

POLITICAL PULSE

Trouble Next Door

Tuesday, October 16, 2001

David Gitlitz

By any objective measure, the tax bill voted out of the House Ways & Means Committee late last week on a straight party-line vote must be considered thin gruel from a supply-side, pro-growth perspective. On most every growth-relevant issue – including capital gains relief, enhanced depreciation and accelerated marginal rate cuts – the bill brought out of committee by chairman Bill Thomas (R-CA), the panel's GOP bloc in tow, provides only the barest improvement to economic incentives. But for the Bush White House, with its economic response to the terrorism crisis already slighted as weak-kneed ("A Stimulus to Folly," Oct. 10, 2001), the understandable priority is to at least make the most of a less-than-ideal situation. That should mean giving Thomas the Administration's full public backing, knowing that pressures are already intense to whittle down what little there is of substantive growth stimulus in the name of "fairness" (i.e., class warfare) once the venue shifts to the Democrat-controlled Senate.

Apparently, though, somebody forgot to spread the word to the building next door and inform Treasury Secretary Paul O'Neill, who yesterday unleashed a broadside against the Ways & Means bill, and not because it doesn't do enough. "What they did is more than we'd like, so we have some work to do," O'Neill told a group in Memphis. "Part of what you saw on Friday last week was show business," O'Neill continued. "It's an opportunity for people to say, 'I voted for the thing that you want' with the expectation that we will come out with a package that doesn't do violence to the long-term financial stability of the country."

White House aides were furious, promising a retraction by O'Neill at first opportunity this morning. At a stop in Cleveland, though, O'Neill could only offer: "I'm very hopeful that this vehicle...will quickly pass the House and lead to quick action in the Senate and...produce a bill that is conceptually consistent with what the president said...." It was left to White House spokesman Ari Fleischer to attempt to clean up the Treasury Secretary's mess, asserting in his morning press briefing that the "President does support that package." Much of O'Neill's concern is rooted in meaningless static-scoring estimates purporting to show the Ways & Means bill producing a revenue loss of \$100 billion, versus the President's announced \$65-\$75 billion objective. Fleischer was thus compelled to engage in an inane colloquy with White House reporters about how President Bush could support the bill unless he accepted the higher static revenue-loss total. "The President's dollar amount remains," Fleischer finally allowed, adding that President Bush supports the bill as the "beginning of a process."

Such single-minded pursuit of a senseless objective cannot be laid entirely at the feet of Paul O'Neill. Bush would have been far better positioned had he not put himself squarely in the same box two weeks ago, offering that any stimulus be "big enough to get the economy moving in the short run, but small enough so it doesn't affect long-term interest rates." The myth remains impervious to all empirical refutation, and stands as a major obstacle to a real pro-growth fiscal policy thrust at a time of deepening economic decline. Compounding the absurdity, of course, is that without a realistic prospect for near-term recovery, the cost in terms of revenue foregone and debt not retired is almost certain to rise beyond whatever would have occurred under even the most aggressive pro-growth tax cut.