

## A Turning of the Tide?

### Part 2: Domestic Affairs

By William R. Polk

In the previous article, I considered the foreign affairs aspects of the fortunes of the Bush administration as it moves towards the elections of 2004. Here, I will consider the domestic monetary and employment aspects of its programs and public reactions to them.

The first striking aspect of the Administration is that domestic affairs are handled by a different group of people. The Neoconservatives who have played such a dominant role in foreign affairs have had little influence on domestic policy. So who are the key players in domestic affairs? As I have read the press over the past two years, I come up with the following answers:

President George W. Bush is by no means the simpleton he is portrayed in the cartoons that have circulated by email. That impression, I think, has been generated by his relative ignorance of foreign affairs and by his lamentable command of English grammar and syntax. But, I find the record to show that he knows what he wants his administration to accomplish in domestic affairs and has at least a general idea on how to do it. The parallels he has drawn by his actions with the administration of his father are, I find, less striking than those with the Reagan administration.<sup>1</sup>

Around the president are three influential and somewhat overlapping groups. Possibly closest to him is the small band headed by his political “minder,” Karl Rove. Rove is careful to keep in the background, but there is little doubt that his is the voice that Bush listens to most closely. Rove is a new kind of political actor on the American scene.

I have discussed him and “the new politics” elsewhere. He is a master of “black” politics as he showed when he helped Bush get elected as the governor of Texas; he has a proven record as a powerful, ruthless and successful manipulator of the new politics. In his book, anything that wins is worthwhile. Many examples could be brought forward from his circulating the rumor that former Texas Governor Ann Richardson was a lesbian to the use of states attorneys general to solicit campaign funds from firms facing indictment or regulation by their state governments.<sup>ii</sup> While Bush has not, to my knowledge, said this in so many words, I believe his assessment is that his political viability depends ultimately on Rove. It would be hard to overestimate Rove’s influence.

The second group is composed of current and former business leaders. Within the government, they are represented and to some extent orchestrated by Vice President Dick Cheney and Secretary of Defense Donald Rumsfeld. Like the Neoconservatives they are linked in a variety of formal and informal memberships on boards of directors, clubs and associations as well as residence and leisure activities and shared outlook on domestic and world affairs. The president obviously considers himself most “at home” with this group, and, of course, he depends upon them for the vast intake of money that Rove tells him will secure the next election.

The third group is somewhat more amorphous. Composed of evangelical or “born again” Christians, it is centered in the Southern Baptist Convention. After his own religious awakening, Bush apparently sincerely and certainly determinedly has identified himself, both as governor of Texas and as president, with the positions taken by this group. With a membership estimated at approximately 50 million, it gives him a voting bloc unmatched in American politics.

So what do Mr. Bush and his close supporters aim to achieve. The sum of the administration's proposals and actions suggests that they aim to dismantle what government had become in America since about 1932; that is, he wanted to "privatize" as many as possible of the functions Americans had come to expect government to perform.

Underlying this thrust of the administration, I think, are two concepts: the first, an echo of the 1950s, is that America has suffered from what has been called by others "creeping socialism" in which citizens no longer, like our ancestors, take upon themselves complete responsibility for their health, their housing, their food – going out to plow their fields, chop down their fire wood and join with neighbors to raise the roof beam. This is a vision of America that greatly appealed to Thomas Jefferson who believed that our democracy would be safest in the hands of a yeoman society. In the time of Andrew Jackson and James K. Polk, "the Democracy," as they referred to the Democratic Party, stoutly opposed even what they called "domestic improvements." That is, they did not want government to build roads, dams, bridges or other infrastructure; further, they certainly did not want government to intervene in the economy to defend nascent American industry by tariffs. James K. Polk bowed to pressure from industrialists (so he could carry Pennsylvania) by agreeing, in the one campaign speech he made, to a limited tariff but only on the justification that it would raise the small amount of money required to pay for the rudimentary government. With some adjustments, the Jefferson-Jackson-Polk policies were followed by both Republicans and Democrats for almost a century.

The second concept has been debated openly and vociferously since economists John Maynard Keynes and Friedrich von Hayek first set the terms for the argument.

Ironically, it turns out that they agreed more than their followers thought: they both wanted to rely primarily on private initiative in “normal” times. It was what to do about “abnormal” problems that divided them. Keynes urged that in times of stagnation, government should intervene to make money flow by creating jobs and that government had a role in stabilizing the violent swings to which he and the classical economists thought capitalism was inherently susceptible. Hayek deprecated the role of government and urged a more “muscular” form of capitalism. He was the godfather of the economist Professor Milton Friedman and the “Chicago school.”

Inspired by Milton Friedman, Ronald Reagan and the men who promulgated the “Reaganomics” that influenced George W. Bush, believed in what has been termed “trickle down” economics. The basic notion is simply that there are people who work harder than others and therefore make the economy turn over. To simplify their argument, it is that giving the rich and successful a dollar produces benefits that trickle all the way, or nearly all the way, down the society whereas giving a dollar to the poor produces little benefit even to them.

This gives a pragmatic, economic justification for the ideological, political thrust of the Bush administration. The rich deserve support for the role that only they can play. Alexander Hamilton, Jefferson’s great adversary, would generally have agreed. The ways now available to government to reward them are of course more complex than Hamilton could have imagined. They are two seemingly opposite uses of government: on the one hand, the rich should be relieved of as much of the burden of taxes as possible – indeed, more than the amount possible, in the view of critics – and, on the other, government

outlays (for “domestic improvements”, military programs and overseas opportunities such as the Iraq war has created) should go to them.

Thus it was that the Bush administration pushed a variety of special interest programs, some within hours of arriving in control of the government.<sup>iii</sup> A major move was made in December 2001 when the White House proposed to Congress a \$2.4 billion package of tax breaks, credits and other help for Enron, Texaco, Chevron and General Electric.<sup>iv</sup> This was, in part of course, a political payoff, but it also fit into the administration’s conception of what was right and what would work. That move was followed by the two major tax cuts (\$1.3 trillion in 2001 and the second, originally requested at \$726, and finally approved at \$350 billion) with a third now being contemplated. Then came a huge increase (about 50%) in the Pentagon budget which benefits what President Eisenhower called the “military-industrial complex.”<sup>v</sup> Most recently, Iraq has become a “pork barrel” of vast reconstruction programs which have been awarded to “Friends of Bush,” the major contractors.<sup>vi</sup> Far less publicized have been a large number of programs designed to favor businesses or to remove from them environmental or other restrictions that, they argued, have diminished their profits or hampered their work.

No fiscal considerations have been allowed to thwart or modify this fundamental predilection. The 2003 budget is expected to be \$450 billion in deficit or 50% higher than predicted less than half a year ago. Private sector economists predict a deficit rise in 2004 to as much as \$500 billion. Even these vast figures have been kept artificially low by spending trust funds such as Social Security. The actual budget deficit will probably be well over \$200 billion more. Since the Bush administration took office, the fiscal “reversal” is already at least \$680 billion, down from the Clinton administration’s surplus of \$236 billion.<sup>vii</sup> Put another way, when the Bush administration took office, former

(Nixon administration) Commerce Secretary Peter Peterson projected a 10-year budget surplus of \$5.6 trillion or enough to pre-finance the Social Security program; that surplus has turned into a deficit of at least \$4 trillion.<sup>viii</sup> *The New York Times* editorialized that it was a “suicide pact” between the White House and Congress<sup>ix</sup> while Federal Reserve Board Chairman Alan Greenspan warned that deficits would “undercut the growth of the economy...[making] it more difficult for us to...bring total employment up and bring the unemployment rate down...”

Like Reagan so Bush is apparently unconcerned with what, for decades, Republicans have chastised Democrats, fiscal irresponsibility. He argues that deficits are not important and that sooner or later they will be overcome as the economy picks up steam. Whether or not this happens over the long run, short-term issues have to be addressed.

The most obvious and pressing short-term issue is the categorical imperative of getting reelected. So, while the President has emphasized his determination to diminish government’s role, for example, by announcing plans to privatize half of the federal work force by turning over more than 800,000 jobs to private contractors, he also had to deal with the drastic decline in private sector jobs, a fall of over 3 million since he took office. He did this by actually adding over half a million new positions in government agencies, thus reducing the net decline to approximately 2.5 million jobs. The Administration’s Council of Economic Advisers project a growth of 1.4 million jobs in the 18 months before the election; that is held to be highly unlikely independent observers. Moreover, critics point out that, even if this growth is achieved, it is far less than the 2 million jobs that have been added every 18 months for nearly a century.<sup>x</sup>

Take this as the background. So what is the public reaction?

Surprisingly, until a few months ago, almost no complaints were heard from the average citizen about the decline in the number of unemployed, the distribution of job loss (industrial workers,<sup>xi</sup> minorities<sup>xii</sup> and young people<sup>xiii</sup> were the first seriously affected) or about the selective impact of favoritism in the legislation -- reduction of taxes on capital gains and elimination of taxes on dividends were hardly crowd gatherers, but the polls suggest that they were supported by far more Americans (about 58%) than would benefit. Few apparently noticed that the distribution of cuts was skewed to favor the very rich. It has been estimated that the top three officers of the Fortune 100 companies will each get an average windfall of \$400,000 while, according to the U.S. Internal Revenue Service, 70% of American taxpayers would get no benefit at all.<sup>xiv</sup> Economist Joseph Stiglitz commented on the Administration's "sheer brazenness" which, he suggested, was based on the assumption that "the average American would not be able to understand statistics."<sup>xv</sup>

White House officials offered a different interpretation: "We are not a society which is driven by a sense of class warfare" and so, do not expect a backlash against the provisions of the tax bills."<sup>xvi</sup> Judging by the media, they were right. As Ernest F. Hollings pointed out,<sup>xvii</sup> "The London-based *Financial Times*, in a front-page story, recently reported the Treasury Department projection that at the present rate, fixing the deficit would require 'the equivalent of an immediate and permanent 66 percent across-the-board income tax increase.' The White House deep-sixed the Treasury study. *The [Washington] Post* ignored it."

This attitude is what now seems to be changing. Straws in the wind are evident not so much among the poor, who are accustomed to hard times, as among the more highly paid industrial workers, the middle class and responsible officials in state and local government. The press has begun to pick up personal accounts.<sup>xviii</sup> Let me give mine. During a lecture trip to Cleveland, Ohio recently, I had two drivers taking me to and from airports: one had been the chief of sales and other, a senior executive in companies, earning, they said, between \$100,000 and \$250,000. As their companies “downsized” or went bankrupt, each man searched for about a year for a comparable job and finally took what he could get with about a 70% loss of income. I asked about mortgages on houses, etc. Both said they felt lucky because they had been modest in “life before the fall,” but they then reported numerous conversations with friends who were “up against the wall.” Their experience, the descent into relative poverty and the sense of lessening opportunities for the good life, appears to be spreading among hard-working, skilled and successful professional people.

A recent CBS TV program vividly illustrated the change: it showed “a line of cars, stretching out of sight down a flat two-lane road in Logan, Ohio – jobless and struggling families waiting for the twice-a-month distribution of free food by the local office of America’s Second Harvest. The head of the agency said, ‘We are seeing a new phenomenon: Last year’s food bank donors are now this year’s food bank clients.’”<sup>xix</sup>

In public health, an estimated 75 million Americans, 1 in 3 under 65 years of age, were without health insurance at some point during the last two years.<sup>xx</sup>

What is happening in local and state jurisdictions has been evident for some time to the officials who must either raise taxes or cut services. They are not allowed to

accumulate deficits but most of their voters will not allow them to raise taxes, their revenues have fallen, some by as much as 20%, and the federal government has drastically cut back on the aid it has been giving them. Consequently, they have cut aid to local jurisdictions by as much as 40%. The magnitude of the problem has only recently and suddenly come home to their constituencies. As Paul Krugman commented,<sup>xxi</sup> “Until recently it has been hard to get people excited about the states’ worst fiscal crisis since the Great Depression. For about two years state governments were able to use fancy financial footwork to put off the full effects, and the public probably regarded warnings about looming catastrophe as exaggerated.”

Now there can no longer be any doubt: public services at the state and local level are under great fiscal pressure. Over all, state deficits are approaching \$100 billion. As Washington state governor Gary Locke, facing a \$2.5 billion budget deficit, said on January 28, 2003, “We’re being forced to cut vital services, from police to fire to health care.” In Oregon, 84 school districts closed their schools ahead of schedule – some by as much as a month – because the money ran out. New York is closing firehouses and cutting garbage removal.<sup>xxii</sup> . Police forces have been cut back’ and some jurisdictions are even letting criminals out of jail because they cannot afford to maintain them

Thomas L. Friedman caught a swing in the public mood when he suggested that Democrats should stop talking about “Bush’s tax cuts” and “substitute the word ‘services’ for the word ‘taxes’ every time they hear Bush speak.”<sup>xxiii</sup>

It is here, mainly on the quality of life, that the “shoe pinches.” To make a composite of what I heard in New York, Tennessee and Ohio and get from the press and public opinion polls, I imagine that a growing number of people are beginning to see a

pattern that disturbs them. It might run something like this: ‘the fellow next door has lost his job and may lose his house; I wonder if my job and my pension are secure; I admit it does bother me that some people seem to get all the benefits in these tax breaks; scandals seem to crop up every day, Enron, Tyco and the like; I hear that the top 100 companies on the NASDAQ overstated actual audited profits in 2001 by \$100 billion; I don’t trust them with my savings and sure wouldn’t with my pension; now I learn that the upper reaches of the federal government are accused of lying about events that got 200 young Americans killed in Iraq; and we seem to be getting bogged down in Iraqi quicksand. Where does it all lead? What does all this mean for my life?’<sup>xxiv</sup>

Thus, it is possible that the tide may be turning against Mr. Bush, but with a vast treasury to buy television time, by employing the sharpest of the public relations people and their techniques, by wrapping himself in the flag, being absolutely determined to win as he was in Texas and Florida and, most of all, by being an incumbent, I think he has a very good chance to weather this storm unless two things happen: the first is a widening perception of the possibility of a great depression and the second is an increase to something approaching Vietnam levels of casualties in overseas adventures.

There is a good chance that in the months to come we will learn to appreciate the effects of the Chinese curse, “may you live in interesting times.”

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<sup>i</sup> James Harding and Alan Beattie, “As the budget deficit rises, Bush gives a tax-cut tribute to Reagan,” *The Financial Times*, February 8-9, 2003.

<sup>ii</sup> R. Jeffrey Smith and Tania Branigan, “GOP Attorneys General asked for Corporate Contributions,” *The Washington Post*, July 17, 2003.

<sup>iii</sup> It immediately rescinded the Clinton administrations on a variety of environmental protection measures, opening national forests to increased logging and oil exploration. “Taking aim at forests,” *The New York Times*, June 14-15, 2002.

<sup>iv</sup> Friends of the Earth: “Bush at Midterm: A Chronology of Environmental Destruction.” [www.foe.org](http://www.foe.org)

<sup>v</sup> *International Herald Tribune* Editorial Feb 11, 2003, “A Pentagon Spending Spree:” “At next year’s projected level, Washington will be spending nearly as much on defense as the rest of the world combined...It’s a bonanza for defense contractors, a wish list come true the military services and a costly extravagance for a nation sorely in need of more federal spending on education, health and other concerns.”

<sup>vi</sup> Bob Herbert, “Spoils of War,” *The New York Times*, April 10, 2003 and David Teather, “[Iraq] Oil boss paid \$1m a year by contract bidder,” *The Guardian*, May 17, 2003.

<sup>vii</sup> Jonathan Weisman, “Budget Deficit May Surpass \$450 Billion,” *The Washington Post*, July 15, 2003.

<sup>viii</sup> Quoted in Thomas L Friedman, “Bush’s tax cuts: Ruining America,” *The International Herald Tribune*, June 12, 2003.

<sup>ix</sup> “Another senseless tax cut,” April 24, 2003.

<sup>x</sup> Daniel Gross, “George Walker Hoover?” President Bush is on track to match Herbert Hoover’s record of job destruction,” <http://slate.msn.com/id/2082321/> and Paul Krugman, “Jobs, Jobs, Jobs,” *The New York Times*, April 23, 2003.

<sup>xi</sup> The Associated Press, July 3, 2003, “Since July 2000, the nation’s factories have cut 2.6 million jobs.”

<sup>xii</sup> The worst hit are black Americans who in 2000 held 2 million factory jobs. Fifteen percent of those jobs, many of which had long tenure, have now disappeared. Louis Uchitelle, “Blacks Lose Better Jobs Faster as Middle-Class Work Drops,” *The New York Times*, July 12, 2003.

<sup>xiii</sup> Kate Zernike, “Teenagers Facing Hard Competition for Summer Jobs,” *The New York Times*, July 14, 2003. She writes that “the percentage of those holding summer jobs [is] at its lowest for 55 years and the unemployment rate [is] at its highest in a decade...The unemployment rate for 16- to 19-year-olds [is] at 19.3 percent nationwide...”

<sup>xiv</sup> Eleanor Clift, “Read His Lips,” *Newsweek Web Exclusive* <http://www.msnbc.com/news/902171.asp?Ocv=CB30>

<sup>xv</sup> “Bush’s Tax Plan – the Dangers,” *The New York Review of Books*, March 13, 2003.

<sup>xvi</sup> James Harding and Alan Beattie, “As the budget deficit rises, Bush gives a tax-cut tribute to Reagan,” *The Financial Times*, February 8-9, 2003.

<sup>xvii</sup> “Delusional on the Deficit,” *The Washington Post*, June 19, 2003.

<sup>xviii</sup> For example, Dale Russakoff, “Budget Woes Trickle Down,” *The Washington Post*, July 15, 2003 on reactions in Fall River, Massachusetts.

<sup>xix</sup> Noted by David S. Broder, “Black Thursday for Bush,” *The Washington Post*, July 15, 2003.

<sup>xx</sup> Robin Toner, “Study [for the Robert Wood Johnson Foundation] Raises Estimate of the Nation’s Uninsured,” *The New York Times*, March 5, 2003. The percentages were higher for Hispanic and Black Americans.

<sup>xxi</sup> “Jobs, Jobs, Jobs,” *The New York Times*, April 23, 2003.

<sup>xxii</sup> James K. Galbraith, “Socking it to the States,” *The Nation*, June 9, 2003.

<sup>xxiii</sup> Thomas L Friedman, “Bush’s tax cuts: Ruining America,” *The International Herald Tribune*, June 12, 2003.

<sup>xxiv</sup> James Dao found something like this in Cincinnati, Ohio. *The New York Times*, July 17, 2003 while Madeleine Bunting of *The Guardian* wrote on March 3, 2003 that “Americans are finally beginning to question a system that values wealth and yet ignores integrity.” Ms. Bunting quoted a Gallup poll that found that “90% of Americans felt that people running corporations could not be trusted to look after their employees.” She commented that “This rich seam of guilt, self-doubt and feeling duped is a totally different American story from the one we are most familiar with...”

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