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HEADLINE: Big Shakeup! Fresh Faces! Political Capital! Too bad all the hoopla doesn't come with any real change in economic policy.

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BODY:

So now it is John Snow's turn -- with an assist from Stephen Friedman -- to face the great conundrum of economic leadership: That good policy rarely makes good politics.

To complicate matters further, the new Bush economic team may not even have much opportunity in its early days to determine policy; if signals from the administration are accurate, a new stimulus package is already being tidied up for a January launch. Perhaps most paradoxically, by all accounts President Bush has picked as his chief economic salesmen two people whose experience with the Concord Coalition and the Business Roundtable suggests they are averse to budget deficits -- at a time when the president is planning to once again pledge fealty to the tax cut movement without trimming fast-growing spending.

The reason? Bush is focusing more on the politics than on the merits of policy. He wants the respectability that Snow, 63, chairman of CSX Corp., and Friedman, 64, former co-chairman of Goldman Sachs, can bring to the jobs of Treasury Secretary and National Economic Council chairman. But Bush wants to stick to proposals -- especially tax cuts -- that he thinks make for good politics. After a brief period of quiescence, the supply-side brigade is again in full battle cry, draping itself with the current worries about the U.S. economy to advance its belief that tax cuts somehow generate more revenue than they cost, as if the human body could be genetically engineered to regrow a severed limb. This time, the supply-siders' list includes making permanent the temporary tax cuts that Bush won last year and ending the double taxation of dividends, which are taxed once at the corporate level and then again when individuals receive them.

The movement has capitalized on the pervasive pessimism about the American economy. Polls show a shift in public sentiment toward stimulus; by a 56 percent to 24 percent margin, respondents in last week's Wall Street Journal/NBC News poll said stimulating the economy is a greater priority than controlling the deficit. That has compounded a pervasive fear within Bush political circles: Unless the administration responds -- whether or not a response is justified by the economic circumstances -- Bush 43 could end up going the way of Bush 41, who emerged from the Gulf War with sky-high approval ratings and then failed to gain reelection when the economy sagged.

That means Bush the younger needs to be more dexterous than his father, who once clumsily blurted, "Message: I care." Bush fils seems to be learning from Bush pre. By acceding to a tax increase in 1990 and resisting calls for stimulus as the economy slid into recession, Bush 41 made the mistake of pursuing good policy at the expense of good politics without seeming to understand the price he might pay.

His son won't repeat that. Good politics seems to prevail. Other presidents have chosen that path, too. Good policy under Lyndon Johnson would have meant not trying to have guns and butter. Good policy under Richard Nixon would have meant taking the inflationary pain inflicted by the Vietnam War and the oil embargo of 1973 rather than entangling the economy in wage and price controls. Jimmy Carter would have been well-advised to put a tough inflation fighter such as Paul Volcker at the Federal Reserve earlier, instead of the disastrous G. William Miller. Ronald Reagan shouldn't have offered his tax cuts as a fiscal free lunch.

Perhaps the only president in recent times who managed to pursue mostly sound economic policies, and to do so without suffering politically, was Bill Clinton, who made tax increases and deficit reduction the centerpieces of his initial budget package. But Clinton was also lucky: It turns out that the "Bush recession" ended in March 1991 even though almost no one knew it in November 1992, when Clinton beat Bush senior. And the next recession didn't begin until after Clinton left. Yet even Clinton paid a price for good policy -- loss of both houses of Congress in 1994 and the loss of trade promotion authority (then known as "fast track").

With lessons of the past in mind, the current President Bush seems to have come down firmly on the side of the mob. Lamenting the state of the American economy has become bipartisan fashion; defending our relative success -- relative to other countries, relative to many other times in our own past -- has been left to serious economists who know better. Even administration cheerleaders such as Commerce Secretary Donald L. Evans have been mostly silent of late. Democrats haven't proven particularly courageous either, sallying forth with furrowed brows and their own concepts of stimulus.

Perhaps -- heresy! -- we don't need an economic stimulus package at all. Perhaps the much-derided Paul O'Neill -- remember him? He was Treasury secretary until last week -- has been right. The economy today bears some resemblance to that of 1993: a faint recovery, sluggish job growth and pessimism far out of proportion to the economic facts. In that earlier circumstance, Clinton arrived toting a bag of stimulus measures, but while Congress was considering them, the economic recovery became clearly visible and the stimulus was abandoned.

While the current recovery may be lethargic, it is clearly a recovery. Even the slow fourth quarter will generate positive growth. Business investment is starting to tick upward. Meanwhile, inflation and interest rates remain low and incomes are still rising. Most importantly -- and somewhat surprisingly -- productivity grew right through the recession and continues upward. Growing productivity is perhaps the best economic news of all because it provides the economic foundation for higher wages in the future.

Today's pessimism has more to do with lingering joblessness, the anemic stock market and the dispiriting litany of corporate misdeeds than with fundamental economic weakness. Risks can never be dismissed, and perceptions can create their own troubles, but we are an ocean away from becoming another Japan. As Alan Greenspan has said, we seem to be in a "soft spot" rather than a deep rut, and we may well be back on firm ground just as the stimulus is taking effect.

The costs and benefits of stimulus are asymmetric. A few hundred billion dollars of stimulus

is enough to worsen our fiscal problem but it's hardly enough to move the dial of a \$ 10 trillion-plus economy.

Cutting taxes is a worthy objective, whether hidden inside the Trojan horse of stimulus or standing on its own merits. Economists of almost all persuasions agree that high taxes are a drag on economic efficiency and, at some level, inhibit work and investment. But there are two small problems with the raft of tax cut proposals being floated: We can't afford them and they are largely ill-conceived.

With the budget, both parties are quibbling over a few hundred billion of stimulus while studiously ignoring the multitrillion-dollar deficit lurking just down the road.

It is a layer cake of problems. First, both tax and spending legislation has been carefully crafted to reduce the impact on the budget deficit in the "out years." Under Congress's arcane rules, in which tax cuts that are not permanent are presumed to go away and artificially low levels of spending are assumed, the surplus is projected to reappear as soon as 2006. It's a phony projection. Using more realistic assumptions like the 8.5 percent rate of spending growth of the past two years, budget deficits not only continue, but grow to \$ 500 billion a year by 2012, according to a recent Congressional Budget Office study.

That's not even the worst of it. Those projections include more than \$ 2 trillion in Social Security surpluses, so the true projected deficit over the next 10 years could be as high as \$ 5 trillion. At that point, a decade from now, baby boomers will be starting to retire and there will be nothing in the federal till to pay trillions of dollars in benefits that will be coming due. If the federal government were a private company, no responsible accountant would certify its financial statements, a particular irony in this post-Enron age.

Of course, few 10-year projections are worth much and the gloomy ones are no exception. Some of the assumptions may be unrealistically pessimistic -- like only 3 percent economic growth or a continuation of the very high rate of growth in government spending -- but other likely costs have not been included, such as fixing the alternative minimum tax problem or coming up with a prescription drug plan.

The Bush tax cut proponents have their own argument for why these scenarios are unrealistic. They believe tax cuts will create deficits that will frighten Congress into spending less. If only that were true. Runaway government spending should surely be a bipartisan concern, but the current growth in federal outlays seems to be almost no one's concern. Our conservative president has yet to wield his veto pen on a single spending bill, including the extraordinarily expensive farm bill.

Reagan budget director David Stockman called the idea of cutting taxes to crimp spending a "starve the beast" strategy. We know how that worked out. When taxes are cut without a simultaneous commitment to reduce spending, you get humongous budget deficits. More than half of our \$ 6.1 trillion of **national debt** was amassed during the years of Reagan and Bush 41.

Not only the overall magnitude but also the particulars of the various stimulus proposals bring considerable baggage -- and some of the Democratic proposals are as illogical as those offered by President Bush and his party. How, to take one popular Republican remedy, can it possibly make sense to spend precious budget dollars stimulating investment when we've just come through one of the greatest periods of overinvestment in American history and our economy is still operating at only 75 percent of capacity? How, to take a Democratic rejoinder, can it make sense to have a six-month holiday on Social Security taxes without providing for an alternative source of revenue when Social Security is going broke?

The Republican proposals are unattractive on still another level: They would worsen an already significant problem of income inequality. The disparity between rich and poor has widened markedly over the past two decades. While we shouldn't try to redistribute our way back through taxes, neither should we embrace tax proposals that would widen the gap.

When it comes to the economy, we need more policy and less politics. Social Security and our very serious long-term budgetary issues would be a great place to start -- instead of trying to make political hay out of our short-term challenges. In Messrs. Snow and Friedman, Bush has picked a team with exceptional integrity. It would be an even better decision if the president gave them a mandate to make good policy rather than play politics. If they are really good salesmen, they should be able to get the rest of the country to buy into that.

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