Don't mention the economy

Aidan Kane [*]

Sunday Business Post 4th April 2004

While the US election race will continue to be dominated by security at home and abroad, the economy will also be a crucial battleground.

Historically, economic performance has been the most important factor in determining election outcomes, statistically explaining roughly 70 per cent of the variation in opinion poll numbers and in votes. At times of war or crises, there is typically a "rally round the flag" factor which delivers an electoral bonus to an incumbent president,but the economy is the rock upon which candidates either build a victory or founder in the storms.

Arguably, Ronald Reagan won in 1980 by simply asking: "Are you better off now than four years ago?", inviting Americans to look at their wallets, find them bare, and blame Jimmy Carter, who was promptly ditched.

George W. Bush has particularly personal reasons not to neglect economic issues.

His father, although fresh from victory in the first Gulf War in 1991, presided over a recession that ended his presidency. George Bush Senior was indeed especially unlucky, in that election day 1992 more or less marked the trough of that recession; leaving Bill Clinton to reign over the longest peacetime economic expansion in the 20th century for eight years from that point on.

The performance of the US economy of course has an enormous bearing on global prosperity. Ireland, in having such deep trade, migration and foreign direct investment links with the US, has a particular interest in this debate. The sometimes tiresome 'Boston versus Berlin' dichotomy might

[*]Department of Economics, NUI Galway.

at least prompt us to actually look at the tenor of the economic debate in America, in its own terms, and not just as filtered through that often pejorative comparison.

The big surprise in the current US economic and electoral cycle is that George W Bush is vulnerable. Not only that, he is vulnerable on two grounds where he should be safe: the budget and foreign trade.

In short, the Bush administration has reversed one of the more substantial achievements of the Clinton era, in having turned a federal budget broadly in balance or surplus into deficits, current and in the future, as far as the eye can see. The US Treasury is awash with red ink, with forecasts of federal deficits of the order of magnitude of $500 billion per year. Only a little of this can be attributed to the impact of a slower overall economy and the costs of the war on terrorism and the somewhat related war in Iraq.

The bulk of the deficit arises from the Bush administration's inability or unwillingness to control non-defence expenditure demands in Congress, and most of all, its programme of income and capital tax cuts for the wealthy.

The expenditure problem arises mainly from the usual "pork barrel" pressures from congressmen in what is an essentially dysfunctional budgetary system, and the president's willingness to cede most demands of an already generally wealthy older electoral constituency for state funded prescription drugs and other benefits.

The net result is that the US social security system in general terms (being a pay-as-you-go system) is more or less bankrupt in actuarial terms.

The tax side is scarier still. The president and his supporters in Congress have delivered a programme of tax cuts on income and on capital from which mainly the wealthy (indeed, the super-wealthy) benefit, and along the way introduced a plethora of perverse incentives for such citizens in playing the tax system.

Crucially, this particular tax policy receives no support from those who are essentially conservative on fiscal matters, in that whatever possible benefits might accrue (and there are none) are overwhelmed by the overall budget deficits which it implies.

This policy compromises the fiscal stability of the US, makes it vulnerable to external shocks and threatens global economic stability. Dick Cheney is on record as asserting that "deficits don't matter" - as bizarre a misreading of modern macroeconomics as is possible.

Despite the caricatures, the Republicans are not entirely stupid. It is possible that there is a method in all of this. One theory is that the generation of deficits is quite a deliberate policy, in that servicing debt preempts future tax increases, and thus strictly limits the capacity of Democrats to introduce new social spending programmes.

This theory was in part used to explain Ronald Reagan's commitment to tax cuts in the face of ballooning deficits in the 1980s. At some point, however, the backroom Republican economic strategists can be too clever by half—to the point at which America's fiscal crisis threatens overall economic stability.

The story on free trade is perhaps not quite as melodramatic, but worrying to say the least.

Here too, Bush is in danger of reversing a substantial Clinton achievement; the commitment to an open world trading system, in a multilateral framework of international law and dispute resolution mechanisms. For all its imperfections—and there are many—the World Trade Organisation regime is a multi-lateral organisation, as strong and responsive as its members allow it to be.

It has, despite the propaganda, and like both the IMF and the World Bank, taken very seriously the critiques advanced by the anti-globalisers, while remaining committed to the proposition that a key problem of underdevelopment is too little, rather than too much, free trade.

Bush has, on a number of occasions, given in to isolationist and protectionist tendencies, paralleling the tendency of the administration to disparage international institutions in other domains. Only recently was a programme of subsidies for steel reversed, but the sugar industry and agriculture have been the happy recipients of bail-outs and protection from this supposedly free-market administration.

The Bush administration worries many analysts given its apparent preference for conducting bilateral trade deals with countries, raising the spectre of a world of distinctive trade blocs, rather than a globe of open borders.

Recently, Colin Powell, writing in Foreign Affairs, made a valiant attempt to describe this administration's foreign policy as one of partnership, as opposed to unilateralism. He notably made little mention of the foreign policy consequences of its impulse towards protection and unilateralism in trade. It is a most worrying revival of long run themes in the American polity, perhaps understandable in the early years of the Republic's life, but utterly bizarre in the modern world.

This less than full commitment towards free trade also raises the possibility of a destructive debate in the US on the new economic bogeyman of the 21st Century: "outsourcing" meaning here the shift of some service jobs, especially in IT, finance and business services from developed to underdeveloped countries, especially India and China.

The generally flawed economic analysis which informs resistance to poorer countries becoming more prosperous, needs an influential respondent at the heart of American politics—a president who can use the "bully-pulpit" to make the case for open borders and dynamic economies. Otherwise, there is a curious and worrying coincidence of argument between unreconstructed anti-globalisers and corporate interests seeking to protect their domination of consumers in home markets.

Of course, many do not see anything puzzling about a Republican president who compromises the budget and makes free trade vulnerable. It is understandable if one is beholden merely to some corporate interests, who in fact much prefer to be lap-dogs of government, the recipients of generous subsidies and protection from competition, rather than competitors in open markets like most entrepreneurs.

The real tragedy of this is that, as yet, the Democrats haven't spotted it.

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