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Self-inflicted wounds

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The tax cuts were the appropriate medicine for the economy and are already having the desired effect, yet the president's approval rating for economic management continues to fall.

In part, this is due to a series of politically motivated economic mistakes that have slowed the recovery. Not everyone in the administration has learned that good economics is good politics and vice versa. Fortunately, if the administration takes immediate corrective action, the mistakes will not be fatal.

The administration imposed steel tariffs, believing it would make steelworkers happy by creating more steel-making jobs. The facts are now in, and, as most of the president's own economic advisers warned, the higher prices that steel users are paying have killed more jobs in those industries than the tariff has saved in the steel industry. For 200 years, good economists have known protectionism backfires, and the steel tariff again proved the point.

Federal government spending is rising as a percentage of GDP, reversing the trend of the 1990s. The growth in spending has been caused by the war, the recession and the lack of political will to reduce nonessential spending. Government spending crowds out private spending, and, given that most government spending is less productive than private spending, overall economic growth suffers.

As former Treasury official Bruce Bartlett observed, President Reagan constantly used his "bully pulpit" to point out the dangers of excessive government spending. Even President Clinton came to understand — at least at times — that rapidly growing government was not compatible with a rapidly growing economy.

President Bush has yet to veto a spending bill, despite the obvious waste in much federal spending. This inaction on the spending front sends all the wrong messages. If the administration and the Congress believe we need to spend more on the war, then both branches of government must be more responsible by cutting growth in wasteful domestic spending.

Treasury Secretary John Snow has been urging China and some other nations to raise the value of their currency against the dollar in the belief it will help some U.S. manufacturers.

If he were to succeed, which fortunately is unlikely, the effect would be higher prices for American consumers, thus decreasing their real standard of living, and increasing costs for all those American manufacturers who buy foreign components for their products.

The administration is operating under the same fallacy as it did with the steel tariff. Yes, a few manufacturing jobs might be saved in the short run. But, in the long run, Americans will have less spending power, which will cost many more jobs than those saved.

The political folks in the administration can see the concentration of benefits but appear blind to the dispersion of costs of moving away from the strong dollar policy that has served us so well since the Reagan administration.

During the last week of the Clinton administration, a foolish and dangerous IRS regulation was proposed at the behest of the French to require U.S. banks to help foreign governments tax interest earned on certain bank accounts in the U.S. As former senior Treasury economic official Steve Entin has shown, this would drive out considerable foreign investment from the U.S., and cost the U.S. jobs and substantial tax revenue because of reduced investment in our economy.

Perhaps of even more concern is that the proposal would provide sensitive financial information on individuals and organizations to governments that are themselves corrupt (and, in fact, may be enemies of the U.S.) or have inadequate procedures to keep the information from falling in the hands of criminals, terrorists or governments that support terrorists.

Despite the urging of virtually every senior economist in the administration and more than 30 economic policy organizations, the administration has yet to withdraw the proposal.

Mr. Snow reportedly has told senior administration officials and senior members of Congress that he intends to withdraw the proposal. The problem is that every day he delays the withdrawal, he also discourages needed foreign investment.

The price of oil greatly affects the U.S. economy, and high oil prices, as we have recently experienced, depress economic growth. The administration appears to have applied inadequate pressure on the Saudis and the other members of the Organization of Petroleum Exporting Countries (OPEC) to keep production up and prices down — thus allowing them to benefit from the Iraqi oil cutoff, rather than help us.

Indeed, the administration recently signed on to a G-7 statement endorsing oil prices of $27-$28 per barrel. Allowing Iraq to rejoin OPEC was another blunder. OPEC is a cartel (which would be illegal under U.S. law) that hurts the U.S. by keeping oil prices higher

than they otherwise would be. In addition, Iraq is going to need all the oil revenues it can get and, by rejoining OPEC, its production will be held below its potential output.

The administration has also failed to keep several of the multinational organizations (World Bank, U.N., Organization for Economic Cooperation and Development) from promoting policies that undermine U.S. and global growth. For instance, the OECD has been pushing the oxymoronic concept of "harmful tax competition," which the administration has correctly disavowed. But it has yet to support the bill (H.R. 1206) proposed by Rep. John Sweeney, New York Republican, to stop U.S. funding of multinational organizations that promote destructive tax increases, which would be a meaningful action rather than just rhetoric.

To strengthen both the economy and his political standing, the president should immediately:
• Suspend the steel tariffs.
• Keep the total federal spending growth under the nominal GPD growth rate by vetoing whatever spending he needs to in order to hit the target.
• Enthusiastically reaffirm the strong dollar policy of Presidents Reagan, Bush I and Clinton.
• Immediately withdraw the proposed interest reporting regulation.
• And insist that OPEC and the OECD (and other institutions) stop engaging in policies and proposals that undermine both U.S. and world economic growth.

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