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Position Paper on the Economic Recovery

What Is Happening in Our Economy?

Our economy is in the midst of a downward spiral in employment. Many people are losing their jobs and health insurance coverage, losing their houses to foreclosure, and struggling to pay their bills. Others, faced with the possibility of losing their jobs, have cut back on discretionary spending.

This downward spiral is the aftermath of the hyperinflation in oil prices that we experienced from 2002 through mid-last year. Over that period oil prices increased 6-fold, a 35% average annual increase. This “oil price shock” slammed the world economy, causing “defaults” by financially weaker economic entities – low-income households, banks with risky asset portfolios, other highly leveraged businesses, and businesses sensitive to the business cycle.

Banks were hit with a one-two punch. Congress and the federal government delivered the set-up punch, pressuring banks to make risky loans to low-income customers through The Community Redevelopment Act and threats of prosecution for discrimination if they did not. The knock-out punch was delivered by OPEC when they engineered the hyperinflation in oil.

The rise in oil prices caused prices for fuel, food, and other products to rise. This, coupled with state and local tax increases on cigarettes,

alcohol, property, sales, and utility, insurance, and other bills, put tremendous financial pressure on many already tight household budgets, particularly low-income individuals and families.

Low-income individuals and families were squeezed to the point at which they began defaulting on their mortgages in large numbers, precipitating the sub-prime mortgage crisis.

Consumers, in large numbers, cut back on discretionary spending to pay the higher prices for essentials. This decline in consumer spending led to revenue declines in businesses and subsequent job

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“Our economy is experiencing a downward spiral in employment. To break it and begin the economic recovery, we must create jobs by providing private-sector businesses with low-cost capital and reducing the cost of doing business in the United States.” – Roger Thoney, PE; Economic Troubleshooter

loss, which generated even more defaults on mortgages. The revenue declines also precipitated business failures which further increased bank losses and job loss.

The massive job loss resulted in further declines in consumer spending because consumers cut back discretionary spending even more out of fear of losing their jobs. Job loss leading to reduced consumer spending leading to more job loss and further reductions in spending is the downward spiral with which we are faced.

This downward spiral will end when job loss in private-sector businesses ends and workers no longer fear losing their jobs. Consumer spending will increase once the threat of job loss is gone.

What Should We Do?

We must stop the loss of jobs in the private sector. The way out of any economic downturn is to invest, invest, and invest some more. Growing businesses **hire** workers not lay them off, so we should focus our economic stimulus efforts on stimulating investment by private-sector businesses. We can do this by ***providing low-cost investment capital and reducing the cost of doing business to reduce the risk of creating more jobs.*** In addition, we can provide low-cost loans to individuals so that they can pay their bills until they find jobs.

Eliminating the taxes on business profit and capital gain will provide low-cost capital to private-sector businesses. Profit provides the return on investment that rewards investors for taking risks. It finances economic growth either directly or by providing the funds to pay principal and interest on debt or dividends on other financing vehicles such as preferred stock.

Taxes on business profit and capital gain take investment capital from businesses. This slows the growth of the supply side of the economy, and job creation, because businesses have less capital to invest. Some businesses replace this lost capital by borrowing or issuing stock, but this increases the cost of capital and the additional cost slows expansion because it increases risk. If businesses were allowed to keep this tax money, then they would not have to acquire more expensive capital to replace it. More money would be invested; more jobs would be created; and the cost of living and cost of doing business would be lower.

Reducing the cost of doing business in the United States will reduce the risk of creating jobs. The lower the cost, the fewer investment dollars will be required to implement a project. The fewer investment dollars required, the lower the risk. The lower the cost, the more jobs will be created for a given amount of investment (more bang for the buck).

Reducing the cost of doing business also will help U.S.-based businesses be more competitive in the global economy. We have been losing jobs to other countries because the cost of doing business is too high in the U.S. relative to other parts of the world. Just as a producer must be a low-cost producer in order to compete in an industry, a country must have a low cost of doing business in order to compete in an increasingly competitive global economy.

The cost of doing business in an economy is determined primarily by the cost of living and the cost impact of government taxation, regulation, and litigation on economic activity. At this time in the U.S., the cost of living is most affected by the high cost of healthcare, high oil prices, and taxes due to massive government spending. *Therefore, to reduce the cost of doing business in the U.S. and create more jobs, we should focus on reducing the cost of healthcare, the price of oil, and the cost impact of government taxation, regulation, and litigation on the economy.*

An Economic Troubleshooter's Economic Recovery Plan

1. Provide low-cost capital to private-sector businesses by eliminating the taxes on business profit and capital gain.
2. Reduce the cost of doing business in the United States by reducing the cost of healthcare, the price of oil, and the cost impact of government taxation, regulation, and litigation on the economy.
3. Provide low-cost loans to help those who are struggling to make ends meet pay their bills until they find new, or better, jobs.
4. Temporarily relax mark-to-market valuation requirements and minimum capital requirements to keep banks from failing.

What Are We Doing?

President Obama's plan combines government spending on make-work projects a la FDR's New Deal and "tax cuts" presumably a la Ronald Reagan's Reaganomics. However, the tax cuts are really temporary tax rebates focused more on individuals than on businesses. His plan does little to stimulate business investment in the private sector to stop the job loss. We need *net* job growth to bolster consumer confidence, and we must stop the layoffs to get it.

"We need net job growth to bolster consumer confidence, and we must stop the layoffs to get it." – Roger Thoney.

FDR's New Deal did not bring the U.S. economy out of the Great Depression because his make-work projects were temporary in nature and they did not stimulate the broader economy. For example, spending on infrastructure will stimulate only the road and bridge construction industry and their suppliers until the projects are completed.

World War II brought us out of the Great Depression because it stimulated the entire economy, particularly the manufacturing base. Manufacturing facilities were converted to war-time production and increased output to supply the war effort. Manufacturing facilities are particularly important to job creation because a manufacturing plant will cause from 5-9 additional jobs to be created in the surrounding community *for each job at the plant* to support the plant's operation.

World War II provided a broad-based stimulus to the economy that created permanent jobs; whereas, the New Deal provided a narrow stimulus that created temporary jobs. The difference is as

fundamental as the old proverb “Give a man a fish and you will feed him for a day. Teach a man how to fish and you will feed him for a lifetime.”

“European socialist countries regularly have higher unemployment rates than we do. We could see GDP growth with rising unemployment because of the inefficiency of government spending.” – Roger Thoney.

Ronald Reagan’s Reaganomics worked in the 1980s because **he provided a broad-based stimulus to investment by businesses by reducing the tax on business profits and capital gain.** This accelerated job creation and the expansion of the supply side of the

economy which is what reduced the inflation. Reducing the tax on business profits also includes reducing the income tax “on the rich” because partnerships, sole proprietors, S-corporations, and now limited liability companies report their profits on individual income tax returns.

President Obama’s “tax cuts” are really tax rebates as was President Bush’s last economic stimulus. Tax rebates are temporary in nature which is why President Bush’s plan had little job-stimulation effect. In addition, President Obama’s tax rebates will have even less job-stimulation effect because more people are worried about losing their jobs and likely will save the money. A \$400 tax rebate pales in comparison to the loss of one’s job.

“President Obama’s stimulus plan is taking us down the road to stagflation. We are in for a long haul.” – Roger Thoney, PE; Economic Troubleshooter

In general, demand-side tax cuts and rebates are inflationary. Stimulating demand and relying on supply to catch up imparts an inflationary bias into the economy. On the

other hand, stimulating only the supply side of the economy will impart a downward pressure on prices and have a controlling effect on inflation. Note that stimulating supply also will stimulate demand because investment spending ultimately winds up in someone’s paycheck. Supply creates its own demand (Say’s Law).

Because it is financed by borrowing, President Obama’s stimulus plan will suck trillions of dollars out of the world-wide savings pool, making it more costly for others, foreign governments and businesses alike, to raise capital. U.S. government securities are considered to be zero risk because of the belief that the U.S. government, backed by the strongest economy in the world, will not default on principal and interest payments. Our government will be able to borrow whatever it needs. The only question is how much will we have to pay to get it (the interest rate)?

“It is downright selfish of us to stick future generations with all this debt.” – Roger Thoney.

Many investment projects in private-sector businesses will not be implemented, and jobs not created, because of the higher cost of capital or the inability to raise capital for some. Private-sector

businesses have a long, prioritized list of “shovel-ready” investment projects just waiting for the allocation of investment capital to get going. In addition, some businesses will fail because they cannot raise capital at all in a tight market, causing their workers to lose their jobs.

President Obama's plan substitutes temporary make-work jobs for permanent private-sector jobs. This is the "crowding out" effect to which the Congressional Budget Office referred. This also explains why the CBO projects a possible decline in GDP in later years. President Obama's plan does little to end the layoffs in the private sector and stimulate investment to create permanent jobs.

The huge U.S. government debt will weigh like an anchor around our necks, slowing the economic recovery. Much of our government's debt is in relatively short-term securities which must be refinanced regularly. As the world economy improves, money that is being invested now in near-zero-interest U.S. government securities will be moved to other higher-yielding investments upon maturity. We will have to pay a higher interest rate to refinance our debt, and higher interest rates will slow economic expansion.

If this is not enough, the inflation from excessive demand-side stimulation will slow economic growth further. We are in for a long haul.

"Low-income individuals and families will be put in an ever-increasing financial squeeze with nowhere to turn because jobs will be relatively scarce. Government will not be able to help because the more we tax and borrow, the worse the problem will get." – Roger Thoney, PE; Economic Troubleshooter.

Overall, President Obama's plan heavily stimulates the demand side of the economy while restricting the growth of the supply side. The result of this will be inflation with slow, possibly no, growth. We called this stagflation during Jimmy Carter's Administration.

Low-income individuals and families will be put in an ever-increasing financial squeeze with nowhere to turn because jobs will be relatively scarce. Government will not be able to help because the more we tax and borrow, the worse the problem will get. ***We must stimulate job creation in the private sector by providing low-cost capital and reducing the cost of doing business.***

Why Does President Obama Not Provide a Broad-Based Stimulus to Business Investment?

With the economy as bad as it is, why is President Obama content with stimulating only about 5% of it? Why is he ignoring the other 95%, the tens of thousands of private-sector businesses that could contribute to job growth if they had investment capital and lower costs?

People need jobs to pay their bills. Businesses create jobs, so why do we make it so difficult for them to create those jobs? Why not make it easier? Isn't this just common sense?

"'How many people do we want to remain unemployed?' is the question to ask when debating whether to eliminate the taxes on business profit and capital gain – the lower the taxes, the more jobs." – Roger Thoney, PE; Economic Troubleshooter.

The answer is POLITICAL IDEOLOGY. President Obama, Nancy Pelosi, Harry Reid, and others have invested so much political capital in demonizing businesses, especially big businesses, and "the rich" that they ignore their potential contribution to turning our

economy around. Their political bias has ruled out as an option 95% of the solution.

It is because of this political bias that they must look to banks to turn our economy around by forcing them to make riskier loans. Businesses are the risk-takers in our society, not banks.

“Businesses are the risk-takers in our society, not banks.” – Roger Thoney.

This anti-business attitude has its roots in the writings of Karl Marx. It is important to note that Karl Marx’ objective with his writings was to destroy the German society of his day – to tear it down and replace it with one of his liking, which was communism. He was an outcast from German high society because of his radical views.

His strategy for revolution was the age-old divide-and-conquer strategy. Create divisions within the country along economic, social, and cultural lines by developing a counter-movement to each dominant characteristic of the country’s economy, society, and culture. We see this today in class envy; socialist policies, such as handout-based welfare programs; and the various counter-movements that brought us affirmative action, gay rights, minority rights, group rights in general, animal rights, never-ending racial hatred, anti-Christian attitudes, abortion rights, easy divorce, radical feminism, multiculturalism, and extreme environmentalism.

“Marx-based policies and actions create the very condition of poverty that the Marxists use to promote class envy.” – Roger Thoney.

Group rights are the counter to individual rights. Socialism/communism is the counter to capitalism. Multiculturalism is the counter to “the melting pot” concept of national unity. Easy divorce and handout-based welfare programs targeted to single women with children are counters to the traditional family as the central unit in society. Equality of outcomes, or social justice, is a counter to equal opportunity. Affirmative action is a counter to merit-based. Radical feminism is anti-male; and extreme environmentalism is intended to thwart economic development by increasing the cost of doing business and, consequently, the cost of living.

We are experiencing the negative consequences of this divisive revolution in our economy now. Extreme environmentalism prevented us from drilling for oil in the 1990s and set the stage for OPEC to be able to engineer the hyperinflation in oil.

We must realize that the purpose of Karl Marx was to *destroy* and that is the purpose of those who follow his prescriptions today. We see Marx’ anti-business attitude reflected in taxes on business profit and capital gain, excessive regulation, and excessive litigation and jury awards.

“Working men and women in America and those without jobs are pawns, and economic casualties, in a larger political battle for power, control, and domination.” – Roger Thoney.

The economic impact of Marx-based anti-business policies and actions is to increase the cost of living and unemployment, both working to keep many trapped in poverty. ***Marx-based policies and actions create the very condition of poverty that the Marxists use to promote class envy.*** They help keep the poor, poor.

Working men and women in America and those without jobs are pawns, and economic casualties, in a larger political battle for power, control, and domination. We are in the midst of a societal transformation that will put us on the slippery slope to communism. Communism is socialism with one-party rule.

Conclusion

We are faced with a fundamental decision. Do we want our society to be based upon the principles of individual liberty and economic freedom or communism?

“Communism is socialism with one-party rule.” – Roger Thoney.

Recall that the Soviet Union failed because its corrupt Politburo-appointed bureaucrats could not put food on the grocery shelves. People had to stand in line for hours to buy groceries. People in Canada have to wait months to get operations unless they pay extra money to move up on the list (“the rich” will always come out on top in any social system). Canadians come to the U.S. for operations. Where will we go? Is this what we want in America?

The fundamental difference between capitalism and communism is who makes the decisions relating to business investment and pricing? In capitalism, these decisions are made by investors and business owners/managers. In communism, these decisions are made by politicians and bureaucrats.

In capitalism, decision-makers suffer the consequences of making bad decisions. Consequently, they educate themselves and work extra hard to ensure that they make good decisions. This “pursuit of self-interest” leads to better decisions and a more efficient economy overall, meaning less unemployment, lower prices, and less poverty. Excessive self-interest, or greed, is controlled by competition and can be controlled even more by government regulation if necessary (anti-monopoly laws, etc).

In communism, decision-makers are appointed by the political hierarchy. They get their jobs, and keep them, by knowing the right people or greasing the right palms. Performance and good decision-making are of secondary, or lower, importance. There is no control over corruption and greed, which is why communist economies do not perform well. Corruption and poverty go hand in hand. Unemployment is higher and living conditions worse for more people. The effects of bad decisions accumulate, making the economy increasingly inefficient until it fails.

In a communist society, there still will be “evil” businesses and the hated “rich,” except the businesses will be controlled by politically-appointed bureaucrats and the elite “rich” will be members of the ruling party (Democrats?). The rest of us will be economic slaves for communism is economic slavery. Instead of working for a landowner, we will be working for politically-connected, corrupt, and greedy politicians and bureaucrats.

The overall purpose of economic activity is to distribute the basic necessities of life – food, clothing, shelter, healthcare, etc. – throughout a population of people. The question is which system will be

most effective (efficient) in accomplishing this objective? The answer boils down to who will make better decisions, people who know their business and will suffer the consequences of making bad decisions or greedy and corrupt politicians and bureaucrats with a lust for power?

The Soviet Union failed and China and the socialist countries in Europe are becoming more capitalist; so the answer is clear. People who stand to suffer the consequences of making bad decisions will do a better job than politicians and bureaucrats.

Many working men and women in America and those without jobs are hurting now because of the economy, and it may get worse. We are in for a long haul unless those in charge place a higher importance on creating jobs in the private sector than on furthering a revolutionary Marxist transformation to communism.

“It is time to relegate Karl Marx and his destructive ideas to the ash heap of history where they belong.” – Roger Thoney.

It is time for the divisive revolution to stop. It is time to relegate Karl Marx and his destructive ideas to the ash heap of history where they belong. It is time to “Put the People First.”

I will put the interests of the people first, especially those who are struggling to make ends meet, ahead of my own and that of my party. I will support individual liberty and economic freedom and live up to the Constitution of the United States. I will step forward and do what I can to start, or further, a movement to stop the transformation of our country into a communist society. This I pledge to the people of the United States of America.