

Ten Steps to Economic Recovery

The U.S. is at a cross roads and moving towards the European high unemployment slow growth socialist nanny form of government. The alternative is to remain with the American market driven form of government.

The present trillion dollar stimulus plan offered by Congress is a step towards the nanny state. It is saddled with earmarks, programs that will not be effective for years or expanded social entitlement programs, none of which will solve the present economic situation.

The big question is whether the government is in a better position to spend your money or you are? Do you want the government to dictate your life style or how you live? That is what the nanny state does.

The present stimulus plan will have very little affect on the near term economy but will saddle future generations with enormous debt and double digit inflation with the potential of extending the recession and ending in years of stagflation.

Any plan for economic recovery must provide near term relief to the average worker and business. It must provide short term help for the unemployed. Correct the banking infrastructure and above all allow market forces to reestablish the economy.

Here is a ten step program to meet these goals in a market driven economy.

1. Reject the Congress stimulus plan
2. Provide a one year moratorium on payroll taxes
3. Extend the unemployment benefits for an additional year
4. Make the Bush tax cuts permanent
5. Cut Corporate taxes to 12%
6. Raise the capital gains loss carryover from \$3,000 to \$10,000 per year indexed to inflation
7. Exclude the first \$100,000 of combined interest, capital gains and dividends from taxes indexed to inflation
8. Repeal the law that forced Fannie Mae, Freddie Mae and commercial banks to make risky loans
9. Recapitalize banks by creating a bad bank, buying the bad assets at a minimum of 10% below market value. Auction the assets to investors and split any profits with the banks.
10. Eliminate all earmarks

The beauty of this program is that it immediately gives the working public and businesses a 7% pay increase with the moratorium on the payroll tax. It provides short term help for the unemployed. By making the Bush tax cuts permanent it eliminates business uncertainty that prevents them from planning for the future.

The \$100,000 exclusion tax on interest, dividends and capital gains will encourage the small saver to save, knowing that the interest and dividends received will at least stay up to inflation and not be eroded by taxes. It will free up a lot of assets that are now being frozen for fear of taxes.

Repeal the Community Reinvestment Act (CRA) and the Federal Housing Enterprises Financial Safety and Soundness Act.

The CRA was passed by the 95th United States Congress and signed into law by President Jimmy Carter in 1977. Although not part of the CRA, in order to achieve similar aims the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 required Fannie Mae and Freddie Mac, the two government sponsored enterprises that purchase and securitize mortgages, to devote a percentage of their lending to support affordable housing.

These two acts created the present real estate disaster by requiring commercial banks, Fannie Mae and Freddie Mac to provide marginal loans that eventually failed.

The goal of any stimulus program must bring private capital back to the market and restore the banking infrastructure. The worst thing that the government can do is to buy positions in corporations and banks as they are presently doing. The problem with this is that management decisions become political decisions and not market driven. Russia is a good example. Do you want to live like the Russians?

Corporations and banks should be allowed to fail and be restructured under the bankruptcy laws and remerge as viable businesses able to compete on the global market.

Recovery of the economy is contingent on the availability of capital and therefore the recapitalization of the banking system. By creating a bad bank, the government buys the failed assets of a bank at below market level to be sold at auction to potential investors. In this way the government provides short term cash to the bank and is only acting as an agent. The total loss and therefore the risks are taken by the bank and not the taxpayer.

The government cannot create wealth it can only transfer wealth through taxes from one group to another group. When the president says he is going to create 1.2 million jobs through the stimulus package what he is really saying I am going to create 1.2 million jobs that I deem important while eliminating the equivalent from the free market economy.

Actually the situation is even worse. If you divide the 1.2 million jobs into the proposed \$820 billion stimulus package and assume that the money would be spent over the next say four years the cost per job is \$170,000. The average salary in the country is around \$40,000. It would be cheaper to give each of the 500,000 unemployed the \$40,000.

Since the government does not have the \$820 billion it can only get it by raising taxes, borrowing it or printing it. All this will lead too is extending the recession followed by stagflation.