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The American Option: A Jobs Plan That Works

The Honorable Jim DeMint

I think all Americans owe a huge “thank you” to all of the House Republicans and the 11 courageous Democrats who cast their votes for freedom and opposed the stimulus bill last night.

I’m here to discuss the very real problems facing our economy and how we can secure prosperity for years to come. Americans are very concerned about the direction of our country. I’ve never seen people more anxious. They are worried about the economy, but even more worried about the reckless spending and government intrusion into our culture and free markets.

Our economy is in trouble. The unemployment rate is now over 7 percent and climbing. Stock markets have plunged, jeopardizing the retirement income of seniors. Nearly a million homes were repossessed last year. And in the last week thousands of Americans have lost their jobs at some of our nation’s most recognized companies, including Home Depot, Microsoft, and Boeing.

In the midst of these difficult and uncertain times, Americans understandably voted for change. Frustrated with runaway spending, Wall Street bailouts, and soaring energy prices, they voted for Barack Obama, a candidate who promised to lower taxes, cut spending, increase domestic energy, and create millions of new jobs.

I like President Obama very much. We were elected to the Senate at the same time and we’ve worked together on a number of common goals. I believe he wants to do what is best for our country. But our economy needs more than *hope* and empty promises.

Talking Points

- The House stimulus bill does virtually nothing to stimulate the economy while it wastes billions of taxpayer dollars. It’s a hodge-podge of long-supported pet projects that the normal budget process would have thrown out.
- There is a better way that will actually stimulate the economy, spur investment, and create jobs. Drafted by Heritage Foundation scholars, “The American Option” would first make the 2001 and 2003 tax cuts permanent and then would permanently cut income and corporate tax rates. Billions of dollars will stay in the hands of Americans who buy goods, provide services, start businesses, and hire employees.
- Every time the United States has cut marginal tax rates, millions of jobs have been created. This plan would create nearly 18 million jobs over the next decade.

This paper, in its entirety, can be found at:
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And with his first major piece of legislation, we have learned more about President Obama's real agenda than we did after an entire year of debates and speeches.

The stimulus bill that is being championed by President Obama, which was passed by Democrats in the House last night, is the worst piece of economic legislation Congress has considered in a hundred years. Not since the passage in 1909 of the 16th Amendment—which cleared the way for a federal income tax—has the United States seriously entertained a policy so comprehensively hostile to economic freedom, or so arrogantly indifferent to economic reality.

The bill, if it were a country, would have the 15th largest economy in the world—right in between Australia and Mexico, greater than the gross domestic products of Saudi Arabia and Iran put together. And the American people will be forced to borrow 100 percent of the unprecedented \$1.2 trillion price tag, including interest. The stimulus bill will cost well over \$1 billion for every page it is printed on and \$400,000 for every job it *hopes* to create or save.

But after the accolades from the newspaper editorials have been printed and politicians finish slapping themselves on the back for “doing something,” there will be little to show for all this new spending. That's because this bill is based on hope, not reality. Democrats have spared no expense to show how much they care, but in doing so they have sacrificed common sense.

Proponents argue that we are facing a once-in-a-lifetime economic crisis and that only an immediate and overwhelming stimulus can ignite the economy, create jobs, and spur growth. That very well may be true, but the spending bill passed yesterday in the House is just that: a spending bill, not an economic stimulus package.

The Democrat bill takes money—actually, it borrows money—and decides where it should go. It does virtually nothing to stimulate the economy while it wastes billions of taxpayer dollars. It's a hodge-podge of long-supported pet projects that the normal budget process would have thrown out. Using the troubled economy as their motive, Democrats have opened the floodgates for all sorts of

outrageous wasteful spending. Here are just a few examples from the Senate's bill, which we will debate next week:

- \$400 million for researching sexually transmitted diseases,
- \$200 million for bike and pedestrian trails and off-road vehicle routes,
- \$200 million to force the military to buy environmentally friendly electric cars,
- \$34 million to renovate the Department of Commerce headquarters,
- \$75 million for a program to end smoking, which if successful will bankrupt the children's health program Democrats are about to pass.

And those are just some of the ridiculous things they have written into the bill. With over 600 pages of bill text and committee reports that were just released to the Senate yesterday, we have just begun to uncover the waste.

Of the \$825 billion in the bill that is being sold as an infrastructure investment, only \$30 billion will actually go to build highways, about \$40 billion for upgrades to our telecommunications and electricity infrastructure, and about \$20 billion in business tax cuts. These are the only three components of the bill that might arguably stimulate the economy and create jobs, if only temporarily.

Altogether, only 11 percent of the so-called American Recovery and Reinvestment Act of 2009 will have anything to do with either recovery or reinvestment.

And rest assured, unlike the oceans at President Obama's command, the elevated spending levels in this bill will never recede.

The tax side of the bill is little better. Think of it this way: If nearly every Democrat in Congress supports a tax cut, it's not really a tax cut. And, indeed, the text of the Democrats' plan reveals \$212 billion of smoke-and-mirrors gimmicks: temporary cuts and rebates exactly like those that failed to stimulate the economy last year, and eco-shakedown tax credits.

As these facts become known and Republicans begin to question the wisdom of the plan, the American people are being given their first

glimpse behind the curtain of our new, post-partisan leadership.

Any doubters of the bare-knuckled partisanship at the heart of the Democrats' trillion-dollar catastrophe would do well to ask a simple question: *Cui bono?* Who benefits from this legislation?

Who indeed? Alternative energy companies, public employee unions, teachers unions, university faculty and administrators, welfare recipients, ACORN-style "community organizers," politicians who *spend* the money, federal bureaucrats who *allocate* it, and the lawyers and lobbyists who will influence every dime behind the scenes. In other words, this bill is a massive transfer of wealth not from the rich to the poor, but from middle-class families and small businesses to favored Democratic constituencies below *and above* them on the socio-economic ladder.

This bill is not a stimulus, ladies and gentlemen; it is a mugging. It is a fraud. Conservatives who fear proponents of this bill want to inch our economy closer to European-style socialism are kidding themselves. The proponents of this bill want to strap a big rocket on the back of our economy and launch it all the way to Brussels!

This massive spending bill is fatally flawed. It will not rescue our economy; it will strangle it. That is why this bill must be stopped dead in its tracks. It cannot be fixed in the Senate by adding a few tax cuts or taking away a little spending. It must be scrapped entirely.

Fortunately, there is another way. A better way. A way that will actually stimulate the economy, spur investment, and create jobs. A way that will permanently keep billions of dollars—immediately—in the private sector: in the hands of Americans who buy goods, provide services, start businesses, and hire employees.

Call it "The American Option." It is not innovative or particularly clever. In fact, it's only 11 pages. But it will work. And it is based on proven American principles of freedom and the opportunity to succeed. The plan—developed by scholars J. D. Foster and William Beach here at The Heritage Foundation—is the best anyone has proposed since the recession first took hold. I have adopted the plan

and will offer it on the Senate floor next week as a substitute.

The idea is simple: first, make the temporary tax cuts of 2001 and 2003—now set to expire in 2011—*permanent*. Short-term tax relief, of the sort envisioned by the Democrats' plan does not stimulate economic growth.

It's the difference between a \$1,000 gift one month, which you might put away or use to pay off some credit card debt, and a \$1,000-a-month raise, which might get you thinking about buying a house or a new car or taking a summer vacation or starting a new business.

To encourage people to take risks and create new jobs, we must make tax relief for families and small businesses *permanent*. Recessions are caused by uncertainty that keeps investors on the sidelines. By making low taxes permanent, plans and decisions can be made with an eye toward the future.

With the 2011 tax-bomb defused, our plan will cut income tax rates across the board compared to current law. The top marginal rate—the one paid by most of the small businesses that create new jobs—will fall from 35 percent to 25 percent. It simplifies the code to include only two other brackets, 15 and 10 percent.

These marginal rate reductions would be permanent and give the private sector maximum predictability as it decides how to best spend its recovered income. This is a matter of fairness. No American family should be forced to pay the federal government more than 25 percent of the fruits of their hard labor.

Just as we cut taxes for families and small businesses, we need to cut them for corporations as well, from 35 percent to 25 percent. And we shouldn't be afraid to say so. Our corporate tax rate is one of the highest in the world, driving investment and jobs overseas. Lowering this key rate will unlock trillions of dollars to be invested in America instead of abroad.

And rather than giving large companies loopholes and targeted tax benefits—which only encourage them to spend money on the lobbyists who secure such goodies—Congress should get out of the business of picking winners and losers in the

market and simply cut everyone's taxes and let the best company win. My plan will make businesses compete for consumers, not Congressmen.

To further simplify and improve the code, our plan would also:

- *permanently* repeal the alternative minimum tax once and for all;
- *permanently* maintain the capital gains and dividends taxes at 15 percent;
- *permanently* kill the Death Tax for estates under \$5 million, and cut the tax rate to 15 percent for those above;
- *permanently* extend the \$1,000-per-child tax credit;
- *permanently* repeal the marriage tax penalty;
- *permanently* limit itemized deductions to home mortgage interest and charitable contributions.

The Heritage Center for Data Analysis widely respected economic forecasting model projects this plan would create nearly 500,000 jobs this year, 1.3 million next year, 7.5 million by 2013, and a total of nearly 18 million jobs over the next decade.

The Democrats are forced to rely on hope to save or create just 3 million jobs as a result of their plan. When pressed, they refuse to stand behind these numbers. But with our plan—the American Option—long-term, broad-based tax cuts will spur the American economy to create 7.5 million jobs in five years and nearly 18 million jobs in just ten years. That is an average of over 2 million new jobs a year.

Instead of taking a trillion dollars out of the economy so politicians can spread it around to special interests, the American Option will keep a trillion more dollars in the hands of American workers and businesses. Instead of growing government, where waste and corruption run rampant, we grow the private sector, where innovation flourishes. Instead of giving the power and control of our economy to politicians and bureaucrats, we give Americans and small businesses the freedom to spend and invest their own money.

The evidence in support of this legislation is not theoretical but historical, unlike the Keynesian arguments in favor of the Democrats' debt plan.

John F. Kennedy's 1964 tax reductions led to 9 million new private sector jobs in five years. Ronald Reagan's 1981 tax cuts led to 7 million in the same time frame. And five years on, the 2001 and 2003 tax cuts have led to the creation of 4 million and 6 million jobs, respectively.

Every time the United States has cut marginal tax rates, millions of jobs have been created—jobs that lifted the unemployed into the workforce, the working poor into the middle class, and the middle class into long-term economic security.

Similar stories can be told of Great Britain rescued by Margaret Thatcher in the 1980s and Israel's economic reforms under Finance Minister Benjamin Netanyahu.

President Obama's own chief economist, Christina Romer, has shown that tax cuts do truly stimulate economic activity, to the tune of \$3 of increased output for every dollar of tax relief.

On the other hand, the world's great experiments in spending one's way out of a recession have three textbook examples. The first is Franklin Roosevelt's response to the Great Depression. The New Deal began in 1933 with unemployment around 25 percent and effectively ended with the establishment of FDR's "war economy" in 1940, with unemployment still hovering around 20 percent.

The second example is from the 1970s, when huge Keynesian deficits in the United States neither spurred economic growth nor curtailed inflation.

The third example is Japan's so-called Lost Decade, in which the Japanese government tried in vain for ten years to spend its way out of a national real estate and investment market collapse.

Every discredited idea from these three monuments to economic mismanagement can be found in the fine print of the Democrats' trillion-dollar socialist experiment—massive public spending, skyrocketing deficits, inevitable tax increases, and the disastrous, unintended consequences of hurried and arbitrary meddling in the economy.

That leads me to one final and overarching point, a point the mainstream media refuses to understand and elite liberal institutions refuse to acknowledge. It is the point conservatives must make if we ever

hope to rescue our economy from this bill and regain our national majority.

That point is very simple, and we must repeat it every day on the floor of the Senate, from the well of the House, around household dinner tables and office water coolers. Any time a pundit, a politician, or anyone else says that this recession is the fault of the free market, that President Obama has inherited the problems of a conservative ideology, conservatives of every stripe can answer with force and facts:

Conservatism has *nothing* to apologize for.

It was not conservatism that foisted Fannie Mae and Freddie Mac onto the national credit market. It was not conservatism that shook down the nation's banking system with the Community Reinvestment Act. It was not conservatism that asked for, lied about, and then wasted \$350 billion for the Troubled Asset Relief Program. Nor did conservatism sign on to the second tranche of the TARP funds now in the hands of our notoriously irresponsible new Treasury Secretary. It was not conservatism that used taxpayer funds to bail out the perpetrators of the Wall Street meltdown. It wasn't conservatism that led our financial industry to make these reckless loans, and it certainly wasn't conservatism that made that industry ask for the taxpayers to foot the bill for their idiocy. It wasn't conservatism that bailed out an auto industry bankrupted by its inability to manage costs and strangled by the barnacles of unionism.

Every problem now plaguing our economy can be directly traced to some government policy that was passed over the vehement objections and prescient warnings of principled conservatives. The

same scenario is playing out with the Obama spending bill, but the result is not pre-ordained.

This is not a moment for Republicans to rally simply in the interests of party unity or to give the Democrats a run for their money. This is not a time to merely fight the good fight. This is a fight we can still win. The Democrat plan will not work, it will hurt our economy, it will kill jobs, it will lengthen and deepen the recession, and it will delay any hope of recovery.

We should all be encouraged by the movement among congressional Republicans against this bill. But it is not enough to expose the dangerous flaws of the Democrats' plan. That is why I am proposing this plan.

It is not simply a viable alternative, it is the American Option to rescue our economy from an inexorable slide toward European social-democracy. With a troubled economy, mounting national debt and an entitlement crisis ready to explode, conservatives must offer bold and proven solutions to secure America's future. We cannot simply derail the Liberal Express, we must show our fellow countrymen a better path. There is nothing wrong with our economy that a free people cannot solve. All we need is the freedom to take back from Washington control of our economic destiny.

The policy approach I have outlined can work, and if implemented, will work. How do I know? Because liberating people to pursue their own happiness and fortune is the only thing that ever does.

Thank you very much, and may God bless America.

—*The Honorable Jim DeMint (R-SC) is chairman of the Senate Steering Committee, a caucus of Senate conservatives.*