American Bank Bailout

Where is the Bailout Money?

The bailout has been a topic of conversation at nearly every social gathering I am been at in the last few weeks. And most of the time one question surfaces, where is the bailout money? The reason taxpayers are asking that is due to a news story that came out before Christmas stating that the largest banks can't exactly track how they are spending the money.

Now I did have one lawyer explain to me that often these funds are placed in a pool so it isn't easy to track them. And I will give the banks some slack on that since I realize that is probably the case. But let's think about this for a moment.

If I were asking for a loan from the bank, wouldn't you expect them to ask me where the money is going? And if I needed an additional loan, wouldn't you expect the bank to want a detailed history of what I did with the previous loan? Now keep that in the back of your mind as you hear what some of the bank officers have been saying.

A spokesman for JPMorgan Chase said: "We've lent some of it. We've not lent some of it. We're not given any accounting of, 'Here's how we're doing it.'"

A spokesman for SunTrust Banks said: "We're not providing dollar-in, dollar-out tracking." By the way, they have already received $3.5 billion in taxpayer dollars.

A spokesman for Regions Financial Corp said: "We manage our capital in the aggregate." They also have received $3.5 billion from the financial bailout.

I don't know about you, but that doesn't inspire much confidence in me. Remember that lawmakers did bring bank

executives to Capitol Hill and encouraged them to lend the money and not hoard it or spend it on corporate bonuses. It appears that some have, but there does not seem to be any negative consequences for doing so.

One of my recent guests [on the Point of View radio program] is Representative Scott Garrett (a member of the House Financial Services Committee) who asks: "Where is the money going to go to? How is it going to be spent? When are we going to get a record on it?" These all sound like good questions that need to be answered.

What Caused the Financial Crisis?

What caused the financial crisis? We have heard lots of accusations and criticisms, but it is hard to know who to believe. President-elect Barack Obama said throughout the presidential campaign that it was deregulation and a conservative approach to economics that was to blame. He said: "Eight years of policies that have shredded consumer protections, loosened oversight and regulation, and encouraged outsized bonuses to CEOs while ignoring middle-class American have brought us to the most serious financial crisis since the Great Depression."

So is the current crisis a result of these policies? Is deregulation the culprit? Kevin Hassett proposes a simple test of this view. He points out that countries around the world have very different regulatory structures. Some have relatively light regulatory structures, while others have much more significant intrusion into markets.

If the premise by Barack Obama is correct, then those countries that have looser regulations should have a greater economic crisis. But that is not what we find. If you plot the degree of economic freedom of a country on the x-axis and the percent of change in the local stock market on the y-axis, you find just the opposite of what Barack Obama states.

The correlation is striking. Draw a line from countries with low economic freedom (like China and Turkey) to countries with greater economic freedom (like the United States) and you will notice that most of the countries hug the line. Put another way, the regression line is statistically significant.

If Barack Obama is correct the line should be downward sloping (meaning that countries that are freer economically had a biggest collapse in their stock markets). But the line slopes up. That seems to imply that countries that are economically free have suffered less than countries that are not. Of course, a single graph and a statistical correlation certainly does not tell the whole story. But it is interesting that the current data seems to prove just the opposite of what Barack Obama has been arguing.

Cost of the Bailout

How much is that bailout going to cost us? Nobody seems to know, but even when I try to give some numbers for it, it doesn't compute. So I was encouraged to see that someone took the time to put the current bailout numbers in perspective.

Barry Ritholtz is a financial blogger and Wall Street analyst. He has found (as I have found) that people have a hard time comprehending the dollar amounts. While doing research for his book, *Bailout Nation*, he needed some way to put this into proper historical perspective. He says that if you add the latest Citi bailout, the total cost now exceeds $4.6 trillion dollars. By the way, I have seen numbers much larger than that (which may include loan guarantees which may not actually end up costing us). But what does $4.6 trillion dollars look like?

Jim Bianco (of Bianco Research) crunched the inflation adjusted numbers. The current bailout actually costs more than all of the following big budget government expenditures. The Marshall Plan ($115.3 billion), the Louisiana Purchase ($217 billion), the New Deal ($500 billion est), the Race to the

Moon ($237 billion), the Savings and Loan bailout ($256 billion), the Korean War ($454 billion), the Iraq war ($597 billion), the Vietnam War ($698 billion), and NASA ($851.2 billion).

Even if you add all of this up, it actually comes to $3.9 trillion and so is still $700 billion short (which incidentally is the original cost of one of the bailout packages most people have been talking about).

Keep in mind that these are inflation-adjusted figures. So you can begin to see that what has happened just in the last few months is absolutely unprecedented. But until you run the numbers, it seems like Monopoly money. But the reality is that it is real money that must either be borrowed or printed. There is no stash of this money somewhere that Congress is putting into the economy.

The current economic meltdown is significant, but the solution that members of Congress and financial experts on Wall Street are offering is terribly expensive.

Government Ownership of Banks?

One of the lingering questions about the bailout is how long the government will have ownership of the banks. At the moment, the federal government is planning on purchasing $250 billion worth of shares in American banks. Is it possible that government will hold the bank shares indefinitely? Terrence Jeffrey of CNSNews.com believes that this could be an unintended consequence. Let me explain.

While the law doesn't say that government can buy ownership interest in banks, it does allow purchases in "any financial instrument that the secretary, after consultation with the chairman of the Board of Governors of the Federal Reserve System, determines the purchase of which is necessary to promote financial market stability." This act also allows

“such actions as is necessary, that the secretary might deem.”

So how long can the treasury secretary hold these assets? Actually, the law sets no limits. A Treasury spokesman told CNSNews.com that “We can hold them for as long as we want.” Now, let’s be fair, Treasury Secretary Hank Paulson does not envision the government having a permanent ownership stake in various banks. But let’s also be realistic. He won’t be the treasury secretary next year.

The plan that was drafted envisions the government selling the stock back to the banks. It also prevents elected officials from using government ownership of the banks for their own political advantage. This is oversight actually takes place through the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the Federal Reserve, and the Federal Deposit Insurance Corporation.

Now the plan does allow banks to buy back its shares from the government in the first three years, if it can raise 25 percent of the value of the shares by selling stock. But these are subject to the approval of the primary bank regulator.

But the bottom line is this: banks are not guaranteed they can buy back their stock. Although Congress didn’t intend for government to permanently own banks, it is possible they may do so anyway.

Seven Hundred Billion

How much is $700 billion? When these numbers are so big we lose all proportion of their size and potential impact. So let me use a few comparisons from a recent Time Magazine article to make my point.

If we took $700 billion and gave it to every person in America, they would receive a check for $2,300. Or if we decided to give that money instead to every household in America, they would receive $6,200.

Here’s another idea, if we took that money and decided to start paying the income taxes for each American, it would pay the income taxes for every American who makes $500,000 or less a year.

Since gas prices have been high, what if we decided to use this money to buy gasoline for every car in America? If we did that, no one would have to pay for gas for the next 16 months.

What if we were able to use $700 billion to fund the government for a year? If we did so, it would fully fund the Defense Department, the State Department, the Treasury, the Department of Education, Veterans Affairs, the Department of the Interior, and NASA. If instead we decided to pay off some of the national debt, it would retire seven percent of that debt.

Are you a sports fan? What if we used that money to buy sports teams? This is enough money to buy every NFL team, every NBA team, and every Major League Baseball team. But we would have so much left over that we could also buy every one of these teams a new stadium. And we would still have so much money left over that we could pay each of these players $191 million for a year.

So how would $700 billion stack up against the economies of various countries in the world? This amount of money would create the 17th largest economy in the world, roughly equal to the economy of the Netherlands.

Is $700 billion a lot of money? Of course it is, and we all need to think about this the next time Congress votes to spend money. I’m Kerby Anderson, and that’s my point of view.

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Do We Need a "Hate Crimes" Law?

April 4, 2007

Congress is once again weighing the possibility of passing a hate crimes bill that would give special federal protection based upon race, religion, gender, and sexual orientation. Representative Sheila Jackson-Lee (D-TX) introduced the David Ray Hate Crimes Prevention Act of 2007 (HR 254) in January. Many believe that if the bill is passed, it could open the door to prohibit any opposition to homosexuality whether in the church or the society at large.

It is quite possible that hate crimes legislation might even be used to define biblical language as hate speech. For example, city officials have already had a billboard removed in Long Island, NY, because it was classified as hate speech. The billboard read: If a man also lie with mankind, as he lieth with a woman, both of them have committed an abomination. (Leviticus 20:13)

Consider how hate crimes legislation in Philadelphia was used against Christians. In 2004, six men and five women were arrested in Philadelphia while preaching and speaking during a public homosexual celebration known as OutFest. These Christians (later known as the Philadelphia Eleven) walked into the gathering singing hymns and carrying signs encouraging homosexuals to repent. They were immediately confronted by a militant group of gay activists known as the Pink Angels. These activists blew loud whistles and carried large pink signs in front of the Christians in order to block their message and access to the event. Many of the gay activists screamed obscenities at the Christians.

Those arrested ranged in age from a 17-year-old girl to a 72-

year-old grandmother. After spending twenty-one hours in jail, the Philadelphia District Attorneys office charged five of them with various felonies and misdemeanors stemming from Pennsylvanias hate crimes law. If the Philadelphia Eleven were convicted of these charges, they would have faced forty-seven years in prison and $90,000 in fines each.

Even though a video clearly showed that no criminal activity took place, the prosecution refused to withdraw the charges, and characterized the groups views in court as hate speech. The judge for the Philadelphia County Court of Common Pleas Judge finally dismissed the charges, saying that she found no basis whatsoever for any of them.{1}

But even apart from the concerns about how a hate crimes law could be used to promote the homosexual agenda are deeper concerns about hate crimes legislation in general. For example, there is a major question whether hate crimes are really the problem the popular press makes them out to be. The FBI annually publishes Hate Crime Statistics. The most recent report shows that hate crimes reached an eight-year low in the last reporting period. A study by the Family Research Council found that there are significant discrepancies between hate crimes reported by law enforcement and the media.{2}

Hate crimes laws also rest on the flawed assumption that enhanced penalties deter crimes. First, there is no evidence of this. Most of these crimes are crimes of passion and are not likely to be influenced by greater criminal penalties. Second, the argument for greater deterrence usually comes from those who argue that the death penalty has no deterrent effect. Do they really believe that a hate crime law deters a criminal simply because he or she might spend a few extra months in jail?

A final objection to these laws is that they criminalize thought rather than conduct. Hate crimes laws essentially punish thought crimes. They punish people because of their

point of view. Criminal prosecutions delve into more than the defendant's intent; they inquire into the opinions about his or her victim. And trying to distinguish between opinions and prejudice is often difficult.

Justice Oliver Wendell Holmes said, "If there is any principle of the Constitution that more imperatively calls for attachment than any other it is the principle of free thought—not free thought for those who agree with us but freedom for the thought that we hate."{3}

We may not like what some people think, but we should not have laws on the books to punish thought crimes. We already have laws on the books to punish what a person does. Those laws are sufficient to punish those who commit crimes of hate.

Notes

1. "Judge drops all charges against Philly Christians," *WorldNetDaily*, 17 February 2005, www.worldnetdaily.com/news/article.asp?ARTICLE_ID=42905.
2. Leah Farish, "Hate Crimes: Beyond Virtual Reality," Family Research Council, www.frc.org/get.cfm?i=IS03K01.
3. Oliver Wendell Holmes, *United States v. Schwimmer* 279 U.S. 644 (1929).

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The Moral Fallout of the '98 Elections

Now that the November elections have passed, it is time to apply a little 20/20 hindsight to the results. An initial observation is that even the experts were surprised by the

outcome, as Democrats gained five seats against the Republican majority in the House, while drawing even in the Senate. Less than a month before the elections, the political director of the Democratic National Committee stated that losing less than twenty-six House seats and less than six Senate seats would be a victory for Democrats. Even moderate political analysts believed that Republicans would secure net gains of eight House seats, three Senate seats, and three governorships. Yet, this election was the first one since the presidency of FDR in which the party of the president did not lose seats in a congressional election. It would seem that these elections deserve special consideration.

The reason why so many had expected poor election results for the Democrats was obviously the scandal that has enveloped the Clinton presidency in the last year. Many Republican leaders seemed to regard the election as a referendum on the President, discounting polls which suggested otherwise. The question is, How could so many "experts" have so misread this election?

Perhaps one of the most significant aspects of this year's results has to do with the vote of religious conservatives. By comparing this year's vote with the elections of 1994, when Republicans regained control of the House after years of a Democratic majority, we notice a major shift in the voting activity of the so-called "religious right." In 1994, 67 percent of self-described religious conservatives voted Republican for Congress, while only 20 percent voted for Democrats. In the 1998 elections, however, 54 percent of religious conservatives voted Republican, and 31 percent voted for Democrats, a significant 24 percent swing.

This, in itself, helps explain the strong showing of Democrats, but prompts the question, Why did religious conservatives have such a dramatic shift in voting patterns? Several attempts will be made here to answer this question.

Earlier this year, James Dobson of *Focus on the Family* issued a kind of ultimatum to the Republican Party leadership. Expressing frustration at the failure of Republicans to pass significant legislation in areas such as abortion, he threatened to take as many of his radio listeners as he could away from the Republican Party if they did not make more of an effort to focus on social issues important to evangelicals. Immediately after that threat, there was a sudden emphasis by Republican leaders on abortion and homosexuality, and once again the ban on partial-birth abortions was brought to a vote. However, it was again vetoed by President Clinton. Even though, in that respect, Republicans have made an effort to reflect the social concerns of evangelical Christians, their failure to make any progress even with a majority may have left many supporters alienated.

Another factor may have been the failure of Republicans to stand up to President Clinton in the last-minute budget negotiations in October. Instead of pressing for their own agenda months earlier, when Mr. Clinton was at his weakest, Republicans were pressed into a corner by the threat of another government shutdown. Their failure to acknowledge that their constituents were concerned with more than just President Clinton's behavior ultimately seems to have backfired. The main message this year was that conservatives themselves sent a message to Republicans that they can no longer be counted on to simply vote anti-Democrat. As Steve Forbes has said, "A party that loses sight of its values and principles loses its base."

Presidential Scandal and the '98 Elections

Republicans and Democrats alike had anticipated major gains for the Republicans in the House, mainly because of the scandal involving President Clinton. House Speaker Newt Gingrich had predicted a gain of as many as thirty seats. Yet

when the votes were tallied, Democrats had actually gained five seats, and Newt Gingrich has now resigned his position as Speaker of the House. Does this mean that voters rejected an agenda favorable to religious conservatives?

Many Christians have been dismayed by the apparent lack of voters who were willing to punish Mr. Clinton for his actions. Of course, Mr. Clinton himself was not running for office, but it was thought that, by voting against Democrats, voters would signal their disapproval of President Clinton's behavior. Instead, it appears that voters voted for candidates on their own merits; it would seem that voters were in most respects voting *for* candidates and issues, not just *against* Mr. Clinton.

Some, associating the Democratic Party with the Lewinski scandal, have suggested that the positive gains of Democrats indicates that Americans are less and less concerned about the morality of their political leaders. Several factors have to be considered before making that judgment. In the first place, no single party has a monopoly on morality. This became especially evident when it was revealed in recent months that several prominent Republicans had been involved in sexual affairs in the past. And even though the current legal issue against Mr. Clinton is all about perjury under oath and suborning of perjury, as well as possible obstruction of justice, it is impossible to separate these issues from President Clinton's involvement with Ms. Lewinski. Consequently, the emphasis in the press on the sexual nature of the scandal has led many to conclude that Mr. Clinton's behavior is not unique.

Another key factor in how the American people have reacted to the Lewinski scandal is a simple psychological response to the long period between President Clinton's denial of an affair and his eventual admission of an "inappropriate relationship." In the eight months between those two speeches, most Americans had gradually become convinced that the President lied in his

initial denial. Consequently, when President Clinton admitted he had misled the public, the shock factor was absent—many people had already concluded that he wasn't telling the truth. And the constant emphasis in the news about the story eventually led many to conclude that our elected officials were obsessed with the scandal. Though it has been suggested that the reluctance to condemn Mr. Clinton's actions is indicative of a nation that has lost its moral compass, it could be that it also points to a sense of morality that is repulsed by publicly discussing private matters.

Exit polls indicate that over half of all voters did not consider President Clinton an issue in the election. Some candidates and issues which he supported won, and some lost. It seems what was most significant was that Republicans in this session of Congress failed to establish an agenda of their own that emphasized traditional conservatism. As we will see in the next section, it is evident that voters did not reject the social and moral concerns of Christians, but rather the failure of some Republicans to make a principled stand on the issues.

Major Victories for Christian Conservatives

The mainstream press has attempted to portray the lack-luster performance of Republicans at the national level as a major blow to the religious right, yet exit polls indicate that the major difference this year was that it was the religious right itself that shifted its allegiance away from the Republican Party. The clear message is that Republicans cannot expect religious conservatives to slavishly vote Republican every time. Voters seem much more willing to look at each individual candidate on his or her own merit, rather than simply following a party line. It would appear that some of its strongest supporters are attempting to send Republican Party leaders a message.

Christians and other religious conservatives who are concerned that the elections indicate a major shift away from traditional morality may be focusing too strongly on their reaction to the Clinton scandal. Whereas 20 percent of voters went to the voting booth with the clear intent of voting against Mr. Clinton, another 20 percent voted with support of the President in mind. Those two groups thus canceled each other out. The other 60 percent of voters maintained that they voted with no thought of President Clinton. And since many Democrats attempted to distance themselves from President Clinton during their campaigns, it would be a stretch to suggest that those who voted Democrat were voting for the President. And when we consider the issues which were voted on this past November, we can't help but notice that major victories were won in areas important to Christians.

Perhaps one of the most defining moments of these elections was the banning of same-sex marriage in both Hawaii and Alaska. Of course, the silence from the major media has been deafening, especially when it had been suggested just two years ago by gay activists that Hawaii would open the floodgates for same-sex marriage. Even though homosexual activists poured considerable amounts of money and energy into their campaigns, nearly 70 percent of both Alaskan and Hawaiian voters affirmed marriage as being between one man and one woman. In a related issue, Republicans had high hopes that Matt Fong would defeat liberal Senator Barbara Boxer in California, but Fong shocked many conservative supporters late in the campaign by making concessions to the gay and lesbian community. Needless to say, Fong lost, mainly due to his failure to take a principled stand.

Also, another major issue for Christians has been the emphasis on the sanctity of life. In the home state of Jack Kevorkian, Michigan voters defeated doctor-assisted suicide by a wide margin. Colorado voters also placed a limitation on abortion by requiring parental consent for teenagers seeking abortion.

Unfortunately, Colorado and Washington both refused to outlaw partial-birth abortions, although the votes were very close.

In sum, while conservatives seem to be laying all their bets on the Republican Party, and because Republicans didn't do as well as expected, there has been a tendency to say conservatism, and especially religious conservatism, was a big loser on election day. But when we look at the results of particular races, we see that only a handful of true conservatives lost at the national level, and many referendums were won. Any attempt to view the elections as an outright rejection of a conservative religious worldview cannot be supported by the facts.

Moral Judgment and the Sexual Revolution

As we have examined the November elections, we have concluded that the attitude of most Americans toward President Clinton was left out of the ballot box. President Clinton was not running for office, and the major shift in voting patterns was demonstrated by religious conservatives, who appear to have punished Republicans for failing to act like the majority in Congress. Probably the best way to gauge how Americans view the President is to recall the polls that have been taken since the Lewinski matter erupted in January of 1998.

Certainly one of the most curious aspects of this political year has been the consistently high job approval ratings the President has enjoyed, while at the same time he is considered a poor role model by a majority. The very fact that people have made a moral judgment of the President is once again a positive indication that American society is not simply concerned with pragmatism. But on the other hand, the majority of Americans seem to be willing to forgive Mr. Clinton and simply want the issue to go away. In this respect, Americans seem perfectly content to ignore the scandal as long as there is peace abroad and economic prosperity at home. Besides, it is the opinion of many that the scandal is "just about sex."

If anything, it is that small phrase which should be of concern for society, since it seems to imply that sexuality is of little importance. A biblical worldview is entirely opposed to such a notion.

According to Genesis 2, God's desire is that one man and one women should become "one flesh" in the act of marriage—a euphemism for sexual union. But since the beginning of time, humanity has rejected God's plan, and the consequences have been devastating. In the United States, there has been a concerted effort since the 1960's to overcome any social restrictions against sex outside of marriage, all in the name of personal freedom. But in fact, many of the social pathologies in this country can be traced to a distorted view of sexuality. When men and women reject the sacredness of sexuality and view sex as simply recreational, the natural results are obvious: unwanted pregnancies, abortion, sexually transmitted diseases, AIDS, divorce, single-motherhood, and poverty. Not so obvious is another related issue. When young men grow up without fathers, they typically learn conceptions of manhood from other youth, rather than learning from their fathers. Violent gangs are often the only families that some young men ever identify with. Thus, to speak of sexuality as though it is of little import is a tragic mistake.

Of course, because the sexual revolution has had such a powerful grip on society, it is easy to see why so many are able to separate President Clinton's personal life from his public duties. When any society loosens its attitude toward a particular activity, the members of that society will feel less ashamed for engaging in that activity. As a consequence, those who engage in that activity will be much less likely to condemn anyone who does the same thing, since to do so would necessarily be a condemnation of themselves. More than likely, the willingness for many to simply ignore the Lewinski matter is a residue of a casual view of sexuality. However, the American people must remember that the issue before them is

not only a sexual scandal, but a question of the rule of law. That issue has broader implications for us all.

The Case for the Common Good

As we have been considering the recent national elections and the suprising results, we have considered the possible connection between the results and the public's reaction to President Clinton and the Lewinski scandal. We have noted that exit polls indicate that candidates were typically judged on their own merits. Thus, overall results cannot be said to reflect favorably or negatively on Mr. Clinton. We also noted that the sexual revolution has lessened the tendency of Americans to judge anyone for sexual indiscretions. But, what must now be emphasized is that the President's impeachment hearings are based on allegations of perjury and obstruction of justice. That many Americans are willing to dismiss such an offense should be of concern to all of us.

Perhaps the first thing that should be acknowledged by all is that President Clinton is well-liked by many Americans. Consequently, this case is similar to the O.J. Simpson trial, where a well-known and well-liked celebrity won a trial of public opinion. In this situation, millions of Americans are sympathetic toward the President. Unfortunately, many Americans have construed their affection for the President as being admissible as evidence in a court of law. In reality, juries are not simply allowed to determine a person's fate by majority rule. And contrary to what has been stated recently by media friends of President Clinton such as Geraldo Rivera, perjury is a criminal offense. To simply ignore its possibility in this case would be devastating for our legal system.

When we consider that this country's government is founded on an intricate system of checks and balances, we must ultimately recognize that the rule of law is essential to a just society. When people are discriminated against, or granted special

favors in the legal system, the result is injustice. President Clinton himself recognizes this, as he is the top law enforcement officer in the land. In addition, the following statement is found in the Justice Department's manual for federal prosecutors: "Because false declarations affect the integrity of the judicial fact-finding process, all offenders should be vigorously prosecuted."

Unfortunately, contemporary society tends to denigrate public service, and place a premium on the comforts of private and family life. Consequently, many people are willing to ignore the legal case against President Clinton since they assume it does not directly concern them. But, as Alexis de Tocqueville reminded us over 150 years ago in his great work *Democracy in America*, one of the dangers of democracy is that it can flatten people's personalities, making them "creatures of mass opinion and enslaving them to the drive for material security, comfort and equality." But if the American people are willing to forfeit the integrity of the law out of a desire for convenience or prosperity, it demonstrates not so much the lack of a moral compass as it indicates that many Americans no longer recognize the concept of the common good.

When a government becomes too powerful, de Toqueville warns, its citizens are willing to sacrifice freedom for comfort. Should contemporary society assume that President Clinton should not have to be held accountable for perjury, it would establish a legal precedent that would call into question the rule of law in our society. To that extent our elected congressional leaders must remember that their first responsibility is to the laws which they as a body have sworn to defend. While the spectacle of impeachment hearings is a sad prospect, even more tragic would be the cynicism that would be the result of ignoring this case for reasons of political expediency.

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Congressional Reforms

The Flat Tax

“Our government is too big, and it spends, taxes and regulates too much. Of all the supposed crises we’re facing today, this is the one that really matters.” So said Representative Dick Armey when he introduced his proposal for a flat tax.

The American public sector is now larger than the entire economy of any other country except Japan. Government employment surpasses jobs in the manufacturing sector. “Today, the average family now pays more in taxes than it spends on food, clothing, and shelter combined. All told, nearly 40% of the nation’s income is now spent not by the workers who earned it, but by the political class that taxed it from them.”

Congressman Armey believes we need a change. He wants to freeze federal spending, erase stupid governmental regulations, and retire the current Rube Goldberg tax code with a simple, flat tax and a form that could fit on a postcard.

The proposal has tremendous merit, which is why its chances of passing in this session of Congress are slim and none. But Armey is not a Congressional Don Quixote tilting at bureaucratic windmills. He knows that taxpayers are fed up with waste, fraud, and tax confusion. They are eager to change the system and willing to change congressmen if they won’t take action.

In this essay we will be looking at the merits of this proposal. The center piece of the proposal is the flat tax. Seven decades of corporate lobbying and congressional

tinkering have left the tax code in a mess. Rates are high, loopholes abound, and families must bear an unfair burden of the tax code. Armey's bill would scrap the entire code and replace it with a simple 17% flat tax for all.

All personal income would be taxed once at the single, low rate of 17%. There would be no special tax breaks of any kind except the following: (1) a child deduction of $5300 (twice what it is today), and (2) a personal allowance – $13,100 for an individual, $17,200 for a single head of a household, and $26,200 for married couples.

Businesses would pay the same 17% as individuals. A corporation would subtract expenses from revenues and pay the same, flat tax. The benefits should be obvious. Americans spend approximately 6 billion person-hours figuring their taxes each year. This lost time costs the economy $600 billion annually, and people spend another $200 billion in time and energy looking for legal ways to avoid taxation. Lawyers, accountants, and all taxpayers will be freed up to focus their time and energy on more productive aspects of the economy.

Economic growth will be another benefit of the plan. Armey's bill not only lowers tax rates but eliminates double taxation of savings, thus creating a new incentive for investment. No more capital-gains tax, no estate tax, no tax on dividends. This bill will substantially stimulate the economy and create new jobs.

Perhaps the greatest benefit will be tax fairness. We say that in our society everybody should be treated the same, but we have a tax code that does anything but do that. Under the current code, politicians and lobbyists determine which groups should pay more and which groups should pay less. Under the Armey bill everyone pays the same.

The bill does more than simplify the tax code. It has two other major features. First, it would address the issues of

spending cuts and program sunsets. Armey's bill uses a variation of the old Gramm-Rudman law to freeze total federal spending for one year and then allow it to grow only at the rate of inflation after that.

This proposal will eliminate $475 billion in currently projected spending increases. It will guarantee the government will become no larger in real terms than it is today.

Armey would cut budgets the old-fashioned way: he makes bureaucrats earn them. If a department or agency doesn't perform, it won't continue to exist unless it can justify its existence. Can you imagine the hearings for various agricultural subsidies, pork barrel projects, or for the Strategic Helium Reserve?

Under this proposal new programs will be especially unwelcome. Currently Congress writes new spending bills authorizing "such sums as may be necessary." Armey's bill would require that "such sums" come from existing programs. Congress will no longer be allowed to write a blank check.

A second feature of Armey's bill is to end indiscriminate regulations. The enormous number of government regulations are effectively a hidden tax on business and individual taxpayers. Armey estimates these regulations cost Americans $580 billion a year. Thus, these regulations are an even greater burden than the income tax itself.

Armey's bill would force the President to produce a regulatory budget. This would expose, for the first time, the hidden cost of regulations. Congress would then be required to do a cost-benefit analysis and risk assessment on any bill with new regulatory authority.

The bill would also address the erosion of property rights. Any time government regulators write a rule that reduces the value of a person's property, the government must compensate that person just as if the government confiscated the land to

build a park or highway. No longer would environmental extremists be able to take a person's land by regulatory fiat.

Finally, the bill ends the deceptive device that has made Big Government possible: income-tax withholding. If taxpayers paid their taxes the same way they pay for their houses or cars, government would not have grown so big. Withholding taxes before the taxpayers see it allows government to grow ever larger. This bill ends withholding and thereby puts one more check on the political class.

The flat tax has merit and is illustrative of the many Congressional reforms being put forward in this session of Congress.

Congressional Privilege

Thomas Jefferson wrote that "the framers of our Constitution… took care to provide that the laws should bind equally on all and especially that those who make them shall not exempt themselves from their operation."

James Madison wrote in the *Federalist Papers* that Congress "can make no law which will not have its full operation on themselves and their friends, as well as on the great mass of the society. This has always been deemed one of the strongest bonds by which human policy can connect rulers and the people together."

Unfortunately, Congress has exempted itself from many of the laws you and I must obey. Recent votes in the House and the Senate have been an attempt to put Congress under some of these laws. Look at this short list of major pieces of legislation Congress has been able to exempt itself from in the past.

The Civil Rights Act of 1964 – Protects against discrimination based on race, color, sex, national origin, religious affiliation.

Americans with Disabilities Act – Protects against discrimination based on disability. Has subjected employers to burdensome architectural renovations and hiring.

Age Discrimination in Employment Act – Protects against age discrimination. Does not apply to House. Applies to Senate through internal rules.

Occupation Safety and Health Act – Sets minimum health and safety standards in the workplace.

Fair Labor Standards Act – Requires employers to pay minimum wage, time and a half, and overtime. Amendments in 1989 covered House employees. Senate is exempt.

Rehabilitation Act of 1973 – Requires federal agencies to submit affirmative action plans for the disabled to the Equal Employment Opportunity Commission.

National Labor Relations Act – Proscribes unfair labor practices, gives workers right to form unions, requires employers to bargain. Congress is exempt.

Freedom of Information Act – Provides public access to government documents. Congress is exempt, although it does publish floor and committee proceedings.

Privacy Act – Protects individual employees at agencies subject to the act. Congress is exempt.

You might wonder how Congress can justify exempting itself from the laws the rest of us must obey. You might think there would be some Constitutional justification due to the separation of powers. Well, not exactly. Though the argument does have some merit, listen to the justification given the last session of Congress.

Senator Wendell Ford (D-KY) spoke against extending a smoking ban to Senate rooms lacking separate ventilation. He said, “This is going to affect each and every member of this

chamber, and the administrative confusion that this will cause for members will be enormous. One day we will have an EPA administrator in our office …telling us our separate ventilation system for tobacco is insufficient. Then the next day the OSHA inspector is going to arrive and tell us we do not have sufficient ventilation for fumes coming from the new carpeting, or the paint or the varnish. Next thing you know, we will have HHS coming in and telling us we cannot eat at our desks."

All I can say to Senator Ford is, "Yes, you will." You will be subjected to the same regulatory insanity most of us have had to live with for years! Perhaps the members of Congress will be more careful about the bills they pass in the future, when they have to live under the same laws we must obey. No one should be above the law, not even members of Congress.

Capital

Last November, the Republicans won a battle for Capitol Hill. Now they are waging another battle for America's financial capital. Nearly every day, Capitol Hill is abuzz with discussion of cuts in the capital gains tax, a middle class tax cut, and even a whole new tax code. We are going to look at a number of these proposals.

The first proposal is a cut in the capital gains tax. Proponents say that the economy will be strengthened by cutting the capital gain tax and indexing capital gains to inflation. Instead of the current tax rates ranging from 15% to 28%, the rates would be cut to rates ranging from 7.5% to 19.8%.

Opponents of a capital gains tax cut say it would merely be a "tax break for the rich." But statistics show that the middle class would be the primary beneficiary.

President Clinton recently defined the middle class as those

making less than $75,000 (his middle class tax cut is intended for those making less than $75,000). Even using this $75,000 cutoff point, we find that 74% of the people who earn capital gains come from the middle class or below. Since 26% of people making capital gains have incomes above that cutoff point, reducing the capital gains tax is *not* “giving a tax break to the rich.”

The benefit to the economy would be substantial. By lowering tax rates on capital, capital becomes more plentiful. Making capital more plentiful will make labor more scarce relative to capital and bid up the price of labor, resulting in more jobs and higher wages.

Another way to look at this is to recognize that more capital per worker makes workers more productive (better and more efficient equipment) making businesses willing to pay more for labor.

Another way to strengthen the economy is to replace the current tax system with a flat tax as we discussed earlier. The income tax would be 20% in the first two years and 17% thereafter.

Individuals would deduct $13,100, and married couples would deduct $26,200. Each dependent would add $5300 to the tax-exempt portion of the family. In other words, a family of four would not pay any taxes on the first $36,800 of family income!

If a flat tax is passed, there would be no tax on income from capital gains, interest, dividends, or estates. The current tax code actually discourages capital formation by taxing future financial gains. This plan would promote capital formation by eliminating tax on such investments.

Essentially people can spend their money as they earn it or defer gratification until the future. Currently, if they spend their money immediately, they do not increase their income-tax bills. But, if they invest their money and plan to consume it

in the future, they risk paying income taxes on their interest, dividends, or capital gains.

This tax plan would allow businesses to pay the same flat rate on the difference between their gross revenues and their business deductions. It would also change the method of depreciation. Currently businesses must now depreciate their capital expenditures over the life of the equipment they buy. Armey's plan would allow them to fully expense those costs the year they incur.

In essence, the proposals are simple: if you want more of something, reduce the tax on it. If you want more capital, then reduce (or eliminate) the current taxes on capital. In the end, people and the economy will benefit.

Welfare Reform

Senator Daniel Patrick Moynihan (D-NY) has boldly stated, "We have no health care crisis in this country. We do have a *welfare* crisis." The social statistics bear out his conclusion. Since 1960 the welfare rolls have increased by 460 percent. Since 1965 Americans have spent more than $5 trillion on welfare. Currently more than 14 million individuals (including 1 in 7 children) are on welfare.

The current welfare system rewards dependency and punishes initiative. In Maryland, a single parent with two children would need to earn a minimum of $7.50 an hour to earn the same amount as provided by welfare grants and benefits. No wonder so many welfare mothers therefore conclude that staying on welfare is better than getting off.

Various welfare proposals submitted to Congress attempt to modify the welfare system by addressing the following issues:

The first is child support. Many fathers are not providing child support, and these bills would tighten the loopholes and make these dads pay up. Currently unwed fathers are not named

on birth certificates. The omission frequently foils attempts to collect child support. But if dad pays, then mom's check does not have to be so large. The proposed bills would require the mother to identify the father in order to receive a welfare check. States can threaten deadbeat dads with garnishing wages and suspending professional and driver's licenses.

Second is the marriage penalty. If a pregnant teen get married or lives with the father of her child, she is frequently ineligible for welfare. Congressional proposals would encourage states to abolish the "marriage penalty" and make it easier to married couples to get welfare.

A third proposal is a family cap. Welfare mothers in some states can increase the size of their welfare checks by having more children. Congressional bills being considered would allow states to cap payments. If a welfare mother has another child, her check remains the same.

Already in New Jersey, Arkansas, and Georgia, families receive no increase for children born while on the dole. Congressional proposals would extend and encourage this opportunity to other states. The evidence so far is that this family cap may have some deterrence.

A fourth issue is work. Often if a welfare mother gets a job, her check is reduced, and she is likely to lose such benefits like Medicare and free child care. The new proposals before Congress would drop benefits after two years, but allow welfare mothers to work during that period.

Finally, these proposals address the government bureaucracy. Currently governors have to ask the Federal government if they can revamp their state welfare system. And the federal bureaucracy costs money. If you took the money spent for welfare and gave it to poor families it would amount to $25,000 a year for every family of four.

These bills would also freeze or change welfare payments. They would replace Food Stamps and AFDC with block grants to the states. This money would come from savings from cutting cash payments to women having children out of wedlock. As states receive these block grants, they would be free to design their own system.

The Bible clearly admonishes us to help those less fortunate, but it instructs us to do it intelligently. In 2 Thessalonians 3:10 we read that if “a man will not work, he shall not eat.” We need to revamp the current welfare system to meet real needs and stop subsidizing those who will not work. Congressional proposals are designed to help the helpless but stop rewarding the lazy.

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