The Phyllis Schlafly Report

VOL. 26, NO. 9 | Box 618, ALTON, ILLINOIS 62002 | APRIL 1993

Taxes and Tactics of the Class War

Who says a President from Arkansas can't be a class guy? In his sales campaign for his economic package, Bill Clinton showed that he is the most effective practitioner of class warfare our country has seen since Franklin D. Roosevelt railed against the "economic royalists."

The Class War is the basic organizational strategy that enabled Marxist revolutionaries to take over so many governments. Envy is the touchstone of the Clinton economic rhetoric. No opportunity passes without the President using it to stoke the fires of class enmity.

Clinton repeatedly implies that anyone who is making a lot of money today "got rich in the 1980s." Under the Reaganomics of the 1980s (which eliminated high inflation, high interest rates, and high unemployment), we had the longest period of economic expansion in our nation's history and the private sector created 20 million new jobs.

During the years that a Republican President was in the White House, the Democrats constantly whined that those 20 million were all just "McDonald's hamburger-flipping jobs." Now, Clintonomics Newspeak tells us that Americans made too much money in the '80s and that the Reagan years were "the decade of greed."

But let's talk about the greed of the federal politicians and bureaucrats — overpaid, over-perked, and over-pensioned — who continue to suck up more and more of the income of working Americans. In all Clinton's talk about "sacrifice" and "shared burden," we haven't heard anything about cutting federal jobs or salaries, downsizing the government, eliminating projects or grants, or giving back the special benefits that the rest of Americans don't receive. That's what private companies have to do when they run a deficit.

Clinton never has anything good to say about high earners. The implicit assumption in everything he says about high income earners is that they don't deserve it, that they must be enjoying ill-gotten gains at the expense of others who are being exploited. That's the attitude of a man who never made it as a high earner in the private sector. Clinton has the viewpoint of a man who spent practically all his life feeding at the taxpayers' trough.

Clinton doesn't feel the need to make even a cursory bow to the "rich" because he knows they are so useful as whipping boys for his tax-and-spend plans. He calculates that there are a lot more middle class and poor people who can be energized by his class-war rhetoric than there are rich willing to speak out and defend themselves.

In the short run, he may be correct. In the long run, he is wrong because his policies will work only as long as the middle class can be fooled into thinking that they are lucky to pay higher taxes (disguised as "broad-based contributions"), since Clinton will soak the "rich" and force *them* to pay a great deal *more*. The real purpose of punishing the rich with very high rates (which produce comparatively little revenue) is to make the middle class willing to accept higher taxes (which produce massive revenues to finance the social welfare bureaucracy).

Clinton's entire economic plan is based on taking more and more money from those who have earned and saved, and transferring it to the politicians and bureaucrats to spend. This can only lead to a shrinking economy, as those who put forth extraordinary effort discover that the results of their extra efforts will be taxed away, and that they are scorned for even trying to excel. In Bill Clinton's lexicon, high earners are not "working Americans." "Working Americans" are "people whose votes I think I can get if I can make them mad enough at the rich."

But the plain fact is that most high earners earn their high incomes by working hard and working smart. Ask anyone, for example, who is employed in a small, successful business, if the owner is a hard worker. Or go to a law office on a snow day or weekends and observe the ratio of attorneys to support staff. Or delve into the background of any entrepreneur who founded a big company. It's always the same story of hard work and long hours.

It's too bad that some politicians are falsely telling the people that government is the solution to their problems. It isn't; **government** is the problem. The voters should rise up and say, "Read our lips, President Clinton and Congress: **No new taxes**. Anyone who doesn't understand that will be Bushed."

The Con Game About Taxable Income

Remember the movie "The Sting" about two good-looking womanizers who hustled the gangster with a phony building that looked like a real betting parlor? At the end of the story, Paul Newman said to Robert Redford, "Nice con, Kid."

That's what we should be saying to Bill Clinton after his big February speech about taxes in which he promised that "those earning more than $100,000 will contribute more than 70 per cent of the total new revenue," and that "other income categories up to $30,000 have little net tax change." When he talks about taxes and the economy, make sure you keep your eyes on the "con."

Singing from his class-warfare song sheet, Clinton has apparently convinced a lot of people that "the rich" will do the heavy lifting for his program to revitalize the economy. Only those with high incomes, he says, will have to pay higher taxes.

Don't believe it. Clinton's peculiar math has elevated the $20,000 wage-earner to the category of "the rich." Instead of getting the middle-class tax cut Clinton promised during the campaign, the middle class will be hit with higher taxes. The words Clinton used in his speech were calculated to trick people. That technique is usually called "lying." He did it in order to maintain the fiction that he is increasing taxes only on "the rich."

In order to rationalize higher taxes on middle class Americans (on whom candidate Clinton promised he would reduce taxes), Clinton has turned the $20,000 guy into a "rich" guy who should cheerfully pay higher taxes.

Here is how he does it. Clinton takes wage income and adds employer-paid health premiums, pension contributions, unrealized capital gains, and if you own a house, the amount you could rent it out for. He calls the sum of all that your "income."

Let's say you make $20,000, have a medical insurance plan on which your employer pays a premium of $4,000 a year, you and your employer together contribute $3,000 a year to your pension fund, you own a house that appreciated $3,000 this year, and you could rent your house for $8,000 a year. By Clinton's math, your "income" is $38,000.

Clinton is not going to tax these extra items directly (yet). But he is breathtakingly deceptive in using this inflated definition of "income" when he talks about which "income" levels of American workers will foot the bill for his program.

Clinton's proposed BTU tax is a con game, too. He claims it will cost the average family only $17 per month. But, to get that figure, he only counts average gasoline use in the family car and the average increase in a family's residential utility bill.

The American Petroleum Institute estimates the indirect cost of the BTU tax for the average family to be $475 a year. Clinton's figures fail to include, for example, the extra freight costs to ship goods across the country, or the additional manufacturing costs that will result from higher factory utility bills.

In fact, every factory in the country will face higher utility costs. Every farmer will pay more for fuel, fertilizer, and farm equipment. Grocery stores and retailers will pay more in freight charges to get merchandise to their stores. Newspapers and magazines will cost more because of the higher cost to manufacture paper and ink. Every car, every chair, every egg, and every orange will be more expensive because of this tax, even though it is almost invisible. These costs, like any others, will be ultimately borne by the consumer.

But George Stephanopoulos will be ready with his press releases when prices start to rise. Clinton will berate business for "profiteering" and "gouging" in the best tradition of Jimmy Carter's assault on the oil companies. Clinton will not tell the public what he knows, which is that every additional cost imposed by the government eventually shows up in the prices you have to pay as consumers.

Ultimately, businesses are not an endless well from which to draw revenue to fund the dreams of big-spending liberals. Taxpayers cannot be fooled forever into accepting policies that cost more than Clinton says they will.

Plans to Raid Your Pension Fund

Will Robert Reich, Laura Tyson, and other Clinton economic gurus be the new advisors to your pension plan? Do you want to risk your nest egg of savings on their financial/political judgment?

The Clinton Administration gave a warm welcome to a proposal from a congressional commission that calls for the creation of a new federally chartered corporation to be called the National Infrastructure Corporation. The mission of this proposed agency is to persuade institutional investors (such as private pension funds) to put their money in politically chosen "infrastructure investments," which would be backed by the Federal Government through bond insurance and loan guarantees.

The commission estimates that the bait of allowing this new agency to issue its own bonds and enjoy a line of credit into the U.S. Treasury "has the immediate potential to prompt $10 billion in infrastructure project activity."

Private pension funds are a mighty big piggy bank for the Clinton Administration spenders to get their sticky fingers into. Pension funds control four TRILLION dollars of assets — two-thirds the size of the Gross National Product.

In order to finance its new pork barrel spending schemes and health care reform, the Clinton Administration has floated a lot of new tax proposals. The trouble is, they are all unpopular: "sin" taxes, national sales taxes, consumption taxes, VAT taxes, and social security taxes.

The American people are out of patience with more taxes. The TV networks' exit polls on November 3 showed that American voters, by two-to-one, would rather have lower taxes even if it means less services.

So the Clinton Administration and Congress are conniving to use the other taxes that aren't called taxes: regulations and loan guarantees. That's where pensions come in. New securities for "infrastructure investment" will suddenly appear on the market paying a "competitive, market rate of return," but they will be more attractive to pension fund managers BECAUSE they are guaranteed by the Federal Government (*i.e.*, the taxpayers).

Of course, the "infrastructure bonds" will be for pet Democratic projects pushed by their union constituency:

"high" (union) wage construction for sewage systems, highways, bridges, and buildings. They will attract "investment" from pension funds only because artificial nonmarket incentives are offered. It is easy to foresee that bonds will be approved only after the proper subcontractor quotas of various favored groups are met. Every union and pressure group will be standing at the trough, each chanting the magic word "investment."

The plans also include branching into such high-tech areas as computer networks. Perhaps that was why John Sculley, CEO of Apple Computer, was prominently showcased in the audience when President Clinton made his State of the Union speech.

Government (taxpayer) guarantees always lead to trouble. That's why we have the S&L crisis with taxpayers shelling out billions to bail out all the bad loans that were made because nobody was risking his own money — the deposits were "guaranteed" by the taxpayers.

The Pension Benefit Guarantee Corporation is very nearly insolvent because its scheme of government (taxpayer) insurance has allowed insolvent companies to dump their pension liabilities onto the taxpayers. In fact, the whole range of unfunded government (taxpayer) liabilities are the unmentioned elephant in the room when everyone talks about "the deficit."

Why do we need extra incentives to get people to invest in sewage plants, which are the absolute *sine qua non* of civilized living? If people are not willing to build sewers, then goodbye civilization!

We are just asking for trouble if we allow the Clinton Administration to put taxpayer guarantees behind projects that are extravagant, not economically sound, or can't make it on their own. That's how your retirement nest egg will get into the Clintons' clutches.

This meshes perfectly with Clinton's class warfare economics. After all, "the rich" (anybody with a pension) should be forced to make "contributions" to "the poor" (voters Clinton is trying to woo). It's only fair that "the rich" make a "sacrifice" of a pre-set percentage (quota) of their assets into approved projects.

This "infrastructure investment" scheme has all the potential to become the big financial disaster of the 1990s. Instead of the market deciding what projects are worth building, and instead of careful, conservative pension fund managers deciding how to invest your retirement money, the Clinton Administration will lure your money into its net in order to pay off its political debts and advance its radical agenda. Do we really want the Clinton Administration to destroy our retirement savings in order to advance the cause of socialism in America?

Managing the Economy, Reich Style

The economic star in the Clinton constellation, Secretary of Labor Robert Reich, has been called "brilliant" and "a genius," and hailed as a savior by such economic savants as Walter Mondale and Gary Hart. Does that make you nervous? It should.

If there is one word that Reich is associated with, it is "infrastructure." He talks about "investment" in infrastructure as targeted investment in strategic structural components of the economy, as determined by government professionals — but you might recognize it by another name: taxpayer-financed "pork."

Reich is a true believer in having the government decide the areas and the industries where investments should be made to improve the efficiency of the economy. He believes that bureaucrats can do a more enlightened job of spending your money than you can. But can they?

It boils down to what economists call "marginal efficiency of capital." Will money spent by the government produce more of a return than money spent by the people who earn it? Economists at the National Bureau of Economic Research recently came to their conclusion: "The best data available indicate that the best estimate of the impact of state or local [government] capital on private output or productivity is essentially zero."

To be sure, it makes sense to provide enough funds to fix potholes and keep existing buildings in good repair. Numerous studies show good returns from this sort of investment. But let's get real. When the liberals' giveaway of your hard-earned tax dollars gets underway, they are not talking about filling up holes. They are talking about the attention-grabbing new projects — like shiny new buildings that are named after Congresspersons, or like the urban swimming pools and tennis courts in Clinton's "stimulus" package.

Another favorite theme of Reich's, which he shares with the other riders on the Clinton bus, is that we need a new "Organization of Society." As expounded in his 1983 book, *The Next American Frontier*, this is a call for a wholesale revision of the U.S. economic system as we know it.

In his Inauguration speech, President Clinton called on his Administration to have the "vision and courage to reinvent America." Reich will gladly fill in the details for this grand plan. A fast talker and the liberal's favorite academic, Reich paints the picture of an activist, interventionist government, with higher taxes, more income redistribution, and a vastly expanded welfare state. Just think of all the jobs that will open up in the bureaucracy for the Hillary Clinton groupies!

Reich envisions a new corporate brand of collectivism. He wants business to serve as "conduits of government support" for the welfare state, dispensing all the social services such as health care, Social Security, disability, unemployment, and of course lots of daycare. Reich wants a comprehensive "industrial policy" based on close government, corporate, and labor collaboration. For example, he advocates companies' receiving payments from the government (*i.e.*, money extracted from taxpayers), in exchange for employers agreeing not to lay anyone off.

Sound familiar? Have you checked to see how that kind of system is working in Eastern Europe these days?

Reich's book explains that he doesn't like what he calls the "mythology" of individualism and responsibility. A true Harvard elitist, he shares the liberal belief that most Americans are too dumb to make their own decisions, spend their own money, or plan their own future, and are desperately in need of direction from benevolent technocrats (like himself).

Reich doesn't like the fundamental economic issue to be framed as "free market vs. national planning" — no

doubt because, given that choice, most Americans would opt for the free market approach. Messy, entrepreneurial capitalism, with its constant, dynamic changes, doesn't fit Reich's agenda.

Will Clinton Impose Price Controls?

Why does a five-day hospitalization for infection cost $10,169? That was the complaint in a recent letter to Ann Landers. It doesn't take a Ph.D. in Economics to know that something is wrong. Americans don't understand why hospitals may charge $50 for a sponge.

When questioned about this, one hospital administrator in Florida said cynically, "What difference does it make what we charge? These days, virtually no one pays charges." No one, that is, except hard-working Americans with ordinary health insurance who are accustomed to paying bills for services rendered by honest businesses. They are the victims of a practice called "cost-shifting."

For at least 80 percent of patients, the list price of hospital services is a fiction. The price actually paid by that 80 percent is determined by prearranged contracts between the hospital and a third party — either the government (for Medicare and Medicaid patients) or insurance companies, primarily those dealing in "managed care," such as HMOs (Health Maintenance Organizations).

Hospitals think they are not paid enough by government and HMOs, so they **shift** some of the costs onto the backs of the 20 percent of their patients who come without a pre-negotiated contract for hospital services. How? Each hospital makes the latter pay the list price of services while granting discounts to insurance companies that force their patients to use that particular hospital instead of a competitor.

Hospitals have become quasi-governmental bodies which, in effect, impose "taxes" on one type of patient in order to pay the unreimbursed costs of services to other types of patients. These "other" patients are not only the indigent without insurance, but also HMO and Medicare patients who are getting services at less than the list price.

It is difficult to know exactly how much this cost-shifting adds to the hospital bills of paying patients. Estimates range from 25 to 40 percent. Of course, cost-shifting is not the sole cause of high hospital bills. Milton Friedman has calculated that the cost of a day in the hospital, even adjusted for inflation, increased 26 times between 1946 and 1989. Cost increases for HMO coverage averaged 8.8 percent in 1992, more than twice as much as the rise in the consumer price index, even though HMOs benefit from cost-shifting.

Nevertheless, cost-shifting is cited by the Clinton health care advisers as justification for total government control of all health care. Their argument goes like this: health care costs are like a balloon; if you squeeze one side, the balloon bulges out on the other side; therefore, government must seize control of the entire balloon in order to control rising health care expenditures. They forget that, when you squeeze the whole balloon, it explodes rather than shrinks.

Leaks from Hillary's task force indicate that the Administration is considering imposing price controls on all hospitals and doctors, which will be trumpeted as "temporary" until Congress passes the Clinton scheme called "Managed Competition." The Clinton team argues that, when all Americans are forced into big HMOs, hospitals and doctors will not be able to cost-shift to patients outside the system.

Under "Managed Competition," which is long on government management and short on free-market competition, all Americans would be forced into a few large HMOs. The government, in consultation with HMO managers, would decide what health care each of us would be permitted to receive. However, a report from the Congressional Budget Office states that, even if all Americans were covered by managed care, the impact on cost growth would be small.

Under Managed Competition, you would only have the right to choose among competing HMOs, but not the right to choose your own doctor. When they are healthy, most Americans don't care whether they have the choice of Aetna's, Travelers', or Cigna's HMO; but when they are sick, they care very much about whether they can choose Dr. Smith or Dr. Jones — and that is what they will lose under Managed Competition. You won't be able to choose a doctor who doesn't belong to your HMO.

All our experience shows that price controls have never worked, and there is nothing about price controls or Managed Competition that eliminates the underlying problems that have driven medical costs so high. Managed Competition simply changes the cost-shifting from the covert current system to an overt plan where a tax increase is imposed up front to pay for the uninsured. It does nothing to introduce consumer competition, which is the best way to reduce costs.

All the Bill and Hillary Clinton Health Care Plans call for increased taxes, more government control and intervention, price control, and depriving Americans of their right to choose their own doctor. None of the Clinton plans will reduce costs.

The solution to the problem of rising health care costs is not a bigger bureaucracy but a smaller one. The only way to bring hospital prices down is to encourage as many patients as possible to spend wisely and to scrutinize their hospital bills.

We can accomplish this by allowing the individual to keep any unspent health care dollars instead of turning them over to the government, employer, or insurance company. Give patients tax-free Medical Savings Accounts and watch the price of hospital care come tumbling down!

You are urged to order extra copies of the February Phyllis Schlafly Report entitled "What's At Stake in Health Care Reform?" and our "Memo to Doctors" and distribute them widely to your Representatives and opinion leaders.

The Phyllis Schlafly Report
Box 618, Alton, Illinois 62002
ISSN0556-0152

Published monthly by the Eagle Trust Fund, Box 618, Alton, Illinois 62002. Second Class Postage Paid at Alton, Illinois. Postmaster: Address Corrections should be sent to the Phyllis Schlafly Report, Box 618, Alton, Illinois 62002.

Subscription Price: $20 per year. Extra copies available: 50¢ each; 3 copies $1; 30 copies $5; 100 copies $10.