof.

The rallying cry for this legislation ought to be Karl Marx's famous plea: Workers of the world unite. All you have to lose is your chains. It says a lot about the leftist mentality that even the most devout socialists in Congress don't want that to happen.

National Review Online Financial...............print version

Stephen Moore

NRO Financial Columnist

Reagan Changed the World

A twentieth anniversary.

Mr. Moore is president of the Club for Growth
August 17, 2001 8:40 a.m.

No event over the past quarter century has had a more profound impact on the U.S. economy and the prosperity of the 1980s and '90s than the Reagan tax cut of 1981.

It was signed into law on August 15, 1981 — a day that will live in history as a great American turning point.

Liberals to this day continue to fanatically denounce the Reagan economic plan — known as supply-side economics — as an economic catastrophe. Dick Gephardt routinely warns against "repeating the mistakes of the 1980s." In a recent TV interview he proclaimed that it took the nation "15 years to dig out of the hole that Reagan put us in."

The truth is that the nation was in quite a deep hole of economic collapse when Reagan was elected. We were in the midst of the worst economic depression in 1980-81 than at anytime since the Great Depression of the 1930s. Here is how *Newsweek* described the economy that Reagan inherited from Jimmy "malaise" Carter: "When Ronald Reagan steps into the White House next week, he will inherit the most dangerous economic crisis since Franklin Roosevelt took office 48 years ago." That was no exaggeration.

There is a sharp contrast between the performance of the U.S. economy before, and then after the Reagan tax cuts. In 1980 the U. S. inflation rate hit a record high of 13.5%. Mortgage interest rates soared to 20 percent creating a moribund housing industry. America was rapidly deindustrializing. Unemployment had reached its highest level in 40 years. We were literally teetering on the brink of a 1930s style depression. Economist Henry Kaufman of Salomon Brothers reflected the gloomy mood of most Americans at that time when he remarked, "I am aghast at how much our country has faltered."

In the early 1980s when I graduated from college, the economy was so bad and jobs were so scarce, it was hard to get hired as a burger flipper at the minimum wage.

Reagan's tax-rate cuts — combined with his emphasis on sound money, deregulation, and free trade — created a mighty economic expansion in the 1980s. Bob Bartley of the *Wall Street Journal* described this period as "the seven fat years." Any student of the 1980s, who wishes to know what really happened to the economy in the Reagan years must read Bartley's invaluable book by that title. This expansion carried through the 1990s as well — creating America's greatest sustained wave of prosperity ever. "

The economy grew by more than one-third in size. Growth was so high in the 1980s that grouchy leftists were forced to resort to ridiculing the Reagan years as the "decade of greed."

Consider what happened to the net wealth of the nation over this lengthy period of peace and prosperity. In 1982 the Dow Jones hit a low point of 792. When Reagan left office, the market had more than tripled in value. Then in tripled again over the next 10 years. In other words, after the Reagan tax cuts, the stock market soared from a low of 800 to well over 10,000 today. Miraculous is the only word to describe this $15 trillion increase in Americans' wealth.

It wasn't just the affluent who benefited from the 1980s expansion. After Reagan's tax-rate cuts, real median family incomes, which had fallen sharply during the stagflationary period 1977-82, rose by nearly 10 percent. From 1981 to 1989, every income quintile — from the richest to the poorest — gained income according to the Census Bureau economic data.

The table below shows that by 1989 there were 5.9 million more Americans whose salaries exceeded $50,000 a year than there were in 1981 (adjusting for inflation). Similarly, there were 2.5 million more Americans earning more than $75,000 a year, an 83 percent increase. And the number of Americans earning less than $10,000 a year fell by 3.4 million workers.

Incomes Moved Up in the 1980s

(billions 1981 dollars)

Workers Earning	< $10,000	> $50,000	> $75,000
1981	66.0	9.9	3.0
1989	62.6	15.8	5.5
Difference	-3.4	5.9	2.5
% Change	-5%	60%	83%

Source: Cato Institute calculations based on Bureau of the Census; U.S. Statistical Abstract, 1996, p. 478, Table 740.

*Earning levels are adjusted for inflation between 1981 and 1989.

But what about the rise of the national debt that so many of Reagan's critics are so hyper-obsessed over? Tax cuts didn't cause the surge in debt. Spending did.

Between 1980 and 1990 the federal tax collections doubled from $500 billion to $1 trillion. Tax rates went down, but tax payments went up, because a prosperous economy always produces an overflow of tax payments, just as a stagnant economy never generates sufficient tax revenues to pay the bills. This is just as Reagan had predicted. I have always believed that so many in the media and in academia have such a visceral hatred of the Gipper is that he had this wonderful talent of proving them wrong.

Reagan used to take great joy in noting that when the economy roared back to life in 1983 and 1984, "no one calls it Reaganomics anymore." That's because Reaganomics was supposed to be a failure according to the models of Harvard and other Ivy League Keynesian economists. How frustrating it must have been for someone trained in economics at tiny Eureka College to blow their decrepit theories away.

In the 1980s incomes, employment, investment, wealth, consumer confidence, the stock market, and tax-payments rose. Interest rates, inflation, and bankruptcies plummeted. If the tax cuts of the 1980s were a mistake, there are millions of Americans who believe we could use mistaken policies like that again right about now.

National Review Online Financial..............print version

Stephen Moore
NRO Financial Columnist

The Perfect Check

Why not a tax rebate every July?

Mr. Moore is president of the Club for Growth
July 24, 2001 8:40 a.m.

Republicans have struck political pay-dirt with the tax-rebate checks that are now being delivered to the mailboxes of American taxpayers. For weeks now tax-cut skeptics have been ridiculing these tax rebates as financially irrelevant to most families, but I've yet to meet anyone who isn't eagerly awaiting their $300 to $600 check from the IRS. At parties, on talk radio, and in casual telephone conversations, all anyone wants to talk about is how they're going to spend their windfall.

Economists around are fretting over what the financial impact of these checks will be. But it's really irrelevant what people do with the money — whether they use it to pay down credit-card debt or to buy a new car stereo system — it's their money, they should do with it what they please. The checks are a deserved and appreciated downpayment on the Bush tax cut.

This got me to thinking. Why not a send out an automatic tax-rebate check every year that we have a tax surplus? The size of the rebate check could be made conditional on how much of the surplus was not frittered away by congressional appropriators and their voracious appetites each year.

In other words, these tax-rebate checks could be the ultimate check and balance against the stampede of federal spending. At the start of each fiscal year, Congress should determine the size of the expected non-Social Security tax surplus. Congress should then announce how large the expected surplus tax rebate would be for the typical taxpaying family. Under this new law, discretionary federal spending should be permitted to grow no faster than the rate of inflation (CPI growth) each year. If economic growth came in faster than expected, federal revenues would be higher and the rebate checks would be larger. If Congress raced through its own appropriations speed bumps, then the surplus checks would be smaller.

And people like my wife, a prototypical soccer mom who doesn't care a whit about politics, would be hopping mad that the rebate check she was counting on from the IRS to help pay the plumber's bill, won't be coming this year because it was intercepted by the rascals in Congress who spent the money.

That's what's so ingenious about the automatic annual rebate plan. For the first time in decades, fiscal conservatives would actually have a political tool to increase support for trimming frivolous spending whenever and wherever possible. Voters would now have a direct incentive to keep the government's budget under a microscope and to repel spending for grants to the Pillsbury Dough Boy. Every dollar saved would be an additional dollar to be passed back to income taxpayers in the form of a bigger rebate check. Election-year pork-barreling would lose its "free lunch" appeal because the marble-plated parking garages and the snow-pea research funds would translate into funding available for a big rebate check every July.

Who knows, if the plan works as I think it might, pretty soon we wouldn't have any federal government at all, save for a few billion dollars for a strategic defense initiative, the Supreme Court, and independent counselors to investigate sex crimes on Capitol Hill.

Under this plan voters would think twice about rubber-stamping absurd new entitlement programs, such as the prescription-drug benefits for seniors. Young voters who want the rebate check to help pay off their student loans would be butting heads with seniors who want yet another multibillion-dollar taxpayer handout for free Viagra pills. If voters were aware that the Senate prescription-drug benefit for seniors, with its gargantuan $300 billion price tag, might mean some $100 a year off their tax-rebate check, worker enthusiasm for this new freebie entitlement might start to wane.

can just imagine the fun that people like Phil Gramm might have with this new automatic tax-rebate plan. Gramm could announce, "gee I'd like to support this $50 billion IMF bailout plan, but I can't because it would mean that Texans would only get half the rebate check they're expecting in '02." Emergency funding projects would also be examined more carefully to determine whether, for example, a few bad weeks of weather in Nebraska warrants a bigger bailout of the farmers and a lower rebate for the rest of us.

Given that my forecast for this year is a 7% to 9% growth in appropriations, coming on the heels of last year's 10 percent spending surge, any plan that could create a political constituency for smaller government, would make a lot of economic sense these days.

The Automatic Tax Rebate plan would also increase the political likelihood of real tax reform in the next five years. If congressmen realized they couldn't spend surplus tax dollars on ribbon cutting ceremonies back home, then the case for creating a brand new spanking clean tax system that is economically growth-enhancing, equitable, and radically simplified would become far more persuasive to Congressional members. Why collect tax dollars in the first place if you're prohibited from spending them?

I believe it was Mencken who once called the federal spending process an advanced auction on stolen money. Under this rebate plan voters would start to realize that that the government funding that Congress lavishes on us with such generosity was simply money stolen from us in the first place.

National Review Online Financial..................print version

Stephen Moore
NRO Financial Columnist

Blaming Rain on Umbrellas
It's spending, stupid.

Mr. Moore is president of the Club for Growth
July 10, 2001 12:00 p.m.

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All of Washington is wringing its hands over the allegedly dwindling budget surplus. The *Washington Post* reported on Monday that we may soon see a return to the politics of the "deficit-ridden years of the early- and mid-1990s." Senate Budget Committee Chairman Kent Conrad says that the shrinking surplus is due to "Bush's fiscal mismanagement" which has "driven us into a ditch." He predictably advises cancellation of the tax cut passed last month. Is there any time that Conrad and his Democratic cronies in the Senate think is the right time to cut taxes?

The Left is on the political warpath armed with these new budget numbers. The strategy of Tom Daschle et. al., is to run spending through the roof (with the complicit aid of a lot of big spending congressional Republicans), then to blame George W. Bush for imperiling Social Security with his "giant tax cut."

Hold on here. How can the tax cut be blamed for slow economic growth and shrinking surpluses when we haven't even gotten a dime of tax cuts yet? This is like blaming rain on umbrellas.

Let's back up and get the facts straight. The tax surplus isn't evaporating. Even with the updated and less bullish budget estimates, we will still run at least a $150 billion surplus this year. A few years ago that kind of budget picture would have been regarded as fiscal utopia. Now it's true that virtually the entire surplus this year will be a result of payroll taxes exceeding Social Security funds spent. Nonetheless, that's an imprudent amount of excess taxes for the government to be collecting in a flu-ridden economy.

Is the problem with the budget a shortage of tax revenues? Hardly. For the past 4 years federal income-tax revenues have been flooding the federal treasury as if pumped in through a fire hose. We averaged 8 percent federal revenue increases per year in 1998, 1999, and 2000. Since 1996 federal tax receipts have risen by $600 billion aided by a surge in capital-gains receipts after the 1997 rate cut. The $600 billion increase in taxes is more money than the entire GDP of most nations. Even after the Bush tax cut, the federal tax bite will remain higher than at anytime since 1980. Repeat after me: There's no drought in revenues.

But there is gluttony on the spending side of the budget ledger. In fact, over the past 3 years Congress has been on the most expensive shopping spree in Washington since LBJ was in the White House. Last year federal appropriations rocketed skyward by almost 9 percent. (This was in a year with negligible inflation.) This year, I've been predicting a 7 percent growth rate in spending.

Over the past 3 years the total number of pork-barrel projects has more than doubled. It used to be that Congress spent $20 or $30 billion a year on parochial projects like skating rinks, convention centers, parking garages, dams, and hometown university grants on honeybee mating behavior. This year, hold onto your hats, the total cost of requested pork projects has reached $280 billion. That comes to $3,800 this year for every family of four in America. And yet now we're told that Congress can't afford to mail a $300 rebate check to folks. Sorry, we've got to pay for that new Robert C. Byrd light rail system in Morgantown West Virginia.

If Congress would just cut out the Jimmy Dean sausages from the budget, we could all get a rebate check with an extra zero tacked on.

Yes, Virginia, there is a budget emergency in Washington. It's called spending. Here're some examples. Education funding is expected to double over the next five years. Agriculture spending could hit an all-time record of $50 billion in 2002 — making farming the most subsidized occupation in America. The energy budget will rise to its highest level since the Carter administration.

It gets worse. The prescription drug benefit program that is sure to pass later this summer or fall carries with it a price tag of $300 billion over 10 years. Runaway entitlement spending created the budget crisis in the first place. Now we're into the game of adding new entitlements — for seniors, no less, the wealthiest of all age groups.

The budget surplus is shrinking for two reasons: too much spending and too little economic growth. Tax cuts help solve both problems. Growth oriented tax rate reductions tear down the obstacles to investment, capital formation, and prosperity. Tax cuts also deprive Congress of funds that would otherwise be spent. This is precisely why the left is so obsessed with scaling back the Bush tax cut.

And this is why America's fiscal health and Bush's reelection requires a parade of more tax cuts (especially a capital-gains reduction), and fighting to retain the one that we just passed.

National Review Online Financial................print version

Stephen Moore
NRO Financial Columnist

Freedom Works

The only real restraint on progress is a government that smothers the human spirit.

Mr. Moore is president of the Club for Growth
July 3, 2001 3:00 p.m.

This is the one time of the year when we Americans reflect on how fortunate we are to have been born at this particular moment in time in this great country. There are 275 million Americans, but 6 billion people on the planet. We all had less than a 1-in-20 chance of being born American. Folks, we have won the most important of life's lotteries!

In our recent book *It's Getting Better All the Time: The Greatest Trends of the Last 100 years*, my co-author Julian Simon and I ask the question: Why did so much of the human progress of the past century originate in the United States? What is so special about this country that has sparked such incredible human ingenuity and invention?

The shorthand answer is: Freedom works. The unique American formula of individual liberty and free enterprise has cultivated risk taking, experimentation, innovation, and scientific exploration on a grand scale that has never occurred anywhere before.

Economic freedom and freedom from government repression, in particular, are necessary ingredients for human progress. In the United States for the most part, and at least more than nearly anywhere else of consequence on the globe, the government has set down a reasonable rule of law, providing a well-balanced equilibrium between liberty and order, and then gotten out of the way. In the post-World War II period when America's closest economic rival, Europe, experimented with socialism in the west and totalitarianism in the east, the U.S. wisely continued to pursue free-market capitalism, thus widening the U.S. lead in economic prosperity.

I would add to this that America enjoys a unique advantage over other nations — and I know some of my *NR* colleagues disagree here. We are a nation that remakes itself through the new blood of immigrants. The tens of millions of new Americans who came through Ellis Island or across the Rio Grande have represented the skim off the cream of the rest of the world. Americans are a people who have been self-selected as problem solvers and progress-seekers.

America got rich at such a faster pace than other nations in the 20th century quite simply because no other place on Earth cultivates the entrepreneurial, inventive spirit of human beings, more than the United States does. Government has grown enormously over the past century in the U.S., much more than we believe is optimal; but compared to other nations and compared to the heavy hand of government that restricted individual freedom in past eras (slavery, Jim Crowe laws, etc.), Americans today enjoy an unprecedented degree of political and economic freedom. This provides Americans the ability and the incentive to build, create, and prosper.

Repression by government short-circuits the human spirit and dooms its citizens to sustained periods of stagnation and even anti-progress. The tragedy of the past 100 years is that mankind has had to relearn the lesson of history again and again — most recently in the former Soviet Union where life expectancies have tragically fallen and in China where tens of millions of Chinese have starved to death under collectivist agricultural policies. There is a strong positive relationship between economic freedom and economic prosperity. The free countries are the rich countries. Free nations like the U.S. have a 10 times higher per-capita income than countries that are not free. Economics is really a very simple science. Why do economists try to make it so complicated?

Health and freedom also go hand in hand. Life expectancies are 17 years longer for those born in free nations than those born in non-free nations.

The American intelligentsia is the last to get this message. Many in the media and academia reject the notion of American exceptionalism and applaud statism. But almost every great tragedy of the 20th century was a result of too much government, not too little. Nazism, socialism, Maoism, Communism, Marxism, and Apartheid were all simply fancy names for statism — for tyrannical governmental control over the lives and liberties of the citizenry. Hitler killed 6 million Jews in the Holocaust, Mao murdered an estimated 30-40 million people; Stalin's purges led to the extermination of between 20 and 60 million; Pol Pot killed roughly 2 million in the killing fields of Cambodia. The enduring lesson of the last century is that the only real restraint on progress is a government that smothers the human spirit.

This is why it is a wonderful holiday, the Fourth of July. We celebrate a unique American-style liberty and freedom. The good news is that freedom is now stretching around the world. But it is still far too much of a rarity.

Reagan said it best when he noted at the 1980 Republican Convention, "No one can doubt that it was divine providence that created this shining city on a hill — this beacon of freedom." Yes, God surely has blessed America.

National Review Online Financial..............print version

Stephen Moore
NRO Financial Columnist

Abolishing Bathtubs

Not a giant leap.

Mr. Moore is president of the Club for Growth
June 28, 2001 8:25 a.m.

Daschle & Kennedy Call for Abolition of Bathtubs Washington, D.C. (CNN) — In the wake of the tragic and horrifying drowning of five children by their mother Andrea Yates in the bathtub of their Houston home, Democratic Senators Tom Daschle and Ted Kennedy have called for making home bath tubs illegal. "How many children have to die before we accept the fact that bath tubs are a major cause of death in the home," Kennedy said. He cited Consumer Product Safety Commission data which confirms that bathtubs are now one of the 5 leading causes of home accidental deaths.

"It may very well be that if this severely depressed mother had not had ready access to a bathtub, these 5 innocent children might still be alive today," Kennedy added at the somber Washington press conference. He was surrounded by representatives from a wide range of liberal organizations including People for the American Way, Children's Defense Fund, and Bathtub Control, Inc.

Daschle and Kennedy also called for an immediate doubling of National Institute of Health funding for post-partum depression. "We've been ignoring the cries for help of these horribly depressed women for too long," said National Organization for Women president Patricia Ireland. Mrs. Yates is "as much a victim as a criminal in this sad incident," she observed. Ireland also said that this incident only underscores the fact that America remains a "patriarchal society" where women are forced to rear children at home "isolated" and without "any support networks from government or the community." "This situation where women are imprisoned at home with their children is the worst possible kind of child-care arrangement for mother and child."

Mrs. Yates made her first public appearance this morning on *The Today Show*. In her usual probing, but empathetic manner, Katie Couric asked: "Mrs. Yates, after you drowned your five children, how did that make you feel?"

Kennedy and Daschle pledged that they would launch a series of Senate hearings on bathtub-related deaths, and were greeted by thunderous applause by many of the consumer-advocate groups in attendance. People don't drown children, bathtubs do," Ralph Nader noted. "We intend to do to bathtubs in this decade what we did to Corvairs in the 1960s: abolish them." Marian Wright Edelman weighed in by noting that it will do very little good to "get handguns out of the home, if people still have access to bathtubs that are statistically about as dangerous."

The American Trial Lawyers Association says that it will set in motion a $6 billion class-action liability suit against the "rapacious and irresponsible" bathtub producers for selling these "weapons of destruction."

Activist groups chimed in that a ban on bathtubs would have collateral societal benefits. The Sierra

Club issued a press release noting that "bathtubs needlessly waste gallons of water every day" and that the optimal "green policy" would be for Americans to take showers, not baths, and preferably not every day."

Sen. Phil Gramm of Texas ridiculed the Daschle-Kennedy bill, saying: "Rather than just ban bathtubs from homes, why not ban water and modern plumbing."

Daschle ended the news conference by declaring: "After Andrea Yates drowned her 5 kids in that bathtub she called 911 and confessed with great remorse: 'I Killed My Children.' But it wasn't just this poor tortured mother, but each and every one of us in society who were co-conspirators in this senseless death and I will work tirelessly on legislation to make sure that this kind of tragedy never happens again."

Author's note: After writing this parody, I asked my research assistant to do a search of commentaries on Ms. Yates monstrous act of filicide. I was astonished to find that this is hardly even a parody of the left's reaction to the murders. If you want to be especially sickened, read Anna Quindlen's rant against society and stress in the current *Newsweek*. Her column is so over the top, at the end she is forced to write as an afterthought: "Don't get me wrong, I'm not making excuses, for Andrea Yates." Sure.

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National Review Online Financial................print version

Stephen Moore
NRO Financial Columnist

G. W. Checks

Tax rebates will be more popular than the press thinks.

Mr. Moore is president of the Club for Growth
June 25, 2001 9:00 a.m.

Die-hard supply-siders like me have been skeptical of the economic effects of Uncle Sam sending out tax-rebate checks later this year. For the umpteenth time: The problem with the economy is too little investment, not too little consumption, so it's not clear how $300 to $600 checks are going to help reverse the financial slide.

But make no mistake about it: These tax rebates are a political masterstroke. The experience in the states with tax rebates is they're extremely popular with voters — especially taxpaying voters not used to getting a refund check in the mail from the IRS. But is the GOP shrewd enough to capitalize politically on these 98 million checks that will start to be mailed out starting in mid-July?

Republicans should pay attention to the political lessons from state rebate checks sent out in recent years in Minnesota. Readers will recall that the governor there is one Jesse "The Body" Ventura. On a recent trip to Minneapolis, I asked a team of political pundits what residents thought of Ventura. The response was shocking: Despite Jesse's sometimes less than tasteful verbal indiscretions now and then, he's still quite popular. Why? I asked. The answer: Minnesotans remember tax rebate checks they've received in the mail in recent years from the state government. They remember Jesse's mantra: The budget surplus belongs to you! And lo and behold he gave it back!

Minnesotans refer to these payments as "Jesse Checks." What an ingenious reminder to voters of the man who's chiefly responsible for these unexpected but greatly appreciated tax refunds.

Bush needs to take a page out of Jesse's playbook. Start referring to these refund payments as "G.W. Checks." The RNC should start an aggressive advertising campaign entitled: Did you get your G.W. check today? Already Democrats are grousing that Bush has a letter going out to taxpayers reminding them of the rebate checks and of his promise for tax relief. Good for him. Better yet, Bush's photo should appear right on the checks.

Now, rebates are about the worst way to cut taxes from an economic standpoint. They give back money to investors and workers based on the amount of taxes ALREADY PAID. You can't change yesterday's behavior, no matter how much you jiggle with tax incentives. (But history sure proves you sure can change tomorrow's behavior with tax changes, which is why marginal tax-rate cuts are so essential to economic revival.)

That said, rebates do have one other virtue--and it's a virtue that ought not to be sneered at. There are at least $100 billion of funds that will now be returned directly to taxpayers. That's money that won't be left lying under the sofa in Washington for Congress to spend. Anything that gets money out of Washington, I'm reflexively in favor of. These rebate checks are popular and an effective antidote to big government.

In the future, any tax revenues that exceed total expenditures and that are not part of Social Security and Medicare, should be returned automatically and immediately to taxpayers. In other words, why not send a refund check every year to taxpayers with the size of the check inversely related to the amount Congress spent during the year. This could create a powerful constituency for leaner government. Americans may like these gushy feel good federal programs (such as $300 million in a recent appropriations bill to "encourage marriage"), but not if it means a smaller rebate check.

Liberal and pompous political commentators have been ridiculing rebate checks as financially insignificant. Gail Collins of the *New York Times* snuffs that "although I won't quit my job, I do hope to buy my parents a new house and perhaps travel." What biting sarcasm.

But these eggheads just don't get it. Except for perhaps Alec Baldwin, Eleanor Cliff, Dick Gephardt, and Ms. Collins, almost all Americans would rather spend $300-$600 themselves, than have the government spend it for them. And something tells me that none of the anti-tax-cut zealots are likely to be sending their rebates back to Washington uncashed either.

In fact, tax rebate checks may be the savior of the Bush presidency. My hunch is that that's what really has the Left so agitated these days.

Stephen Moore

NRO Financial Columnist

Capital Punishment

The venture-capital drought is bad news for investors and Republicans.

Mr. Moore is president of the Club for Growth
June 19, 2001 2:00 p.m.

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Over the past year I've been in umpteen debates with economists, politicians, and journalists who keep insisting that the problem with the U.S. economy is weak consumer spending. They're plain wrong. The real economic malady is declining investment.

If you don't believe me, just take a hard look at the data. The venture-capital industry is experiencing a drought. In 2000, financiers provided $87 billion of this risk capital funding for entrepreneurial start-up companies. Preliminary estimates from a survey by PricewaterhouseCoopers show that for the first half of 2001, venture-capital funding will be less than $20 billion. The pace of venture-capital funding has plummeted by more than 60 percent in the past 18 months. It's no coincidence that that's almost exactly the same percent decline in the NASDAQ from its high last year of 5000.

Venture capital is the seed corn for high-tech start-ups. These are the most essential invested funds in our information-age economy because they finance high-risk, but potentially high-payoff enterprises. Most every successful telecommunications, pharmaceutical, software, and semiconductor firm started in the U.S. over the past 20 years was nurtured in its infancy stages by angel investors and venture capitalists.

Now that funding is vanishing. Entrepreneurs are starved for financing. And this is the real long-term threat to the American economy, not the slight slump in consumer spending that so many of the academic and Wall Street economists keep fretting over.

What's Washington doing to help stimulate a resurgence in risk capital pools? So far, almost nothing.

We know from experience that venture-capital funding levels are highly sensitive to the capital-gains tax rate. In the early 1980s when the capital-gains rate was cut as part of the Reagan tax plan, the venture-capital industry first started to flex its muscle, more than doubling in size after inflation, according to the Venture Capital Association. Then in 1986 Congress did a very stupid thing: It raised the capital-gains tax from 20% to 28%. The growth spurt in these high-risk pools of capital subsided. By 1992 the total VC funds raised were still below the 1986 level. After the 1997 capital-gains cut, there was a near five-fold power surge in venture financing — until the recent downturn.

This all makes intuitive sense. If you're going to risk a lot of your money on a long-shot investment — which is what almost all entrepreneurial efforts are — you want to make dang sure that if your horse comes in, the IRS won't snatch away your profits. In an ideal world, there wouldn't be any capital-gains tax, of course, because these funds have already been taxed once (when the original funds were earned by the investor.) (Art Laffer says that the truly optimal capital-gains rate is negative, but let's not get greedy.)

In any case, the higher the capital-gains tax, the lower the after-tax rate of return on venture-capital investment dollars.

If the tax becomes too confiscatory, people will simply invest in bonds or relatively reliable blue-chip stocks. That's what's happening now. The ratio of the Dow to the NASDAQ is a convenient, if imprecise way to measure investors' willingness to take risks. That ratio has risen a lot in the past 18 months. Risk aversion is the reigning orthodoxy on Wall Street these days.

& David Riggs. 8/3/01 8:55 a.m.

Thank God for Cloning
SAN FRANCISCO — Cloning debate proves embryonic-stem-cell bait and switch. By Wesley J. Smith. 8/3/01 8:55 a.m.

Point of No Return
WASHINGTON, DC — Marriage needs a man and a woman. And, an amendment. By Stanley Kurtz. 8/3/01 8:50 a.m.

A Gross Domestic Situation
NEW YORK — The latest GDP report makes the recession official. By Larry Kudlow. 8/3/01 8:45 a.m.

Weed Whackers
NEW YORK — The anti-marijuana forces, and why they're wrong. By Rich Lowry. 8/3/01 8:30 a.m.

Okay, so what's to be done to provide some oxygen for the entrepreneurial class? Cut the capital-gains tax now. If we were to cut the current cap-gains rate from 20% to 15%, and make that cut effective July 1, 2001, this would immediately help resuscitate this now-dormant sector of the financial markets. Also, the tax cut would be immediately capitalized into the value of existing stocks, because a stock's value is simply the present value of the long-term after-tax profits of the firm. That would be a nice way to put value back into the NASDAQ. It would also help Republicans hold onto the House in 2002.

What in the world are they waiting for?

Nothing Ventured, Nothing Gained

U.S. Venture Capital Funding
(Billions of 2000 $)

1996 12
1997 17
1998 30
1999 49
2000 87
2001 (Est.) 40

Sources: National Venture Capital Association 2000; PriceWaterhouseCoopers, 2001.

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National Review Online Financial................print version

Stephen Moore
NRO Financial Columnist

Don't Forget the Bulls

The Lakers the best ever? Here's a two-word answer: Da Bulls.

Mr. Moore is president of the Club for Growth
June 6, 2001 9:25 a.m.

When you're from Chicago, as I am, and you're maniacal about sports (pardon me, for the redundancy), you learn to develop at a very young age a high threshold for pain and suffering. The agony of defeat becomes a fact of life. Life's first heartbreak for me was in the summer of '69 when the Cubs somehow famously blew a 10-game lead in August and allowed the reviled Mets to overpass them. The Cubs, of course, have experienced some 80 to 90 years of futility but we shrug it off and figure that every franchise can have a bad century.

But we Chicagoans also develop life-long love affairs with our champions. We don't win championships often, but when we do, Chicago teams win in devastating fashion — in "team-of-the-century" proportions. I'm speaking, for example, of a certain team that played in Soldiers Field in 1986, went 17-1 and became affectionately known as "da Bears." And then, of course, there was another franchise in Chicago that won 6 NBA championships in the 1990s — a team we all know as "da Bulls."

Now this past year a lot of folks are questioning the supremacy of these two dominating squads so I feel morally bound to defend their honor and the honor of my hometown against all takers.

As you may have guessed by now, this column is prompted by the recent suggestion by the eggheads at NBC, *Sports Illustrated*, and other alleged hubs of sports journalism, that this year's Los Angeles Lakers are the greatest playoff team ever. Oh puh-lease! To be sure, these Shaq and Kobe Bryant-led Lakers are mighty strong. They have already swept through the first three rounds of the NBA playoffs without a loss, and may very well complete the swing of perfection by disposing of their final pseudo-obstacle, the Philadelphia 76ers, with four straight Ws. No other team has gone undefeated through four rounds of playoffs--not even da Bulls.

But Lakers fans in Tinseltown: You're as clueless as a valley girl wondering why she doesn't have enough electric power to blow-dry her hair. Come back when you've won four more championships and we'll talk about supremacy and dynasties.

Sports reporters are now asking the tantalizing hypothetical: Who would win between this year's Lakers with Shaq and Kobe Bryant and da Bulls of yesteryear with Jordan, Pippen, Rodman, et al. There are all sorts of fun match-ups to conjure up: Kobe Bryant guarded by Pippen, Rodman on the Shaq, Horace Grant guarding himself, and Phil Jackson pacing both sidelines at once.

There are two reasons to believe the Bulls were a lot better. First, would you really want to bet against MJ in *any* big game? And for that matter, who on these Lakers could guard Jordan? You see my point. (Once Jordan was the guest host of *Saturday Night Live* and in one skit they asked him about the upcoming Olympics USA Dream Team for which he was playing. "Michael, why don't you just play these foreign teams all by yourself?" I think they were kidding.)

The other reason to be reasonably confident that the Bulls would have prevailed with relative ease is that the Bulls played a ferocious, even smothering, defense for four quarters. No one else has come close to that stifling defensive effort since.

Now, to put to rest the even bigger absurdity: the talk back in January that the Baltimore Ravens were the "greatest defensive team in NFL history." No, no, no, no.

In '86 the Bears were virtually impossible to score against. They would put eight and even sometimes nine men on the line of scrimmage and terrorize opposing quarterbacks. In the playoffs that year the Bears beat the New York Giants something like 10-0 (okay, okay, we were no offensive juggernaut) and the press kept asking then-Giants head coach Bill Parcels whether, if this or that had gone differently, the Giants might have won. "No way," said Parcels. "We were never going to score against them. You have no idea how hard they hit us." En route to their '86 Super Bowl Shuffle, the Bears hurt a lot of people. One highlight of the year was whupping the Redskins something like 34-zip.

Whenever I'm feeling depressed about things, I just slip into the VCR my tape of the '86 Bears season and all in the world is put right again. Those tapes are better for my psyche than a whole gallon-jar of valium.

If you had to take one defense, for one game, you would want the Bears', not the Ravens'. You would want Richard Dent, Mike Singletary, Gary Fencik, etc., etc. Come on, admit it, you just would.

Oh, and if there are any obnoxious Mets fans (I'm being redundant again) out there in cyberspace reading this: Heads up! Look who's in first place in the NL central division. Da Cubs. Ever since Hillary started wearing the Mets and Yankees hats, we can't do anything wrong!

Stephen Moore
NRO Columnist

Lessons Learned

Taxpayers can trust Republicans again.

Mr. Moore is president of the Club for Growth
May 30, 2001 1:00 p.m.

Since about 90 percent of the laws passed in Washington harm the economy, rather than help it, it's worth celebrating those rare occasions when Congress actually does something good for America's long-term prosperity. President Bush's tax bill is one of these rare and wonderful policy achievements.

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No one has complained more about the defects of the tax bill (too back-end loaded to help the economy anytime soon, too small given the giant tax surpluses we now have, and too much of a concession to the class-warfare rhetoric of the Left) than I have, but this should not blind us to the genuine accomplishment that has been delivered by George W. Bush and the GOP congressional leadership. Why have I laid aside my past reservations to trumpet the Bush tax bill? Here are the top 10 reasons why conservatives should celebrate this bill's passage:

1) When it comes to tax cuts… Size does matter. One of the strongest arguments for the Bush tax cut is that it will take $1.35 trillion over the next 10 years out of Washington. This tax cut is the best conceivable repellent to new spending. This is precisely why the Democrats fought so tenaciously to prevent a tax cut of this magnitude from ever being enacted. Workers, businesses,

and parents can spend $1.35 trillion much more efficiently than Congress can.

2) A return to the supply side. As Larry Kudlow argued earlier this week, the tax bill provides some modest, but not inconsequential, increases in supply-side incentives to save, invest, and take risks. Bush wanted to slash the top tax rate to 33%. Instead he settled for 35%. But hear this: The elimination of the phase-out of exemptions and itemized deductions brings the effective top income tax rate down by at least one more percentage point. We didn't repeal the whole Clinton tax hike of '93, but this is a very nice start.

3) Vindication for the politics of tax cuts. Moore's law of politics is that no one in the history of American politics ever lost an election by voting for tax cuts. After months of the media assuring us that Americans don't really feel that tax cuts are a "high priority," every vulnerable Democrat in the Senate voted "aye" on the final passage of the Bush tax cut. Dianne Feinstein voted for tax cuts. So did Jeanne Carnahan of Missouri, who never had a nice word to say about tax cuts in her life. So did Senators Max Cleland, Max Baucus, Mary Landrieu, and Tim Johnson. They must know something about the politics of tax cuts that the folks at CBS and the *New York Times* can't seem to fathom.

4) The Left is fuming. It finally dawned on me: If this bill is so watered-down, why is it that people like Tom Daschle, Dick Gephardt, Paul Krugman, and the entire staffs of the *Washington Post* editorial page and the Center for Tax Justice have been whining continuously about how horrible this "ill-advised" tax cut is going to be for the nation? Paul Krugman moaned on NPR recently that this tax bill's price tag is really closer to $2 trillion. Let's hope he's right.

5) The GOP has finally put the 1990 "read-my-lips" debacle behind it. Taxpayers can trust Republicans again. Tax cuts were the crown jewel of the Bush domestic-policy platform. The White House absolutely had to have this win and they got it — notwithstanding several near-death experiences in the Senate. Bravo to Karl Rove, Paul O'Neill, Larry Lindsey, Nick Calio, and the whole White House lobbying team that snared this victory for the president and for the country. The ghosts of Dick Darman have been put to rest.

6) McCain is now certifiably McCrazy. John McCain showed his true colors. He actually voted AGAINST

Schundler era comes to a close. By John J. Miller & Ramesh Ponnuru. 6/05/01 10:55 a.m.

Clouded by Bias
WASHINGTON, DC — The *New York Times* doesn't want to cover the culture war; it wants to fight it. By Stanley Kurtz. 6/05/01 9:55 a.m.

Euthanasia Sets Sail
NEW YORK — An interview with Philip Nitschke, the other "Dr. Death." By Kathryn Jean Lopez. 6/05/01 9:15 a.m.

Bad vs. Worse
LOS ANGELES — L.A. voters choose a new mayor today. By Jack Dunphy. 6/05/01 9:10 a.m.

In Harm's Way
WASHINGTON, DC — Just say no to a scaled-back military force. By Frank Gaffney Jr. 6/05/01 8:05 a.m.

Crippling Thoughts
BOSTON — The ADA's powerful psychological hold. By Peter Wood. 6/05/01 8:00 a.m.

final passage of the Bush tax plan. He was one of only two Republicans in all of Congress to do so. Why this act of Jeffordsonian betrayal? Because he proclaimed that the bill favored the rich too much at the expense of lower-income Americans. He co-sponsored a poison-pill amendment with Tom Daschle to gut the Bush tax plan. McCain's evil plot was foiled, thankfully, by one vote. Prediction: John McCain will never again seriously contend for the GOP nomination for president.

7) Tax-cutting success generates its own momentum. Why not another tax bill next month to cut the capital-gains tax? To give business well-deserved tax breaks? To phase in the tax cuts even faster? To repeal the death tax sooner? The conservatives in the House, including people like Dick Armey and Pat Toomey, are already crafting proposals.

8) Class-warfare rhetoric fell flat. The Left's chief rallying cry against the tax bill for these last three months was "tax cuts for the rich." It didn't play in Peoria. Here's an example: A recent McLaughlin and Associates survey found that 60% of voters said they favored eliminating the death tax even for "billionaires." The lesson: The growth argument of the Right once again trumped the envy argument of the Left. JFK was right: A rising tide does lift all boats.

9) Fire the Joint Tax Committee. The biggest obstacle to tax cuts this year was Lindy Paul, the staff director at the Joint Tax Committee — the committee charged with predicting the revenue losses from tax cuts. Consistently, Paul vastly overstated the "cost" of the tax cuts, even predicting that a capital-gains cut would lose revenues, when history proves conclusively that capital-gains tax cuts always raise revenues. If we want more tax cuts, we need to insist on real-world scoring at the JTC.

10) Want tax cuts? Vote Republican. Republicans win when they draw sharp distinctions with Democrats. On the tax issue, they have done just that. Every Republican in the Congress, save two (Chaffee and the aforementioned Mr. McCain) voted for tax cuts. Meanwhile, the Democratic leadership and all the left-wing interest groups rallied against tax cuts. This sharp distinction on the tax issue can only help the Republican party, which is now genuinely the party of Reagan.

So conservatives should take some Prozac and cheer up. We've just passed the third-largest tax cut since World War II. This might not have been a Reagan-esque accomplishment — but it's awfully close.

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National Review Online....................print version

Stephen Moore
NRO Columnist

The Party of Reagan, Not Rockefeller

Republicans must not capitulate to the left-wing base of the party.

Mr. Moore is president of the Club for Growth
May 29, 2001 1:00 p.m.

There is one clear and present danger in the aftermath of the Jim Jeffords defection to the Democratic party. That danger is that Republicans will learn all the wrong political lessons.

The press is reflexively deifying Jeffords as a man of principle and statesmanship (poor John McCain is just stewing that for at least a few days he's no longer the source of the media's adoration) and is warning that this is a major setback for the Republican agenda. In truth, the media has vastly overstated the political significance of this defection. The fact is that the Republicans never had functional control of the Senate these last six months thanks to the thorough unreliability of left-leaning Republicans like Jeffords, Lincoln Chafee, and Arlen Specter. The Jeffords defection simply makes official the de facto control of the Senate floor the Democrats already had.

What is really critical now is how Republicans respond to this defection. How does the GOP move forward with its agenda on tax cuts, Social Security reform, school choice, and so on? And how does the GOP take back the Senate in 2002?

There's a lot of hand wringing, finger pointing, and soul searching now going on within the party echelons of power. The political pundits in Washington are, of course, trying to steer the GOP to all the wrong conclusions. The *USA Today* wrote that "Jeffords didn't leave the Republicans, the party left him." The media spin has been that the GOP has swayed so far to the right that it is no longer the "inclusive party of Lincoln." E.J. Dionne of the *Washington Post* wrote that it was doctrinaire groups like the Club for Growth that were chasing good moderate Republicans like Jeffords out of the party. Comically, Dionne pines for the day when the GOP was populated by tax-and-spenders like Jacob Javits and Clifford Case. Never mind that when people like Javits and Case were controlling the party platform, the party was at the nadir of its power.

Dionne pines for the days when the GOP was the party of Rockefeller. Thank heavens it no longer is. In the 1960s and 1970s the Republican party *was* dominated by a left-leaning northeastern Rockefeller Republican ideology. There were up to a dozen very liberal northeastern Republicans in the Senate and several dozen in the House as recently as the 1970s (such as Case and Javits). They were not much different in their voting behavior than Mr. Jeffords (or Ted Kennedy, for that matter). And their stranglehold on the party helped insure that the GOP was a minority party for decades until the Reagan revolution began to convert the party into one that stood for bedrock GOP principles: lower taxes, less government, and more individual freedom. The Republican message in the landslide GOP election of 1994 — the election that created the GOP majorities in the House and Senate in the first place — could not have been more free-market conservative in its tone and its policy prescriptions.

Stick with that anti-big government message and the GOP will prosper. The majority of Americans agree with us, not Jim Jeffords, on economic issues. Note that every single vulnerable Senate Democrat up for reelection in 2002 voted *for* the Bush "risky" tax cut. Every one.

Republicans must not capitulate to the left-wing base of the party, which seems to stand for, well, nothing really. Alas, there's a very real danger that this is precisely what the GOP "leadership" intends to do.

What's left of the left wing of the party is in an agitated state now. They are seizing upon the loss of Jeffords as an indication that the party should not insist upon "ideological purity" and "strict unanimity," as Mr. McCain put it. The emboldened Lincoln Chaffee threatens that unless he sees a more accommodating attitude for his far left-wing views on economic issues, he may be the next out the door. Olympia Snowe says the party needs to move away from its conservative message. I fervently hope that Chaffee and Snowe remain Republicans, but not at the price of neutering the Republican message. The GOP cannot retain the White House and regain the Senate by enticing voters with servings of vanilla pudding.

Chaffee's ransom isn't worth paying. It will reduce the party's voter base, rather than expand it.

No, for a political party to survive and to thrive it must stand grandly and unwaveringly for something. Tax cuts are a signature issue for the Republican party. If liberals in the party don't want to cut taxes, then why are they Republicans?

The GOP, from the local level up through the governors' mansions and the White House, is stronger now than it's been at anytime in fifty years. That is because the GOP has been almost thoroughly transformed from the party of northeastern Rockefellers to the party of southern and western Reaganites. Jeffords was a political dinosaur: a throwback to an era long gone. His defection is indeed a short-term setback. It will only be a long-run set back if the GOP learns all the wrong lessons.

National Review Online................print version

Stephen Moore
NRO Columnist

There's Still Time!
It's not too late to fix the tax bill.

Mr. Moore is president of the Club for Growth
May 22, 2001 9:00 a.m.

2704417317 1

Big tax-cut legislation in Washington comes along on average about once a generation, so it's crucial that when one does come along, we get it right.

The $1.3 trillion tax bill that will apparently make its way to President Bush's desk in the next week or two, alas, has one monumental defect. The tax plan provides too little tax reduction too late to help the economy any time soon. This is a problem that I and others have been blaring with a megaphone to the White House and the congressional leadership since the tax debate started back in January.

Apparently, no one is listening. The tax bill has gotten less economically stimulative, smaller, and more back-end loaded as it has meandered its way through Congress. What Congress is about to pass is a tax bill that would be terrific for America if we were living in 2011.

But, of course, this is not 2011. This is 2001. And in 2001 the economy and the stock market are ailing. But the data below shows that the tax cut does not provide much juice for the economy until about 2005. A supply-side tax stimulus is needed right now — not in 2005 and beyond.

This bill is not just the wrong medication for the economy. It is also politically bone-headed. In 2002, the Republicans must try to hold precarious majorities in the House and Senate in crucial midterm elections. In 2004, Bush must run for reelection. In other words, Republicans will face voters twice before having provided almost any short-term tax-policy changes to enhance capital investment, saving, risk taking, or job creation.

Now it is certainly plausible that the animal spirits of the information-age economy, with some useful prodding from the accommodationist Federal Reserve policy of late, may muscle the high-tech and manufacturing sectors back into shape even without any tax-cut stimulus. The economy may soon roar back to life, in which case the Republicans will be home free.

But what if it doesn't? What if the economy remains stalled and the stock market continues to slip into bearish territory? Investor-class voters are not going to be happy campers. Under a bearish scenario the political implications are almost 100% predictable: Congressional Republicans will get wiped out in 2002. Bush may be evicted not long thereafter. And they will get tossed out because of their failure to rescue the economy when they had the opportunity to do so.

Why, for heaven's sake, take that chance?

The White House has become so obsessed in recent months about whether the tax cut will be $1.6 trillion or $1.3 trillion or $1.2 trillion over the next 11 years, they've lost sight of the most crucial policy issue of all: What does this do for the economy over the next 18 months? As currently drafted, the tax bill provides just one microscopic supply-side stimulus to the economy before November 2002. It nicks the top tax rate down from 39.6% to 38.6%. And then there is no further reduction in the highest tax rate until 2005. That's what all the hullabaloo is about? This has about as much chance of hotwiring the economy as a butter knife has of cutting down a mighty oak tree.

Now it's certainly clear that the anti-growth Democrats in Congress constitute an imposing obstacle to the Republicans' passing even a mildly stimulative tax bill. The Democrats have become so ensconced in class-warfare ideology that they are now seemingly genetically incapable of endorsing any change in tax policy that would help the economy. Any change in tax policy that would create prosperity, might also inadvertently help rich people. Tom Daschle and Dick Gephardt will have none of that. I recently debated Paul Krugman, an economist at Princeton and one of the Democrats economic brainchildren, and I asked him how he would improve the tax bill. His advice: Retain the death tax and don't cut the top income-tax rates. In other words, any provision that has the slightest hint of helping the economy grow more prosperous should be omitted from the bill. Zell Miller, the one Democrat who has consistently supported tax cuts this year, recently chastised his colleagues noting that they are "is no longer the party of pro-growth tax cutting as it was under JFK." Tragically, he is right.

So all of the heavy lifting is going to have to be done by the Republicans.

More heavy lifting is needed. What is needed is a real political and economic victory on the tax bill, not the appearance of a victory. Sometimes the GOP political operatives get these two things confused.

Now, for the good news: There is time to repair this tax bill, and inject a supply-side stimulus into the economy pronto. And there is a way to do it so as not to crowd out other important features of Bush's original plan.

Last week, Larry Kudlow, Arthur Laffer, and I argued in the *Wall Street Journal* for a three-year capital-gains tax cut to 15% effective immediately. Senators Allard of Colorado and Gregg of New Hampshire have sponsored an amendment to do just this. The White House response has been ho-hum. What the administration needs to recognize is that the capital-gains cut is the one tax change that could almost immediately rally the stock market, stimulate capital investment, and reverse the drought in venture capital funding that is dragging down the high-tech sector of the economy. To do this will cost virtually nothing in terms of lost revenue. It is virtually a FREE tax cut that will do a world of good. It is an insurance policy against recession, and that's a policy that every Republican up for reelection in 2002 should gladly take out.

Whether it is fair or not, this is the George W. Bush economy, stupid. Passing a tax bill with delayed tax cuts in 2005 and beyond puts both the economy and the GOP in needless peril.

Fix it in the House-Senate Conference by getting more tax relief and rate reduction up front and by demanding a capital-gains cut. This will require President Bush to fight for further cuts and even risk defeat. He will need to stand off the class-warfare rhetoric that will be thrown in his face. But he will prevail, because Americans want a tax cut now, not five years from now.

This fight will give Bush and the Republicans a victory that they can truly savor.

National Review Online Financial................print version

Stephen Moore

NRO Financial Columnist

GOP Trades Up

Jeffords be gone!

Mr. Moore is president of the Club for Growth
May 15, 2001 8:55 p.m.

27044173173

Senate Majority Leader Trent Lott confirmed today a blockbuster trade that will send Zell Miller, the Georgia Democrat, to the Republicans in exchange for Vermont's Jim Jeffords and a liberal Republican to be named later. Speculation is that the politician to be named later will be ultra-liberal House member Jim Greenwood of Pennsylvania.

The trade has been rumored for months, ever since Miller announced that he would vote for the Bush tax plan, much to the annoyance of his Democratic colleagues. The relationship between Miller and Senate Minority Leader Tom Daschle has been icy from the start of this term, and the damage became irreparable when Miller declared last week that "congressional Democrats were no longer the party of JFK, a progressive tax cutter."

Meanwhile, Jeffords has been an irritant within his own party, especially of late, when he voted first against the Bush tax cut plan, then against a scaled back tax cut voted on last week. Mr. Daschle could hardly contain his glee over the trade, saying, "In Jim Jeffords we've now inserted into our line-up a reliable vote against tax cuts for the rich." Daschle went on to describe Jeffords as a cagey veteran of Congress who can "almost always be counted on to vote against trickle down economics and for more social spending. His record for progressive causes is really impeccable."

Daschle also said that he was sorry to have to deal away Zell Miller, but that the affable Georgian "never really fit in with Democratic party here in Washington." "All Zell wanted to talk about was tax cuts this, tax cuts that. We tried to explain to him the importance of the Social Security lock box, Medicare prescription-drug benefits, and more money for education, but to no avail." Daschle described Miller as "totally entranced with the voodoo philosophies of the GOP." The final straw for the Democrats came late last week when Miller sponsored a bill to cut the capital-gains tax.

Not all Democrats were pleased about this mid-session trade. "In adding Jim Jeffords to our caucus," said Evan Bayh, the chairman of the Democratic Leadership Conference, "we continue to tilt our party further to the left fringe of the political spectrum. We're no longer even spittin' distance from the sensible center," he fumed.

Jeffords said he had little regret in switching parties. "I didn't leave the GOP. The party left me. There's far too much Reagan and far too little Rockefeller in the Republican party these days for my taste." Jeffords briefly considered joining fellow-Vermonter Bernie Sanders of the House as a member of the Socialist party, but said it would be more practical to become a Democrat. "Anyways, there really isn't that much of a philosophical difference between the two," he said.

The deal almost fell through when the Democrats rejected the one for one swap, insisting that Miller has a longer and more distinguished career ahead of him than Jeffords. That's when Republicans agreed to throw in a liberal House member to seal the deal. RNC Chairman Jim Gilmore conceded that "it will probably be Jim Greenwood of Pennsylvania who will be sent over to the Democrats, but there are so many liberal Republicans to choose from, it could be anyone of 25 House members."

Miller says he joins up with the GOP with some trepidation. "I'm terribly concerned that I may be too conservative for the congressional Republicans," he complained.

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National Review Online.................print version

Stephen Moore
NRO Columnist

The Grand Old Spending Party
What are Republicans good for?

Mr. Moore is president of the Club for Growth
May 4, 2001 1:45 p.m.

2704417317 5

Don't look now, but with the budget agreement reached this week, it now appears that federal spending is going to end up growing at about seven percent this year — or about twice the spending rate under Bill Clinton. Good thing we've got Republicans in charge to keep government as small and confined as possible.

George W. Bush started the budget process with a reasonable, but slightly overweight budget. He called for four percent growth in spending. (Inflation, correctly measured, is running at about maybe one percent.)

The budget deal struck this week between the Congress and the White House ratchets that spending number up to near five percent. Some of this extra spending, of course, was due to demands by those dirty-rotten-Democratic spendaholics up on Capitol Hill. But a lot of it was a result of demands by those no-good-spendaholic Republicans that seem to be dominating the GOP agenda these days in Congress. Many Hill Republicans, who pontificate against big government, were quietly breathing a sigh of relief over the new inflated baseline in federal spending.

Now a five percent growth rate of the federal budget may not seem like the end of the world — and it isn't. But here's the problem. We're not even going to end up within spitting distance of five percent expenditure growth. History teaches us that the spending levels set by the budget resolution in the spring become floors on allowable expenditures. Once the congressional appropriators start mending together the actual budget bills, in the summer and fall spending inevitably gets ratcheted up.

My prediction of seven percent spending growth this year is based on several fiscal reality checks. First, expect to see about $5 to $10 billion in "emergency spending" for victims of drought, floods, hurricanes, meteors, and the like. My estimate for emergency spending is conservative and falls somewhat below than the average for the past four years.

The budget will grow faster this summer and fall than currently advertised for two other reasons. First, Republicans will surely cave in to Democratic demands for Medicare coverage of prescription drugs. Figure that will add at the very least another $10 to $15 billion a year to spending. Second, the Rumsfeld Commission on military restructuring will almost certainly call for more dollars into the defense budget. I'll sidestep the issue of whether the $300-billion-a-year Pentagon actually needs more money, because that's beside the point. The point is there will be more money for defense that isn't now accounted for in the current budget estimates.

Finally, there is our friend (or do I mean enemy?) the budget surplus. This year's surplus is on tap to exceed $200 billion, depending on whether Congress passes a $100 billion tax rebate. Regardless, we now know the kind of pro-spending impulse that surpluses now elicit from members of Congress in both parties. Put a fat budget surplus estimate in front of appropriators and they start drooling uncontrollably like Pavlov's dog.

Now some in Washington are already making excuses for the coming shopping spree. They say that some extra spending this year is justified to make up for some years of excessively tight budgets. We need to start making some "investments" in federal programs to make up for the years of neglect. What neglect? Federal spending hasn't been held under tight reigns in recent years. In fact, just the opposite is true. The federal budget for discretionary spending has risen from $534 billion in 1996 to $646 billion this year. Nondefense discretionary spending has risen by 25 percent over this five-year period.

The bottom line here is that someone has to start holding the line on spending. If Republicans allow the budget to grow at twice the rate it did under Clinton, many conservatives are going to start asking the legitimate question: what are Republicans good for? Of course, if the GOP can deliver the crown jewel of their economic program, the trillion-and-a-half-dollar tax cut, this could excuse some excessive celebratory spending this year. But a seven percent increase?

I've said it before, but it bears repeating: Washington already has one party of big government. We surely don't need two.

National Review Online..................print version

Stephen Moore
NRO Columnist

Why Does W. Oppose a Capital-Gains Tax Cut
White House is the only obstacle.

Mr. Moore is president of the Club for Growth
May 1, 2001 9:15 a.m.

2704417317

The tax-cut proposal that has gained the most political momentum on Capitol Hill of late isn't, strangely enough, even part of the Bush tax package. I'm speaking of a capital-gains tax cut, which has picked up powerful backers in the House and Senate over the past four weeks. Trent Lott, Don Nickles, Orrin Hatch, and Dick Armey are all peddling various capital-gains-tax-reduction plans. Even a handful of influential Senate Democrats — including Robert Torricelli of New Jersey and Joe Lieberman of Connecticut are suggesting that it's time for another cut in the tax on the sale of stocks and other financial assets.

This is an exciting development in the tax fight, because there's virtually no tax-reduction proposal on the table that would provide the kind of immediate adrenaline burst to the economy and especially the stock market that a capital-gains cut could. A cap-gains rate cut should be the GOP's answer to the tax-rebate gimmick the Democrats are now offering up for 2001-2. As we've said many times on these pages, with 52% of Americans now investors, the capital-gains tax cut is no longer just a tax break for millionaires.

What's bizarre about this issue is that the biggest obstacle to getting the capital-gains tax down to 15% (from 20% now) may not be congressional Democrats. It may be George W. Bush. You see, the president's economic team has never shown much enthusiasm for cutting capital-gains taxes. (What irony, given that this was the ONLY tax-cut proposal George Bush Senior endorsed, though maybe therein lies the problem. W. may not want to stub his toe on an issue that caused his father four years of grief.) My friend Larry Lindsey, Bush's senior economic adviser and a wonderfully solid supply-sider, has always believed that the top priority should be to bring the income-tax rate down to 33% and to cut the death tax, because those are the taxes with the most onerous rates.

He's right. Those are critical priorities. But if we can get a capital-gains tax cut now, why in the world won't the White House lend a helping hand? One problem is a silly White House attitude that if it's not in the president's plan, we're not interested. They regard any addition to the original Bush plan as an unwelcome intrusion and a hindrance to passing the broader plan.

The White House couldn't be more wrong. Bush should look to the Reagan White House 1981 tax-cut effort for strategic guidance. Additions to the Reagan 25% income-tax-rate cut were embraced by the White House. Hence we got the bonus of business tax cuts, IRA expansions, and tax-rate indexing in addition to the personal-income-tax cuts. There was seldom this juvenile "not invented here," mentality that has unfortunately crept into this White House's decision-making process.

The Bush team is particularly wrongheaded to think that a capital-gains tax cut would torpedo other high-priority elements of the president's package. A capital-gains tax cut, if it is cleverly designed, can (and certainly should be) scored by the Joint Tax Committee as a *revenue gainer*. For example, a retroactive three-year temporary lowering of the tax rate from 20% to 15% would raise money and provide a nice supply-side buzz for the economy right now. The revenue raised could then be set aside for making room for phasing in the Bush tax plan even faster. This is called a win-win.

One of Larry Lindsey's arguments against making a cut in the capital-gains tax cut a high priority is that we just did that in 1997, when the rate was slashed from 28% to 20%. Well, he's correct, we did do it; and it was an unequivocal public-policy success. The stock market boomed, productivity and business investment rose, and the tax revenues from the tax soared. The latest data released from the Congressional Budget Office shows that the year before the capital-gains cut, the revenues came in at $66 billion. In 1999, the tax raised $109 billion and for 2000 the estimated revenue collection is $129 billion. In four years the revenues doubled after the rate was cut. The supply-side story doesn't get any better than this.

If you start drilling and huge geysers of oil explode out of the ground, you keep drilling; you don't explore somewhere miles away instead.

So I will say it again: all that seems to be standing in the way of a 15% capital-gains tax cut this year is George W. Bush. It is my most fervent hope that the White House will object in the strongest language to this piece. I oh so want to be proven wrong here. I even relish the thought of having to write a retraction.

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