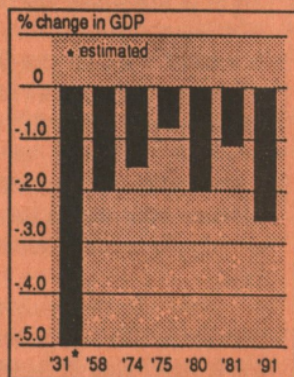


distinct generations, with 1957 as (roughly) the dividing line; the older generation attuned to democratic purpose, the younger to private interest." If 1957 did see the onset of a new political cycle, an additional 36 years takes us to 1993.

Now, that suggests that Bush ought to scrape through. But what about the mood of the voters? Historically, it has taken three years for the impact of the second major land-induced recession to sink deep enough into the collective consciousness to activate sufficient grassroots dissatisfaction of the kind that generates a change in political destiny. What does that mean for this year's presidential election? With people still shell-shocked by the current economic collapse, it will take them the best part of the next administration to recover and whip the politicians into doing their bidding; in other words, it will take another defeat at the hands of Bush to force the Democrats to formulate the policies that will give the next political cycle its distinctive character.

So EI concludes that Bush will make it back to the White House. Bad news for the millions who are today without work, but at least this enables the smart people to prepare a medium term plan to maximise the returns on their investments: they can now make best-guess assumptions about the economic strategy of a re-elected President Bush.

BRITAIN'S SLUMPS



OFFICIAL figures released by the Central Statistical Office have now confirmed EI's forecast - originally published four years ago - that Britain would be in a depression in 1992. City of London financial analysts are now admitting publicly that it is now misleading to call the downturn a recession. Britain last year suffered the biggest single year slump in output since the Great Depression of the 1930s.

BANKRUPT BY ANY OTHER NAME

IT WAS the rhetoric of a war leader, but the president's ammunition, delivered in his State of the Union speech, was a damp squib. With the US economy careering into the worst slump since the Great Depression, George Bush could do no more than deliver what *Business Week* characterised as a "grab bag" of policies.

If ever there was an occasion for setting a new course, this was it. Instead, President Bush's main vote-catcher was to allow the average family to retain an extra \$350 in their pay cheques - five bucks a week, the price of a couple of hamburgers.

But even that sop is actually an illusion, for as *The Wall Street Journal* noted: "The total tax bite will ultimately be the same; that amount will be made up at tax time next year, when refunds will be smaller or taxes due will increase."

With a federal budget deficit aiming for \$352 billion, and climbing, the real message from Washington is the bankruptcy in ideas. Quite simply, no-one knows what to do about the malaise that is afflicting the American economy. Which is why the president's prescriptions - wrapped in the language of Desert Storm - are ones of retreat.

Literally. For his plan to revive the economy is a series of measures that reverse the Tax Reform Act (1986). That act helped to reduce taxes and increase the budget deficit, but in doing so created some problems for the citizens. Take the need to help citizens to provide themselves with decent shelter. The 1986 Act succeeded in raising, rather than lowering, the marginal, after-tax cost of homeownership for a family of three earning \$40,000 by over 8%. As for the rented sector, the changes were such that any investor public spirited enough to provide accommodation for others to occupy had to raise rents by between 15-20% to maintain the same rate of return on their investment.

Something needed to be changed, and the president - a high-seas angler - thought it appropriate, in these times of high unemployment, to propose the repeal of the luxury tax on expensive boats.

"Gimmicks" was how the President's Housing Secretary, Jack Kemp, characterised the package - until, after phone

calls from the White House, he dutifully backed down.

Most of the focus was on the president's heartfelt desire to cut the capital gains tax, from 28% to 15.4% for assets held for three years or more. The idea is to encourage investment, but (a) would it? and (b) who gains? The best deals in town today are in land. Valuable sites are being sold for knock-down prices, and they can be withheld from use (which would do nothing to create new jobs) and at low cost (which provides no incentive to invest in wealth-creating activities on it). So the plan to cut the capital gains tax provides the most incentives to the least enterprising - hardly an imaginative strategy for lifting a wounded economy out of the sickbed. And the Treasury effectively admits this, for it predicts that - instead of encouraging new investment - the cut in capital gains tax would encourage people to sell assets, to take advantage of the lower rate. A second effect: by 1997, the Treasury would be losing \$200m revenue, thereby increasing the budget deficit.

As for who gains - the congressional Joint Committee on Taxation calculates

BUDGET DEFICIT

Federal budget deficit at the end of each fiscal year.



Source: Congressional Budget Office

that nearly 70% of the benefit would go to those who make over \$100,000 a year. If you earn over \$200,000 a year, you save an average of \$18,000 as a result of lower capital-gains rates; while those earning under \$50,000 would save \$300.

It appears safe to assume that anyone looking for leadership in the economy will wait in vein. As *The Wall Street Journal* editorialised on February 6: "So it goes in Washington, where tax policy has no tangible relation to what actually goes on in the real economy."

Sit tight for a drawn-out fight for survival.