

**THE BUSH BUDGET:
A BAND-AID; A COMFORTING BALM; OR, A PANACEA ?**

The term, '*to kick start*', originated in the days when motorcycles did not have batteries to start their engines.

So a driver of one of these old-fashioned motorcycles (the Americans called them motorbikes) literally kicked over his engine by depressing a pedal with his foot with a mighty downward thrust.

The driver was almost in a standing position when kick-starting his engine because he had to use a sufficient amount of leg power in order to turn over the engine a number of times, causing the internal combustion engine to fire into life.

The bigger the engine of the motorcycle, the more leg power was required to start the engine.

It was hardly any wonder that women were rarely operators of these 2-wheeled vehicles.

Mr George W. Bush has persuaded the people of the United States (US) that kick-starting the US economy is the way to go.

Short term, he is, probably, correct.

Intermediate to long term, he is, probably, wrong.

If there is no petrol in the fuel tank, no matter how many times one tries to kick-start the engine, it will not start.

Only time will tell whether or not President George W. Bush's plan is the correct '*medicine*' for what ails America, but, in **TARGET**'s opinion, the release of some \$US350 billion into the economy over the next decade or so is unlikely to do the trick.

The problem is that the US economy does not need an aspirin, at this late stage of the game, it needs an attack at the root cause of the problems, facing the biggest and most-important economy in the world, today.

The Short Term

Last week, President George W. Bush, in a radio broadcast to the nation, said that his plan for the US economy would, to the man in the street, mean, inter alia:

1. About 25 million American families with children would see their child credit increase and the families would be receiving up to \$US400 per child; and,
2. About 136 million US families, who pay income taxes, including 23 million small businesses, which pay taxes at the individual rate, would see their taxes lowered.

He, also, said that some of the tax cuts would go into effect immediately; others would take some time.

He said:

'By leaving American families with more to spend, more to save and more to invest, these reforms (he is referring to his Administration's tax reforms) will help boost the nation's economy and create jobs. When people have extra take-home pay, there's greater demand for goods and services. And employers will need more workers to meet that demand ...'.

Some people may be tempted to call some of the statements of the US President as being simplistic in the extreme since they tend to ignore the complexities and complications, facing the US economy, today.

The problem of the US economy is not a matter of just anteing up and putting money in the kitty, as in a poker game, but in creating wealth, with American businesses, picking up its own socks, and not having 'daddy' do it for them.

TARGET cannot write an economic thesis in 4 pages or so in this medium in order to prove that the US Administration could well be wrong in its estimation of the current situation, but, logically, it stands to reason that one cannot treat the symptom of a disease and expect the disease to disappear just because a sufferer has ingested medicine, which masks the pain for a short space of time.

President George W. Bush, in his closing remarks on national radio, last week said:

'... Our economy continues to grow, and inflation and interest rates remain low. With new relief for the taxpayers, we have laid the foundations for even stronger growth in the years ahead and more jobs for American workers.'

The above statements are interesting because US Government statistics indicate that the US economy has stalled and, although it is correct to state that inflation and interest rates are very low, it does not follow that an immediate injection of \$US400 per family head of the married population in the US will do the trick to turn the economy round.

President George W. Bush asked for tax cuts, costing about \$US726 billion: He had to be content with a figure that was about 52 percent of that which he was fighting to obtain – \$US350 billion.

And the \$US350 billion will be spread out over the next decade.

Not a heck of a lot of it, to use an American expression, will find its way into the economy, this year.

In fact, the figure for the next 2 years is not more than \$US400 million – about \$US200 million, this year, and \$US200 million in 2004.

In politics, there is a well-worn expression: Ask for more than it is reasonable to receive so that one has a fall-back position, which was that which was expected in the first instance, prior to making demands.

Disregarding the political motives behind the bull-doing of the tax cuts, demanded by President George W. Bush – and there, certainly, were political motives behind his actions – it does, indeed, make good sense to introduce a temporary fiscal stimulus in order to try to kick-start the US economy and to boost short-term, economic growth.

Next year, Presidential elections will be in full swing, with President George W. Bush, making his bid for a second term.

He is quite likely to be re-elected.

He can thank Osama bin Laden, Saddam Hussein and the success of the lightning Iraqi war for his re-election because, by sheer luck, the attacks on New York and Washington D.C. by Arab madmen, with Osama bin Laden, pulling the strings from Afghanistan (Afghanistan was a former, Muslim fundamentalist country which was successfully attacked at the instigation of the US Government, which led United Nations forces against the 'evil'

forces of the Taleban), and his ousting of President Saddam Hussein from Iraq made him appear as a hero to his people.

Up went his popularity at the polls as he led the charge for an international fight against terrorism and against, what he has termed, *'the axis of evil'*.

While President George W. Bush got all the glory for his actions, **TARGET** wonders how much of what transpired, following the September 11, 2001 attacks on the US homeland, was at the instigation of people, such as Vice President Richard B. Cheney, Secretary of Defence Donald Rumsfeld, Secretary of State Colin Luther Powell, and/or Attorney General John Ashcroft.

Spend More, Earn Less

Whenever a country spends more than it earns, it, eventually, results in what is known in economics as inflation.

Spending more than one earns cannot go on forever.

It is a sure-fire formula for economic ruin.

US President George W. Bush wants to make his tax cuts a permanent fixture of the US economy, but one has to ask oneself: Where does one go for honey?

The US Government is committed to being the world's policeman and, in order to guarantee a well-regulated and well-equipped force, it is going to have to spend tens of billions of dollars on defence, and research and development of bigger and more lethal machines and weaponry in order to do the military's bidding – whatever it may be.

Somebody is going to have to pay for the costs of updating and maintaining the US military machine, which, without question, is the most formidable in the world, today, as was made painfully clear to the armed forces of Saddam Hussein in the Iraqi, 21-day war.

Releasing more money into the economy may cause a flurry of activity at the local departmental store or supermarket, but any and all such spending will be short-lived, if at all.

The US is headed for a long stretch of deficit spending, brought about by structural imbalances in the economy.

This matter will have to be addressed, sooner or later, and preferably sooner rather than later.

There is a popular theory in Washington, these days, one which claims that, if the temporary fiscal stimulus is successful, then, the natural growth within the economy will reduce the annual deficit.

Where this theory breaks down is that, of the \$US200 million, which will be released into the US economy, this year, a large proportion of it will go to pay the butcher, the baker, and the candlestick maker.

For a family, whose main breadwinner is, still, out of a job with few prospects on the horizon, wifey is not going to part with her \$US400 tax windfall, in a hurry ... unless the family is forced so to do.

Cash-strapped households will gladly take their \$US400, but it does not mean that wifey will go on a shopping spree.

Far from it.

On the positive side of the equation, a very positive point of the Bush Budget is the abolition of the double taxation on dividends, something that international investors have long held to be a bone of contention.

A reduction in the capital gains is, also, welcome news for international investors.

Both, the top dividend tax rate and the tax rate that applies to long-term capital gains will be cut to 15 percent.

This 15-percent ceiling is a 25-percentile point fall from the current 20-percent level.

TARGET is reminded of the economic theory, first promulgated by the 1976 Nobel Prize winning economist, Mr Milton Friedman, who suggested that if the US were to impose a 15-percent, level tax charge, right across the board, the country would be much better off and it would fill the country's coffers to overflowing.

It took a long time to round the circle, it is very apparent.

On the negative side of the equation is that what is missing from the Bush Budget is getting US goods and services accepted in international marketplaces.

Nobody of any note has even mentioned this matter, recently, which is very strange.

Has Washington forgotten about the international marketplace?

Or does the Bush Administration tend to think in terms of parochialism, as was, clearly, the case, prior to World War I?

Japan, just about, monopolises the markets of the US for audio equipment, television sets, cameras, consumer electronics, fans, toasters, even to electrically operated barbershop equipment.

At one time, many US electrical appliance producers, television manufacturers, even cameras were well accepted on the world markets.

Not today, however.

And, it appears that US industry is not too concerned that it has lost its markets.

Japan's consumer electronics manufacturing costs are not very different from the costs of producing similar items in the US, yet Japan has cornered most of the markets in the US.

Where is the Zenith radio? Where is the RCA Victor television set?

The US motor car of today is not considered as good as its Japanese counterpart; Japanese produced motor cars are even selling for less than their US-produced counterparts.

US industry, in many aspects, is no longer competitive, internationally.

The Cadillac marque is no longer associated with prestige in the motor-car world in spite of being the best that the US can manufacture, today.

The prestige category of motor cars is left to Rolls Royce, Bentley, Mercedes Benz and, the newest addition, the Maybach (which is, also, produced by Mercedes Benz).

And, yet, it was Mr Henry Ford and his mass-produced Model T Ford, which was one of the driving forces of economy of the US between 1908 and 1927 because he made the motor car affordable to all.

If the US wants to consider long-term, economic growth, it must, it seems, clearly, attack the international market with its goods and services.

That, coupled with strong domestic demand, is a guarantee of putting bread on the table for Mr and Mrs America.

As the trite expression goes (slightly altered for **TARGET**'s purposes): One cannot rob Peter in order to pay Paul.

In **TARGET**'s opinion, President George W. Bush's Budget does exactly that.

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