A strong America needs a strong dollar

by Jack_Kemp

In the early 1970s, as I began serving in the U.S. Congress representing Buffalo, N.Y., I remember the disdain (and disgust) I felt as the Republican Party was torn apart by President Nixon's Watergate follies, and I felt even worse by his wage and price controls, tax and tariff hikes, and the devaluation of our currency.

As the country divided over the Vietnam War, stagflation began to appear, first under Nixon, surging under President Ford and reaching its most dangerous heights under President Carter. It didn't end until the early 1980s, when President Reagan began cutting tax rates on both labor and capital investment and as Paul Volker, chairman of the Federal Reserve Board, sharply tightened monetary policy. This was the right combination of fiscal, tax and monetary policies that ended the simultaneity of inflation and recession, what we now know as "stagflation."

In those dark days of the 1970s, economic malaise, Watergate crimes and fierce debates over the Vietnam War, John Gardner of Common Cause wrote something in Newsweek I've never forgotten: "America is caught in a crossfire between the 'uncritical lovers' and the 'unloving critics.'"

His description of crossfire between chauvinists who saw nothing wrong in America and the nihilists who wanted America to implode and be built into a new "socialist" model was the perfect metaphor for that decade. Actually, that's a pretty apt description about some of the debates taking place today over the Iraq War and at a time we are beginning to see the incipient stages of a new round of stagflation.

John McCain versus Barack Obama or Hillary Clinton will square off in the presidential campaign, with McCain "the older and wiser" versus Obama, the "charismatic and younger," or Clinton, "the experienced one." (Not!)

It's no secret I'm a strong John McCain guy, but not without respect for both Obama and Clinton. As Sen. McCain has pointed out, it will be a civil and respectful debate, but very, very spirited, as indeed it should be, with Obama and Clinton both on the far left.

With the dollar's weakness pervasive and the economy slowing down to a near halt, with more and more evidence of too many Americans, particularly people of color, losing their homes and their nest eggs of wealth, I believe McCain will chart a political and economic course for our nation that will do far more than just offer "hope" or "change." I believe he will pursue policies that will actually lead to strong economic growth while ending these early stages of dollar weakness and inflation.

Those on the left will ask in response, "Don't you have to have higher interest rates to strengthen the dollar?"

Absolutely not!

As David Malpass, chief global economist at Bear Stearns, points out, "The two aren't tightly connected. Many countries with low interest rates have had strong currencies, including the German mark in the 1960s and the euro now. The dollar strengthened in the first years of the Reagan administration when he focused on it and put in good economic policies. We should do that again. The United States is a great country, and the dollar is normally a great currency."

McCain, I firmly believe, will do that again.

As I wrote recently, moving our nation toward a flatter, fairer and simplified tax code that is both pro-growth and pro-family while strengthening the investment climate in our country will immediately strengthen the demand for the dollar here and around the globe. McCain knows we need a tax policy for the 21st century that both recognizes the need for a competitive economy in an increasingly flattening world while encouraging capital formation and job creation here at home. His ideas for cutting corporate tax rates from 35 percent to 25 percent, expensing all investment in machinery, equipment and technology, making permanent the 15 percent tax rate on capital gains, dividends and estates while eliminating the alternative minimum tax would give us the answer to the dangerous simultaneity of inflation and recession.

These pro-growth initiatives by candidate McCain will force Sens. Obama and Clinton and their political advisers to say, "Oh no, we can't cut tax rates, we need higher taxes - but only on the rich." But soaking-the-rich rhetoric and policies to redistribute wealth will weaken the U.S. investment climate, further weaken the dollar and, in the end, exacerbate stagflation.

McCain's thesis of noninflationary growth will have the winning edge against Obama and Clinton's "antithesis." I truly believe this, among the other issues, like free trade, immigration reform, national security and a strong foreign policy, accompanied by McCain's pledge of strong appointments to the Supreme Court like Roberts and Alito, will give Republicans the opportunity to both win the White House and gain seats in the U.S. Congress.

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