Warding off recession

by The San Diego Union-Tribune

A markedly slowing economy and the fear of recession are producing a flurry of economic stimulus proposals - from congressional Democrats, from Hillary Rodham Clinton and Barack Obama and, in the talking stage at least, from the Bush White House. It's time for a brief discussion of some basics about what might work and what wouldn't.

The starting point for any such deliberation should be recognition that we're dealing here with an annual economy of $14 trillion. So a fiscal stimulus package that adds, say, $100 billion in federal spending intended as pump priming couldn't accomplish much, even assuming it could be negotiated, drafted, debated and enacted in time to arrive before any prospective recession had largely run its course.

Point two is that pump priming as an anti-recession measure has a very mixed track record, at best. Indeed, more than a few economists think a fiscal stimulus package would be both unneeded and unhelpful. But that's not to say nothing can be done, either to head off a recession or to soften its impact if one occurs. Making the Bush tax-rate cuts of 2003 permanent would head off the looming sharp increase in marginal tax rates, a sure growth and jobs killer, when they are due to expire in 2010. Lower tax rates on capital gains and dividends would increase investment incentives, a certain spur to economic growth. Lowering corporate tax rates - an idea embraced by House Ways and Means Committee Chairman Rep. Charles Rangel, a liberal Democrat from New York - would help American business against its foreign competitors, most of whom pay far lower rates.

An idea that strikes us as particularly inventive would be to increase the investment tax credit or speed up tax deductions for new investments in machinery and equipment. The latter has been tried successfully several times since it first worked during the Kennedy administration in the early 1960s.

The point here is that real stimulus must be structural, not merely a fiscal dollop.

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