

From: Sultan Bin Sulayem <[REDACTED]>
To: Jeffrey Epstein <jeevacation@gmail.com>
Subject: Fwd: Fareed Zakaria on why Obama settled on the wrong economic theme
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From: "Cookson, John" <[REDACTED]>
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To: "Cookson, John" <[REDACTED]>
Subject: Fareed Zakaria on why Obama settled on the wrong economic theme

In Thursday's Washington Post, Fareed Zakaria looks at the right economic investment for America.

Please visit the following link, http://www.washingtonpost.com/opinions/obama-should-push-for-investments-not-buffett-rule/2012/04/25/gIQALOxkhT_story.html or scroll down to read the article in its entirety.

The right economic investment for America

By Fareed Zakaria

"This pudding lacks a theme," Winston Churchill once said of his dessert. The same might have been said of Barack Obama's election campaign, which started strong with his State of the Union address in January and then meandered. It appears finally to have settled on a theme -- but it is the wrong one.

Recently the president and his advisers have focused on taxing the rich and tackling inequality. The "Buffett rule" tax on millionaires has become Obama's bumper sticker. The proposal is reasonable -- but does not deserve the attention Obama is showering on it. It raises a trivial sum, \$47 billion over the next 10 years, during which period the federal government will spend \$45 trillion. It adds one more layer to a tax code that is already the most complex and corrupt in the industrialized world. If the president wants to be bold, he could propose comprehensive tax reform and eliminate the hundreds of deductions, exemptions, credits and loopholes, many of which Congress sells in exchange for campaign contributions.

The focus on the Buffett rule is also bad politics in the long run. While polls might momentarily show that it works, Americans are generally aspirational, not envious. Over the years voters tend to support a government that focuses on creating opportunity rather than one that tries to reduce inequality. Bill Clinton and Tony Blair's great feat was to position themselves as pro-market, pro-growth progressives. That hard-won image of a new, modern left can easily be lost.

Ironically, Obama has been pivoting at the very moment events are providing the perfect campaign issue. We are four years into the financial crisis. In the United States, the government acted speedily and massively to stimulate the economy, using monetary and fiscal measures. In Europe, governments quickly turned toward austerity programs, cutting spending across the board to reduce budget deficits.

The results are in: The U.S. economy is expected to grow 2 to 3 percent this year. The euro zone is expected to contract 0.3 percent this year; Spain and Britain have officially entered a double-dip recession, the first time major economies have done so in 40 years. The International Monetary Fund's latest forecast through 2017 predicts that the United States' economy will outpace every major European one. IMF projections show that even Germany's average growth rate will be only 40 percent of America's.

European concerns about deficits and debt are valid. But it was a mistake to use these medium- and long-term problems as a reason to make massive spending cuts in the middle of the worst economic slowdown in 80 years. Government policy at its best is countercyclical: You cut in boom times and spend during troughs. Europe is doing the opposite, and the effect is to worsen budget deficits. In most European countries, spending cuts have led to slower growth, lower tax revenue and thus bigger deficits. Spain and Britain are running deficits well in excess of earlier projections.

Obama started the year speaking of "an economy built to last." He should return to this theme and frame this campaign as a choice between investments and budget cuts. The Republican Party is wholly committed to the idea that large-scale budget cuts will by themselves produce economic growth. And the president has substance behind his rhetoric. He has proposed several important investment initiatives: a \$476 billion infrastructure plan; a 5 percent hike in research and development spending; a job-training program to help dislocated workers; incentives for manufacturing; and funds to expand the pool of college graduates and science and engineering students. He should ask Americans to choose between a theory that says these investments will create long-term growth vs. the notion that cutting government budgets will be enough to ignite growth and employment.

In 1990, the economist David Aschauer calculated that 57 percent of the loss of productivity in the U.S. economy since 1970 had to do with the decline in investment in infrastructure. Subsequent research showed that spending on education also has a big multiplier effect. R&D spending has helped create the innovation for which the U.S. economy is famous. And yet, such spending has declined significantly the past few decades. We think that government has grown over this period, but really it is transfer payments -- Social Security and Medicare -- that have ballooned. Government investment in education, science and infrastructure has declined as a share of the economy since the 1970s.

Warren Buffett has said that, in the midst of the economic slowdown, his strategy was to invest in America. That's the Buffett rule Obama should follow.

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