THE LONG WAR

Going Down

Congress is only making it worse

By David Moberg

Beyond their immediate toll, the September 11 terrorist attacks kicked an already tottering economy toward what could be a sharp recession. Hundreds of thousands of announced layoffs are likely to ripple through the economy, further souring consumer and business confidence, cutting consumption and halting investment. As tax revenues decline, state and local governments will be forced to cut services and jobs. Even before this recent crisis, the manufacturing and agriculture sectors had been suffering for several years. The economy had been running on consumer debt and the twin bubbles of high tech investment and stock speculation. Now that magic is gone.

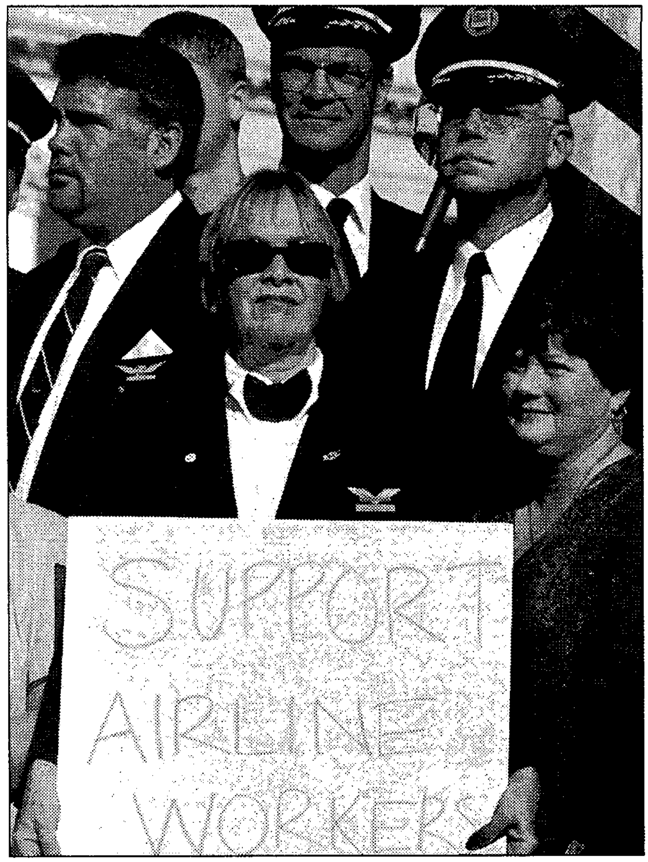
The collective shock of September 11 also has given a new sense of urgency to bolstering the domestic economy and a new respectability to our much-maligned federal government. Because of the war against the Taliban and terrorists, the administration needs a semblance of bipartisanship, and it cannot risk seeming completely insensitive to average working people.

Across most of the political spectrum, there's a conviction that low interest rates alone won't be enough to fix the damage. The federal government must also use its budget powers to pump up a deflated economy. Yet many congressional Republicans are far more insistent on using the crisis to promote a grab-bag of irresponsible measures—mainly tax cuts—that have nothing to do with fighting terrorism or boosting economic growth and everything to do with their long-standing ideological agenda of shrinking government and making the rich richer. The danger is that Democrats will be cowed by presidential appeals for bipartisanship to accept nakedly rapacious policies covered with a few fig leaves of compassion.

The mandate for the federal government is clear: to quickly increase demand for products and services by spending more and by putting more money in the hands of the consumers most likely to spend. The combined stimulus has to be large enough to be noticeable—at least 1 percent of the trillion-dollar gross domestic product, or $100 billion, even according to Federal Reserve Chairman Alan Greenspan. Such spending not only would keep people employed and provide business markets, but it would help renew confidence (reviving the "animal spirits" that drive business expansion, as Keynes argued). At the same time, these policies to stimulate immediate consumption need to serve long-term goals: promoting productivity as well as social equality and economic security. Fortunately, the best short-term strategies also contribute to the long-term objectives.

Unfortunately, most of the Republican ideas are bad on both counts. While the mix of proposals has been in flux, some of the leading ideas advanced by both the White House and Congress include speeding up the start of tax cuts approved earlier this year, cutting corporate income tax rates and capital gains taxes, accelerating depreciation schedules, offering investment tax credits, and eliminating the alternative minimum tax for corporations. With audacity that irritated even Democrats who consider themselves free traders, the administration also has promoted legislation giving the president special "trade promotion authority"—formerly known as "fast track"—as a measure to both fight terrorism and stimulate growth.

But nearly everyone in Congress approved emergency aid for New York and $15 billion in grants and loan guarantees for the airlines. The bailout of the airlines, which adamantly resist government regulation, was more a testament to their quick exercise of well-financed political clout than to the merit of their case, but at least the legislation gives preference to loan guarantees that provide the federal government an equity stake. Nevertheless, the ad hoc aid for an industry where most companies were losing heavily even before September 11 triggered a long line of suitors for government salvation—hotels, rental car agencies, insurance companies and more. In most of these cases, corporations are simply pleading for the public to assume the risks of their business, when a general economic stimulus would be far preferable to any industry bailout. (However, in the case of the steel industry, battered for years by dumping of steel products by foreign companies, an industry-specific package of loan guarantees, import restraints and shared responsibility for retirees is needed.)



ALEX WONG/GETTY IMAGES

Laid-off workers were ignored in the $15 billion airline bailout.

As the discussion of a stimulus package unfolded, Democrats—prodded by labor unions—pressed for financial assistance to the estimated 100,000 laid-off airline workers ignored in the bailout of the airlines. The aid—as well as a Democratic proposal to have the federal government take responsibility for airline security—was delayed by Republican opposition on the absurd ideological grounds that such federalization represented creeping socialism.

Democrats also proposed unemployment insurance extension and reform as well as subsidies for health insurance, especially to help laid-off workers preserve their employer-paid coverage. The Center on Budget and Policy Priorities has proposed that the federal government quickly expand Medicaid payments to help maintain state programs and subsidize health insurance for low-income unemployed workers. Washington should also revive revenue-sharing and forestall state and local government cutbacks that would only worsen the recession.

Congressional conservatives are unhappy that Bush has endorsed extension of unemployment insurance benefits and modest sums for states to expand health care coverage. The president even has indicated that he might reluctantly accept a minimum-wage increase (probably hoping to win Democratic support for large business tax breaks). But Bush's proposal would do nothing to make unemployment insurance more widely available (only about 37 percent of the unemployed receive insurance benefits), would provide extended benefits to very few workers, and in many states would not raise the meager minimum payments. This inadequate plan would especially shortchange women formerly on welfare, who are typically in low-wage or contingent jobs that may not qualify for unemployment insurance. Yet there is evidence—such as the sharp drop from July to October in employment rates of single mothers—that many former welfare mothers are losing their jobs without any safety net.

In stark contrast to the Republican proposal, Illinois Democratic Rep. Jan Schakowsky proposed rescinding the scheduled future tax cuts that are skewed heavily to the rich. And the administration may join Democrats in supporting at least some version of a further temporary tax rebate, most likely targeted to workers who received little or no tax rebate earlier this year. The argument for such rebates and against the Republican tax plans is straightforward: Low-income people not only are more likely to need help in tough times, but are more likely to spend the rebate immediately.

Likewise, direct government spending—if the money is pumped into existing but underfunded programs so that it can be spent quickly—is a far better stimulus than general tax cuts. As Robert Scott and Christian Weller, economists at the Washington-based Economic Policy Institute, argue, federal investment could be quickly pumped into Amtrak improvements and school construction or repair. New affordable housing and a wide range of infrastructure improvements and new construction, such as high-speed rail, are also needed.

Corporate tax breaks that supposedly lower the cost of capital are simply windfalls to the undeserving and do almost nothing to stimulate new business investment. Furthermore, in the Republican proposals, the tax cuts for corporations and the rich are permanent (and many won't kick in quickly) and will simply starve government of funds needed in the future. That will lead to fiscal crisis—such as budget deficits when the economy is growing (precisely when the budget should be more in balance or even running surpluses) or to underfunding of Medicare, Social Security and other essential government programs.

House Majority Leader Dick Armey argues that the economy will be propped up by a three-legged stool: the stimulus plan, trade promotion authority and energy legislation. Armey's stimulus leg is both too weak and of the wrong shape to do its job. The energy legislation, a giveaway to the oil companies, is equally misfit: Incorrectly billed as a way to reduce energy prices (which are already declining without the legislation), it fails to recognize energy efficiency as the most sensible path to reduce long-term energy costs, lower trade deficits, enhance national security and protect the environment. The final leg—trade promotion authority—is suitable mainly to support a throne for the limited few. Indeed, the majority of Americans are likely losers if fast track is approved.

The claims that trade promotion authority—which Bush hopes to use in pushing through an extension of NAFTA to South America and new rounds of negotiation at the World Trade Organization—would buoy the economy or fight terrorism are deeply flawed. Trade promotion authority on its own does nothing except limit congressional debate and bar amendments to trade deals. Moreover, the presumed trade agreements, which could be negotiated without it, would provide only a modest stimulus. For example, the International Trade Commission has projected that eliminating all tariffs and quotas would increase the economy by only about $19 billion, or less than two-tenths of a percent of the gross domestic product. But even that may be overstated. As Peter Dorman of the Economic Policy Institute observes, the models typically used to project trade benefits are based on assumptions that ignore all of the criticisms of free trade and have a dreadful track record of predicting results of trade deals.

In any case, trade benefits are distributed unevenly, with owners of capital and high-income workers gaining the most, according to Dean Baker and Mark Weisbrot of the Center for Economic and Policy Research. Even granting that trade may have stimulated growth, they conclude that the wages of three-fourths of the U.S. work force have declined by roughly 2 to 13 percent over the past two decades, depending on which economic model is used. Meanwhile, the growing trade deficit primarily in manufactured goods—concealed by the now-stalled growth of the domestic economy—has not only led to the loss of 3.8 million jobs over the past eight years and stagnation in workers' earnings, but puts the entire economy at risk of a currency crisis, according to Jeff Faux of the Economic Policy Institute.

For trade to improve the general welfare and broadly raise incomes in the United States and elsewhere to stimulate economic growth, there must be strong international safeguards for workers rights and the environment. But the references to labor and the environment that Chairman Bill Thomas (R-California) pushed through the House Ways and Means Committee in a highly partisan vote were much weaker than the trade-negotiating language Congress has adopted many times before—with virtually no progress in those deals. Many Democrats who previously had supported fast track have opposed presidential trade promotion authority this year.

All of this hardly sounds like a strategy for preventing recession. If Armey—or Bush—wants the policy to revive the faltering economy to rest on a three-legged stool of regressive, ineffective tax cuts, a misguided energy policy and trade deals that bring high costs and few benefits, he should sit on it wearing a dunce cap. ■

THE LONG WAR

Loyal Opposition

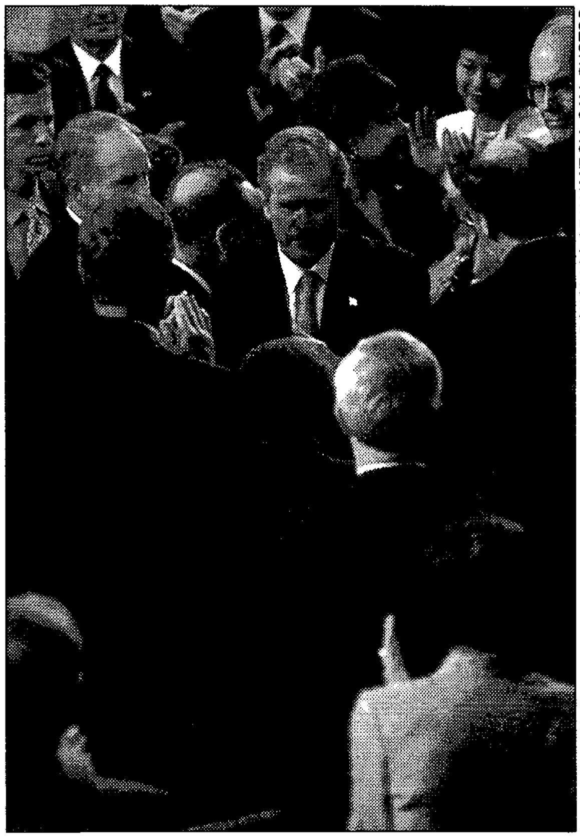
Why the Democrats will get trounced in 2002

By Doug Ireland

Five days before the bombing of Afghanistan began—in announcing the reopening of Washington to air traffic—George W. Bush declared, "This Thursday, ticket counters and airplanes will fly out of Ronald Reagan airport."

It was of this president with the addled tongue whom Al Gore spoke when, deploying the drawl he turns on when trying to seem folksy, he hollered to Iowa's Jefferson-Jackson Day dinner that "George Bush is *mah* commander-in-chief!" (If Gore's beard gets any longer, Bush can infiltrate *him* into Afghanistan.) Gore's frothy nationalism symbolized the degree to which the Democratic leadership has abdicated its responsibility as watchdog on a president who is, to much of the world, out of control.

As far as the miltarization of the campaign against terrorism is concerned, the Democrats are in the tank. Spineless fear of voter revenge at the polls next year—in the wake of the Afghanistan bombing, Bush's Gallup poll popularity at 92 percent broke yet another record—has cowed the Democrats into silence on conduct of the war.


DOUGLASS GRAHAM/ROLL CALL PHOTOS

Democrats have rallied around Bush's popularity ratings.

Oh, there has been rear-guard congressional action that has blunted some of the unconstitutionalities in Attorney General John Ashcroft's anti-terrorism legislation, but it still shreds civil liberties protections to an unprecedented degree. Democrats have been banking their hopes on inclusion of "sunset" provisions in the rights-reducing bills that would require Congress to review them in two years. But once these rights are voted away, we won't get them back. Not only will Democrats from marginal seats be even more reluctant than usual to stand up for civil liberties, but it will be almost certainly a Republican Congress, not a Democratic one, that reconsiders their evisceration.

The *New York Times* trotted out old Arthur Schlesinger Jr. to preach that the Democrats will win in 2002 because "during our recent wars the party in opposition has always gained seats in mid-term congressional elections." But of the five examples cited by Schlesinger, in four of them it was a *Democrat* in the White House with Republicans acting like a *real* opposition—the vicious attacks on Wilson, Roosevelt, Truman and Johnson are notorious—that constantly criticized U.S. policy and conduct of those wars. Now, no negative word about Bush passes the lips of the Democratic leadership, the conduct of the war is taboo for all, and the few tepid criticisms of anti-terrorist policies here at home are left to safe-seaters like Vermont Sen. Patrick Leahy (unopposed by the GOP last time he ran) and Michigan Rep. John Conyers (who could rival Strom Thurmond's re-election longevity if he wished).

In the 1990 election Schlesinger mentions, when Bush *pere* was in power, Democrats gained only one Senate seat and just eight House seats, most due to GOP retirements and local factors, not the Gulf War. And just two years later, after redistricting, the Democrats hemorrhaged in both chambers. Schlesinger's argument most certainly doesn't fit next year's circumstances.

Here's why: Recruitment of heavyweight Democratic challengers to take on GOP incumbents, already lousy before September 11, has since become a "disaster," says Russ Hemenway, veteran director of the National Committee for an Effective Congress (NCEC). "No one wants to run unless they're going to be in the majority," he reports—and that won't happen.

Only two Republican senators were rated seriously vulnerable by NCEC before the hijackings. But after September 11, Oregon's popular Democratic governor, John Kitzhaber, decided not to make his expected Senate run, leaving incumbent Gordon Smith nearly certain of victory against the admirable but lackluster likely opponent, Rep. Peter DeFazio. And while New Hampshire's conservative Democratic governor, Jeane Shaheen, is maintaining her Senate candidacy, Dubya is putting enormous personal pressure on Bush loyalist GOP Rep. John Sununu (son of Daddy's chief of staff) to challenge Sen. Bob Smith in a primary. A not-too-bright nutcase with a ridiculous coiffure who alienated Republicans by briefly embarking on an independent presidential candidacy, Smith will be trounced by the popular young Sununu—who'll go on to win handily over Shaheen.