BUSH'S ECONOMIC TEAM: WHAT WERE THEY THINKING? WHAT CAN WE DO?

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The President of the United States urges his fellow Americans to have patience; things are about to get better. We should just wait until the tax cuts to the wealthiest people in the country take effect. He and his team ask us to believe the billions of dollars in additional disposable income they have received will be invested and filter to businesses for expansion of goods production. He and his team have apparently failed to look at what happened after Ronald Reagan orchestrated a huge reduction in tax rates on those with the highest marginal incomes and/or owned most of the saleable assets in the country.

Reaganomics was at first described as an experiment in "supply-side" economics. In practice, what that meant was the combination of rising deficit spending, rising interest rates, rising speculative investment in real estate and the stock market. In 1987 the stock market experienced a significant "correction." Not long afterward, the real estate markets in the most overheated markets - New England, the Southeast and Southern California - experienced a fall in values. Another round of bank failures followed. Now, in 2004, the President and his team of economic advisers is ignoring history, ignoring cause and effect and somehow expecting their policy moves to achieve different results.

The supply-side argument is that lower tax rates on incomes and on "capital" gains will generate more than enough economic growth to offset any loss in public revenue. GroundSwell readers know this cannot work unless the tax reductions are applied to earned incomes and assets of a material nature - and not to location rent or gains experienced on the sale of land or assets the value of which comes from the ownership of monopolistic licenses (e.g., taxi medallions, liquor licenses, leases to public lands, etc.)

At a time when the Federal government is desperate for revenue to pay for our military occupation of Iraq, the Bush team and Republicans in the Congress decide to reduce the tax obligations of those in the U.S. who have the most ability to pay and who have been the beneficiaries of a tax structure already designed to reward speculative gains and unearned income. As the deficits mount, the options are to find the revenue by taxing productive work and commerce, borrowing from the wealthy or putting pressure on the Federal Reserve Bank to print more currency into circulation in exchange for U.S. government securities. Alan Greenspan is not likely to go along with option number three because of the impact this would have on monetary inflation.

The Federal government can shift some of the pressure to the states by reducing funding of some Federal programs (although most members of the House and Senate have earmarked spending for their districts and states without regard to the expanding deficit). As the Federal government competes in the credit markets, the likely result will be to drive up interest rates, threatening the robust number of sales and refinancings that have occurred in housing for the last decade.

The reaction of economists to the unfolding financial drama ranges from no concern to warnings of economic collapse. Recently, one professor at the Wharton School stated: "The deficit matters if it raises interest rates, and it hasn't raised interest rates, so one could say it doesn't matter." Another Wharton professor admits that economists just do not know with any certainty what the effects of rising deficits will be - there are just too many externalities, too many variables to consider. He says the problem will not be serious so long as total national debt remains below half of the nation's gross domestic product. The assumption, of course, is that this measurement - gross domestic product - is providing a meaningful picture of the well-being of our society. That very assumption cannot be supported and has been under attack from within the economics profession.

We have few options. We can write letters of warning and protest to our Congressional representative and senator. We can provide financial and moral support to citizen groups working to mobilize public outrage, such as United for a Fair Economy (UFE). As some of you may be aware, our colleague, Alanna Hartzok, is now on the board of this organization. In answer to the question, "What happened to the surplus?" UFE observes:

"Back in January 2001, the Congressional Budget Office (CBO) forecast a $5.6 trillion total surplus for the years 2002--2011. Now, in 2004, the $5.6 trillion 10-year surplus is long gone, and we have deficits as far as the eye can see. Overall, the 10-year budget picture has deteriorated by $9.3 trillion in three short years. What happened? Lower than expected revenues, tax cuts and increased spending in the military are the three biggest contributors to this loss.

"Last year President Bush and Congress passed $330 billion in tax cuts that mostly benefited upper-income taxpayers and large corporations. These tax cuts have directly and indirectly cost states and towns hundreds of millions of dollars in lost revenue. Had the President and Congress set aside for the states only one-quarter of the value of the tax cuts last year (instead of the nominal $10 billion), every state could have balanced its budget without either tax increases or budget cuts."

Our elected representatives seem to be more concerned with making sure they are bringing enough pork home to win the next election than with the longer-term consequences of their actions. We are small in number. Our voice is rarely heard in Washington, D.C. So, what can we do? What comes to mind is to follow Alanna's lead and join United for a Fair Economy's efforts to bring our government to account.

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