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WAR AGAINST THE STOCK MARKET

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Why is the stock market still depressed? In one word, Washington. The Washington political class has engaged in a steady stream of actions and proposals over the last few months that would depress any economy and investor.

To explain this, I shall begin with a digression. Last month, the president decided to honor the great Nobel Prize-winning economist, Milton Friedman. Many of us who had worked or studied with Professor Friedman were privileged to be invited to the event at the White House.

At the ceremony, Defense Secretary Donald Rumsfeld, Federal Reserve Chairman Alan Greenspan and the president properly sang the praises of Mr. Friedman, where he was referred to as "the greatest economist of the past century."

Ninety-year-old Milton Friedman then stood up and said in a strong clear voice: "My views on government spending can be summarized by the following parable. If you spend your own money on yourself, you are very concerned about how much is spent and how it is spent. If you spend your own money on someone else, you are still very much concerned about how much is spent, but somewhat less concerned on how it is spent. If you spend someone else's money on yourself, you are not too concerned about how much is spent, but you are very concerned about how it is spent. However, if you spend someone else's money one someone else, you are neither very concerned about how much is spent or how it is spent."

Everyone, including the president, laughed in agreement, because all understood that the government does not spend the taxpayers' money with care.

However, we should all care because, when the government wastes our money, we all suffer. The result is lower economic growth, more unemployment, lower incomes and greater pressures for destructive tax increases.

When the Republicans took control of the Congress in 1994, they were able to checkmate President Clinton's spending proposals and vice versa. The result was that federal government spending dropped from 20.7 percent of GDP in 1995 to 18.4 percent of GDP by 2001. This reduction in the relative size of the federal government was a major cause of the economic and stock market boom.

Now, however, a strong reversal in government spending is under way, and not just because of the additional costs of the war on terrorism. The Congress has been engaged in a wild, bipartisan, nondefense spending spree that has not, to date, been vetoed by the Bush administration.

As a result, private sector spending and investment are being crowded out, and many members of Congress are proposing tax increases on investment and business.

This fear of bigger government, more taxes and more regulation has investors correctly forecasting lower earnings for companies; hence, reluctance for new equity investment. At the same time, the administration continues to foolishly flirt with giving in to demands from high-tax European countries to share information about foreigners who invest into the U.S. This has caused a reduction in vitally needed foreign investment into the U.S. economy, thereby pushing down both the values of the stock market and the dollar. A lower dollar increases inflationary pressures, which will cause interest rates to increase, which will slow down our economic growth.

The very distinguished economist William Niskanen, who was a member of President Reagan's Council of Economic Advisers, has just completed a new and careful review of the literature and evidence of the impact of government spending and taxing on the economy. He concludes that "the marginal cost of government spending and taxes in the United States may be about $2.75 per additional dollar of tax revenue."

This means that for every additional tax dollar, the government gets to spend, our GDP growth is reduced by almost $3. Few government programs provide $3 worth of benefit for each dollar spent on them.

Privately, most members of Congress and almost all the responsible officials in the administration will admit that many government programs are a waste of money, and that the tax code undermines productive activity. But, rather than do the right thing, all too many of our elected leaders prefer to pretend they are helping the people by misspending their money and increasing taxes on productive companies. An example of this Washington disease was an attack on Dan Mitchell of the Heritage Foundation by a normally level-headed and honest senator, Iowa Republican Charles Grassley.

Mr. Mitchell had correctly skewered Mr. Grassley and Sen. Baucus, Montana Democrat, for a foolish and destructive proposal to prevent U.S. companies from incorporating in low-tax jurisdictions in order to protect their employees, customers and investors. In his reply to Mr. Mitchell, published in The Washington Times, Mr. Grassley admits: "Companies are moving overseas because our international tax rules are flawed, and they have difficulty competing globally." Given that Mr. Grassley understands the problem, he should be working to correct it, not creating another problem.

It is time for all us who want to see more of our fellow Americans employed at higher real incomes, and stock prices rise rather than fall, to tell our elected representatives to stop the economic suicide. The solution is simple. Reduce the growth rate of government spending, reduce tariffs, cut taxes on productive economic activity, repeal foolish and expensive regulations, and stop driving away foreign investors who wish to invest in our economy.

We have met the enemy, and it is those we elected because they told us they were our responsible friends. But true friends do not steal our economic future.

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