



## **What Does the Election Mean For the U.S. and Florida?**

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Now that President Bush has won a second term, it is appropriate to ask what this will mean for the economies of the U.S. and Florida.

During the campaign and again last week the President promised to overhaul social security and to reform our income tax system. He proposes to privatize a portion of social security by promoting individual savings accounts for younger workers. It is unclear if this is an option or whether it will be imposed. Regardless, the accounts would be a substitute for a portion of social security benefits participants would otherwise receive. Since the returns on these accounts are likely to be higher than what social security earns, the net cost to the government would be reduced, and incentives to save enhanced. This part of the program is economically sound.

However, the President has not revealed his plan to pay for the transition. It will cost trillions (with a "t") of dollars to offset the funds diverted from social security that would go into the savings plans, and this is likely to worsen the budget deficit. The President plans to deal with the deficit by wishing it away. He proclaims that higher economic growth caused by his tax cuts will generate much higher federal revenues in the future that will cut the deficit, and he will cause the congress to be more responsible with regard to spending. This part of the plan is, as I have said, wishing and hoping, and it is not economically sound.

The President also proposes to reform the income tax system, but he has provided no specifics so far. The most likely plan is a modified flat tax plan containing three tax brackets of about 30%, 20%, and 15%, with deductions limited to mortgage interest, health costs, and child care. This will be the critical piece of the program. If the tax reforms are similar to President Reagan's 1986 reforms, federal revenues will go up because, like Reagan's, the tax reform plan is a tax increasing plan. If so, this would be good for the economy because it

would mitigate the current structural deficit in the budget. If not, then there will be significant economic problems. If the deficit and social security reform are not addressed very soon, interest rates will be higher and the value of the dollar will fall even further.

In the very near term the stock market rose on President Bush's reelection, and oil prices fell a bit. The economy generated over 355,000 new jobs in October for its best showing in months, so the recovery still has momentum after this summer's soft spot. For Florida the short run news is good, based on falling oil prices and rising stocks. As long as mortgage rates remain below 7% or so, the reelection of President Bush will be good for our state. Florida generally, and central Florida in particular, supported the President and it is likely that the federal government under President Bush will not forget central Florida.

This is Hank Fishkind for 90.7 FM, WMFE News.

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