

Tea Leaf

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Heaven Help 'em

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The Republican Party could be in serious trouble on November 7, 2006. On that date, voters around the nation will step into voting booths and participate in the national off-year elections.

While not voting for a President in this election, voters will have a chance to reflect their opinions as to the performance of a Republican President...the performance of a Republican-led Senate...and the performance of a Republican-led House of Representatives...

...current polling suggests a tight race for Congressional control over the next few years.

A recent Associated Press-Ipsos poll found that 24% of self-described conservatives intend to cast their votes for Democrats in November (*Investor's Business Daily*)...a terrifying thought to Republican Party leaders.

Popularity Decline

It's no secret that President Bush's popularity with Americans is low. Presidents from both parties traditionally lose public support in their final terms. One result is that the political party out of control usually picks up a sizable number of seats in the House and the Senate in a President's sixth year.

The current Republican majority in the Senate is five seats (out of 100), while the Republican majority in the House is 14 seats (out of 435). Democrats have high hopes of, at worst, narrowing these margins, while also being quietly confident of gaining control in either the Senate, or the House, or both.

It is certainly clear that the major reason for the public's distaste with the President is the mess in Iraq. Millions of voters, who initially might have supported our expansion of the "war on terror" into Afghanistan and Iraq, have become totally disillusioned with the seeming lack of progress that has resulted...

...eliminating Saddam Hussein was one thing...a costly and painful effort at nation-building is something else

Voters tire at the estimated \$300 million we spend daily in Iraq and elsewhere as we fight terrorism (*Hudson Institute*)...hoping Iraqis will step up more diligently, and let American and coalition forces return home.

History will likely tarnish President Bush II with the stain of Iraq. History will also give him credit and blame for two other major decisions.

Bush Positive

The tax cuts of a few years ago were, in my opinion, solid policy steps. I would argue that such cuts should be made permanent, especially those concerning a lower tax rate on dividends and capital gains.

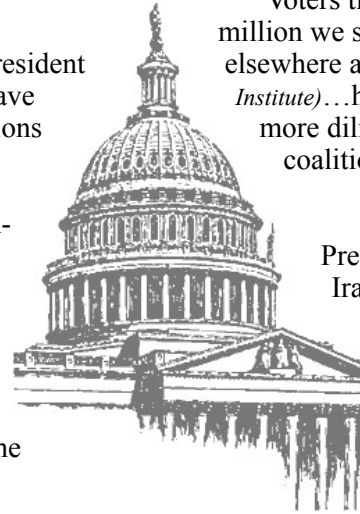
Critics argued that tax cuts across the board benefited primarily the rich. No argument here. However, it is the rich that create jobs...it is also the rich that pay most of the taxes. Those who wish to see the wealthy pay even more in taxes should love developments of recent years.

Income tax revenues have surged over the past few years, with most of the gain in revenue coming from the wealthy. Corporate income tax revenue has also surged as solid economic performance has contributed to strong growth in corporate profitability. Tax revenues are expected to rise another 11%-13% this year, on top of last year's record 15% rise.

Deficit Decline

One positive bi-product of an enormous surge of tax revenue into Washington is a smaller federal budget deficit. The Administration has proudly noted recently that the budget deficit for fiscal year 2006 (which ends on September 30, 2006) will come in around \$296 billion.

Such a deficit is a far cry better than the projection earlier this year of



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a FY2006 deficit of \$423 billion. This deficit also compares to the \$318 billion shortfall in FY2005 and the \$413 billion shortfall in FY2004.

The President trumpets the fact that the deficit this year will be roughly 2.3% of GDP (\$296 billion deficit as compared to \$13 trillion in annual GDP), actually less than deficits of 17 of the past 25 years (*The Wall Street Journal*). The President also notes that his promise to cut the deficit in half by FY2008 will be reached even sooner.

Unfortunately, history also tells us that the U.S. government should be running a budget surplus this far into an economic recovery. With solid economic growth and the nation's unemployment rate at a low 4.6%, dollars flowing into Washington should exceed the dollars flowing out...

...not the case

Prior Surpluses

The Democrats boast that President Clinton oversaw a sizable budget surplus during the final four years of his reign, with a combined surplus of \$559 billion in FY1998 through FY2001. They talk of the positive impact of a tax increase in Clinton's first term and spending restraint as the reasons why...

...the evidence suggests something else

Deficits gave way to surpluses in Clinton's second term because of strong economic growth and the tax revenue surge resulting from sky-high stock prices in the late 1990s. The reality that Clinton had an opportunity to slash defense spending in the 1990s also contributed mightily to lesser spending and resulting surpluses.

Bush Negative

History will take the President to task for his unwillingness to impose spending restraint on the Republican Congress. A President does not control the nation's purse strings, but DOES have the ability to veto spending they see as irresponsible. This President had many opportunities to veto legislation laden with wasteful spending (pork), and chose not to do so.

History is also likely to be unkind to this President in regards to the Medicare

prescription drug program passed in 2005. It would be extremely difficult to find any similar program that will challenge our ability to pay for it in coming decades as does this costly program.

Fair Play

This President has never received a fair shake from the nation's media. It's no secret that the national media has a strong liberal bias. As a result, Republican policy initiatives are typically cast in a negative light, while any good news relative to the economy is relegated to the back pages.

This President has arguably experienced even greater liberal distaste than others, as he was seen as one who did not occupy the White House legitimately... Democratic Presidential candidate Al Gore received more votes in November 2000 and, in their view, should have run the show in recent years.

The collective disappointment of many regarding the President is magnified when considering the poor performance of the Republican leadership in Congress. One would have hoped that necessary tax cuts after the horrific events of 9/11 and the recession would have been offset by spending restraint...

...such was not the case

A political voice stated recently that when Republicans run as Reagan conservatives, they win. When they run like big-spending Democrats, they lose.

Political columnist Cal Thomas noted recently that House Republicans are being told by their leaders to run campaigns this fall on a platform of fiscal discipline that includes cutting spending. The only problem here is that Republican pork barrel spending of recent years (known as "earmarks") has been the stuff of legends.

Thomas rightly compares this campaign plan to a member of Alcoholics Anonymous who gets drunk between meetings and then gets up to testify that they have not had a drink in the past 10 minutes...

...heaven help 'em

"TEA"ser

Retirement at 65 is ridiculous. When I was 65 I still had pimples.

—George Burns



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