

## The Bush Economic Agenda

Energized by his election as if it were a landslide, President George W. Bush proposes to spend his “political capital” on an ambitious economic agenda headed by reform of Social Security and the U.S. Tax Code. The President’s candor in acknowledging that the deficits and tax cuts of his first term—the “Wall Street Relief and Bush Reelection Acts”—will make it harder to achieve his new agenda raises questions about the qualifications Team Bush brings to the task of cutting through these two Gordian knots. President Bush did not secure a mandate for these goals from the electorate; opinion polls show that the public prefers a reduction of deficits over a reform of Social Security and taxation.

The reduction of the federal budget deficit should be the first priority of the economic agenda. Bush has proposed to halve the federal deficit by pushing social-welfare spending off onto the already beleaguered budgets of the states and delaying the modernization of defense rather than rescinding any of his tax cuts or addressing the generous agricultural and corporate-welfare payoffs and other political pork that rewarded donors of his first-term victory. *Déjà vu* of another Texan, Lyndon Johnson, he is still vacillating between “guns and butter” by opting for both.

The Bush plan for Social Security would offer younger workers the option of establishing “privatized” individual accounts funded from employee Social Security contributions. This proposal has the commendable effect of beginning the conversion to a real retirement and disability savings scheme, directly addressing the chronic U.S. savings deficit and reducing the unfunded \$3.7 billion actuarial liability that characterizes Social Security as a New Deal “Ponzi scheme” that gratuitously redistributes income from current workers to current retirees. Bush has limited the scope of reform, however, by insisting that there will be no reductions in benefits nor increases in payroll taxes. By comparison, Plan Two of the President’s Commission to Strengthen Social Security included cost-of-living adjustment of benefits rather than the current wage indexing, which, along with

partial privatization, would resolve the pending crisis.

The tax-reform goals Bush has outlined include deferring taxes on all saving for investment until consumed and fundamentally simplifying the tax code—possibly by means of a consumption-based tax—while making permanent his first-term tax cuts. The “complications” to which he has referred arise from the fact that *both* Social Security reform and fundamental tax reform will cause transitional losses in tax revenues that have already been spent on the tax cuts he proposes to make permanent. Also, his tax cuts for dividends and capital gains were steps toward the flat income tax, not a consumption tax; *only* a consumption tax—such as a National Sales Tax or a Business Transaction (value-added) Tax—would provide the urgently needed border-adjusted taxation that could rescue the drowning manufacturing sector by leveling the playing field with other industrialized countries that impose value-added taxation. The Commission on Tax Reform that the President intends to appoint must be allowed to address the border-adjusted taxation issue honestly. The Commerce Department’s “Manufacturing in America” game plan declined to recognize the problem, much less to address it.

Unaddressed in the President’s plans for economic reform are runaway Medicare and Medicaid entitlements, which similarly redistribute income from current workers to current retirees’ and indigents’ healthcare and have an unfunded liability several times that of the Social Security obligations. Bush proposes curbs on class-action and malpractice suits, as well as his tax-exempt healthcare savings accounts, to help rein in healthcare inflation. These structural improvements, however, will be at the very least offset by his addition of prescription benefits to runaway “first dollar” to “the-sky-is-the-limit” Medicare entitlements.

Also conspicuously missing from the Bush agenda is anything that could arrest the decline of the devalued dollar, much less strengthen it. (See “Diagnosing the Diminishing Dollar,” p. 42.) The excess of cheap money being supplied by the Federal Reserve, acting as the lackey of

Wall Street, undermines saving for investment, funds excessive borrowing for consumption, and invites speculation that threatens an eventual collapse of market values. The closing of the saving deficit, the federal deficit, and the trade deficit all require financial discipline, not the quick fix of easy money, which will only exacerbate economic problems in the future.

An appropriate economic agenda for the next four years must take into account the reality that the United States has been on a consumption binge increasingly funded by foreign savings, an imbalance that threatens not only the United States but the entire world economy. Solutions such as Social Security privatization and consumption-based taxation can contribute to increased saving and to restoring sound U.S. economic growth. However, border-adjusted taxation is probably the most important reform needed to balance the unsustainable trade deficit in goods that transfers ownership and mortgages of U.S. productive assets to foreign investors to fund the excesses of U.S. consumers. A respected currency is a far greater force for U.S. influence than spending on unwarranted military adventures—which, when added to bloated domestic spending, demands excessive federal revenues.

The President should be supported by his Republican Congress in legislating his priorities for economic reform, provided such legislation is accompanied by the curtailing of federal spending and the levying of the taxation required to close the federal deficit. Republicans can expect bitter Democratic opposition to Social Security privatization but could get cooperation on border-adjusted tax reform. The President can best serve his agenda by encouraging his Republican Congress to provide the legislation they are better staffed to create and by using his “bully pulpit” to sell these reforms to the electorate, while exercising critical and frugal oversight of which bills to sign and which to veto.

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**THE BUSH ADMINISTRATION** and its supporters are investing tremendous hope in Iraq's January national elections. According to the conventional wisdom in Washington, violence may increase as the balloting approaches, but, once the election is held, the overwhelming majority of Iraqis will be convinced that the resulting government is legitimate. Except for the foreign terrorists and the Saddam dead-enders, the insurgents will gradually give up and participate in the democratic process. Violence will subside, and a stable, united, democratic, pro-Western Iraq will emerge, allowing the United States to draw down her forces stationed in that country.

It is a charming vision, but those who cling to the Iraq mission previously invested their hopes in other purported milestones that would dampen the insurgency. For most of the warhawks, the overthrow of Saddam Hussein's regime was supposed to be the defining moment. American troops were to be welcomed as liberators, and Iraqi exiles, led by the Pentagon's favorite politician, Ahmed Chalabi, would become the successor government in Baghdad virtually by acclamation. Much to the surprise and dismay of the pro-war faction, it didn't turn out that way.

Then, the capture of Saddam Hussein in December 2003 was the great milestone. Since virtually all insurgents were supposedly Ba'athist followers of Saddam, his capture would dishearten the rebels and cause the insurgency to fade. Instead, the insurgency flared with unprecedented ferocity in the spring of 2004.

Next, proponents of the Iraq mission attached great importance to the hand-over of nominal sovereignty in late June 2004. With American officials no longer directly running the show, Iraqis would certainly rally behind the interim government of Iyad Allawi. That proved to be another faulty prediction; the insurgency intensified.

The national elections will likely prove as disappointing as the previous milestones. Indeed, the elections may make matters even more difficult for the U.S. occupation force.

Contrary to the Bush administration's hopes and expectations, the elections are likely to produce a government not only controlled by the Shia majority but

dominated by religious parties and candidates. In other words, the "new Iraq" is probably going to be Islamic, not secular and pro-Western. It was the fear that the elections would lead to a highly religious government that caused the Kurds (the most secular of Iraq's factions) to side with Sunni leaders in proposing that the balloting be postponed.

To make matters even worse for the United States, the new government may be quite friendly to Iran. Tehran is skillfully exploiting linkages with its Shia coreligionists in Iraq. The two most influential politicians in Iraq are the Grand Ayatollah Ali al-Sistani and Abdul Aziz al-Hakim, the head of the Supreme Council for the Islamic Revolution in Iraq. Both men have long-standing ties to Iran.

There is a chance that the elections will prove to be the panacea for which the pro-war faction is hoping. That chance, however, is remote. Iraq was always inhospitable soil for planting a secular, pro-Western democracy. Democracy involves far more than just setting up institutions and holding elections. To be viable, it needs a strong culture of tolerance. Democracy requires that majorities accept and protect individual rights, observe due process of law, protect freedom of expression, and protect property rights.

All of those values are weak or entirely absent in Iraq's political culture. Thus, we should not be surprised if the new Shia-dominated government uses its power to oppress the Sunni minority that was the oppressor for so many decades. Nor should we be surprised if the new national assembly draws up a constitution that enshrines the most coercive aspects of Islamic law and bears almost no resemblance to the American Constitution. The real surprise would be if the political process in Iraq turns out otherwise.

Those who hope that the January elections will be a panacea for Washington's foundering mission in Iraq are almost certainly doomed to be disappointed yet again. One wonders what panacea they will cling to next, since they seem to be running out of options.

—Ted Galen Carpenter

**STEM CELLS** have taken center stage in California. In November 2004, California's voters approved, with 59 percent

of the vote, a measure that would spend three billion dollars in borrowed state funds to pay for research that requires the destruction of human embryos.

You might expect a heated debate over whether such research is morally acceptable—and whether the state government should be in the business of paying for it, especially with a bond measure, and especially given the state's precarious financial footing.

A few pro-life groups opposed the initiative, as did many fiscal conservatives, but they spent little money, and it's hard to overcome the star power of Republican Gov. Arnold Schwarzenegger, who lent his massive credibility to the plan. With the death of Christopher Reeve, and with the widely publicized claims about the potential for this research to solve every medical problem under the sun, it was unreasonable, perhaps, to expect California's voters to reject Prop. 71.

Now that the election is over, some obvious problems are coming to the surface. Californians are getting the broader debate that should have taken place before November. Democratic Sen. Debra Ortiz, who strongly backed Prop. 71, introduced a bill that would give state legislators some oversight of the stem-cell spending process.

That proposal was attacked instantly by Bob Klein, the Palo Alto real-estate developer who was named head of the institute created by the initiative. "There are very clear prohibitions against legislative intervention and rule-making and funding," Klein said, in a December 7 *Los Angeles Times* article.

Critics were correct, then. The \$300 million that will be spent each year on research from the initiative will be spent in an unaccountable fashion. Ten of 27 board members have been named, but the public and its legislators will be kept out of the loop.

State Sen. Tom McClintock, the Simi Valley Republican who ran in the 2003 gubernatorial recall election, was one of the few voices speaking out before the initiative passed. He focused on the ridiculousness of a state already in deep financial doo-doo maxing its credit card to pay for something of this nature.

McClintock and others also noted the obvious potential for corruption when government officials get to reward private