

Supplementary Reading for

Chapter 4 Economy Terrorized

Bush's Next War to Liberate the American Economy

by Don Luskin (April 12, 2003)

Last week I sat across a table from President George W. Bush in the Roosevelt Room of the White House. He told me and a dozen fellow economists that "the American economy is a theatre in the war on terrorism." With steely conviction he told us that he intends to win the war to liberate Iraq, and he intends to win the war to liberate the American economy.

That's the key message from an hour and a half's roundtable discussion with the president and his economic team. There, interacting with a very exacting group of professionals, Bush displayed both masterful knowledge and inspiring passion about his economic program, and he revealed a deep understanding of how economic security is inexorably linked to national security.

Bush told us that he is frustrated by critics who ask, "How can we have a war and a tax cut at the same time?" The president argues that for this kind of war, we can't not have a tax cut. Yes, we must spend on war and homeland security, too. But that just means we must take steps to grow the economy so that the expense of war and security will be as tiny a fraction of the overall economy as possible. Bush's tax-cut proposals now before Congress are all about enabling exactly that.

Eliminating the double taxation of dividends and retained earnings will increase the efficiency of capital investment. The result will be higher stock prices immediately ?by at least 15% as effective after-tax yields jump, and more in the longer run as corporations reap the benefits of a lower cost of capital. But the best result will come when we harvest the fruits of more-efficient capital investment in all the years to come. The fruits include millions of new high-quality jobs and new breakthrough technologies in both the civilian and military spheres.

Nonplussed by opposition in Congress from those who just can't seem to see how all this will work ?Bush said, "Sometimes I think some of these guys just don't like capitalism."

And therein lies another essential nexus between economic security and national security. Capitalism means economic liberty, and Bush understands that you can't run a war of political liberation abroad without economic liberation at home. He is quick to point out that his tax-cut proposals are designed from top to bottom with fairness in mind. His dividend initiative ends the unfair double taxation of this particular form of income. And his proposed cuts in personal income-tax rates are designed so that, as he says, "every American who pays taxes gets a tax reduction."

The president is very sensitive to the question of whether these tax cuts will increase government deficits. But he thinks that some of the opposition in Congress ?particularly in his own party ?is taking the concern over deficits too far. Speaking like the Harvard MBA that he is, Bush argues that deficit financing is entirely appropriate when it is for the sake of a valuable long-term investment. What could be of greater long-term value than simultaneously making the world safe from terrorism and reinvigorating the growth prospects of the American economy?

And besides, even the too-pessimistic Congressional Budget Office forecasted deficits arising from the Bush's tax cuts at less than 1% of GDP over the coming decade. I share Bush's frustration when he talks of meetings with Republican deficit-hawks and explaining all this, only them to hear then say, "Well, yes . . . but I just don't like deficits."

President Bush is boldly looking beyond all this. He has pushed through a thicket of domestic and global opposition to pursue an ambitious vision of freeing the world of Saddam Hussein's weapons of mass destruction and, with the same stroke, planting the seeds of democracy in the Middle East. And now it looks like a good bet that he will overcome opposition to his economic agenda, which in its own way is no less bold.

To do that will require enormous political capital. On the verge of a spectacular victory in Iraq, Bush may have that capital within his reach. But it ain't over till it's

over, and Bush is entirely aware that while the war in Iraq rages, the American public and American markets will be on an emotional roller coaster. But his priorities are clear. He told us, "I'm not going to let the stock market drive the war. Tommy Franks drives the war."

But if this war concludes as favorably as it looks like it just might, then Bush is going to emerge with all the political capital he needs. And he told us that he's committed to spending it. He told us that a president "is only here for a short while," and has to spend his political capital on "big projects." For the economy, Bush told us that means no less than a vision to "forever change this country into 'entrepreneurial heaven.'"

When I was invited to this meeting with Bush and his team at the White House, I really had no idea what to expect. But when I walked out of the Roosevelt Room, I was convinced that the ideals of security and prosperity have a very loyal and powerful friend in this president. He understands that the pursuit of these ideals is, in fact, a single integrated struggle. And he has the conviction and the audacity and soon, the political capital to win.

Comprehension Questions:

1. What is your understanding of the view that "Economic security is inexorably linked to national security."?
2. What is Bush's argument for his policy -- having a war and a tax cut at the same time?
3. What would be an immediate consequence of a tax cut?
4. How does Bush argue for "deficit financing"?
5. What will Bush's economic agenda require?
6. Bush wants to "forever change Iraq into an entrepreneurial heaven". Will his view come true? How would you commend on his war against Iraq?