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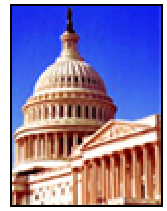

Officers: Sen. Paul Wellstone, Rep. Cynthia McKinney, Rep. Bernie Sanders, Rep. Major Owens

NEWS UPDATE - February 12, 2001

SPECIAL: Under the headline "Better, Simpler, Fairer" nationally syndicated columnist William Raspberry writes that the Congressional Progressive caucus asserts its tax plan "will do everything the president's will do, only better, more simply and more fairly." As Raspberry says, "The funny thing is, [they] may be right."

In the News…

- *THE RIGHT WING:* The Washington Post reports that in his first weeks in office, President Bush has actively worked to court the right wing. As the article states, "Bush has systematically reached out to virtually every element of the conservative coalition: from antiabortion advocates to western property rights activists to anti-tax groups to evangelical Christians and conservative Roman Catholics to proponents of a robust national missile defense."
- *TAXES:* The New York Times reports that Democrats are still looking for a coherent direction in the tax debate, noting that the Progressive Caucus's tax plan is one of the leading ideas.
- *TAXES:* The Washington Post reports on the contradictions between Bush saying the surplus will fuel his tax cut and saying the economy is entering a recession that will threaten the surplus.
- *SOCIAL SPENDING:* The Washington Post reports that at the same time President Bush is pushing for a massive tax cut for the wealthiest Americans, he is also "preparing a budget that would require cuts affecting virtually every agency" in the federal government.
- *PENSION REFORM:* The Binghamton Press and Sun-Bulletin reports that Progressive Caucus Reps. Maurice Hinchey and John Tierney are continuing the fight to enact legislation that secures workers pensions from being raided or cut back by corporate executives.

From the Editorial Pages…

- *SYNDICATED COLUMNIST* Mark Shields writes that Bush's tax plan proves two things: 1) "Bush is desperately seeking to close the widening and socially dangerous gap between the Rich and Super-Rich and 2) Class warfare is now over – the richest won."
- *SYNDICATED COLUMNIST* Paul Krugman writes that "the selling of George W. Bush's tax cut relies heavily on salami tactics — slicing away opposition a bit at a time. To understand how fundamentally misleading that sales pitch is, we must look at the whole salami."
- *ECONOMIST JEFFREY SACHS* writes that "Africa, with tens of millions of lives at stake, needs around $5 billion to $10 billion a year from the rich countries in the next decade to battle AIDS. This may sound like a huge amount, but it is a remarkable bargain" in terms of future prevention against worldwide epidemics and health crises.
- *THE WASHINGTON POST* editorial board writes that all the optimistic talk of the new economy is now being negated by the harsh realities of layoffs and job insecurity. As the editorial states, "By one estimate, half the workers formerly on welfare may find themselves with no benefits whatever if they lose their jobs in this downturn. That is no way to treat people thrown into poverty through no fault of their own."

Quote of the Day…

"Otto von Bismarck is supposed to have declared that 'people will sleep better not knowing how their sausage and politics are made.' Mr. Bush no doubt agrees; he hopes that the American people won't look too closely either at the composition of the tax salami or at how he proposes to slice it."

– *Economist Paul Krugman on the GOP tax proposal (New York Times, 2/11)*

SPECIAL: RASPBERRY CALLS PROGRESSIVE TAX PLAN "BETTER, SIMPLER, FAIRER"

Better, Simpler, Fairer

By William Raspberry

The same day President Bush sent his tax-cut proposal to Congress, Rep. Bernie Sanders (I-Vt.) and the Congressional Progressive Caucus unveiled a tax-cut plan that Sanders says will do everything the president's will do, only better, more simply and more fairly. The funny thing is, he may be right.

The proposal: A $300 tax cut for every man, woman and child in America -- provided the surplus is for real.

That's it. If you're an American, you get the $300 cut (or tax credit) each year for the next 10 years. A family of four gets a $1,200 cut, no matter whether the family's income is $20,000 or $200,000 a year.

But simplicity is just the starting point. "If you cross-reference our proposal with the Wall Street Journal's analysis," says Sanders spokesman David Sirota, "you'll find ours gives more tax relief than the president's for 80 percent of American families. That is, families in the first through 80th percentiles get a bigger tax reduction under our plan -- at least during the five years before the president's increased child credit kicks in.

"Families in the 81st to 95th percentiles get an average cut of $1,447 under Bush's plan, which is in the same ballpark as our $1,200 for a family of four."

It's only the top earners, Sirota says, who would do better under Bush. Families in the 96th to 99th percentiles (with an average income of $183,000 a year) get a $2,330 cut under Bush, and the top one percent (average income of $915,000) get their taxes slashed by more than $46,000 under the Bush plan.

"It's a travesty," says Sanders, "that the president would put forward a tax plan that provides a millionaire family with over $40,000 in tax relief while a family earning $40,000 will only get around $600."

The president's argument, of course, is that the rich deserve to get more benefit from the budget surplus because they contributed substantially more to it -- both in taxes and in their investments in, and leadership of, the economy. Sanders, an avowed socialist, sees it another way. "The factory workers, sales people and clerical workers contributed to the boom as surely as Bill Gates did," he says. "The rich already have benefited from the economic boom. My proposal would help those who have pretty much been bypassed by the boom."

There's more yet. The Sanders plan would be triggered only by an actual surplus and could expand or shrink depending on the size of the surplus. Says Sirota:

"The Bush people are saying he won't even consider a trigger. His rationale is that we can afford his big tax cut because of the projected surplus -- a projection based on the Congressional Budget Office's assumption of a 3 percent annual growth in the economy. We believe that's too rosy. [Federal Reserve Board Chairman] Alan Greenspan says we're at about a zero growth rate right now."

But at the same time Bush is saying that we can afford the cut because of the surplus produced by the economic boom, he's also saying to be on the lookout for a recession. Indeed the newest rationale for the tax cut (which he first proposed while the economy was doing well) is to prevent a recession.

It makes for a tricky argument. If the economy is in such trouble that we need a $1.6 trillion tax cut to forestall a recession, then how can he count on an economy-generated surplus as the source of the cut?

Bernie Sanders avoids the problem. If there's no surplus, there's no tax cut. But if Bush is right, and there is a surplus, then everybody gets a $300 tax cut.

The Vermonter (and former Brooklyn hippie) figures his plan would cost about $900 billion. "If the president thinks that's too little to stimulate the economy sufficiently, then he could take our plan and bump it up to his $1.6 trillion. That would give every man, woman and child almost $600."

In fact, though, the Sanders approach might prove more of an economic stimulus than the president's. Rich people might decide to salt their tax-break money into savings or splurge on European vacations. With poor people, the one certainty is that they'll spend the money and most likely close to home.

In the News on February 12, 2001

Bush Protects His Right Flank

Washington Post

Mindful that his father paid a substantial political price for antagonizing conservative constituencies, President Bush has moved aggressively during his first weeks in office to court the conservative base that delivered him the Republican nomination and helped elect him president.

Conservative leaders say they have not seen this much enthusiasm for a new president since the early days of Ronald Reagan’s first term in office. David Keene, chairman of the American Conservative Union, said this week’s Conservative Political Action Conference, an annual gathering of the conservative faithful, could be the largest since Reagan’s presidency.

Many conservatives initially were skeptical of Bush, Keene said, but today they see him as one of their own. "The way he campaigned and the way he’s performed since the election has created a fairly deep reservoir of goodwill among conservatives," Keene said.

Some of the enthusiasm on the right grows out of the fact that Bush drove the Democrats out of the White House. But Bush’s early actions have reinforced those positive sentiments.

Bush has systematically reached out to virtually every element of the conservative coalition: from antiabortion advocates to western property rights activists to anti-tax groups to evangelical Christians and conservative Roman Catholics to proponents of a robust national missile defense.

"This president has a very keen sense of who he is and what he believes and what’s important to him," said Kenneth L. Connor, president of the Family Research Council. "He’s daily giving evidence that at his core he is a conservative." White House officials, led by senior adviser Karl Rove, have continued the courtship of conservatives that began with the campaign. Rove and others have consulted regularly with conservative leaders about personnel appointments, and administration officials are regular attendees at the weekly strategy sessions of conservatives hosted by Grover Norquist of Americans for Tax Reform. Administration officials also have begun to tap into the conservative network to help with the grass-roots lobbying for Bush’s agenda.

The positive reaction among conservatives comes against the backdrop of a presidency that has made as top priorities outreach to congressional Democrats and lowering the temperature of political rhetoric in Washington – neither of which has been popular on the right in the recent past.

What conservatives see is a new president whose style emphasizes cooperation, but whose policies have not deviated from the generally conservative agenda he outlined during the campaign.

"When push comes to shove, he’s going to continue to make the tough judgments that are necessary to keep the base supporters happy," said Deal W. Hudson, publisher and editor of Crisis magazine and an adviser to the Bush team on reaching out to the Catholic community.

The president’s courtship of congressional Democrats has generated more headlines, but conservative activists say a series of actions shows Bush recognizes the importance of his conservative support.

"The policy is what matters," said Gary Bauer, the conservative activist who ran against Bush in the Republican primaries. "Nobody is going to begrudge watching a movie with Ted Kennedy as long as Ted Kennedy doesn’t start winning the policy battles."

Bush did not just roll back a Clinton administration policy that funded international family planning groups that provided abortion counseling – he did so on the first working day of his administration.

Bush not only maintained his commitment to a proposal to cut taxes $1.6 trillion over 10 years but also sent the outline of the plan to Congress as a complete package even after some GOP congressional leaders urged him to break it into pieces.

Bush not only unswervingly supported Attorney General John D. Ashcroft during bitter confirmation hearings but also has said since that he will not let the 42 Democratic votes against Ashcroft inhibit him in future judicial appointments.

"Look, my job is to fulfill campaign promises and be true to a philosophy. And I’ll be naming strict constructionists," Bush told reporters from several newspapers last week.

"I read all that stuff about how ’We’re sending Bush a signal.’ Well, they sent me a signal by spending tons of independent money against me in the course of the campaign, too. I got the signal – that they weren’t for me. But I will continue to put the best people forward."

Conservatives say the Bush Cabinet may be the most conservative since Reagan’s first term, and note that the new president has brought in others who show his commitment to conservative ideas. One of the most popular is John DiIulio, who was tapped to head the White House office overseeing the administration’s faith-based initiative.

"He is by no means a go-along, get-along kind of guy," said Marshall Wittmann of the Hudson Institute. "He’s very contrarian. That was viewed by the right as the boldest personnel move Bush has made, and they’re [conservatives] smitten by it."

Because of his early moves, Bush has considerable maneuvering room on the right as he looks ahead to potentially difficult negotiations on his agenda with congressional Democrats.

Already there are signs that conservatives trust this president far more than they did George Bush. In sending up his education proposals, the younger Bush signaled that he was ready to negotiate on school vouchers, long a conservative article of faith. Conservatives barely squawked.

"We’re committed to vouchers in education," Connor said. "I believe the president is. But I also think he’s a realist." Noting that voters in Michigan and California rejected voucher initiatives on the November ballot, he added: "I would agree that his considerable and positive education reforms should not be scuttled because one component may not have the same viability as others."

Similarly, conservatives bear no ill will toward Bush over his decision to cut loose one of their favorites, Linda Chavez, as his nominee to head the Labor Department. Instead, conservatives blame Chavez for failing to tell the administration all the facts about an undocumented immigrant who lived with her in the 1990s.

More than euphoria over Clinton’s departure has helped Bush with conservatives. The conservative movement itself has changed since Reagan, and particularly since the Newt Gingrich-led takeover of Congress in 1994.
Then conservatives talked about demolishing the welfare state in a matter of months. Chastened by defeats, they are more realistic in their expectations.

"Six years ago, it was talk about cutting and slashing," Wittmann said. "Now it’s building and reforming. . . . Rather than defunding the left, you hear funding the right. Bush has been the beneficiary of the new pragmatism of conservatism."

Norquist said conservatives recognize that even if Bush isn’t catering to them every day, he is steadily pushing forward their ideas.

"I don’t think any part of the conservative coalition has an expectation of what can happen in this town that is significantly out of sync with reality," Norquist said.

Ralph Reed, a political strategist and outside adviser to the Bush team, said grass-roots conservatives see no conflict between Bush’s conservative principles and his effort to reach across party lines and to constituencies that generally do not support the GOP.

"They hunger for a leader who is principled and inclusive," said Reed, former head of the Christian Coalition. "It’s early, but the preliminary indications are that his victory and early weeks have energized the grass roots unlike anything I’ve seen in recent memory. I can’t explain it – I can only tell you it’s happening."

Bush’s honeymoon with the right will face tests. Already there is grumbling among some conservatives in the national security community over his failure to request an immediate supplemental spending bill for the Pentagon.

Similarly, some conservative activists oppose his education plan because they believe it enlarges the federal government’s role. Some religious conservatives have questioned Bush’s initiative to fund faith-based groups that are dealing with social welfare problems.

Bush also could squander all the goodwill among conservatives by a misstep when the first Supreme Court vacancy occurs during his administration.

"That will be a make-or-break event," Bauer said.

For now, conservative activists appear willing to trust Bush's instincts as he tries to push his agenda through Congress. "I have a keen sense that right out of the box, a newly elected president understands the importance of maintaining his base," Connor said.

"That may be one of the values of the close election we've gone through. He understands he's got to preserve intact the base that brought him there. And he understands he's got to reach out and add to that base."

Defining the Post-Clinton Democrat in a Tax Cut

New York Times

WASHINGTON, Feb. 10 — After years of confidence that Bill Clinton had ended the Democratic Party's vulnerability on fiscal issues, Congressional Democrats are once again on the defensive and searching for a tax-cutting plan of their own that will maintain party unity in the face of President Bush's tax-cutting juggernaut.

With no president to speak for them, the two Democratic leaders, Senator Tom Daschle of South Dakota and Representative Richard A. Gephardt of Missouri, have been struggling to balance several imperatives held by their rank and file. Their conservative wing wants to maintain the party's mantle of fiscal discipline. Liberals hope to keep tax-cutting fever in check so that there will be more money to spend on education, health care and an expansive new Medicare prescription drug benefit.

Yet at the same time, Democrats over all are desperate not to go in to the next election branded as the party that opposed a tax cut. Retreating rapidly, Democrats are already saying that their counterproposal will cut taxes by $700 billion or $800 billion over 10 years, a large step toward Mr. Bush's own proposal for a $1.6 trillion tax cut over 10 years.

Even the party's liberal wing this week unveiled a plan to cut taxes by fully $900 billion over the next decade by giving every man, woman and child a $300 dividend each year regardless of income. Such an approach would be far less generous to the wealthy than Mr. Bush's proposal.

"It isn't every day that you hear a group of progressives pushing for tax cuts," Representative Jerrold Nadler, Democrat of New York, said wryly at the group's news conference this week.

While they write their plan, Democrats are looking at an array of other ideas, all intended to tilt their tax cuts heavily to low- and middle-income taxpayers. The measures include changing the lowest tax rate, which is 15 percent, or providing some kind of tax credit to offset Social Security payroll taxes.

They are also examining making tax cuts contingent on the size of the federal surplus.

The looming struggle on Capitol Hill will be one of the first tests of how Democrats will seek to define themselves in the post-Clinton era.

Though Democrats insist they are for large tax cuts, they also express reluctance to overturn the fiscal policies that produced federal surpluses where before there were big deficits. They consider this one of their proudest legacies.

Representative David R. Obey, Democrat of Wisconsin, told Mr. Bush in his recent visit to a House Democratic retreat that the federal deficits of the 1980's were erased because his own father, the former President George Bush, agreed to a tax increase in 1990, which may have helped cost him re-election, and because Mr. Clinton and Democrats enacted another tax increase in 1993, with no Republican support.

The next year the Democrats lost control of the House to the Republicans. "We paid a heavy price for it but it was the responsible thing to do," Mr. Obey said.

But many Democrats are ready to drop some of the political tactics of the Clinton years, like the reliance on narrowly targeted tax cuts for social needs, to counter more sweeping Republican tax cuts.

House Democrats in particular have been pointing to former Vice President Al Gore's inability in the presidential campaign to counter effectively Mr. Bush's ridicule of the Gore proposals for nearly $500 billion in targeted tax cuts as absurd social engineering.

They are arguing — to some opposition from some senators — that the party needs to back a tax cut that is simpler and more understandable and widely available.

"I think there is strong support for something broad," Mr. Gephardt said.

Democratic pollsters have found that issues like health care, education and prescription drugs are still more popular than tax cuts and that Democrats are better off if they do not critique the Bush tax cut in isolation but try to have a more overarching debate about policy choices.

"What's important for Democrats is that we have a tax debate that is part of a larger debate about budget priorities" said Geoffrey Garin, one of the pollsters. "The Bush administration is trying to rush this forward in a way that is divorced and abstracted from the rest of the budget. Our strategic imperative on the Democratic side is to bring the tax debate back to something that is more squarely argued in the context of the budget and budget priorities."

Partly for that reason, many Democrats are calling for a slow and thorough debate on tax cutting.

"We don't have a budget yet," said Senator Max Baucus of Montana, the senior Democrat on the Senate Finance Committee. "It makes no sense to pass tax cuts or lock in tax cuts without knowing what we are providing for other needs in America."

Party strategists, remembering how Hillary Rodham Clinton's quest for universal health care was initially popular before her plan was picked apart, also say that Mr. Bush's tax cut might become less popular over time if they can make the case that it tilts toward the wealthy and that its true cost could go as high as $2.3 trillion.

But a big question is whether the public will listen if Democrats do not have a single dominating figure to make their argument.

"The challenge for us is that without the White House and a very effective communicator as president we're going to have to work doubly hard to get our message out," said Representative Martin T. Meehan, Democrat of Massachusetts.

Another challenge for Democrats is to hold party ranks. Mr. Bush may be able to push his plan through the narrowly divided Congress simply by demanding Republican unity. But some moderate Republicans say they, too, believe his tax cut is too high, which means Mr. Bush may have to win over some Democrats.

One Democrat has already broken away. Senator Zell Miller of Georgia surprised his colleagues by becoming a co-sponsor of Mr. Bush's tax cut. But so far he is the only party member to bolt.

Indeed, Democrats took a great deal of solace this week when Vice President Dick Cheney met with a coalition of conservative Democrats, who call themselves the Blue Dogs, and failed to win any enthusiasm for Mr. Bush's tax cut.

"Our real concern is paying down the debt," said Representative Mike McIntyre, Democrat of North Carolina and a member of the faction.

That faction wants to devote half the non-Social Security surplus to debt reduction, a quarter to new spending and a quarter — $600 billion to $700 billion — to tax cutting.

Democratic leaders, looking for a middle ground appealing to all their members, appear to be leaning toward a plan to devote a third of the non-Social Security surplus to tax cuts in the $700 billion to $900 billion range, a third to new spending and a third to debt reduction.

The Democrats are still working on the composition of the tax cut from an array of ideas. Because many Americans pay more in Social Security payroll taxes than they do in income taxes, one idea under consideration is a tax credit for some of the payroll tax payments. Other Democrats want either to reduce the lowest tax rate, or else expand the tax bracket so that it covers more people who now fall into a higher bracket.

Centrist Democrats like Representative Ellen O. Tauscher of California and Senator Evan Bayh of Indiana want a tax cut that would be phased in and tied to the size of the federal surplus. If the surplus drops below a certain level at the end of the year, the next stage of the cut would be delayed.

"I embrace the president's call for a tax cut that will benefit every American because I believe in freedom," Mr. Bayh said in a speech this week as he became the chairman of the centrist Democratic Leadership Council. But he added: "Many of us do not want to go back to the days of deficits. We don't want to go back to the days of increasing the national debt upon the back of our children."

Is This the Right Medicine?
Newsweek

It may be back to the future for economics. Once upon a time, tax cuts commanded almost universal support among economists as the preferred tool for preventing recessions. When Congress passed the Kennedy-Johnson tax cuts in 1964, the enthusiasm was at its zenith.

EVER SINCE, fiscal policy (changes in taxes and spending) has gradually lost favor to monetary policy (changes in interest rates by the Federal Reserve). Now George W. Bush is assaulting the conventional wisdom.

When he unveiled his tax cut, the biggest selling point was the weakening economy. “We need tax relief now—in fact, we need tax relief yesterday,” he said. “The federal government is simply pulling too much money out of the private economy, and this is a drag on our growth.” No doubt about it, the economic slowdown has improved Bush’s prospects for merchandising his large tax cut. But Bush’s approach also creates new risks, and even if he succeeds in changing conventional wisdom, economics may make it harder for him to get the tax cut he wants.

The obvious risk is this: if the slowdown fades, so would the argument for a tax cut. Bush’s plan might fall prey to false promotion. Even now, the proposal has to overcome economists’ bias against tax cuts as an anti-recessionary weapon. Their skepticism mainly reflects the “clunky” nature of the political process, says Harvard economist Gregory Mankiw. By the time Congress acts, the recession may be over. In contrast, the Fed moves quickly.

Most economists still don’t anticipate a recession. They think the Fed’s interest-rate cuts will revive confidence and growth. (This year, the Fed funds rate has dropped a full percentage point to 5.5 percent; economists expect more cuts.) In the latest Blue Chip Economic Indicators newsletter—which follows 51 forecasts—the average prediction for economic growth in 2001 is 2.1 percent, down from 5 percent last year. Growth would recover to 3.5 percent in 2002.

Of course, forecasts can be wrong—and these may be. By and large, the sharp slowdown has surprised economists. In October, the Blue Chip economists pre- dicted growth of 3.5 percent for this year. Economists’ continued optimism presumes that the slowdown is a temporary inventory correction. Businesses overordered, and once surplus goods are sold, production and employment growth will increase. The harsher possibility—which strengthens the case for a tax cut—is that the economy is suffering the aftershock of an unsustainable boom.

Emboldened by high stock prices, consumers overborrowed and overspent, the argument goes. Businesses overinvested because venture capitalists and new stock offerings provided so much cheap capital. Together, consumer spending (68 percent of gross domestic product) and business investment (14 percent of GDP) constitute four fifths of the economy. If all this spending slows or drops, the economy is in trouble.

“If you argue that the consumption and investment booms are over,” says economist Bill Dudley of Goldman Sachs, “then the time for a contractionary fiscal policy is over.” This was Bush’s line last week. Expanding budget surpluses are sucking purchasing power from the economy. Lower interest rates alone may not spur recovery, if consumers think they’re overindebted and businesses face idle production capacity. Monetary policy must be aided by fiscal policy, which puts money in people’s pockets.

In effect, the theory is: it’s necessary to cut budget surpluses in order to save budget surpluses. After all, the surpluses—now estimated at $5.6 trillion from fiscal 2002 through 2011 by the Congressional Budget Office—are just paper projections. The projections assume healthy economic growth, and without it, the surpluses won’t materialize. To get growth requires sacrificing some surpluses. Ironically, the worse the economy looks now, the better the case for a tax cut.

But not automatically Bush’s tax cut. The plan sent to Congress was his campaign proposal. It aimed mainly to fulfill a political agenda—not serve as an economic stimulus. It promised to discipline government spending by depriving government of money to spend. It would cut “marginal” (i.e., top) rates—a step that, conservatives believe, promotes work and investment. It would help families by doubling the child tax credit to $1,000. It would help small-business owners by eliminating the estate tax. But a political statement now promoted as an economic stimulus invites criticism.

Some provisions (the estate tax, new charitable deductions) would hardly affect the economy. Similarly, the timing is bad. Most tax cuts are phased in so slowly that they wouldn’t much help the economy for a few years. For example, the full rate cuts and child-credit expansion wouldn’t become effective until 2006. In 2002, the tax cut would total only $21 billion, estimates the Congressional Joint Committee on Taxation. That’s not much in a $10 trillion economy. Bush now favors making tax cuts “retroactive” but hasn’t said what he means.

A bigger conflict involves income distribution. All along, the harshest attacks on Bush’s plan have cast it as a giveaway to the rich. For Bush, rolling back government means providing tax relief for those who pay taxes. It’s their money, as he says. Inevitably, this requires aiding upscale America, which pays the most taxes. In 2000, the wealthiest 10 percent of taxpayers—a group whose income begins at about $100,000—paid 66 percent of federal income taxes and 50 percent of all personal federal taxes (including payroll and excise taxes), estimates the Joint Committee. In that group, the wealthiest 1 percent—incomes generally above $300,000—paid 34 percent of income taxes and 19 percent of all taxes.

Bush's liberal critics have wanted to redistribute income. The slowdown is creating new grounds to concentrate tax breaks on low- and middle-income households. It's said that the tax cuts would do more as stimulus if they go to these households. Their debt burdens are higher, and they will spend more of what they get. By contrast, the rich would supposedly save more. One plan by independent Congressman Bernie Sanders of Vermont would give a $300 rebate to all Americans, regardless of whether they paid taxes. A family of four with $50,000 of income would get the same $1,200 as a family of four with a $500,000 income.

Whether this would provide more stimulus than Bush's proposal is unclear. It's widely believed among economists that richer households would save more of any tax windfall, but according to Harvard's Mankiw, what people do with extra income (so-called marginal income) is not well understood. Bush and his economic lieutenants will soon be fielding more questions like this. Having pitched their package as stimulus, they will have to convince Americans that what they've proposed will provide it. If they can't, Bush may get from Congress something much different than he sent up.

Politics Redirect Bush Tax Cut Rationale

Washington Post

This much is certain: President Bush wants a tax cut. Less constant, however, is his rationale.

Throughout the campaign, Bush made his $1.6 trillion, 10-year tax cut a matter of principle. "My opponent thinks the surplus is the government's money," he often said. "I believe the surplus is the people's money." Sometimes, he would add an economic argument. "It is an insurance policy against an economic slowdown or a recession," he would say.

Since the election, though, Bush has regularly voiced another justification. He calls his cut "an integral part of economic recovery," designed to lift the economy out of a slump.

The switch has more to do with politics than economics, political analysts and even a couple of Bush advisers say. In a Gallup/CNN/USA Today poll last month, respondents ranked "cutting federal income taxes" 13th out of 14 choices – but they ranked "keeping America prosperous" as their second-highest priority. Bush's original rationale – a desire for limited government – may have failed to impress the public, but his other justification has obvious potential, political analysts said.

"By switching to the economy, he takes it away from a debate about the role of government," said Geoff Garin, a Democratic pollster. "It takes it out of the ideological realm. It's totally to his advantage to have this framed without the context of choices in the budget." That, Garin said, is why Bush is eager to pass a tax cut quickly, before Democrats can link the cut to spending choices in the budget.

The recession rationale clearly has boosted the public mood for a tax cut. Although a Time-CNN poll released yesterday found that a tax cut still isn't the public's top priority, respondents supported it 49 percent to 36 percent.

Still, more sophisticated economic voices in Congress, not to mention Bush's own advisers, have doubts about this justification. Bush's top economic adviser, Lawrence B. Lindsey, argued in a 1999 book that after a tax cut, "the impact on the economy is generally slow to materialize." By that time, he wrote, "the recession may well be over." Lindsey and his deputy did not return phone calls seeking comment.

Similarly, Treasury Secretary Paul H. O'Neill, during his confirmation hearing last month, said he "would not make a huge case that this is the instrument to ensure that we don't go into a recession." O'Neill said he supported a tax cut in part "not because it's a major component to drive the economy, but because it won't hurt."

Some conservatives argue in favor of any rationale for a tax cut. They say that tax cuts, whenever they happen and whatever the reason, are good because they limit the reach of government. Bush appears to embrace that logic by suggesting that tax cuts are needed in good times to prevent a recession and in bad times to spur a recovery.

"You use every political argument you can make," said Stephen Moore, a fiscal policy expert with the Cato Institute. "I don't think there's anything disingenuous about it." Recent layoffs, coupled with a growing surplus, have changed the public mood, he said, and therefore the justification. "You see a surge in support for tax cuts in the last month. What's different? People are nervous."

Privately, Bush advisers acknowledge a political reason for making the economic argument. "I don't think you win on taxes with one argument," said a senior Bush official. Another Bush official predicted that, in the end, Bush's original tax cut argument about fairness will "carry the day" because it is more powerful.

Still, Bush and his aides continue to press the recession argument. On Jan. 25, Bush press secretary Ari Fleischer said remarks that day by Federal Reserve Chairman Alan Greenspan justified Bush's economic argument. "President Bush, throughout the campaign, when he announced his tax cut, said that this tax cut will also, in addition to other reasons, serve as an insurance policy against any future economic downturns," he said. "We're very heartened to see that Chairman Greenspan has weighed in on the importance of cutting taxes to protect the economy."

In fact, Greenspan argued for a tax cut not for cyclical economic reasons but because budget surpluses were causing the federal debt to be repaid too quickly. "Lately there has been much discussion of cutting taxes to confront the evident pronounced weakening in recent economic performance," he said. "Such tax initiatives, however, historically have proved difficult to implement in the time frame in which recessions have developed and ended."

One of the White House's solutions to the delayed effect of a tax cut is to suggest that the cut take effect retroactively. But, as Lindsey wrote in his book, delays in the adjustment of tax withholding would still slow the implementation.

Cato's Moore said it is possible for a tax cut to provide a short-term stimulus if Congress were to send an immediate signal to financial markets that a retroactive tax cut is going to pass. "There's a psychological impact," he said. Still, he added, Bush's cut is structured for the long term. "If the rationale for this is to fix the economy now, it doesn't make a lot of sense to phase in a tax cut," he said. "That discourages people from taking action now."

Sen. Charles E. Grassley (R-Iowa), chairman of the Finance Committee, also raised some doubts about Bush's economic logic. "If we do it earlier, I don't think we're really stimulating the economy," he told a reporter. "I think we're putting in place at an earlier time basic tax restructuring."

If such arguments have had an effect on the president, he has yet to show it. While appealing to fairness, Bush has continued in recent days to use the economic argument. "A warning light is flashing on the dashboard of our economy, and we just can't drive on and hope for the best," he said in the Rose Garden on Thursday. "Today I am sending to Congress my plan to provide relief to all income-tax taxpayers, which I believe will help jump-start the American economy."

Bush Is Aiming To Cut Spending

Washington Post

President Bush is preparing a budget that would require cuts affecting virtually every agency but the Defense and Education departments as he seeks an end to the rapid growth in government spending.

The cuts in spending from projected levels could total from $2 billion to $5 billion in the fiscal year that begins Oct. 1 and would affect agencies ranging from the departments of Interior, Energy, Justice and Housing and Urban Development to the Federal Aviation Administration, according to administration and GOP congressional sources.

Since Bush took office, the White House has focused on his tax cut proposal. But with the president planning to submit a budget outline to Congress on Feb. 28, the debate is quickly shifting to how to pay for a tax cut the administration estimates will cost $1.6 trillion over 10 years and still continue to pay down the national debt and satisfy competing demands for additional spending.

The budgetary tightening comes despite recent forecasts of record surpluses, and has forced many government agencies to radically dampen expectations about spending in the coming year. It has touched off internal wrangling over spending priorities that has become so intense that White House budget director Mitchell E. Daniels Jr. recently sent letters to the Department of Energy and other agencies reprimanding officials for complaining about the proposed cuts, the sources said.

"The projections of the vast surplus may have built up expectations more than they should have," said Bill Hoagland, Republican staff director of the Senate Budget Committee. "Obviously, this budget will lower those expectations."

Government spending would continue to grow in absolute terms under Bush's emerging budget plan, administration and congressional sources said. But the rate of growth would be far less than in recent years, when the Republican-controlled Congress and President Bill Clinton negotiated last-minute budget deals that frequently sent spending on education, the environment and other initiatives skyrocketing.

Under Bush's $1.9 trillion fiscal 2002 budget blueprint, overall spending on domestic programs other than Social

Security, Medicare and other entitlements would grow by 3 percent to 4 percent -- in contrast to the 12 percent increase approved last year.

Earlier this month, Daniels voiced alarm over the pace of government spending in recent years and signaled that Bush intends to slow the trend.

In an interview with the Associated Press yesterday, Daniels said Bush's budget will be "realistic but restrained" and will likely hold spending increases close to the inflation rate.

"There are some people in Washington for whom no budget would be big enough," Daniels said. "I hope they can get over it and realize we can meet an awful lot of needs."

Bush has indicated he will stick with the Clinton administration's planned Pentagon budget of $310 billion for the coming fiscal year, a $15 billion increase but far short of what he promised during the campaign and what many conservatives in Congress were hoping for. The president has put off a decision on whether to seek additional spending for readiness and weapons systems until Defense Secretary Donald H. Rumsfeld completes a strategic review.

The Department of Education is expected to receive a significant budget increase, with much of the money to be used to implement Bush's pledge to reshape the federal role in education. Bush's plan calls for states to receive more funding to conduct annual reading and math tests for students in grades three through eight.

The Justice Department has been asked to identify $1 billion in cuts in its budget, which had grown the fastest of any agency under Clinton. But Bush administration officials said yesterday that the planned "net reduction" in the $21 billion Justice budget could be closer to $500 million if offsetting funds from other sources become available. Attorney General John D. Ashcroft has countered by proposing a modest increase in overall Justice spending and a sharp increase in the prisons budget, the sources said.

Under the Bush outline, the Federal Aviation Administration's budget would be cut by $568 million -- $200 million from operations and $368 million from capital projects such as airport improvements, sources said. They said this is part of the overall cutback, and that the administration did not even ask what the possible effect might be.

The proposed FAA reduction has ignited an industry-wide lobbying campaign, although there is a general assumption that Congress will restore the money. Much of the spending reduction would eliminate airport projects in the districts of influential House and Senate members.

The Interior Department and the Environmental Protection Agency would face modest spending reductions in Bush's budget, after benefiting from steady increases in recent years. Last year, Congress approved a $1.7 billion increase in Interior spending, for Clinton's land acquisition initiative and for the Bureau of Reclamation.

The Department of Health and Human Services has been instructed to keep its spending request to no more than 6 percent above its current budget, significantly less than the 9 percent increase proposed by Clinton last year.

"Clearly, the focus has been on making sure that it's an efficiently run agency, making sure we are not duplicating services," said an administration official familiar with HHS. "There have been orders to take a hard look at what is going on."

Nevertheless, with both Bush and HHS Secretary Tommy G. Thompson having stressed the importance of research, the administration is likely to propose substantially more money for the National Institutes of Health. HHS is still negotiating the size of NIH's budget.

In addition, the administration official said, the agency will need additional funding for several initiatives Bush proposed during his campaign that fall within HHS's jurisdiction. They include a plan to give states $12 billion in each of the next four years to help older Americans afford prescription drugs.

NASA would receive $14 billion, slightly more than it did last year and enough to fully fund all its programs, sources said.

Hinchey still fighting for pension-reform legislation

Business Editor
Binghamton Press and Sun Bulletin

In vigorously fighting a change in their pension distribution formula, IBM Corp. workers may have unknowingly helped save the pension benefits of thousands of other workers across the country.

That's the estimation of U.S. Rep. Maurice D. Hinchey, D-N.Y., who supported thousands of IBM workers in publicly chastising the computer giant in 1999 for making wholesale changes in the pension plan, changes that workers said cheated them out of hard-earned pension benefits.

"IBM employees not only helped themselves but also helped untold others," Hinchey said this week. The wave of companies switching from defined benefit plans to cash-balance pensions has ebbed, and Hinchey said that may be a direct result of the very public, and uncharacteristic revolt by IBM workers.

In switching from a traditional pension plan, in which workers earn most of their retirement benefits toward the end of their careers, to a cash-balance plan, where workers accrue benefits over the length of years, IBM drew the ire of their long-time employees who said the change would cost them tens of thousands of dollars in pension benefits, in some cases.

IBM eventually reversed its decision and allowed those with more than 10 years of service in mid-1999 and who were more than 40 years old retain their old pension plan.

"IBM's behavior was better than most," Hinchey said.

Nevertheless, Hinchey and his Democratic colleagues want to close off the avenue that allows companies to change their pension plans without giving employees a choice in the matter.

Legislation that arrived on the floor of the House of Representatives last year was watered down, Hinchey said. It only required that companies provide extensive explanations of how the pension plan changes specifically affect each of those affected.

Cash balances are being challenged across the country right now," said Lee Conrad of Alliance IBM, an Endicott group trying to organize a union at IBM. "We're hoping for Congress to do something."

Eighteen months after Hinchey started lobbying for dramatic changes in pension regulations he and his cohorts have little for their efforts. Attempts to pass a pension reform bill failed in the 106th Congress, and prospects for similar legislation this term are dim.

"I can't honestly be optimistic," Hinchey said, given a Republican controlled Congress and a George W. Bush administration.

Still, he said he'll battle on with others to prevent the IBM scenario from repeating itself at other corporations.

"IBM was not the first to do this," he said.

Of more immediate concern to current IBM retirees is new, and higher fees for retiree health care coverage. Hinchey said he is joining with U.S. Rep. John F. Tierney, D-Mass., in introducing a bill that would prevent companies from curtailing health benefits after retirement.

Hinchey said he has received several letters and phone calls from IBM retirees who are irked by their former company's move to have retirees kick in for health benefits.

The Tierney bill "would attempt to safeguard people who have retired from having their benefits cut back or eliminated," Hinchey said.

"This would essentially prevent post-retirement changes."

On the Editorial Pages on February 12, 2001

Class Warfare is Over: The Richest Won

by Mark Shields
Seattle Post Intelligencer

Now that President Bush's tax bill has been sent to Congress, two conclusions can be fairly drawn: 1) Bush is desperately seeking to close the widening and socially dangerous gap between the Rich and the Super-Rich; 2) class warfare is now over -- the richest won.

Now that President Bush's tax bill has been sent to Congress, at least two conclusions can be fairly drawn:

1) Bush is desperately seeking to close the widening and socially dangerous gap between the Rich and the Super-Rich;

2) class warfare is now over -- the richest won.

Don't take my word for it. Listen to Leon Panetta, the son of Italian immigrants who became a U.S. Army captain, a truly respected California congressman, director of the Federal Budget and White House chief of staff. For the 35 years I have known Panetta, I have never heard anyone, even in the backbiting precincts of Washington politics, question the man's integrity, independence or courage.

Recalling President Reagan's 1981 tax cut and the uninterrupted federal budget deficits that followed it, and the countless budget summits, spending caps and freezes after that, Leon Panetta is blunt:

"It took us 20 years to dig ourselves and our nation out of the hole we dug in 1981. ... The American people have a profound sense of fairness; the Bush tax cut constitutes a windfall for the best off. ... Fiscal responsibility will be a casualty. This thing (tax bill) is going to escalate with every interest making sure its own special tax break is included. They all know there is no way even if it doubles in size to $3 trillion that Bush will ever veto his signature tax bill." Panetta is not an infallible prophet. But he was right in 1993 when he helped President Clinton -- in an ultimately successful effort to stem the hemorrhage of budget red ink -- to raise income tax rates on the richest 1.2 percent of Americans.

Wrong in 1993 -- and now backing Bush's 2001 tax cut -- was The Wall Street Journal editorial page, which declared: "This administration gave up on deficit reduction even before it started. Its 'plan' consists almost entirely of tax hikes. It would certainly be an upset of historic proportions if higher taxes actually led to lower deficits" -- exactly what the Panetta-backed plan did lead to.

William F. Buckley's National Review waved the custom-made shirt of class warfare in 1993: "The income tax rate hike aimed at the nation's most productive citizens will damage investment, reduce national savings, slow business and job creation and most importantly, fail to add a penny of revenue to the federal treasury."

The Journal echoed this defense of the Deserving Rich: The Democratic plan was "designed to punish success" through "this witch's brew of taxes and mandates, (which is) poison for the economy."

Wrong. Federal income tax revenues accelerated up 40 percent in the first four years after 1993. But what about that overtaxed top 1 percent?

According to an analysis of IRS data done by the Center on Budget and Policy Priorities, in 1992 "the average after-tax income of the 1 percent of tax filers with the highest income" was $398,000. By 1997 (the last year for which full data is available) and long after the punitive increased tax burdens was placed on them, the top 1 percent of tax filers had an average after-tax income of $518,000. That amounts to an average income increase for the richest 1 percent of 30.1 percent.

During that same period, the average after-tax income for the bottom 90 percent of tax filers rose a modest 3.6 percent. So to whose aid does the new Bush tax plan come? That "persecuted" 1 percent who would receive $39,000 each and approximately 40 percent of the overall tax cut. According to a U.S. Treasury Department study, the top 1 percent of the population under existing law pays 20 percent of all federal taxes. It doesn't take the master of a Palm Pilot to figure out the top 1 percent would be getting back, in the Bush cut, about twice the portion of the federal taxes they pay. Panetta, who has been through the frenzied bidding war of a big tax cut before and who has nursed the fiscal wounds inflicted upon the nation, fears the fiscal discipline will be the very first casualty.

Just maybe Bush will find time to explain to that single mom of whom he speaks -- the one who earns $22,000 a year and has two children -- just why the U.S. government cannot assure that her kids will learn in a safe, clean and superior school or why their grandmother cannot get her prescription filled because we need the money to give a tax break to a billionaire.

February 11, 2001

Slicing the Salami

By Paul Krugman
The New York Times

The selling of George W. Bush's tax cut relies heavily on salami tactics — slicing away opposition a bit at a time. To understand how fundamentally misleading that sales pitch is, we must look at the whole salami.

Basically, there are three federal taxes on individuals. The payroll tax, which is levied at a flat rate of 15.3 percent of income up to a maximum of almost $70,000, is the main tax paid by about four out of five families. The income tax is less than 10 percent of income for most families, but it rises to around 30 percent of the income of million-dollar earners. And the inheritance tax, which applies only to estates of more than $675,000 (twice that for couples), is a tax on only the very well off: a mere 2 percent of estates pay any tax, and most of the tax is paid by a few thousand multimillion-dollar estates each year.

Now for the salami tactics.

Conservatives who decry the burden of taxes always include the payroll tax in their calculations. And when arguing for tax cuts, the administration starts with numbers that include the whole salami. Again and again we hear about that projected surplus of $5.6 trillion. You shouldn't believe that projection, but for what it's worth more than half of it (the more credible half) comes from Social Security and Medicare — programs financed by payroll taxes.

When it comes to tax cuts, however, Mr. Bush's people ignore the payroll tax — that is, they propose no cut in the tax that is most of what most families pay, while demanding a large cut in the income tax, which falls mainly on the affluent. And they want to eliminate the inheritance tax, which is overwhelmingly a tax on the downright wealthy.

By proposing to eliminate a tax that falls entirely on the rich, to cut a tax that falls mainly on the well off, but to ignore the main tax paid by most people, the administration has made a deliberate decision to tilt tax relief strongly toward the top of the scale. Families earning $50,000 per year would on average get a tax break of about $800 annually; families earning $1 million would get about $50,000. Yes, well-off families currently pay a higher share of their income in taxes — but not that much higher. And no, it's not "class warfare" to point out that the tax cut disproportionately benefits the very, very affluent.

Now you could try to justify tax cuts tilted toward the top by claiming that a rising tide lifts all boats, and that cutting taxes on the rich will make the economy grow faster. But that is not the case that the administration is making — perhaps because given the extraordinary boom of the Clinton years, it's hard to claim that excessive taxes have been a drag on economic growth.

Instead, the administration pretends that it is offering broad tax relief for working families. Last week Treasury Secretary Paul O'Neill declared that the plan "would focus on helping those people who are close to the low-income and middle-income brackets," adding that "it would affect every American that currently pays taxes." This statement isn't technically a lie: "close to" need not actually mean "in," and "affect" need not mean that a family's taxes are actually reduced. But one has to say that Mr. O'Neill, whom the press has portrayed as a straight talker, is learning his new trade very quickly.

The pretense that this is a populist tax cut is aided by careful slicing of that salami. The Bush people love to point out that families in the lower brackets will see a greater proportional reduction in their income taxes than those in the top bracket; they hope you won't notice that the main burden on such families is not the income tax but the payroll tax, which will not be cut, and that the children of the wealthy will receive large additional tax relief from the elimination of the inheritance tax.

Those staged events with "tax families" slice the salami even thinner, carefully avoiding any reference to the major beneficiaries. The only high-income taxpayer, and the only likely inheritor of a taxable estate, ever mentioned at these events is Mr. Bush himself.

Otto von Bismarck is supposed to have declared that "people will sleep better not knowing how their sausage and politics are made." Mr. Bush no doubt agrees; he hopes that the American people won't look too closely either at the composition of the tax salami or at how he proposes to slice it.

The Best Possible Investment in Africa

By Jeffrey Sachs
New York Times

CAMBRIDGE, Mass. -- Africa, with tens of millions of lives at stake, needs around $5 billion to $10 billion a year from the rich countries in the next decade to battle AIDS. This may sound like a huge amount, but it is a remarkable bargain. Not only is it tiny compared with the great annual income of the well-off nations, but spending it could save the rich countries greater costs down the road: in response to military upheavals, humanitarian disasters and the worldwide spread of infectious diseases given a new foothold by AIDS. Secretary of State Colin Powell wisely said this week that Africa's AIDS epidemic is a national security issue for the United States.

Aside from these concerns, compassion alone would be reason enough to act: to turn our back on Africa over this small sum would constitute one of the greatest moral failings in history. But even in economic terms, this task should not frighten us.

When medical interventions in the United States are judged for their "cost-effectiveness," the usual standard is to accept a technology if it saves American lives at a cost of $50,000 to $100,000 a person each year. Europeans, for their part, have just decided to spend around $5 billion this year to fight mad cow disease, which has claimed around 80 lives. About 17 million Africans have already died of AIDS, and the millions more who are sick could be saved with drugs costing just $500 a year to produce. One maker of generic drugs, Cipla of India, said Tuesday it would provide the drugs to Africa at $350 to $600 a year.

It is shocking that people could die in the prime of their lives, leaving grieving and destitute spouses and orphans, for lack of this small sum, but Africans are desperately poor, with average annual incomes often less than $500. Even though the drugs now available to treat AIDS could keep wage earners in the labor force and parents raising their children, neither African households nor African governments can afford them. That is where the rich countries must come in, to purchase the drugs at low cost and to help ensure that they will be used effectively when distributed in Africa — especially to avoid the spread of viral strains resistant to the drugs.

Until very recently, the American and European pharmaceutical companies that hold the patents on the AIDS drugs were asking $10,000 or more for one person's annual supply, but now they are ready to provide them to Africans at little more than cost, meeting the competition of generics producers as long as the patent rights are respected — a very reasonable position.

Fighting the AIDS epidemic requires a comprehensive strategy: prevention of new infections by means like promoting the use of condoms; treatment of people infected with H.I.V., the virus that causes AIDS; and community support, like care for orphans and help for people coping with AIDS in their families. Prevention and community support would probably cost around $3 billion a year, according to recent United Nations estimates. Many African leaders have committed themselves to dramatic programs of prevention. But 25 million Africans already have H.I.V., and millions more are sure to contract it before the epidemic is finally brought under control.

Between $2 billion and $7 billion a year would go for actual treatment — of both AIDS itself and the opportunistic infections that accompany it, like tuberculosis and fungal infections. The amount would grow from the lower end to the higher as more people were brought into treatment, assuming that the treatment programs indeed proved to be effective.

A realistic policy would go beyond fighting AIDS, committing to another $5 billion to $10 billion a year to a full-fledged fight on malaria, tuberculosis and other killer diseases that help keep Africa trapped in poverty. The rich countries could finance both this and the AIDS program — at between $10 billion and $20 billion a year — without breaking a sweat. Even the highest cost would be less than a penny for every $10 of their combined gross national products, which will be around $25 trillion this year.

The financing for this program could be gathered from many sources: rich countries' national budgets, debt cancellation for African countries, grants from private organizations like the Gates Foundation and Rotary International and from the World Bank. A likely American government share — say, $3 billion or so annually in the next few years — would represent about $10 a year for each of us — the cost of a movie ticket with popcorn.

Saving millions of African lives in the coming decade would have practical returns for the United States, sparing huge later costs. But the real returns would be to our own moral worth. The richest, most technologically advanced country in world history cannot turn its back on millions of suffering people when it could so readily help them.

The New Economy's Darkside

Washington Post

THE ECONOMIC slowdown has only just started, and already dramatic job cuts are in the headlines. DaimlerChrysler has announced plans to slash 26,000 jobs in North America, fully a fifth of the Chrysler unit's work force while J. C. Penney is axing more than 5,000, and Motorola is cutting 2,500. By one count, layoffs in January came to 200,000, up from 45,000 in November; during the last recession in 1990-91, layoffs didn't jump like that until a year into the cycle. Last time around, for example, General Motors waited until it was submerged in red ink before resorting to big layoffs. But last December, at the first sign of slower business, GM announced it would cut 15,000 workers -- and never mind that it was just completing its second-most profitable year.

The current haste to fire workers may provoke anger about the structural changes in the "new economy." Information technology has made it easier for firms to anticipate falling demand for their products by cutting workers, leading some commentators to celebrate "just-in-time employment" -- as though it's fine to treat employees like car components or other inventory. Technology has also boosted the trend toward subcontracting, whereby big companies ax payrolls in favor of outsiders to whom they have no long-term obligations. Meanwhile stock options have led bosses to focus ever more ruthlessly on boosting profits and hence share prices.

Some of this anger is natural, especially when the pain of layoffs appears to be distributed unfairly. It seems a bit much, for example, that Juergen Schrempp has presided over the disastrous DaimlerChrysler merger but is not among the thousands at the firm who now face unemployment. Yet it has to be admitted that, most of the time, America's ruthless brand of capitalism is good for the country. Last month the economy generated 268,000 new jobs, more than the number of layoffs. Unemployment is inching upward, but it remains under half the rate of the countries in the euro zone. If GM ends up cutting fewer people because it cut them early, it will have made the right call.

Is there a useful policy response to this mixed picture? It would be folly to rein in the technology that drives the new economy; and the merciless discipline of financial markets spurs the innovation that spreads prosperity in the long run. But the harsher these competitive forces, the stronger the argument for spending some of the new bounty on humane government policies to help those who lose out in the new economy. In some states, for example, eligibility for unemployment insurance is narrowly restricted; others have reformed their welfare systems in ways that may prevent laid-off workers from returning to the rolls. By one estimate, half the workers formerly on welfare may find themselves with no benefits whatever if they lose their jobs in this downturn. That is no way to treat people thrown into poverty through no fault of their own.