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"Mr. President, Read Our Lips: No New Taxes"

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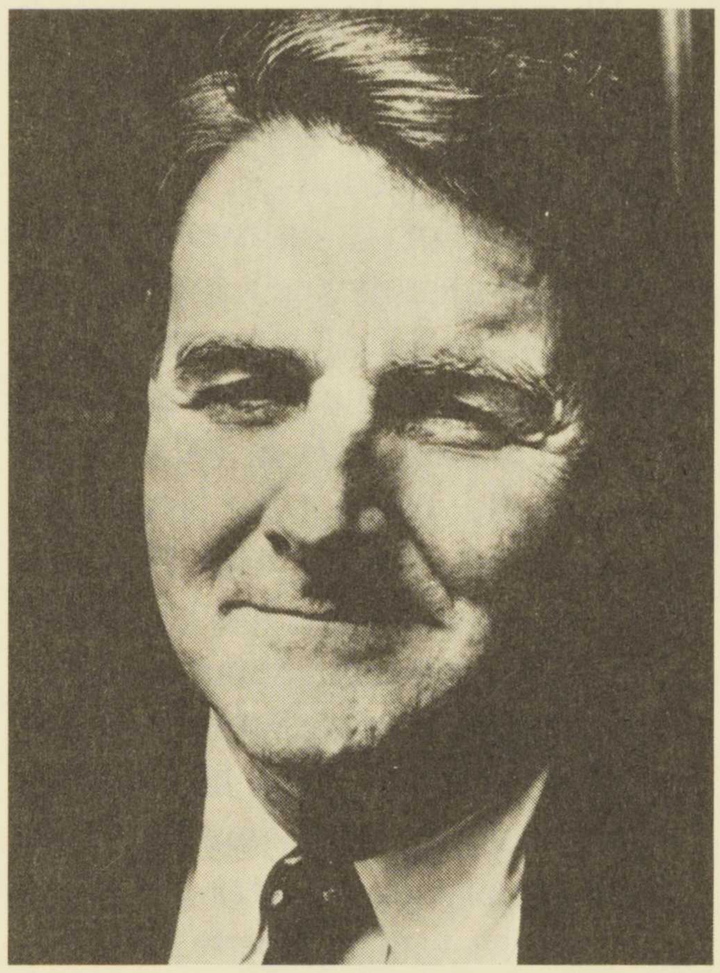
Editor's Preview: *This is the first of a two-part series featuring prominent Americans' responses to President Bush's abandonment of his unequivocal stance against new taxes. Syndicated columnist Warren Brookes, often credited with being the real father of the "Massachusetts Miracle," explained the little known law of accounting called "tax capitalization" before an audience of over 250 Milwaukee leaders in the May 1990 Shavano Institute for National leadership seminar, "Does America Need More Taxes?"*

For years I have thought of George Roche as a kind of modern-day prophet–but today, I am a believer. How else can we explain that over a year ago he predicted that some of America's most fervent anti-taxers would now be hedging on the question of whether new taxes are necessary?

It is ironic indeed that halfway through the 8th year of the longest peacetime expansion in U.S. recorded economic history–in the 90th month to be exact, the president who is the direct political beneficiary of that recovery should even be tempted, as he now so obviously is, to answer that question in the affirmative.

There is little doubt that President Bush faces a serious fiscal challenge. The FY1990 budget deficit now appears to be headed toward $190 billion–nearly $40 billion above FY1989. That is because revenues are growing half as fast (four percent) as predicted (eight percent), and spending is growing much faster (seven percent) than forecast (five percent).



That implies a budget deficit for FY1991 of $145-195 billion, depending on whose baseline economic and fiscal estimates you accept. Since the Gramm-Rudman-Hollings target is $64 billion, with a $10 billion leeway, those high forecasts could force a "sequester," or automatic cut, of $60-120 billion.

Any president might be tempted to accept a significant tax increase of $30-$50 billion as part of a "solution." Yet such a tax increase is virtually certain to make the deficit worse, not better. Not only will tax increases stimulate more spending growth, they will do far more harm economically than most politicians and even mainstream economists understand.

Tax Capitalization: Why Taxes Cost Us 10 Times Over

This is because of something called "tax capitalization," an accounting principle used in measuring the influence of tax assessments on the value of assets such as real estate.

Since that value is a function of the income stream the property can earn, any diversion of that stream to higher taxes or increase in that stream from lower taxes will have a MULTIPLIER effect on the value depending on the current price earnings ratio of real estate.

If that current return on property is approximately 10 percent, every dollar of income represents $10 of value. Every dollar of income diverted to taxes reduces

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