Washington's economic debate: U.S. is the loser

by Kathleen Klenetsky

President George Bush and the Democrats are headed toward a showdown over economic policy, but the battle promises to produce no program to pull the United States out of the depression. Instead, it appears headed to drive the country deeper into ruin.

Conventional wisdom holds that Bush's inability to deal with the country's economic collapse gives the Democrats a golden opportunity to capture the White House and implement their solutions to the depression. And the Democrats, including the presidential candidates except for Lyndon LaRouche, the anti-Establishment contender, are doing their best to grandstand on the economy. As this issue of *EIR* went to press, House and Senate Democrats were in the midst of a series of hearings in various committees highlighting key aspects of the collapse—and how the administration has failed to deal with them.

The problem is that the Democrats are no closer to devising a workable economic recovery program than are the Bushmen. When the media-designated Democratic presidential frontrunner, Arkansas Gov. Bill Clinton, boasts that his big contribution to the economic policy debate is that he drove down welfare payments in one of the poorest states in the Union, you know just how pathetic the Democratic establishment's thinking on economic matters is.

And they say this is an alternative!

With the 1992 presidential election campaign heating up, and Congress set to reconvene after the long Christmas recess, both sides have started to churn out a series of economic policy proposals whose common trait is that they are directed more toward short-term political returns than toward establishing a long-term foundation for reviving the economy.

On the Democratic side, most of the measures that are being proffered fall into two general categories: populist calls for more domestic spending, but with no conception of how to use such spending to fuel productive economic growth, nor how to finance it without hyperinflation; and all-out trade war, premised on the fallacy that the United States's economic demise can be blamed on Japan and other exporters rather than on 20 years of U.S. post-industrial lunacy, which has directed capital away from investment in basic industry and R&D into junk bonds and other forms of speculation.

President Bush's hapless January trip to Asia occasioned a new burst of Democratic Jap-bashing. Rep. Richard Gephardt (D-Mo.), who has built his political career on demagogic attacks on Japanese trade practices, kicked off this latest Democratic excursion into demagogy with a press conference Dec. 20, at which he and several colleagues from both the House and Senate unveiled legislation that would impose stiff sanctions, under existing "Super 301" trade regulations, on Japanese automakers, if the Japanese fail sufficiently to reduce their trade deficit with the U.S.

Gephardt's initiative was just one of a host of similar Democratic proposals that have come pouring out over the past few weeks. Another came from Senate Banking Committee chairman Don Riegle (D-Mich.), a chief co-sponsor of the Gephardt measure, who held his own press conference Jan. 4 to demand "immediate and measurable results" from Bush's trip to Japan. "We were very tough against Saddam Hussein," Riegle said. "We should be just as tough against our trading adversaries." The remark may betray more than Riegle believes, of the real economic objectives which lay behind "Desert Storm."

While this doesn't begin to touch on the full range of Jap-bashing measures now being pushed, it does reflect the

Democrats' desperation to seize upon an issue that has no merit, at least in terms of the framework in which the Democrats are discussing it, because 1) they think it will earn them votes, and that Bush is vulnerable on the trade issue; and 2) they don't have the brains or the guts to give serious thought to what must be done to save the U.S. economy.

So far, the most ambitious Democratic economic program to be put forth during the current debate comes from Sen. Paul Sarbanes (D-Md.), chairman of the Joint Economic Committee, and Budget Committee chairman Sen. James Sasser (D-Tenn.). On Jan. 4, the two issued a "Program for Recovery and Growth" which calls for a temporary tax cut for the middle class, an extension of unemployment benefits, further reduction in interest rates, and a program of public investment directed at infrastructure, education, R&D, and worker training.

On its face, the program doesn't sound half bad. But, by failing to address the fundamental issue of credit generation, and the imperative of nationalizing the Federal Reserve, Sarbanes and Sasser are indulging in election-year opportunism.

Although the two stressed the direness of the economic situation, it was psychologically interesting that they couldn't quite bring themselves to utter the word "depression." In fact, they were apparently so afraid of the word that they in fact referred to the current situation as "the longest recession since the 1930s."

Bush's mess

The Bush White House claims to be hard at work on an economic recovery program that the President is supposed to unveil in his Jan. 28 State of the Union address. Administration officials have been selectively leaking elements of that program, and there is not one which holds the slightest promise of reversing the economy's downward slide.

Desperate to save his career from the political consequences of the country's collapse, Bush has recently suggested that he is willing to reopen the once sacrosanct 1990 budget deal—something he categorically ruled out until quite recently.

The reason behind Bush's change of mind is simple, if squalid. He wants to be able to take money from the defense budget and pour it into the domestic arena, just in time to have maximum impact on the presidential election process. The 1990 budget deal, a rotten compromise between the administration and congressional Democrats, styled itself as a solution to the budget deficit on the grounds that it placed caps on total government spending while explicitly forbidding shifting spending between defense and domestic programs.

In an interview with David Frost broadcast Jan. 3, Bush put out the word that he is willing to renegotiate the budget agreement. Bush told Frost he would not agree to lifting the overall spending limits. But, he said, "There are ways to live within the caps and then jiggle around inside."

He added that "it is possible that there will be more reduction in defense spending because the world has changed so dramatically." Asked if he would want to use such cuts to fund domestic programs, Bush replied with his characteristic eloquence: "Could be. Or might do something radical like reduce the deficit."

According to administration officials, Defense Secretary Richard Cheney has been charged with devising new cuts in the defense budget. Reportedly, Cheney believes that it is possible to slash $50-120 billion over the next 10 years. That sounds like a large sum, and it's clear that Bush hopes this so-called peace dividend will keep him from being lynched by the depression-ravaged U.S. electorate.

But an additional $5 billion or even $12 billion per year—which is what the administration is talking about—won't make a dent in the deficit, nor will it do much to get the economy going again.

That is particularly true given the nature of the measures Bush is likely to fund with these defense savings. Reportedly, Bush is considering throwing a few sops to hard-pressed middle- and working-class families in the form of a tax credit for a new home and/or health insurance, or possibly a child tax credit. Bush and his advisers are betting that voters would begin to see the effects of these cuts sometime next summer—when the presidential campaign goes into its final stage.

An end to Social Security?

The administration's proposed measures are so inadequate, given the magnitude of the economic collapse, that they could trigger even greater popular anger against the Herbert Hoover of the 1990s.

Far worse for Americans are the entitlement cuts which the administration is said to have up its sleeve. According to the Jan. 5 *New York Times,* Bush will propose cutting Social Security and Medicare payments for the "rich," defined as those making over $125,000 per year.

The cynicism is breathtaking. Bush hopes to appeal to voters' populist sentiments by targeting the wealthy, while accomplishing his real objective: to erode the political base for the entire Social Security/Medicare structure.

Since Bush refuses to adopt an economic program that would encourage real growth and solve the budget deficit that way, he has little choice but to hack away at entitlements, which make up a large chunk of government spending. Thus, while he claims to be only going after the rich, you can bet that everyone will be hurt.

Unfortunately, the great populists on the Democratic side won't resist this assault. Under the guise of "soaking the rich," key Establishment Democrats can be expected to jump on Bush's entitlement-slashing bandwagon. Indicative was a recent *Washington Post* commentary by Michael Kinsely, a well-known Democratic pundit, which called on the party—and its presidential candidates—to lead the campaign to cut spending on Social Security and Medicare.