Heating up the Neoliberal Agenda: The GOP on Economic Stimulus

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Just when it seemed that mainstream economists were going to have to reinvent Keynes, based on the lessons of the past few years, lessons indicating that a bull market cannot last forever and that capitalism remains boom and bust, with the only the intensity of hardship changing, the entire scene was eclipsed. The world has been catapulted into hyper-reality, with a welter of legislation, covert and overt operations vainly attempting the suspension of a system gone bust. In the name of fighting terrorism, corporate giveaways, hefty tax cuts and the "benign" neglect of the lowest 40 percent of income earners rule the day. What signifies the post-real condition of the present politic is that the pretense that these reforms are for the nation writ large -- or, as is sometimes gloriously maintained, for the workers -- is all but worn away and it seems to matter little.

Seven, Maybe Ten, Degrees of Separation

Grover Norquist, the "field marshal" of the Bush Tax Plan wants "to cut government in half in twenty-five years . . . to get it down to the size where we can drown it in the bathtub."[2] Norquist explained that after the Spring 2001 tax cuts Bush would come back for more in 2002 by giving tax breaks to special interests, which could be promoted, say, in the name of "international competitiveness." Fortunately for Norquist, the one-size-fits-all solution simply meant that what would have been pushed in the name of "international competitiveness" in the best of times, would be pushed in the name of "economic stimulus" in the worst.

Beginning with the work of noted economist Dale Jorgenson in the 1960s, economists have consistently found that the cost of capital plays a small role in determining investment; the much bigger player is sales growth. While capitalists have access to economic surplus, and they would normally seek to ensure the enhancement of their wealth through investment of capital goods and new productivity, they will not seek this investment if production is already operating at overcapacity. Without the prospects for increased growth of sales domestically and abroad, business has no reason to undertake risky investment. Therefore, tax cuts that are normally touted for their supply-side effects are inappropriate for short-term stimulus because they do not directly address the current problem of the economy's short-term inability to use its existing capacity to produce goods and services. Tax cuts scheduled for the future actually exert a negative effect on the economy in the short run by immediately raising long-term interest rates and thereby increasing the cost of business investment and home mortgages. Interest rate adjustments also gloss over the economy's principal problem: a consumption shortage, with a total demand gap estimated at $400 to $500 billion. This lowered demand implies a shrinking GDP, lay-offs and bankruptcies while increasing the likelihood of global dumping.

While economists scratch their heads looking for ways to resurrect the economy, Tom Delay (R-Texas) knows just what to do. Delay connects the dots of economic growth: tax breaks, like lowering capital gains, will stimulate the economy, will put more capital in the markets, which means there are more jobs, which means that there are more people paying taxes, which means there is more revenue coming into government.[3] Bush goes even further in his reductionist approach, explaining that tax cuts are good for the people affected by 9-11 and entrepreneurs: it encourages investment; it encourages employment.[4] According to Delay and Bush, the fact that tax cuts for the rich will result in jobs for the poor is a no-brainer; it is only the historical record that stands as counterfactual.

The original post 9-11 Economic Security and Recovery Act, which passed the House in November to go on to become The Job Creation and Worker Assistance Act of 2002, in many ways resembled the Spring 2001 tax cut plan. That is, both pushed the GOP line of more tax cuts for the highest 30 percent of the population and corporate giants. In addition to recommending the permanent repeal of the estate tax, the President proposed accelerating implementation of the 25 percent income tax rate, allowing much larger depreciation deductions for business, modifying the Corporate Alternative Minimum Tax, and extending tax breaks for financial corporations overseas. According to the Congressional Budget Office (CBO), none of these proposals would have generated short-term stimulus, as was needed to promote consumer spending. At far remove from short-term stimulus, the CBO concluded that the acceleration of the 25 percent income tax rate would not only fail as stimulus, but it would only benefit the top quarter of tax filers.[5] Similarly, modifying the Corporate Alternative Minimum Tax would mean that many companies would pay zero federal income tax in perpetuity -- a loss of more than $12 billion in revenue next year alone. It would also be an enormous cost to government, as it called for a $25 billion refund to corporations for tax paid in the last fifteen years. Equally untenable was the proposal to extend tax breaks for financial corporations overseas, whereby 96 percent of the $9 billion tax benefits/loss would come in the years following 2002.[6] Although the depreciation deductions for business could have worked as short-term stimulus, its potential was quickly undermined when it included the extension of depreciation provisions for three years rather than one, detracting from the likelihood of immediate investment.

The word "stimulus" is oddly out of place in the GOP plan, as is "recovery." Permanent stimulus, if indeed it is stimulus, is not necessary to boost an economy in the short-term. In a recession, it is fiscally responsible to spend even if that means deficit spending -- but the debt must be paid back. Instead, we have a stimulus package that spends more once the country is in the recovery black, widening the budget deficit in those years.[7] Estimates from the Joint Committee on Taxation showed that 88 percent of the cost of the House package was over six years (2002 to 2007) -- 92 percent of its cost over eleven years (2002 to 2012) -- and consists of tax cuts, most of which are multi-year or permanent. Less than 42 percent of the bill's cost over the next six years would come in fiscal year 2002 while, when additional interest costs are included, the total cost for the House bill was approximately $246 billion in six years.[8]

After numerous rewrites, the final stimulus package was presented as a great compromise. According to the *Washington Times*, wasteful spending replaced healthy supply-side tax cuts.[9] In fact, the final stimulus package includes the three-year depreciation deductions for business along with funding to extend unemployment insurance (UI). The depreciation provision will cost $97 billion over three years, more than seven times the $14.4 billion cost of provisions providing additional assistance to the unemployed over that period. In addition, it will cost the states $19.2 billion in state tax revenue, resulting in the scaling back of state programs. If the depreciation provision is not allowed to expire in three years, it will cost over $200 billion over the next decade.[10]

Both Delay and Bush operate under the spell of overly simplistic, outmoded economic assumptions that have long since proven inaccurate and are, in the face of a global economy where investors are free agents beholden to no nation, nothing more than tin men, hollow in their center. But at this late stage of the neoliberal transformation of government, the weakness of the pretense need not concern them. That the emperor has no clothes appears to be the very stuff of our post-real condition. In the spring of 2001, because of an ostensible $5.6 trillion surplus, Bush was able to rush through his $2.2 trillion tax cut package, which was signed in June, three months after the official starting point of the current recession. Many assumptions were made in deriving this surplus figure, not the least of which included the prediction that the slowdown would not turn into an all-out recession, that investment in software and computers would be permanent, that the stock market would rebound. They were wrong. The Congressional Budget

Office (CBO) now projects $1.6 trillion surplus between 2002-2011, $4 trillion less than projected when the Act was passed.

Nonetheless, the Bush Administration lost no time in calling for the repeal of the 2010 "sunsets" provisions in the Spring 2001 tax cuts -- and adding new tax cuts on top of it -- by introducing legislation just a month after the passage of the post 9-11 tax cut package. Not surprisingly, the justification for making the Spring 2001 tax cuts permanent was again job creation and economic stimulus, even though the surplus that justified the original ten-year stint of cuts is gone, cuts in the name of stimulus were just passed and long-term cuts will do nothing to alleviate rising unemployment. The loss of revenue caused by extending the tax cut into the second decade would be $7.1 trillion between 2012-2022.11 As it is, when the Spring 2001 tax cut is fully in effect, the tax cuts conferred on the 1.3 million tax filers who make up the most affluent one percent will receive more than one-third of the tax cuts, an amount equal in cost to 1 1/2 times the Department of Education Budget. Thankfully, in face of a very visible recession even Houdini could not make this proposal fly. Though, surely its refashioned return awaits us on the horizon of economic recovery.

We will no doubt continue to hear how the built-in tax increases in 2011 lie in wait to ambush the economy because of a lack of investment and how ultimately jobs will be lost as small businesses are forced to lay off workers. Here, again, we are shown the irrationalism of the Delay/Bush reasoning. For if it was in the name of growth that the tax cuts were originally implemented, then isn't this growth illusory if it requires additional cuts? Are tax cuts part of a bottomless pit whereby the further America is plunged the more it benefits as a nation? If dropping the top tax rate from 40 percent to 33 percent is supposed to increase hiring by about 12 percent, why isn't this hiring permanent? Why does it require future tax cuts? Which part of these cuts is for the people, that is, that shows up as jobs? Is it in that last drop? More problematic still, which part of these cuts actually creates opportunity for people at all income levels, even those who don't earn enough to pay any tax, that is, those who must reap the benefits of the dribble down? If the GOP were truly looking for ways to boost the economy, why would the tax cuts be forever? Why would it include subsidies to multinationals while incorporating provisions that enable capital flight?

The idea that money should be constructively spent on such things as public works and shoring up UI remains anathema to the GOP vision. Congressman Dick Armey (R-Texas) called unemployment benefits a "feeble response . . . not commensurate with the American spirit." If it isn't commensurate with the American spirit, maybe it ought to be as recent Labor Department data show that by the end of August 2002, more than 1.1 million workers had exhausted their additional weeks of federal benefits without finding work.12 Banking on *uber* individualism, proponents of neoliberalized growth assume that families around the world can scratch out a livelihood amidst oligopolistic capitalism, while government investment in services and programs for families in need of assistance is forcibly scaled back. Remnants of the welfare state are systematically discarded as part of the dismantling of the "give-away" state while tax cut recovery/economic stimulus packages costing over $2.2 trillion in ten years, with proposals for cuts costing over $7 trillion in 20 years, and corporate bailout optimize the spirit of the times.

In the Name of the Father

Like Reagan and Bush Sr. before him, Bush's tax cuts are in the name of boosting the entrepreneurial spirit of America and yet there is little to suggest that these cuts do anything of the sort. At the same time, the Bush administration's proposal to make the tax cuts permanent and to add new tax cuts now that the fiscal situation has clouded stands in sharp contrast to his predecessors. In 1981, Reagan secured a large tax cut. Similar to the situation today, the fiscal situation deteriorated significantly in the six months after the Reagan tax cut was enacted. Then, however, the Reagan Administration responded by working with Congress to enact revenue measures to undo or offset a significant share of the revenue loss from the tax cut. Though Bush Sr. was able to pass a two-year capital gains tax cut, he was still confronted with a political imaginary that did not believe that blow-out permanent tax cuts for the wealthiest one percent had anything to do with economic stimulus. The idea that an economic shot in the arm requires large-scale permanent tax cuts was still an illusion under construction, though one that is currently being written into George W's legacy. The Bush administration's proposal to make an increasingly large tax cut permanent charts a far more radical course. In terms of the Norquist time line, this is how far America has come as a nation: so far that Reagan and Bush Sr. were upstaged by the son who rose to prominence with less than half the support of the voting population.

The new face of growth includes wage stagnation, slow job growth, limited investment and is suspended through forced consumption, an overvalued dollar, and military build-up. Investment has been negative despite low interest rates and ample corporate cash-on-hand largely due to overcapacity and a lack of investor confidence. Foreign growth is expected to be even slower than US growth, making export growth an unlikely prospect. Without a booming stock market, consumer spending will be limited by high debt and sluggish income growth. Further exacerbating the problem, as Jeff Faux explains, the unemployment rate is expected to rise to somewhere around 6% by the end of the year, while the full effects of corporate scandals such as Enron, which falsely inflated profits by an estimated 78%, will continue to ripple through the economy.13 All of this suggests that there are no quick-fix or even long-term solutions if policy continues in its present course, and yet, all signs from the current Administration show that it is hell-bent on keeping in line with the Norquist timeline for the downsizing of government. In the words of Mr. Galbraith, "America is having a somewhat painful recession, with no remedial action in sight of any consequence. The Administration, in summary, has two lines of action: one is tax relief for the rich. The other is reliance on the Federal Reserve. . . . Both are without effect."14

What a Long Strange Trip It's Been

The dismantling of the Bretton Woods system in the 1970s led to a huge increase in unregulated financial capital from long-term investment and trade to speculation at the same time that it directed state power towards a new welfare for the rich. "The effect has been to undermine national economic planning as governments are compelled to preserve market 'credibility,' driving many economies toward a low-growth, high-unemployment equilibrium with stagnating or declining real wages, increasing poverty and inequality, and booming markets and profits for the select few."15 The current forms of capital ownership still guarantee a large degree of initiative for finance that is incompatible with the quest for monetary and financial stability. They still allow the collective retreat of financial investors whenever they are confronted by potential losses.

Since the Reagan Administration, it has been conventional wisdom among policy makers, academics, and journalists that the neoliberal policies that have governed the global economy are a great success. We have been assured that the costs of global deregulation of capital labor and commodity markets -- including the dislocation of workers and communities are "transitional" and more than compensated by the benefits in overall economic growth, a rise in the standard of living and a narrowing of the income gap between the rich and poor. In fact, the effects of neoliberal policy have been negative and in almost every instance countries have transitioned into a situation of polarization whereby there is a decline in real wages, an upward redistribution of income and a dramatic expansion of the informal sector jobs characterized by insecurity, low pay and no bargaining power. Unfortunately, these promises of universal prosperity, greater equality, and perhaps even fortified freedoms for the daring disappear into the political wilderness just as soon as the attendant legislation is passed.

Amir Samin explains that profits derived from production cannot find sufficient outlets in the form of lucrative investments capable of further developing productive capacity. Management of the crisis therefore involves finding other outlets for this excess of floating capital -- so that its sudden devalorization can be avoided.16 The international institutions exist for the purpose of crisis management and not resolution. In this context, the function of the International Monetary Fund (IMF), the World Bank (WB), and the World Trade Organization (WTO) is the protection of market control by the dominant transnational oligopolies. Crisis management consists in trying to suppress the second term of the contradiction -- the state -- in such a way as to impose management of society by "the market" as the only rule.17 However, this presents its own inherent contradictions. The very existence of crisis necessitates that issues of fairness, economic sustainability and democracy be brushed aside as secondary to the emergency task at hand: restoring investor confidence. Democratic debate has no chance to surface, as it could only surface during a moment of crisis and this is paradoxically when it is brushed aside.

Although it demands that individual client nations open their financial markets to competition, the IMF itself is the center of a credit cartel; it has agreements with other financiers to assure that projects it does not like will be blacklisted from received assistance from the WB and other international lending institutions, as well as government and large private lenders. Like cartels, the IMF has its oligopolistic power to pursue political objectives. It therefore has a decided bias toward countries whose leaders are in sync with the bank's major supporters. Not surprisingly, a former chief economist of the IMF has openly acknowledged that the staff of the IMF make no important decision without checking with the US Treasury. The effects of WB/IMF structural adjustment in developing nations and those of neoliberal reforms in America have significant parallels. In both instances, there has been a fall in the remuneration of work, a grave deterioration of the environment, deterioration in healthcare systems, the neglect of educational institutions, the continued growth of debt, a heightened police state and the weakening of democratic systems.

In considering the origins of totalitarianism, Hanah Arendt observed that totalitarian propaganda can outrageously insult common sense only where common sense has lost its validity.18 It becomes easier to accept patently absurd propositions than the old truths that have become pious banalities precisely because nobody can be expected to take the absurdities seriously. For the last 25--30 years, we have heard that the bitter medicine administered by neoliberalism is for our own good. During this time, the developing countries have become poorer and the polarization of wealth is felt in every nation. Because of the links between "the American spirit" and neoliberalized globalization, when we make decisions regarding our own economic stimulus policy, we are invariably deciding the fate of nations by perpetuating the myth that nations can achieve a healthy society simply by adopting a pro-market political economy.

According to Bush, his father's greatest regret was his failure to secure a second term, to let the war run down, at which point the public turned its gaze to the economy and he was gone. Apparently the lesson here is not to shore up the economy but to contrive a war that never ends, but ebbs and flows according to the needs of its creator, much like the current war on terrorism. Just when it seemed that job growth could not be played up in earnest as the justification for these tax cuts, terrorist attacks allowed tax cuts to be wrapped in the red, white, and blue. Today we are confronted with a veneer of military action over a worldwide diplomatic and police offensive that seems to have no territorial limits. In engaging in such a phantom war and using it to justify more concentrated economic power in the United States, the structural transformation of its government and infringements on human rights, we are killing far more than two birds with one stone.

In the 1970s, when the intellectual elites had to explain economic decline, they blamed the state and immediately set out to destroy it. Twenty-five years later, the world must again explain its global economic downturn, though this time it is in the context of a world system, involving an economic crisis for 80 percent of its population. Neoliberal reforms gained momentum through attacking the "giveaway" state for turning people into serfs. As a result of its reforms, a new level of serfdom has been born. Having come this far, the present course can only be rerouted when people realize that the very values that are said to inform the social order, namely democratic freedoms, have already been lost to process.

Notes

1 See Brookings Institution, <http://www.brook.edu/comm/policybriefs/pb101.htm> for figures on Spring 2001 tax cut, that is The Economic Growth and Tax Relief Reconciliation Act of 2001.

2 *The Nation*, 5/14/2001, p. 12.

3 *Washington Times* 3/10/2002 Commentary Joyce Howard Price. p. A06.

4 *Washington Times* 3/9/2002 Commentary Stephen Dinan. p. A02.

5 Center on Budget Policy Priorities, <http://www.cbpp.org/2-19-02tax.htm>.

6 <http://www.cbpp.org/2-19-02tax.htm>.

7 The progressive Caucus had proposed a stimulus package whereby the government would pay down the debt by when the economy recovers through a postponement of certain tax cuts that benefit wealthiest Americans. Unfortunately since the prevailing solution involved accelerating tax cuts postponing them was never really an option.

8 These numbers may be deceptively low; they assume that every one of the multi-year tax cuts in the bill will end on schedule, with none of these tax cuts being extended. See <http://www.cbpp.org/2-19-02tax.htm>.

9 *Washington Times* 1/11/02. Commentary Daniel Mitchell. p. A14.

10 <http://www.cbpp.org/1-28-02tax.htm>.

11 <http://www.cbpp.org/2-4-02tax.htm>.

12 <http://www.cbpp.org/2-4-02.htm>.

13 <http://www.gpn.org/faux_rethinking.html>.

14 *Guardian Weekly*. October 10-16 2002, p.14.

15 Chomsky, Noam. *Profits Over People*. New York: Seven Stories Press. p. 121.

16 In the 1990s, independent money managers sent masses of short-term money to East Asia, the only center of truly dynamic growth in the 1990s. The transitoriness of this investment and its tendency to overproduce set the stage for the international economic crisis of 1997-1998.

17 Amin, Samir. *Capitalism in the Age of Globalization*. New York: Zed Books. p. 51.

18 Arendt, Hanah. *The Origins of Totalitarianism*. New York: Harvest Press. p. 50.