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SENATOR DOLE'S PYRRHIC VICTORY

Senate Minority Leader Robert Dole marshalled his troops to gain a stunning victory over President Clinton and the Senate Democrats, killing most of the President's economic stimulus spending proposals. Unfortunately, Congressional Republicans may have lost the economic policy war while winning this battle.

> ***The issue was and is whether the federal government can or should assume the responsibility for determining...any... specific economic outcome.***

Senator Dole and his colleagues had the opportunity to make Mr. Clinton's puny little economic stimulus plan the subject of public scorn and obloquy. Instead, they allowed it to become a political cause celebre — a battle between political good guys and bad guys. As is so often the case, however, the fuss was misdirected. Instead of focusing on the basic issues the Clinton stimulus package presented, the Republican leadership allowed opposition to the package to be portrayed as partisan obstructionism. Thus, the President and the Senate Majority leader were able to cast the Senate Republicans as bad guys who would sacrifice the economic well being of the nation to their political power play.

The Senate Republicans, more's the pity, failed to direct their fire against the real deficiencies of the stimulus package, instead condemning it because the President hadn't specified how he proposed to pay for its pork and other public boondoggles. They should have based their opposition to the President's proposal on the grounds that (1) no stimulus is called for, (2) the Clinton program would create no real jobs, and (3) what is needed instead is elimination or at least moderation of the huge array of government policies and programs that impede economic progress.

Implicit in the President's and Majority Leader George Mitchell's bashing of Senator Dole and the rest of the Republican membership of the Senate was that everyone agrees that the Clinton stimulus package is the right thing to do, and it is only the pettiest of politics that impelled Mr. Dole and company to oppose it. The Senate Republicans were thus cast as villains, willing to trash the economy for their own political gain.

One would have preferred to believe that Dole et al were opposed to the President's plan because they recognized that the best that could be said of it is that it was small enough not to do too much harm to the economy. But along came Senator Hatfield, professing to speak "...for a wide range of views..." on the Republican side, offering an alternative stimulus package of roughly half the size of Mr. Clinton's original proposal. The alternative package was merely a cut-back version of the Clinton spending initiatives — one-year funding for summer jobs, child immunization, small business association loan guarantees, waste disposal loans and grants for rural communities, and mass transit capital grants, along with emergency unemployment compensation. Whether Mr. Hatfield recognized it as such, his alternative was an explicit endorsement of the Clinton approach. He positioned the Senate Republicans as fighting to the death over a small amount of outlays rather than over the basic deficiencies of the Clinton approach. It's hard to see how this could excite the political passions of the electorate and forge a strong alliance with the nation's taxpayers.

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1331 Pennsylvania Ave., N.W., Suite 515, Washington, D.C. 20004 Phone: (202) 347-9570

Sort of to his credit, Senator Dole continued to oppose everything in the Clinton stimulus bundle of goodies except the extension of unemployment benefits. It was too bad that Dole professed opposition to the package not on the basis of its contents but rather on whether its outlays were to be offset by reductions in other spending.

The issue was not whether the Clinton program is explicitly funded, Senator Dole and his colleagues to the contrary notwithstanding. The issue was and is whether the federal government can or should assume the responsibility for determining the unemployment rate, the specific pace of expansion of the economy's total output, or any other specific economic outcome. History says the government can't discharge any such responsibility, which ought to be good enough to dissuade any policymaker from trying. History also shows that the principal result of government's short-run economic stabilization efforts has been misuse of the nation's production resources and income.

History shows, moreover, that efforts to bolster aggregate demand by increasing government outlays in order to increase employment and output are ineffectual, indeed counterproductive. A little more than a decade ago, then Senator, now Secretary Bentsen and his Joint Economic Committee colleagues asserted this very fact and urged that government forgo short-run stabilization efforts and focus instead on promoting long-term growth. The Senator was right at that time; he's wrong now to support government meddling.

What government should do is to remove the public policy impediments to the market's adjustments to short-term departures of total output, employment, income, and other economic aggregates from longer-term trends. If there is reason to believe that the economy can proceed along a higher and possibly steeper growth path over time, public policy makers should be at pains to determine what's preventing the economy from doing so. To virtually a dead certainty they would find that it is a wide array of public policies themselves that heighten the opportunity costs of growth-generating activities.

If the economy is to be larger and to grow more rapidly, public policy must be made less of a deterrent to productive, market-directed personal effort. It must less punish personal and business saving relative to current consumption uses of current income. It must seek out and lower the policy-imposed barriers to risk-laden entrepreneurial activity, to new business ventures, to foreign as well as domestic market expansion, etc. The consequences of successful efforts in this regard would be not only a long-term growth path that better reflected the willingness of all market participants to incur the costs of growth but also a near-term perking up of economic activity.

Try to find anything in Clinton's stimulus package that addressed the real opportunities for and barriers to greater economic efficiency, higher levels of economic activity, and more effective competition by American businesses in the world marketplace. Republicans could perform a great service by eschewing budget number games and instead placing on the policy table the far more fundamental questions about what's impairing the nation's economic performance.

Mr. Dole and his fellow Republicans could point out, for example, that the targeted investment tax credits Mr. Clinton has proposed are ludicrous rinky-dinks that will do virtually nothing to ease the present punitive tax treatment of capital formation. They should instead propose to allow businesses to expense capital outlays — to write off the cost of plant, equipment, and other production facilities in the taxable year in which the costs are incurred. Alternatively, they should urge changing the existing depreciation provisions to make depreciation deductions claimed over a period of years equivalent to expensing.

Instead of Clinton's proposed permanent extension of the existing incremental research and experimentation tax credit, Republicans should urge outright expensing of all research and developmental outlays. Instead of the limited capital gains tax relief confined to investment in new, small businesses, the Republican Senators should urge an across-the-board capital gains tax rate cut and indexing of the basis of all capital assets. Or if they're feeling heroic, armed with good analysis, they should call for outright elimination of the tax on capital gains as an integral part of a plan to integrate the individual and corporate income taxes.

Congressional Republicans should hold every Clinton proposal hostage to the President's scrapping his proposed increases in the top individual and corporate income tax rates and his proposed permanent extension of the phaseouts of personal exemptions and itemized deductions. They should not even begin to think of accommodation of the President's program until he withdraws his proposed Btu energy tax. They should try to get it through to the President and his advisers that in the global marketplace there is no room for the punitive increases in taxes on the profits of American businesses' foreign operations, that, indeed, the results of those operations should be subject to tax only by the governments in whose jurisdictions they take place.

Republicans should heartily endorse curbing government borrowing to finance government outlays, but they should insist that deficit reduction must be achieved by spending constraints, not by tax increases. They should point out that virtually all government spending raises the costs of operations for businesses and households, and that since businesses organize productive economic activity, raising their costs necessarily entails lower levels of output, income, and employment than would otherwise result. The Republicans should also urge drastic, pro-market revision of regulatory policies, citing the huge costs that these policies have imposed on businesses and households in recent years and the drag these policies have exerted on productivity and employment growth.

The real question is whether Republicans actually have any significant statement to make about public economic policy. When the White House produces so large and so wrong-headed a program as that advanced by President Clinton, the loyal opposition has its best opportunity to advance its cause by articulating its own program. It accomplishes little for itself, let alone for the nation, by squabbling with the President over budget numbers. The last thing the Republicans in the Congress should be doing is avowing to the body politic that they have no program to advance. The kind of solidarity the Senate Republicans have shown in opposing the Clinton stimulus package would be admirable if it serves fundamental policy objectives. At the least, Mr. Dole and company should make sure that their opposition highlights real policy issues instead of merely differences in arithmetic.

Norman B. Ture
President