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## Bringing back Hoovernomics?


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The current Washington policy debate likely to have the greatest effect on your future is not Iraq, but whether we, as a nation, will have pro-growth economic policies.

Ironic as it may seem, ignorance of economics and history in Washington is so pervasive we may repeat the disastrous mistakes of 72 years ago, which gave us the Great Depression.

The name of Herbert Hoover will always be associated with the Great Depression and for good reason. He and his advisers did not understand the problems confronting them and, as a result, made a series of policy mistakes that impoverished tens of millions of people.

After the stock market crash in 1929, government revenues fell because of the drop in economic activity. The Hoover administration and the Congress increased taxes in a futile attempt to balance the budget. The tax increase only caused a further drop in economic activity, which enlarged the deficit even more. Rather than reduce tariff barriers to make goods cheaper for the poor, Hoover signed into law the infamous Smoot-Hawley tariff that choked off much foreign trade, making everyone poorer. Government spending was increased on nonproductive activities, further reducing productivity growth.

Finally, Hoover supported the Federal Reserve's deflationary monetary policy.

Good economists, such as those on the White House National Economic Council and Council of Economic Advisers, know that during economic weakness cuts in tax rates and on labor and capital increase incentives to work, save and invest. They know trade and tariff barriers increase prices, making people poorer, and hence should be reduced. They know wasteful government spending diverts better uses of resources and should be curtailed. They know regulation that does not meet cost-benefit tests should be avoided. And finally, they know the money supply needs to be expanded to avoid deflation during economic downturns.

But what is happening in Washington? Senate Majority Leader Tom Daschle, South Dakota Democrat, and most members of his own party and even some Republicans want to increase taxes, government spending, regulations and trade barriers. In short, they want to bring back Hoovernomics, but what they will get is its attendant misery. For instance, those who argue to repeal or postpone the Bush tax cut of last year are, in reality, arguing for a tax increase because that is what the prior tax law would have resulted in.

Last month, President Bush held an economic forum in Texas where he sought ideas for improving economic growth. His economic team in Washington also solicited ideas from leading economists. As has been reported, a consensus emerged that the tax law needed to be changed to encourage productive investment. Proposals centered on reducing the double taxation of corporate dividends and the capital gains tax burden.

These proposals were aired in the press and given enthusiastic support by most financial and tax economists. The plan was for the president to announce this pro-growth tax package early this month. Opposition from the Democrats was expected, but the House and Senate are also filled with economically ignorant Republicans who are afraid to do what is right because they do not have command of the subject in the way that Ronald Reagan and Jack Kemp did. As a result, they do not know how to answer specious claims of their opponents that a productive tax cut will benefit the rich and add to the deficit. Rather than learning from the successes and failures of the past, they choose to hide, endangering both our economic liberties and well-being.

The reluctant Congress has put the president in a difficult situation, because the president will get blamed for slow economic growth or worse, unlike individual members of Congress. Also, if he does not present a substantial tax cut proposal to Congress, his critics will be able to correctly claim that the Texas economic forum was not serious. Also, those who have worked hard to present serious proposals to the administration will resent having nothing emerge and will be vocal about being part of a charade.

Unfortunately, the president and his pro-growth economic team have also been sabotaged by some career bureaucrats in the U.S. Treasury Department who continue to put out bogus numbers that ignore real-world behavior concerning both the distributional impact and the "costs" of the proposed tax rate cuts.

Some in Treasury are even actively supporting Clinton era proposals to require U.S. businesses to help European governments collect taxes on investments in the U.S. These measures would be costly to U.S. businesses and would continue to drive out badly needed foreign investment, thus depriving us of improved job and productivity growth. The president needs to carve out some time from the Iraq debate and mount the bully pulpit against the Hooverites in the Congress, the media and even his own Treasury Department, and push for the pro-growth tax proposals. If he fails to do so, he will lose much of his base, his chances for re-election, and, more importantly, the economic future for millions of his countrymen.

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