from Phyllis Schlafly

Bush and the Economy

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The “mother” of all dishonest television ads is the current Clinton spot which accuses George Bush of raising taxes, specifically citing the tax increase in the so-called “deficit reduction package” of October 1990. In fact, that 1990 tax increase was devised and demanded by the liberal Democrats in Congress, who dragged Bush into the “budget summit” and then conned him into signing the agreement.

It is fair game for those who voted for George Bush to criticize him for reneging on his “read my lips -- no new taxes” promise. But it is dishonest and hypocritical for the Democrats to attack him for doing exactly what they demanded that he do in October 1990.

The liberal Democrats and their media sycophants are now engaged in a massive campaign to rewrite history to make the American public believe two falsehoods: (a) that Bush is the one responsible for the tax increases, and (b) that the cause of our current economic woes is the federal deficit, and that the deficit, in turn, was caused by the tax cuts of the Reagan Administration.

When Ronald Reagan took office, we were suffering the stagflation of the Carter years -- double digit, inflation, double digit interest rates, and high unemployment. The real underlying problem was the skewed income tax system, which was methodically shutting down the world's greatest economic engine.

Liberals always like high tax rates because the very high rates on the rich (which produce almost no revenue) provide the political cover for high rates on the middle class. And the middle class is where most tax revenues come from.

As inflation soared in the late 1970s, wages did not keep pace with price increases, but bracket creep drove taxpayers into ever higher tax rates. Taxpayers began to try to hide their money in tax shelters, and ingenious varieties of shelters were marketed to the middle class in general-circulation magazines and newspapers.

Businesses found that they didn’t have enough capital to invest in new plant and equipment. Profits were exaggerated by inflation and by depreciation deductions

that inflation made obsolete, and the government was gleefully taxing al/ay these new “profits.” Businesses and individuals began to make tax avoidance and tax sheltering their primary activity.

The Keynesian keepers of the status quo wouldn't admit that the tax system was stifling the economy. In their view, tax cuts would only worsen inflation and increase the deficit (which was already at $60 billion when Carter left office). The Reagan plan to pull America out of the Carter recession was tax RATE reductions (not just tax cuts). The rate reductions were designed to restart the business investment process.

The Reagan plan worked! The result was the most stunning affirmation of conservative economic theory and common sense in this century. Careful econometric studies by Lawrence Lindsey of Harvard, Paul Craig Roberts, and others show that the rate reductions led to MORE taxes being paid by upper income Americans, and more revenues flowing into the U.S. Treasury.

How can it be that tax rate CUTS produce more tax revenues? It's the human nature factor in the economic equation. People will do more income-producing work, and expose more of their income to taxation, when they perceive that tax rates are somewhat fair rather than confiscatory. When tax rates are too high, the talented and energetic expend their talents and energies in avoiding and sheltering their income instead of doing productive work.

The other outstanding feature of the 1980s recovery -- the longest peacetime recovery since World War II -- was the tremendous increase in business investment. In fact, as Lawrence Lindsey reports in his book The Growth Experiment, the rate of investment during the l980s was twice that of the average recovery.

Productivity increased, assisting dramatically in the fight, against inflationary price increases. The people's faith in the tax system was restored, so that work and production, rather than tax avoidance, became the focus of economic activity. These results did not surprise anyone familiar with U.S. economic history. Pretty much the same thing happened under Calvin Coolidge in the 1920s and under John F. Kennedy in the 1960s.

Other countries around the world, from Sweden to Singapore, are cutting tax rates and rewarding savings and investment. The result is more jobs and more revenue.

Yet, U.S. liberals are still demanding that we raise taxes and raise tax rates, the proven formula for failure. It would be a sad irony if America's great economic miracle of the 1980s is used in the 1990s only by our competitors, who learned the lesson from us, while our economy stagnates in a hopeless new experiment with Carter II.