

Congressional Closeup by Carl Osgood

What Creates Jobs Debated in Senate

After only two days of debate, the Senate passed its version of the tax cut bill on May 15. Senate Finance Committee chairman Charles Grassley (R-Ia.) claimed the bill “will provide short-term stimulus and provide the building blocks for meaningful future economic growth.” Among the provisions in the bill are an increase in the child tax credit from \$500 to \$1,000, a reduction in the so-called marriage penalty, expansion of the 10% tax bracket, expansion of provisions for small business expensing, and increased relief from the alternative minimum tax. As introduced, the bill also included a provision reducing the top rate on stock dividends to 28%. It also included some tax increases, mainly in the form of provisions scaling back tax shelters and discouraging the expatriation of profits overseas. This was done to keep the cost of the bill from exceeding \$350 billion, since there are not the votes in the Senate to pass anything larger than that.

That problem did not save Grassley’s language on the tax dividend, however. Sen. Don Nickles (R-Okla.) offered an amendment to reduce the dividend tax by 50% in 2003 and eliminate it completely for 2004, 2005, and 2006. He claimed it would “dramatically” help people with various types of retirement accounts. Sen. Max Baucus (D-Mont.) called it “absurd and irresponsible,” and noted that Nickles pays for it by modifying the rate at which the marriage penalty is reduced.

Nickles’ amendment passed by a vote of 51-50, with Vice President Cheney casting the deciding vote.

Senate Minority Whip Harry Reid (D-Nev.) challenged the notion that the tax cuts would lead to any job creation. “There is no dispute,” he said, “that for every \$1 billion we spend on public works,” including highways,

roads, bridges, dams, water systems and so forth, “we create 47,000 jobs.” Instead, the GOP proposal “is an effort to devastate the ability for domestic discretionary spending and cause tremendous harm to programs such as Social Security and Medicare.”

Sen. Bob Bennet (R-Utah) responded to Reid, claiming that jobs are only produced when someone risks accumulated or borrowed capital in some entrepreneurial undertaking.

Media reports on May 21 held that President Bush, in a shift, is pushing for passage of the House version of tax-cut bill instead of the Senate’s, trying to get a bill on his desk quickly to sign, to be seen “doing something about jobs.”

Investment Advice Bill Passes House

If pension security means giving workers more information and advice about how they can manage their pension plans, then that is what the House did when it passed, by a vote of 271-157, the Pension Security Act of 2003, on May 14. According to House Education and the Workforce Committee chairman John Boehner (R-Ohio), the bill would encourage employers to provide their workers with “high quality” investment advice. Boehner claimed that the bill includes new fiduciary and disclosure protections to ensure that workers receive quality advice that is solely in their best interests. The bill also requires companies to give their workers quarterly benefits statements about their accounts, and their rights.

Democrats disputed that the bill would provide any security at all, given that the bill did not include any prohibitions on the kinds of activities that Enron, and other corrupt companies, made famous in 2001. Rep. John Tierney (D-Mass.) argued that the bill

would “permit investment advisors to recommend their firm’s products and earn additional fees on those recommended products if they just disclose the fact” that they are in conflict of interest with their fiduciary responsibilities towards the workers whose pensions they are advising on. Tierney noted that such a provision flies in the face of the past year and a half’s scandals, and of the \$1.4 billion settlement just reached between the 10 largest Wall Street investment firms and the New York Attorney General’s office regarding their corrupt trading practices.

The Democrats used their only allowed amendment opportunity to offer a substitute that would require that the investment advice be provided by individuals who do not have an interest in the outcome of the advice they offer. The amendment, offered by Rep. Robert Andrews (D-N.J.) also included a provision allowing employees to retain, if they so choose, a defined benefit retirement plan, when a company converts to a cash balance plan. Boehner complained that the amendment “guts the serious investment advice language,” because the “so-called” independent advice already available is “very generic” and therefore not real investment advice. The Andrews amendment was defeated by a vote of 193-236.

Snow Challenged On Capital Controls

Rep. Barney Frank (D-Mass.), at a May 13 hearing of the House Financial Services Committee, challenged Treasury Secretary John Snow on the insistence by the U.S. government that countries negotiating free trade agreements with the United States agree not to impose capital controls. Frank noted that many countries are concerned about uncontrolled floods of

capital into and out of their economies, which can do more harm than good. He demanded to know, from Snow, why it might be bad for a country to impose a tax that would tend to steer capital into longer-term investments. He noted that both Chile and Singapore, in trade negotiations with the United States, disagreed over that issue.

Snow replied that “the general proposition that I think makes the most sense, is to have the fewest restrictions on capital flows, both in and out.” Under further questioning from Frank, Snow would not get more specific, with respect to ongoing negotiations with Central American countries, forcing Frank to complain that he was asking for concrete statements, but all he was getting was “broad principles.” Snow’s answer was that “broad principles get applied in individual cases.”

A little bit later in the hearing, Rep. Judy Biggert (R-Ill.) came to Snow’s rescue by giving him an opportunity to explain the “virtues” of unrestricted capital flows. “The mobilization of capital, both domestic and international,” he said, “is really an essential component of a well-functioning economic system.” Snow added that countries that are able to use borrowed capital to attract foreign direct investment are countries that “get it” about economic development growth.

While never mentioned during the hearing, the example of Malaysia, which has successfully used capital controls since 1998 to defend its economy against unrestricted speculative flows, must have been on the minds of Frank, Snow, and Biggert.

Biden Blasts White House Anti-Drug Policy

The Bush Administration’s anti-drug record came under fierce attack on May 20 from Sen. Joseph Biden (D-

Del.), during a hearing of the Senate Judiciary Committee hearing. Biden complained that the Administration has repeatedly “proposed slashing or eliminating law enforcement programs with track records that reduce crime.” He noted that the FBI has transferred hundreds of agents away from counternarcotics work to anti-terrorism, putting a much greater load on the Drug Enforcement Administration, without a proportional increase in its budget or the manpower required to do the job. “We have to be able to walk and chew gum at the same time,” Biden said. “We can’t separate fighting terrorism from fighting drug trafficking, given the considerable increasing linkage between the two.”

Biden did not stop there, however. He particularly blasted the Bush Administration’s record in Afghanistan, where warlords who depend on opium production run most of the countryside. “The fact of the matter is,” he said, “you can’t stop opium production when the warlords control the regions, and when in fact we don’t expand security in Kabul.” Biden charges that “we are back to the same situation, again,” as when the Taliban ruled Afghanistan. He also complained that even though President Bush signed the Afghan Freedom Support Act last year, which authorized \$1 billion to expand peace-keeping activities in that country, “the President has not asked for one dime of that money to be spent.”

Biden said that the Bush Administration’s record on Colombia was somewhat better “but what concerns me is, with a 40% reduction in funding for law enforcement, locally, in this next year’s proposed budget . . . we are missing real opportunities here.”

Biden’s remarks on Afghanistan were prefigured by committee chairman Orin Hatch (R-Utah), who noted at the outset that while the United States and its allies successfully re-

moved the Taliban from power, “we have not succeeded in stabilizing” that country. He warned that Afghan President Hamid Karzai’s Tajik-dominated government has succeeded in alienating the majority of the Pashtun population in the opium-growing areas, which has led to “instability in Afghanistan that has resulted in fundamentalist and al-Qaeda resistance to U.S. forces, and an increase in opium production.”

Congress Warned on Treasury Debt Limit

On May 19, Treasury Secretary John Snow sent a letter to Senate Majority Leader Bill Frist (R-Tenn.) warning that the Treasury had taken all the “prudent and legal” steps it could in order to avoid reaching the statutory debt limit, and said “an immediate and permanent increase in the debt limit is crucial to preserve the confidence in the U.S. Government and to prevent uncertainty that would adversely affect our economic recovery.” Snow reported that he stopped the investment of portions of the Civil Service Retirement and Disability Fund that are above those amounts required to pay benefits, an action calculated to free up about \$20 billion; but this gimmick would only last until about May 28.

The House-passed legislation will increase the debt ceiling by \$984 billion, to \$7.384 trillion, from the present \$6.4 trillion. Frist indicated, on May 20, that he planned to bring that bill to the floor within 72 hours. However, the Democrats may have something to say about that. Minority Leader Tom Daschle (D-S.D.) noted that the debt limit increase comes at a time when the Congress is working on a very large tax cut. “So,” he said, “we’ll have a lot more to say about that.”