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THEY SAID IT

"The president does not get pushed around by self-appointed leaders of groups that represent wealthy elites that want their taxes cut and don't have any real constituency outside of New York or Washington."

"An official close to the White House," quoted in the *Washington Post,* Friday, December 13, in a front-page piece announcing President Bush's appointment of a wealthy investment banker and former Goldman Sachs chairman to be his chief economic adviser. The quote appeared immediately after a paragraph that noted the opposition to the appointment by Steve Moore, President of the "Club for Growth."

SO LONG TRENT. I could be wrong about this, but I think Senate Majority Leader Trent Lott is soon to have the new title of Former Senate Majority Leader. Whether this is fair or not is subject to question. And it is not a question I'm going to get into here, except to state the obvious, which is that, at a minimum, what he said in reference to Strom Thurman was exceedingly stupid for a man in his position. As Bill Clinton once put it so aptly, politics is a blood sport in Washington, and Lott, like Bill, got himself bloodied up through no one's fault but his own.

The issue at hand is whether Lott's ouster as leader would be bad or good for the Republican Party, and I come down firmly on the side of good. For starters, as I have said many times in these pages, Trent Lott has been a mediocre Majority Leader at best, and there is no shortage of other mediocre Republican Senators to take his place.

But more importantly, his actions endangered, or at least slowed down, the probability of a steady rise in the number of African-American Republicans, a movement that is of primary importance to the GOP, to the nation, and I might add, to the black community itself.

So, in my opinion, sacrificing Trent is no big loss if it helps those many Republicans who have worked so hard to make their party a comfortable political home for black Americans, and not incidentally, if it also helps those Democrats, such as Al Sharpton and Jesse Jackson, who have worked equally hard to convince African-Americans that the Democratic Party is a lousy long-term choice for black Americans.

And to those who argue that Republicans should not bow to pressure from "special interest groups," I would only say that the Republican Party isn't in danger of losing its innocence in this regard. In fact, rolling over for "special interests" was a specialty of Trent Lott's. Believe me, he will understand.

OUT WITH THE OLD, IN WITH THE OLD. I didn't pay much attention last week to President Bush's choice of John Snow and Stephen Friedman to be the new Treasury Secretary and chief White House economic adviser respectively because I couldn't figure out why I should care. To my knowledge neither Paul O'Neill nor Larry Lindsay left serious fingerprints on any economic decisions made during their two years in these positions, so I didn't see any reason to think that the new suits would be any more influential.

To the degree that I thought about it at all, I had a sort of visceral nausea about the presence of another former Goldman Sachs chairman in a high government position looking after the interests of the global investment banking community. This is unfair, I know, but I couldn't help thinking of the joke about the cannibals who captured a small time pickpocket, a mob boss, and a wealthy investment banker. They immediately let the banker go and put the other two in the cooking pot. When the unfortunate ones asked why the banker had been released, the cannibals said, "Have you ever tried to clean one of those things?"

Anyway, from what I could gather from reading the newspapers and listening to the talking heads, O'Neill got the boot because he had a habit of saying things that weren't always in sync with the Bush party line and because he wasn't very good at "selling" something called the Bush "economic plan" to "Wall Street."

I hadn't even known there was such a thing as a "Bush economic plan," but perhaps that was the problem. The explanation for the Lindsay firing was even more vague, although the White House spin-doctors seemed to be trying to indicate that he too had not been an effective booster of the phantom "plan."

Now, pardon me, but I'm not at all certain that "sales ability" should be the first item on the list of attributes that are essential for the job of Secretary of the Treasury and senior economic adviser to the President of the United States. I thought that's what hacks were for. And Lord knows, there are enough of those in the White House. Over the long run, when it comes to economics, I always thought the proof was in the pudding, as the saying goes; that Wall Street and the voting public would "buy" good ideas and solid results even if they're sold poorly.

Personally, I would rather that the White House had said that O'Neill and Lindsay were making and implementing really dumb policies which, it turns out, after a thorough investigation, were largely responsible for all of the economic troubles that have occurred since they assumed their positions within the administration. Then, the White House could have told us that John Snow and Stephen Friedman were chosen not because they were good salesmen, but because they were smarter than O'Neill and Lindsay and could be counted upon to develop and implement a new and better "economic plan" that would get the economy rolling and bring down unemployment.

The problem with this approach, of course, is that the Bush crowd says that it has no intention of changing "the plan;" that "the plan" is just fine, thank you. And therein lies the reason I couldn't get excited about the appointments. I mean, if you believe the White House, Snow and Friedman are not being brought in as coaches, but as cheerleaders; not because they have new ideas but, to the contrary, because they have no ideas. Ho hum, says I.

Now, I am aware that my blasé attitude toward these appointments is not shared by many of the people who watch and care about such things. In fact, as noted in this week's "They Said It" quote, my long-time friend Steve Moore, President of the "Club for Growth," felt so strongly about the Friedman appointment that he spearheaded a big campaign against it.

I agree with Steve and I applaud his efforts. In fact, I believe that the above quote from "an official close to the White House" about Steve's campaign against Friedman is almost as disingenuous and dishonest as Bill Clinton's famous line about the meaning of "is." I mean, this White House is naming a big shot investment banker and former Chairman of Goldman Sachs to a high post in the administration and is accusing Steve of carrying water for "*wealthy elites,"* who "don't have any real constituency outside of New York or Washington." Say what?

The difference between my resigned attitude and Steve's energetic one has to do with age and expectations. Steve is young and idealistic. I am old and cynical. As such, I wasn't surprised that Bush chose two people who had been openly antagonistic toward his earlier tax cuts. Nor was I surprised when it turned out that one of his picks was someone who is so confused about the importance of integrity in high office that he gave money to Hillary Clinton's Senate campaign. I didn't understand it. But I wasn't surprised.

Indeed, if I had given any thought to it, which I didn't, I would not have expected that Bush would have chosen the kind of person that Steve would have liked in either of these two jobs. You see, the Bush people are not, have never been, and will never be supply siders. They would most certainly deny it, but they are Keynesians at heart. Yes, they have supported lower taxes. But the economic motivation behind this support, as opposed to the political aspects of the move, is Keynesian. Now that Lindsay is gone, I would guess that in a word association test every member of the Bush economic team, including the President himself and the two new guys, would respond to the word "curve" with the word "Phillips," not "Laffer."

In short, Bush's tax cuts, both the former ones and the upcoming proposed ones, have nothing even remotely to do with the supply-side argument that money is better spent by the taxpayer than by the government. This is, I believe, why Snow and Freidman feel they will be comfortable as pitchmen for the Bush "economic plan." Even a Concord Coalition deficit hawk can defend a small tax cut on Keynsian grounds when the economy is weak.

Nor do the Bush tax cuts have anything to do with the Reagan idea that lower taxes are the best possible means for curtailing the size and growth of government. The evidence is overwhelming that the Bush people have no interest in smaller government. They have yet to make a single meaningful proposal, or offer a single meaningful statement, on the subject of less government. In fact, the entire thrust of the first two years of the Bush administration has been to expand the power and the size of the federal establishment. This was true even before the September 11 disaster, which accelerated their enthusiasm for a concentration of power in Washington.

Now don't get me wrong. I like George Bush. I voted for him. I will vote for him again in 2004. But as far as fiscal policy goes, the best that can be said about him and his administration, as far as I'm concerned, is that they are better than what Al Gore and his reactionary Democrats had to offer.

My guess is that when "the plan" is formally unveiled in early January, it will have a few high profile proposals to give it a little pizzazz, such as partial privatization of Social Security and possibly some innovative means of reducing the growth in federal spending. But, mark my words, these will be throw-aways.

The heart of the proposal will be a host of targeted tax cuts and proposed reductions in the growth rate of government spending that are large enough so that some hint of the "plan" will still be visible after the White House gives half of it away via a big compromise with Democrats at the end of the year. In the end, there will be little if any slowdown in government spending, and the tax cuts won't be large enough to physic a flea, much less stimulate a $10 trillion-plus economy. And both sides will declare victory.

From a political standpoint, it is worth noting that this meaningless war over "the plan" will be fought on a battlefield chosen by the Democrats and under the Democratic Party's rules of engagement. By this I mean that the fights will be all about "rich vs. poor," "big business vs. the little guy," old ladies starving to death because of the GOP's threat to their Social Security, and all of the other "issues" so dear to the hearts of Tom and Dick and Hillary and Al and Terrence.

The Republicans, led by President Bush, will fight on the defensive, stumbling all over themselves trying to convince everyone that they are "compassionate conservatives," while clumsily trying to counter charges that their policies will take food off the table of the poor and the minorities and "make the rich even richer." The best argument they could make is that, unlike the "wealthy elites" Steve Moore represents, the White House "wealthy elites" are so rich they don't care if their taxes are cut, or raised for that matter.

After the fight is over, John Snow and Stephen Friedman will privately apologize to their "deficit hawk" friends and colleagues at the Committee for a Responsible Federal Budget, the Concord Coalition, and the Business Roundtable for not being able to limit the tax cuts any more than they did. And Bush will continue to wonder why in the world he can't seem to get anything meaningful done relative to the economy.

SO WHAT WOULD YOU DO, MARK? I am not in the business of offering alternative courses of action to politicians, but the critical nature of the above piece seemed to me to scream out for a "what would you do" follow-on, so hear goes.

For starters, I wouldn't choose an investment banker to be my chief economic adviser. I'd choose an economist. Duh! In fact, I would choose a smart, young economist who had been around Washington for a while and knew how the game was played on Capitol Hill and personally knew, and was admired by many of the important players both in Congress and in the various think tanks.

I'd pick one who had held his own in more than a few knock-down, drag-out fights over economic policy, fights in which the weapons were facts, statistics and theory rather than ideology. I'd pick one who knew the budget process cold; one who was used to considering new, novel approaches to old economic problems; one who had done a lot of innovative work on the tax code and had a good feel for what was wrong with it; one who had actually written books on the subject; one who knew a lot about the fiscal side of state government budgets as well; one who had a wide network of friends, admirers and supporters both in Washington and in many of the state capitols; and yes, maybe even one who ran an organization that represented the interests of a lot of "wealthy elites" who had the good sense to want their taxes cut.

Come to think of it, I'd pick someone like Steve Moore. He's the kind of guy that Bush's investment banker will have to hire anyway to brief him before he goes out to "sell" "the plan." So why not just hire a guy like Steve in the first place. Churchill once turned down an invitation to meet with Italy's Count Galeazzo Ciano, Mussolinni's son-in law and foreign minister. He preferred, he said to meet with Mussolinni himself, adding that one should "never hold discussions with the monkey when the organ grinder is in the room."

The next thing I'd do is make sure that the battle with the Democrats is on my turf, not theirs. I'd lead "the plan" with a proposal for significant reform of both Social Security and the tax code, and I'd force the Democrats to defend the old ones. You like the current Social Security system? You like the current tax code? You really believe they favor "the poor?" Are you out of your mind? Have you ever met an actual poor person? What century are you living in?

I would spend as much time and political capital reforming these tired, inefficient, out-of-date old systems as I was spending on terrorism, under the theory that the tax code is a source of terror for most Americans and the Social Security system will be in a few more years when the baby boomers start to retire. And then I'd attack federal spending like a tiger, tooth and claw. And I'd make the Democrats defend a bloated, out of control federal behemoth. If the states can cut their budgets, I'd say, then so can Washington. Let's get started.

And I'd fight the fight proudly, rather than defensively whining around about how "compassionate" I am. And when compromise time came, I'd play hardball.

Do I think this will happen. Sure I do. And pigs might fly.

MUCH ADO ABOUT LITTLE. The headline to the left is the title of an op-ed piece by Tony Blankley that appeared in the December 11 *Washington Times*. Blankley is a very smart guy who used to be press secretary for Newt Gingrich and is now the editorial page editor of the *Times*. The following excerpts come from that op-ed piece, which does a better job than I could of plotting the course and impact of the upcoming fight over Bush's "economic plan." To view the entire article, which I would recommend, go to www.thewashingtontimes.com.

> President Bush has recast his economic team . . . The stage is being set for a titanic, once-in-a century partisan battle royal over which party can propose a better economic stimulus package . . . What a lot of nonsense. . . The reality will be somewhat less dramatic.

Because the Democratic Party long ago abandoned central planning doctrine for the magic of the marketplace, both parties have only one federal legislative policy tool in their kit bag of recession-fighters: tax cuts. Moreover, both parties recognize that some of those cuts must be given to: 1) business, to stimulate capital investment; 2) consumers, to encourage buying; and, 3) stockholders, to ease the pain of a fallen market and encourage their re-entry into the current markets.

But, because of excessive worrying about the size of the deficit (which takes massive federal spending off the table as a policy prescription for both parties), neither party is probably prepared to offer tax cuts of more than about $300 billion over 10 years (perhaps a third to a half of it in the first year). However, as our economy now produces more than $10 trillion of goods and services annually, no [matter] how cunningly targeted the cuts are, they will have a minimal stimulative effect. Even assuming our economy didn't grow over the next 10 years (in fact, it reliably almost doubles every 10 years), these proposals would only put an additional $300 billion dollars into $100 trillion of economic activity ($10 trillion per annum times 10) over the next ten years; or, a little less than 1/3000th addition to the economy.

But, with profits down, factories and other capital assets currently being used at only three-fourths of their capacity (and with flat economies in Europe and Japan offering little opportunities for increased sales abroad, and over-built commercial real estate at home) even tax inducements are not likely to motivate companies to increase substantially their investment in new capital factors in the near term. Consumers will spend most of what they get in tax cuts. But, consumers are already spending about $7 trillion a year. Assuming they get a third of the first-year tax cut (if the 10-year tax cut is $300 billion, the first year won't be higher than $100 billion to $150 billion, so the consumer's share would be no more than $50 billion in the first year), what is $50 billion extra dollars of consumer spending thrown into an ocean of $7 trillion? The answer is less than a 1 percent (0.7 percent) increase in consumer spending in the first year.

How will the two parties' proposals differ? The Democrats may take about $10 billion of first-year tax cuts from the upper-income, high-tax payers and shift it down a bracket (at the cost of fractionally less stimulation to investing). The Republicans may throw in making last year's tax cuts permanent in the 11th out year (2011). They will have slightly different forms of business tax breaks (economists will differ on their relative merits). In January, the Democrats will call for a modest increase in the minimum wage (which will either have no effect on the economy, or will slightly increase unemployment because it raises the cost of doing business for small businesses). The Senate Republicans, under pressure from their four liberals, will come out for the same minimum-wage increase and about six of the $10 billion dollars of the Democrat's downward-targeted consumer tax breaks in June. The House Republicans will begrudgingly concur in September.

With these minor functional differences in the two proposals over the next few years, the Republican bill will pass the House on final passage with almost all the Republicans and about 70 Democratic votes (maybe about 300-135). The same bill in the Senate will get all 51 Republican votes and five-10 Democratic votes (say, 59-41). If unemployment drifts down by a point and economic growth of at least 3.5 percent ensues (up from the current 3 percent), the Republicans will claim to be economic geniuses. Should the economy not tick upwards a little, the Democrats will scream that if only their bill had passed, we could have moved from despair to abundance. Why not just split the minimal differences, and pass the bill in January, when it might do a little good?

WISDOM FROM CALVIN. As long as we're on the subject of taxes and fiscal policy, I thought I'd add a little topical wisdom from one of America's truly great Presidents, Calvin Coolidge. No one involved in the upcoming debate, whether from the White House or on Capitol Hill, is likely to be very familiar with this source, or even with the simple but profound ideas he presented. But it doesn't hurt for the rest of us to be informed.

The first two quotes come from Coolidge's Presidential Inaugural Address in Washington, D.C. on March 4, 1925. The second comes from a speech he gave as Vice President in Northampton, Massachusetts on May 30, 1923.

> "The wise and correct course to follow in taxation and in all other economic legislation is not to destroy those who have already secured success, but to create conditions under which everyone will have a better chance to be successful."
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> "I favor the policy of economy, not because I wish to save money, but because I wish to save people. The men and women of this country who toil are the ones who bear the cost of government. Every dollar that we carelessly waste means that their life will be so much the more meager. Every dollar that we prudently save means that their life will be so much the more abundant. Economy is idealism in its most practical form"
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> "After order and liberty, economy is one of the highest essentials of a free government."

HAPPY HOLIDAYS, EVERYONE.