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With Cheney, smart economics in supply

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Richard Cheney, George W. Bush's choice for running mate, understands that this marvelous "new" economy we enjoy today began with the across-the-board tax-rate reductions in 1981 and the return to sound money ushered in by Paul Volcker and sustained by Alan Greenspan at the Federal Reserve Board. Vice President Al Gore, on the other hand, just doesn't get it.

The Gore campaign is based on a two-part, "happy days/sad days" myth.

The "sad days" part consists of a fallacy long promoted by the Democratic Party that Reaganomics was a failure that resulted in huge budget deficits, a painful economic recession in 1990 and economic hard times for many Americans. The "happy days" part of the myth is that the economic recovery from the 1990 recession, America's current economic prosperity and federal budget surpluses have been a direct result of Clinton-Gore policies that reversed Reaganomics.

The fact is, Reaganomics, that so-called "risky" supply-side "scheme," was a spectacular success, and the budget deficits of the 1980s were a product almost entirely of excessive congressional spending. Most Americans prospered mightily during the 1980s as their inflation-adjusted disposable personal income rose at an average annual rate of 3.5 percent. It has been only 2.9 percent during the Clinton years.

As for the 1990 recession, it was a short downturn which ended before Bill Clinton took office. It was brought on not by Reaganomics but rather by a badly flawed tax-reform measure enacted in 1986 that penalized saving and investment, a tax increase and regulatory binge in the early 1990s and unduly tight monetary policy by the Federal Reserve Board.

It was Cheney in 1974, then President Gerald Ford's deputy chief of staff, for whom supply-side economist Art Laffer scribbled the famous Laffer curve on a napkin to demonstrate how, when tax rates are too high, lowering them can actually increase revenues. Cheney actually was the first modern-day Republican to put supply-side economic theory into practice when he helped dissuade Ford from raising taxes and persuaded him instead that lower taxes were needed.

Then, while serving as the congressman from Wyoming, Cheney perceived the many flaws in the Tax Reform Act of 1986 and courageously broke with his own party to vote against the bill.

He explained his reasoning by warning that the tax-rate reductions contained in the bill, as desirable as they were, nevertheless were insufficient to offset the "significant rise in the cost of capital" that the bill would bring about through an increase in the capital-gains tax; a restriction on the availability of IRAs and a change in the write-off periods for capital equipment and real property. It was the anti-supply side aspects of tax reform that helped bring on the recession.

The Clinton administration has been merely a caretaker presidency in the transition from the old to the new economy.

In the June issue of the American Economic Review, Nobel Prize-winning economist Robert Mundell places recent economic events into historic context.

Mundell credits Reagan with the successful implementation of supply-side economics, which he characterizes as "a policy system alternative to short-run Keynesian and monetarist demand-side models." He then puts the Clinton years in context: "Growth continued until the nine-month downsizing recession of 1990-1991, which probably cost President George H.W. Bush re-election. Expansion resumed in the spring of 1991 and continued at least until the end of the decade, making the combined period 1982-2000 the greatest expansion in the history of any country."

Cheney opens the door to the supply side of a Bush administration. Now Bush has a perfect opportunity to walk through that door by announcing he will choose Steve Forbes to serve as treasury secretary.

Jack Kemp is co-director of Empower America and Distinguished Fellow of the Competitive Enterprise Institute.