Donald Luskin, Chief Investment Officer
David Gitlitz, Chief Economist

POLITICAL PULSE

A Bipartisan Bungle

Thursday, October 25, 2001

David Gitlitz

Weak at it is, the “stimulus” measure that cleared the House yesterday by a two-vote margin will stand as the high-water mark in a process sacrificing any growth objectives to the perceived necessity of producing a recovery package under the cloak of “bipartisanship.” Already, House Republican leaders, after barely sustaining a majority for the Ways & Means Committee-produced bill on the House floor, have let it be known that the few incentive-oriented provisions in the legislation stand little chance of surviving intact in the Democratic Senate. Implicit in this concession is that the GOP leadership in the House sees little to be gained taking a principled stand once the package reaches a House-Senate conference. House party leaders, facing disgruntled supporters both on and off Capitol Hill, are appealing for loyalty in a trying time. However, rumblings in the Senate that bad legislation would be worse than no legislation at all raise the possibility that the entire exercise could yet die in a filibuster on the Senate floor.

In truth, the House-passed legislation is a minimally acceptable grab bag of corporate giveaways, lump-sum revenue transfer schemes and a few marginally positive supply-side-oriented changes palatable only when compared to much worse in the Senate. As it is, the weak-kneed two-point cut in the long-term capital gains rate to18% was a cosmetic sop to keep a small group of pro-growth conservatives in line and get the bill out of committee. In the face of White House indifference and dogged Democratic opposition, it has virtually no chance of winning enactment. The supposed White House drive to expedite the phased-in schedule of rate cuts included in last summer’s tax cut yielded only a decline in the mid-range marginal rate from 28% to 25%, which would – even if it survives – have minimal incentive effects. The Administration’s stated commitment to achieve accelerated cuts in the top marginal rates was never taken seriously in the House, where many senior GOP members would just as soon not have to do battle against the Democrats’ class warfare appeals. For similar reasons, one of the more positive provisions of the House bill, elimination of the corporate alternative minimum tax, is seen as a nonstarter.

But though the House bill is certainly less than ideal, Senate Democrats are backing a package that amounts to a monument to the fallacy that the best way to spur growth is to put more taxpayer dollars in the hands of people who don’t work. That this proposal is now regarded as likely to form the basis for any final agreement is a serious indictment of the Bush Administration’s pursuit of strict bipartisanship as its strategy for a post-Sept. 11 economic recovery package. Bipartisanship for the White House has not meant using the enormous good will accorded the President to piece together a coalition that could garner enough Democratic support to propel Republican-oriented pro-growth legislation toward enactment. What it has meant is handing *de facto* control to Senate Democratic leaders, who have no qualms about using the upper hand thus accorded them to press their advantage.

The principles, if one can call them that, underlying the Democratic proposal were aptly described in yesterday’s *New York Times* in a piece by Richard Stevenson, the paper’s economic policy correspondent. “Most Democrats argue that the centerpiece of any stimulus plan should be an expansion of unemployment insurance to cover laid-off workers who otherwise would not be eligible for such benefits,” Stevenson wrote. “They want to include

http://www.trendmacro.com
don@trendmacro.com
dgitlitz@trendmacro.com

325M Sharon Park Drive #325
Menlo Park CA 94025
Phone 650 429 2112
Fax 650 429 2112

42 Forest Drive
Parsippany NJ 07054
Phone 973 335 5079
Fax 973 335 8016

benefits for many part- time workers and for those who had not worked long enough to qualify under current law…. The rationale for focusing the stimulus package on the unemployed is that people who have lost jobs will immediately spend all the benefit payments they receive, helping the economy. "

Bear in mind, first of all, that we're talking about a loss of economic purchasing power – the ability to exchange labor for goods and services on offer in the marketplace – resulting from recent job losses. At best, unemployment benefits can only replace some portion of that lost purchasing power, which is not "growth" in any sense of the word. Moreover, as the European welfare states have demonstrated all too well, paying people to stay home acts mostly as an incentive to keep them at home. Finally, such schemes are in reality simply a reshuffling of tax revenues from one pocket to another, which can have no net positive effect on economic activity. That, by the way, applies as well to the tax rebate proposals that are part of both the House and Senate packages.

Certainly, it would seem, the Democrats' backing for such preposterous nostrums leaves the way open for a persuasive growth argument. That argument would center on the idea that restoring economic vitality requires improved incentives for productive economic endeavor. That, in turn, can be accomplished by lightening the tax burden and thereby improving the after-tax rewards to work, investment and risk-taking. There are, we are told, Republican members of Congress who actually understand that. That such voices have thus far been notable mostly by their silence speaks to the stultifying impact of the current brand of bipartisanship.