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ISSUE BRIEFS

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like the F-22 Raptor or Joint Strike Fighter. This strategy has kept the B-52 in service for over forty years.

- The military is still operating under a "cold war" mentality, preferring expensive and complex weapons over simpler and cheaper systems (such as unmanned aircraft) that have proven their value in Afghanistan.

- The $48 billion increase sought in 2003 is well beyond what is needed to fight terrorism, and will force the President to sacrifice key elements of his domestic agenda.

[1] *Report to the Counterterrorism Committee pursuant to paragraph 6 of Security Council resolution 1373 of 28 September 2001 Implementation of UNSCR 1373*, December 18, 2001. The document is online at http://www.fas.org/irp/threat/unsc.html
[2] John Mintz, "Tribunal Rules Aim to Shield Witnesses: Judges, Prosecutors May Be Anonymous," *Washington Post*, March 22, 2002, p. A1.
[3] Council for a Livable World, *Briefing Book on Missile Defense*, Sept. 2001, 18-21. <www.clw.org/nmd/nmdbook01.pdf>
[4] Congressional Budget Office, *Budgetary and Technical Implications of the Administration's Plan for National Missile Defense*, April 2000.
[5] CSBA Backgrounder, *NMD Deployment Decision in 2000 Would be Premature*, June 2000. <www.csbaonline.org>
[6] Michael O'Hanlon, *Beyond Missile Defense: Countering Terrorism and Weapons of Mass Destruction*, Policy Brief # 86, August 2001. <www.brook.edu/comm/policybriefs/pb86.htm>
[7] General Accounting Office, *Status of the National Missile Defense Program*, May 2000, GAO/NSIAD-00-131. <www.gao.gov/new.items/ns00131.pdf>
[8] Wolfowitz Interview on CNN Late Edition, December 9, 2001. Transcript at www.defenselink.mil/news/Dec2001/t12092001_t1209cnn.html
[9] Thom Shanker and David Sanger, "U.S. Envisions Blueprint on Iraq Including Big Invasion Next Year," *New York Times*, April 28, 2002, p. 1.
[10] Throughout this discussion, polls are identified by source and date, with the following abbreviations: Washington Post/ABC News = WP/ABC; Pew = Pew Center for the Public and the Press; Gallup/CNN/USA Today = Gallup; Los Angeles Times = LAT; Harris Interactive = Harris; CBS News/New York Times = CBS.
[11] Gallup Organization, "Public Supports Concept of Missile Defense – But Public Opinion on Issue is Not Settled," August 1, 2001. www.gallup.com/poll/releases/pr010801.asp
[12] Non U.S. figures are dollar equivalents in the latest available year (either 2000 or 1999), taken from International Institute for Strategic Studies, *Military Balance 2001/2002* (London: Oxford University Press, 2001), table 37.

ECONOMY, BUDGET, AND TAXES

Issue In Brief

The 1990s was a boom decade for the U.S. economy. After the recession of 1991 ended, the economy experienced the most sustained period of economic growth in its history. Unemployment peaked at 7.8% in June of 1992, and then fell steadily to as low as 3.9% by October of 2000. With optimism in the technology sector gaining steam, the Dow Jones Industrial Average and the NASDAQ both soared, with the former topping 10,000 for the first time ever in March of 1999.

On the public ledger, the federal budget ran a surplus in 1998 for the first time in almost thirty years. Forecasters both inside and outside of government projected budgets in the black well into the next decade. Debates about how the federal government should deal with this growing largesse were a key part of political campaigns for Congress and the presidency in 2000.

How times have changed. As the nation enters the 2002 mid-term election season, the boom of the 1990s has given way to less favorable conditions. For example:

- The non-profit Bureau of Economic Research declared on November 26, 2001 that the nation had officially entered a recession in March 2001, which ended the economy's growth spurt at exactly 10 years.

- In addition to the immediate loss of human life, ripple effects of the tragedy of September 11 dealt a challenging economic blow to the country, as many of the nation's important sectors like transportation and tourism slowed amidst fears of additional attacks.

- The large federal budget surpluses that had been projected as far as the eye could see much like deficits had been described in the late 1980s and early 1990s, ironically have shrunk to roughly one-fifth (or less, depending on the estimate) of their estimated size.

- According to analysts in the Executive Branch and the Congress, the federal budget will return to the red and likely remain there for the next few years at least.

- In May of 2002, the U.S. Department of Labor reported that unemployment for April was 6%, the highest rate of joblessness since the early1990s.

Both Republicans and Democrats are gearing up to make the economy and the direction of the nation's fiscal policy two of the most significant issues in the 2002 elections. Political commentators have noted that President Bush knows that one of the reasons his father failed to earn a second term was the perception among many of the nation's voters that he was more concerned with foreign affairs than economic conditions at home. Riding a wave of popularity that parallels his father's 90+% approval ratings after the Gulf War, the current President Bush has recognized the need not to become so preoccupied with the war on terrorism that he conveys a similar perception. Democrats, on the other hand, see the economy and fiscal policy as issues where they can challenge a popular president and his party without being tarred as being unpatriotic regarding the war effort.

Members of both parties made significant promises in 2000 about what to do with the budget surplus, including everything from boosting education spending, adding a prescription drug benefit to Medicare, and modernizing the nation's defense. Now that the surplus has declined significantly, no doubt arguments in the coming campaign will center on how to assign blame for this turn of events, and what to do next. Four broad developments set the stage for these debates.

President Bush's Tax Cut

The president signed into law the Economic Growth and Tax Reconciliation Act (PL 107-16) on June 7, 2001. It was a modified version of the plan that he had proposed during the campaign. At the bill's signing ceremony, the president placed the event in a broader historical context by noting that across-the-board tax relief had happened only two other times since World War II, during the Kennedy and Reagan administrations.

The proposal passed primarily along party lines, with some bipartisan support. Some of its main provisions included:

- Tax rebate checks of $300 or $600 that were mailed to over 90 million taxpayers in the late summer and fall of 2001.

- A decrease in the top marginal rate from 39.6% to 35% (Bush had favored 33%), and the creation of a new bottom rate of 10%, down from 15%.

- A phasing out of the estate tax, which is now set to expire in 2010.

- An increase in the current child tax credit.

- A decrease in the "marriage penalty."

- Changes in rules that increase the amounts that citizens can contribute to individual retirement, 401(k), and educational accounts, which has the effect of reducing or putting off tax payments.

The total cost of these changes is estimated to be $1.35 trillion over 10 years. Many of the most expensive provisions of the law do not fully take effect until 2006.

One of the chief critics of the bill, House Democratic Leader Dick Gephardt (D-MO), argued against the tax cut, which he believed threatened the nation's prosperity and did not provide enough targeting of benefits. He lamented that the richest Americans received the lion's share of the benefits of the new law, while middle class and poorer citizens received disproportionately less. The president and the bill's supporters responded that the bill was not tilted in favor of the rich, and what may be perceived as disproportionate benefits to affluent individuals is partly due to the fact that taxes from the pool of upper-income people—even though they are a small fraction of the population—comprise nearly half of the government's revenue stream.

Monetary Policy

Federal Reserve Board Chairman Alan Greenspan is by all accounts one of the most powerful (but unelected) officials in the United States government. One of the main duties of the Federal Reserve (often called the "Fed") is to chart the nation's monetary policy. The Fed is run by a seven-member Board of Governors, presidential appointees who serve 14-year terms. To facilitate its work, the Fed maintains 12 regional branch banks located across the country.

The Fed uses two main strategies to affect the condition of the nation's economy. It engages in open market operations - the buying and selling of government securities - and it increases or decreases interest rates. Both of these activities affect the size of the nation's money supply, which in turn affects things like unemployment, inflation, and economic growth.

The Fed had a busy 2001. Sensing potential weaknesses in the U.S. economy, and hoping to avert a recession, it reduced interest rates at a furious pace throughout the year, dropping one important rate - the federal funds rate - a total of 11 times. (In fact, February and July were the only two months of 2001 that the Fed did *not* lower interest rates.) By December, the rate stood at 1.75% compared to the 6.50% where it began the year in January. That represented the most aggressive rate-cutting strategy since the recession of late 1990 and 1991, during which the Fed reduced the federal funds rate 14 times over a 15-month span. This rate-cutting binge stopped during the first half of 2002, despite the economy's sluggish recovery.

Economic Recession

Even prior to September 11, there were signs that the nation's economy had begun to slip. Fears that recession loomed on the horizon were confirmed when in November economists at the National Bureau of Economic Research declared an end to the longest economic expansion in U.S. history. The Bureau dated the recession's beginning in the early spring, probably falling in March 2001.

The effects of the recession were felt in many corners of the nation's economy, perhaps most acutely among the ranks of the nation's workers. By December, the unemployment rate had risen to 5.8%, the highest figure in more than 6 years. In actual numbers, that translated into 8.3 million Americans out of work. And while some workers received holiday bonus checks at the end of the year, others found pink slips in their mailboxes as non-farm payroll employment decreased by 124,000 jobs in December. Total job losses for the last four months of the year topped the 1 million mark.

Some of the more significant layoffs occurred in large companies such as Boeing (30,000 workers), Chevron/Texaco (4,000, or 7% of its workforce), Motorola (over 40,000 workers), and Nortel (50,000 workers). Overall, the manufacturing sector fared quite poorly; it lost 1.3 million jobs for the year.[1]

In its 2001 report on hunger and homelessness in 27 major American cities, the U.S. Conference of Mayors documented some of the human consequences of these losses. It found, among other things, that requests for emergency food assistance had increased 23% compared to last year, with 93% of the cities surveyed experiencing an increase in requests: 54% of the people requesting emergency food assistance were members of families (children and their parents); 37% of adults requesting assistance were employed; and most acute for those directly affected, 33% of the cities surveyed reported that emergency food facilities may have to turn away people in need due to a lack of resources.[2]

Still, as 2002 began, there were some signs that the economy had hit rock-bottom, and was on its way back. Both home sales and consumer purchases of big-ticket items increased during November, while consumer confidence increased during December. At the end of the year the Commerce Department reported that construction activity - including public and private projects - rose a solid 0.8% in November. In a December 19 press release, the Conference Board announced that its Index of Leading Economic Indicators had increased for November. Improvement in that measure continued through the first part of 2002. In its April 18 update, the Conference Board noted that the leading index increased 2.9% from September 2001 to March 2002.[3] With unemployment figures for April hitting 6%, however, some analysts are concerned that the economy may be experiencing a jobless recovery in which companies' return to profitability but do not create enough jobs to make up for those that have been lost.

How the tragedy of September 11 will continue to affect the US economy is still unclear. One estimate from the non-profit Milken Institute suggested that the employment picture could get worse in the coming year. In a study of the 315 largest metropolitan areas in the country, it estimated that the United States will lose 1.6 million additional jobs in 2002 due to the September 11 attacks alone.[4]

Budget Outlook

How to chart the nation's annual spending and taxing decisions, also known as fiscal policy, is one of the major preoccupations of members of Congress and the Executive Branch. The federal budget has grown to roughly $2 trillion in size, with three activities - Social Security, national defense, and health care (Medicare and Medicaid) - consuming over 50% of all government spending.

In addition, approximately 66% of spending is devoted to mandatory activities (including interest payments on the debt), such as Social Security. Mandatory spending is often called "uncontrollable" because it is not subject to annual budgetary decisions, unless other laws are changed. This is different than discretionary spending on defense programs, for example, which the Congress and the president can increase or decrease every year depending on their priorities.

Like the nation's economic fortunes during the last two years, the country's fiscal situation has also changed. In independent reports released during the first week of January 2002, the Democratic staff of the House Budget Committee estimated the 10-year budget surplus to be $1.79 trillion. A Republican estimate, compiled by staff of the Senate

Budget Committee, and released around the same time was only slightly more optimistic; it concluded that the surplus would be $1.86 trillion. (White House Budget Director Mitch Daniels said that he expected the White House's projections to be similar to these numbers.) Only one year earlier, the nonpartisan Congressional Budget Office had been projecting surpluses of $5.61 trillion.

In November 2001, the White House acknowledged that the federal budget would likely return to deficit for the current fiscal year, the budget year which runs from October 2001 to September 2002, and remain there for at least two more years. On the heels of the nation's income tax deadline, the *Washington Post* reported on April 26, 2002 that some experts were projecting the fiscal year 2002 budget deficit to hit $100 billion, worse than analysts on both sides of the aisle in Congress had expected.

An important and related development to the federal budget situation is the continuing deterioration of the fiscal condition of the American states. After experiencing windfalls of tax revenue during the nation's economic expansion, state budgets have felt the pinch of the slumping economy. In a report on the fiscal outlook of the states,[5] the National Conference of State Legislatures, a bipartisan group, reported the following:

- 43 states had revenues below projections for fiscal year 2002 (which for most states began on July 1, 2001);
- 36 had implemented or are considering budget cuts or holdbacks;
- 24 may have to tap reserve funds to balance their fiscal year 2002 budgets;
- 7 have actually convened, and several other are considering, special sessions to address budget problems.

The fiscal challenges facing these state officials are in many ways more serious than the federal situation given that most states by law or constitutional provision are unable to run deficits. While federal politicians in Congress and the executive branch can borrow to support budgetary priorities, states do not have that flexibility.

Public Perspectives

When times are tough, economic issues tend to take center stage in national elections. Stagflation in the late 1970s (resulting from the combination of high unemployment and high inflation), and the economic slowdown in the early 1990s both weighed heavily on citizens' minds when they voted Democratic President Jimmy Carter and Republican President George Bush out of office after one term each. After a period during much of the 1990s, where economic issues were less a concern - but by no means unimportant - they have returned, along with the war on terrorism and education, to be among the top issues on the public's agenda as the nation enters the 2002 campaign season.[6]

Economic issues rank near the top of the public's list of issue concerns.

When asked to identify the most important problem facing the country today, citizens in late 2001 named economic topics near the top. The top five issues in one particular poll were the economy or recession (26%), terrorism (25%), unemployment or jobs (9%), lack of morals or values (5%), and, tied with 4% each, politicians or the government, and war, which included the war in Afghanistan (CNN, December 19-20, 2001).

Not only do citizens say that they believe that economic issues pose important problems for the nation, but they also say that that they are following this issue in the daily news. Regarding "reports about the condition of the U.S. economy," the vast majority of citizens said that they had been following the story: 37% indicated very closely, while 40% said fairly closely (Pew, December 10-16, 2001).

When asked what they saw as the most important problem for the Congress to address in 2002, 34% said the economy or unemployment, 13% identified war- or terrorism-related issues, 8% said education, 8% said health care or prescription drug benefits, 6% listed Social Security or Medicare, and 5% said taxes. No other issue scored more than 3% (ABC, December 18-19, 2001).

Even though the public is concerned about the current state of the economy, and believes that Congress should make it a priority in 2002, citizens are also somewhat optimistic about the future.

Assessing the track record of the U.S. economy during the last 12 months, 65% of citizens said that they though it had gotten worse. A mere 6% said it had gotten better, while 28% said it was about the same. Only 1% was not sure (NBC, December 8-10, 2001).

That negative evaluation about the past contrasts with some signs about the public's attitudes regarding the future, even though current attitudes are still mixed. As the holiday shopping season was nearing its close during the third week of December 2001, over half surveyed offered a positive evaluation of the economy's future prospects, with 6% saying very good, and 57% indicating fairly good. Others said that it was poor (30%), or very poor (6%), with only a small number saying that they were not sure (1%) (CNN, December 19-20, 2001).

This relatively more positive polling result was echoed by a report from the Conference Board, which was released on December 28. The Board's Consumer Confidence Index, based on survey results from a representative sample of 5,000 American households, rose for the first time in three months after what report called "dramatic" declines during the three months prior. As 2001 came to a close, it stood at 93.7 (1985 = 100), up from 82.2 in November. That generally upward trend continued during the beginning of 2002, with the index "surging," according to the Conference Board, in March to 110.7. April saw a slight decline to 108.8. The Index of Consumer Sentiment, compiled by the Survey Research Center at the University of Michigan, revealed parallel results. This measure stood at 93.0 in April, down slightly from March (95.7), but still 11.2 points higher than the low it hit in September 2001.[7]

The public generally approves of how President Bush is handling the economy, but it is less consistent regarding some of his specific proposals.

When CNN asked citizens on December 19-20, 2001 how well they thought the president was handling the economy, 65% responded "good," 28% said "poor," while 7% were not sure. That represented a 16 point increase from earlier in the year, during late May, when the same question was asked in an earlier edition of the same poll. At that time, the results were 49% (good), 41% (poor), and 10% (not sure) respectively. When CNN asked about this issue in April 2002 the president's numbers remained steady with 62% saying he was doing a "good" job handling the economy, and only 32% reporting that his performance was "poor."

The public also tends to assign less blame to the Bush administration for the current recession, relative to other groups or events. Less than half, or 44%, of citizens assigned to the president and his team "a great deal / some" blame for the recession of last year. Citizens assigned that level of blame in higher numbers to the past Clinton administration (62%), Congress (75%), and the September 11 attacks (79%) (Gallup, December 14-16, 2001).

Greater ambivalence or division emerges when the public is asked about some of the president's specific initiatives. For example, in a poll that ran just days before the September 11 attacks, citizens were asked about the effect of the Bush tax cut on the economy. Overall, 18% said the tax cut was helping, 21% that it was hurting, and 59% indicating no difference (2% had no opinion). (WP/ABC, September 6-9, 2001)

When asked later in the year about specific measures that might be taken to improve economic conditions, the public was favorable toward an approach that tends to favor tax cuts. When presented with two options for how to "stimulate the economy and pull the country out of a recession," 29% favored increased "unemployment benefits to support those without jobs and other economic benefits to encourage consumers to spend more," versus 59% who thought that providing "tax cuts to businesses to encourage them to invest and hire more employees" would be a better approach; 7% volunteered the response "neither," while 5% were not sure (NBC, December 8-10, 2001).

Citizens believe that government can take positive steps to improve the economy, but they are divided over whether they believe action is necessary.

Overall, the public is confident that government intervention can result in an improved national economy. When asked how much the Congress and president could help the economy, only 2% replied "not at all," while 34% said "a great deal," and another 50% replied "a fair amount" (1% had no opinion) (Gallup, December 14-16, 2001).

Still, at the end of 2001, the public was almost evenly divided over whether immediate action was needed. That same poll just mentioned also included a question that posed two options to probe if citizens thought the government should act swiftly to aid the economy. In a near-even split, 47% favored taking immediate action, and 49% said that taking immediate action was not necessary (4% had no opinion, which made the total over 100%, likely due to rounding) (Gallup, December 14-16, 2001).

On the issue of the federal budget, despite past projections of large budget surpluses, even during the 2000 campaign citizens were skeptical that these large surpluses would in fact materialize.

Roughly six weeks before Election Day 2000, a poll asked citizens to consider projections that pegged the budget surplus at around $6 trillion over the next ten years. Two-thirds (66%) said that there "was a good chance" that the surplus would be a lot lower, while only 16% agreed that it was "pretty safe to rely on projections"; 18% replied that they did not know. (NW, August 24-25, 2000).

That skepticism was echoed in a poll from late July of 1999 where 44% believed that the U.S. government would have a surplus "in the next few years," 43% said there would be no surplus, with the remaining 13% saying they were not sure. (NBC, July 24-26, 1999).

The public has assigned blame to a number of sources for the return of budget deficits, and are concerned about the return of deficits.

In early spring of 2001, one poll found that 58% of respondents were "concerned" about "the federal budget falling back into a deficit if Congress approves President George W. Bush's $1.6 trillion tax cut proposal." Of those remaining, 37% were "not concerned" and 5% did not know (LAT, March 3-5, 2001).

A poll at the end of last year (of registered voters, not the general public) offered a list of possible reasons for the declining surplus and the return of deficits, and asked respondents which they thought "best explains" the change in the government's fiscal condition. The responses were: increased spending to respond to the 9/11 attacks and homeland security (33%); increased military spending over the next decade (15%); new plans for corporate tax breaks (11%); last year's tax cuts (10%); new plans for pork barrel spending (9%); don't know or refused to answer (22%) (FOX, December 12-13, 2001).

Voters do appear concerned about deficits, at least in the abstract. A poll sponsored by the Democracy Corps, which ran from February 26 to March 3, 2002, found that 73% of likely registered voters were "very" or "somewhat" concerned about the return of budget deficits.

Recognizing that budget deficits have returned and the nation is at war, citizens do, however, tend to support additional spending on government programs and targeted tax cuts.

In early December 2001, one poll assessed the public's spending priorities given the range of economic and national security issues facing the country. In a series of questions, the poll explained that increased spending or more tax cuts would add to the deficit, and then asked whether the respondents would favor or oppose a variety of actions. Those favoring the following proposals were as follows: providing tax cuts for middle- and low-

income individuals (80%); increasing spending on education (74%); increasing spending on defense (73%); increasing spending on health care (71%); increasing spending on anti-terrorism (67%); providing tax cuts to business (54%); providing tax cuts to upper-income individuals (23%) (NBC, December 8, 2001).

Choices and Controversies

#1 - Stimulating the Economy

The first session of the 107th Congress ended in December 2001 with the House and Senate unable to agree to an economic stimulus package to boost the nation's sagging economy. The stimulus measure, called the Economic Security and Worker Assistance Act (H.R. 3529), passed the House on a near straight party-line vote on December 20, but was not put to the floor for a vote in the Senate, even though informal tallies had over 50 Senators supporting the bill.

Senate Majority Leader Tom Daschle (D-SD) defended the decision not to call for a vote based on his belief that a super majority of at least 60 votes was needed; without it, given Senate procedures, opponents could prevent a vote from taking place. Rather than face that possibility, argued Daschle, it was better not to have a vote at all and to start again when the Congress returned after its winter recess. Among others, that decision frustrated House Speaker Dennis Hastert, who called it "a shame" that the Senate was not able to deliver on the bill.[8] In what many pundits and political observers described as the first salvos in the 2002 campaign, President Bush and Senator Daschle used the congressional recess to fire arguments at one another over disagreements on the proper way to improve the economy.[9]

In broad speeches like these, it is sometimes difficult to grasp the nuanced policy differences between two competing positions. Rhetorically, many of the proposals that Daschle and Bush described during the winter congressional recess, and other members of Congress and the administration have outlined in the first half of 2002, sound quite similar, but embrace different combinations of tax cuts and spending increases to achieve their objectives. Even though the Congress passed and President Bush signed a scaled back stimulus bill in March 2002, candidates on the campaign trail will no doubt offer their own specific proposals for shoring up the sluggish economy, some tilted toward more tax cuts and limited spending increases, and others tending to favor additional spending increases with more limited tax cuts. While the specifics of particular plans will differ, these are some of the main arguments on each side of that general debate.[10]

Those who favor expansive tax cuts and limited spending claim:

- Additional tax cuts and incentives for upper-income Americans and businesses are appropriate because they encourage investment and job-creation, which helps to improve the fundamental position of the nation's economy.

- Additional government spending should be resisted because it creates the temptation for members of Congress to distribute pork to their home districts, which is what some are trying to do with the stimulus debate.

- The federal government has already (as part of the scaled back stimulus bill passed in March 2002) extended unemployment benefits from 26 to 39 weeks, which provides targeted spending to those out of work.

Those who favor limited tax cuts and more expansive spending claim:

- Greatly expanded tax cuts, rather than smaller cuts with increased spending, would drain more resources from the Social Security and Medicare trust funds, something that candidates on both sides of the aisle promised not to do during the 2000 campaign.

- Any business investment incentives should be limited to one year, instead of multiple years, as some have proposed. Business tax breaks that occur over longer time spans really amount to give-aways to corporate interests, which in the end have very little simulative effect on the economy in the short run when it is needed most.

- There is growing evidence that increased federal spending since last fall, especially on the war in Afghanistan and domestic security, but also for functions like school construction, highways, Medicaid, and other projects, helped to hold off a more severe recession. That shows that increased spending can exert a relatively rapid and positive effect on the economy.

#2 - Tax Cut Rollback

Along with the No Child Left Behind Act, which reformed the federal role in K-12 education, passing a tax cut was one of President Bush's major domestic priorities when he took office. He defended the idea in his first speech to a joint session of Congress on February 27, 2001 in part by saying that "The people of America have been overcharged and, on their behalf, I am here asking for a refund." Not quite a year later, in his radio address to the nation on January 5, the president continued to defend the tax cut, and in fact argued for accelerating some of its provisions in order to battle the economic recession.

While the president has called for extending the tax cuts, some of his opponents have argued the opposite, that the best course for the nation to take would be to reverse some of the cuts that were passed in 2001. Some, like Democratic Representative and vice chair of the Democratic Leadership Council, Ellen Tauscher, have argued that the president's refusal to reconsider the tax cut is irresponsible. Even though she voted for the tax cut herself, Tauscher argued in a January 2002 op-ed that the president's suggestion that he would roll back the tax cut only "over my dead body" was irresponsible given how things in the country had changed.[11]

It remains to be seen whether the president's "over my dead body" promise amounts to a restatement of his father's famous "read my lips" pledge on taxes, which the first President Bush eventually violated amidst great criticism (even though in hindsight many observers on both sides of the aisle have described it as a courageous, and perhaps appropriate decision). Similarly, Democrats who wish to challenge the president's tax cut during the 2002 campaign may find it politically difficult given that 28 Democratic representatives and 12 Democratic senators voted for it. Retaining control of the Senate and retaking the House, both Democratic ambitions, will be a difficult enough task already, which could be made worse if Republicans can successfully paint them as pro-taxes in the coming campaign.

The proponents of rolling back the cuts in the 2001 tax bill claim:

- The tax cuts as passed in the first part of 2001 were based on economic conditions and projections that no longer held at the end of the year and into 2002.

- With the growth of domestic security needs, and the cost of the war on terrorism, the country now can no longer afford the tax cut package as originally conceived.
- The most expensive provisions of the tax cut go into effect a few years from now, which means that the fiscal conditions we face now could get even worse if changes in the law are not made.
- Because many of the provisions of the tax cut do not take full effect for several years, repealing them or delaying them even longer would not adversely affect the economy.

The opponents of rolling back the cuts in the 2001 tax bill claim:

- Tax cuts spur investment and growth, and create jobs better than spending on any government program could, so they amount to a valuable recession-fighting measure.
- Historically, tax cuts have actually spurred increases in government revenue due to the economic activity they create.
- Not only should the tax cuts not be rolled back, but they should be made permanent so businesses and individuals are more able to plan for the future.
- The tax cut should not be blamed for draining the budget surplus for the current year because they used only 15% of it; the recession and the war are primarily responsible for the changed fiscal outlook.

#3 - Return of Federal Budget Deficits

When Mitch Daniels, the president's budget director, announced that he expected the federal budget to return to deficit for the next few years, political observers who had cautioned about overly optimistic projections of future budget surpluses found it hard not to be smug. After having recently slain the deficit dragon that had hamstrung federal policymakers for most of the 1980s and 1990s, the fact that deficits have returned radically alters the terrain (compared to 2000) that politicians will have to traverse as they run for office in 2002.

In the past, citizens have usually been somewhat fickle when it comes to budget deficits. They tend to be against them in the abstract, but favor government spending for new programs as well.[12] In the past, that created a sort of golden opportunity for many politicians who could rail against pork barrel spending or irresponsible tax cuts as driving up the deficit, but then speak just as loudly about the highway programs, post offices, and tax credits that they had helped to bring home to their own states or districts. In light of the struggle to overcome the large deficits that plagued the nation during the 1980s and early 1990s, it will be interesting to see whether citizens will continue to allow elected leaders to have the argument both ways.

If a return to deficits evokes a sort of "never again" response from the nation's voters, however, then federal officials may have to make the hard choices that their counterparts in state and local governments (who are unable to deficit spend) face every day. On the other hand, if the public's appetite for the new programs that they heard about during the 2000 campaign, and their concerns over defending the nation against terrorism occupy their attention, then they may be willing to endure another round of federal budgets in the red.[13]

The proponents of deficits claim:

- Running deficits is appropriate when the country is at war and the government is attempting to deal with a sluggish economy.
- Infatuation with balancing the budget led to poor policy decisions that helped to bring on the Great Depression in the 1930s.
- The deficit projections for the next few years are small, especially relative to the size of the U.S. economy, and do not threaten the long-term fiscal stability of the federal budget, or the trust funds.
- By themselves, budget deficits do not necessarily have an adverse impact on long-term interest rates as some critics have charged; perceptions about the potential for increased inflation, are more important.

The opponents of deficits claim:

- Budgets in the red mean that the government needs to return to using the Social Security surplus to fund ongoing programs, something that both parties pledged not to do during the 2000 campaign.

- Deficits hamstring the federal government from funding new initiatives that citizens support such as a prescription drug benefit for Medicare, and shoring up the nation's public health system to respond to a bio-attack.

- Deficits drive up long-term interest rates because the federal treasury, faced with the current fiscal situation, will have to sell extra debt from investors, rather than buying it back as had been planned with surpluses.

- Current conditions look eerily like those that existed at the beginning of the Reagan administration—economic recession, a big tax cut, desires to spend more on defense—which led to significant deficits and transformed the U.S. from the world's largest creditor to the largest debtor nation in the 1980s.

[1] For firm-specific layoffs see the constantly-updated article: "The Changing Employment Picture," *Washingtonpost.com*, <www.washingtonpost.com/wp-srv/business/legacy/layoff_article.htm> Accessed on January 8, 2002. The statistic for the manufacturing sector comes from Leigh Strope, "Unemployment Rate Hits 5.8 Percent," Associated Press, January 4, 2002, <dailynews.yahoo.com/htx/ap/20020104/bs/economy_661.html>. Accessed on January 8, 2002.
[2] United States Conference of Mayors, *A Status Report on Hunger and Homelessness in America's Cities,* December 2001, <www.usmayors.org/uscm/news/press_releases/documents/hunger_121101.asp>.
[3] The Conference Board, "Leading Economic Indicators," <www.conference-board.org/products/lei1.cfm>.
[4] Milken Institute, *Metropolitan Economies in the Wake of 9/11,* January 2002, <www.milken-inst.org>. Accessed on January 16, 2002.
[5] National Conference of State Legislatures, *State Fiscal Outlook for FY 2002: November Update,* posted to the web December 3, 2001, <www.ncsl.org/programs/fiscal/sfo2002.htm>. Accessed on January 9, 2001.
[6] Throughout this section, polls are identified by source and date, with the following abbreviations: ABC News = ABC; CBS News/*New York Times* = CBS; CNN/*Time Magazine* = CNN; Fox News = FOX; Gallup/CNN/*USA Today* = Gallup; Harris Interactive = Harris; *Los Angeles Times* = LAT; NBC News/*Wall Street Journal* = NBC; *Newsweek* = NW;; Pew Research Center for People and the Press = Pew; *Washington Post*/ABC News = WP/ABC.
[7] See the Conference Board; and the Survey Research Center at the University of Michigan, summary of the Surveys of Consumers for December 2001, <athena.sca.isr.umich.edu>. Both were accessed on January 7, 2002.
[8] Both Senator Daschle and House Speaker Dennis Hastert defended their respective positions on December 20 edition of the NewsHour with Jim Lehrer. Transcripts of these interviews are available on the NewsHour website, <www.pbs.org/newshour/>.
[9] Senator Daschle's speech is available at <democrats.senate.gov/%7Edpc/releases/2002-1-4a.html>. President Bush's remarks are on-line at <www.whitehouse.gov/news/releases/2002/01/20020105-6.html>.
[10] In addition to the speeches and interviews already cited in this section, see also: Congressional Budget Office, *Economic Stimulus: Evaluating Proposed Changes in Tax Policy,* January 2002, on the web at <www.cbo.gov/showdoc.cfm?index=3251&sequence=0&from=7>
[11] Ellen Tauscher, "Tax Cuts Only When We Can Afford Them," *Washington Post,* January 9, 2002, p. A19.
[12] For a discussion of this idea, including a sampling of survey questions to illustrate it, see the Public Agenda's discussion of "red flags" regarding the federal budget at <www.publicagenda.org>.
[13] President Bush and Senator Daschle have raised arguments on both sides of this debate in the speeches that are cited above. For a specific discussion of the debate over the effect that deficits have on interest rates, see Daniel Altman, "Rates Remain High. Blame Bush Budget Or Big Expectations?" *New York Times,* January 9, 2002, p. C1.