

Laffer: Obama Budget Is Plan for Catastrophe

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By: Julie Crawshaw

Economist Arthur B. Laffer, head of the Office of Management and Budget under President Ronald Reagan and founder and chairman of economic research and consulting firm Laffer Associates, says President Barack Obama's proposed budget "is the perfect plan for catastrophe."

"It shows no spending restraint and is raising tax rates," Laffer told Newsmax.TV's Kathleen Walter.

He said the budget blueprint puts a greater burden on people who work and gives more money to people who don't.

Video — Laffer: Obama Budget Is Plan for Catastrophe

"If you tax people who work and pay people who don't, do not be surprised if you find a lot of people not working," Laffer says.

"If you tax rich people and give the money to poor people, you're going to have lots and lots of poor people and no rich people," he says.

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"The dream in America has always been to make the poor rich, not to make the rich poor. Obama's budget literally tries to make the rich poor and does not try to make the poor rich," he says.

If you have two locations with different tax rates, producers and manufacturers will move to the locale with lower rates, he says.

Obama takes no account whatsoever on the effect this will have on global competitiveness and the creation of jobs in the United States, he says.

Obama, Laffer says, is wrong on every single issue, is unrealistic, lacks experience and is causing a lot of damage to the economy.

"It's just incredible how systematic he is in making errors," Laffer observes.

"It's a classic professorial response: In the classroom, you never have skin in the game, you're never held accountable for your pronouncement, and that's exactly what's going on here," he says.

Laffer would like to return to the tactics Paul Volcker used when he took over the Fed, which include intervening in the money markets to maintain purchasing power and parity of the dollar.

"The results were incredible," Laffer says. "The dollar soared, interest rates tumbled and inflation literally disappeared from the U.S."

Laffer also suggests eliminating the alternative minimum tax and reinstating the Bush tax cuts that are currently scheduled to expire this year.

Not reinstating the cuts will make 2010 look very good on paper and cause a major recession in 2011.

"If you know that tax rates are going to go up on January 1, 2011, you try to accelerate all the income you possibly can into 2010, which will make 2010 look a lot better than it should," he points out. "Then, on January 1, 2011, the train goes off the track."

The sheer size of unfunded liabilities is "awesome, just amazing," Laffer says.

Civil service and military retirement and medical benefits, Medicare, Medicaid, Social Security, and that's not even taking into account things like California and unfunded pensions.

The Obama administration needs to go through each of these and literally change the rules.

"You've got to go through all these programs meticulously and make sure you eliminate things that increase unfunded liabilities, which now exceed \$100 trillion," Laffer says. "Our GDP is only worth \$14 trillion."

Laffer wants to see unspent bailout funds returned.

"Not only have those programs not done any good, they've actually hurt the economy, and they've hurt it a lot," he says.

"You can't bail someone out of trouble without putting someone else into trouble. For every stimulus check written, there is a liability to someone else," he says. "The sooner we stop the stimulus packages, the better off we'll be."

Laffer expects the U.S. economy will look very strong for 2010, but none of the things that will make it appear strong will be present in 2011.

The government has printed huge amounts of new money, he points out, which has stimulated stock and bond prices and commodity prices, but the effects of that will be short-lived.

However, we should not lose hope that the United States will once again become the land of opportunity, says Laffer.

<http://moneynews.com/StreetTalk/Arthur-Laffer-Obama-Catastrophe/2010/02/10/id/349521>

"All we have to do is go back to common sense economics. If we had a low flat-rate tax ... can you imagine how this economy would boom with that? It would be beautiful," he says.

"And if you make the dollar solid ... people won't have to go into gold and silver. We can do that just the way Paul Volcker did."