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A No-Win Outcome

By PAUL KRUGMAN

Conventional wisdom asserted that in the end Congress would pass an economic stimulus bill. I was one of the few skeptics. Why was my skepticism vindicated?

It helps to recall an observation that Gail Sheehy made last year: "The blind drive to win," she wrote, "is a hallmark of the Bush family clan. One thing that G. W.'s childhood friends told me repeatedly was that he has to win, he absolutely has to win and if he thinks he's going to lose, he will change the rules or extend the play. Or if it really is bad he'll take his bat and ball and go home."

Now consider this: More than two months ago George W. Bush endorsed a "stimulus" bill so tilted toward corporate interests that even many conservatives were startled. This left only two ways a bill could pass the Senate: Either the Democratic leadership would collapse, or Mr. Bush would accept something that didn't look like a personal win. It didn't, and he wouldn't.

The struggle really began less than 48 hours after the terrorist attack, when Bill Thomas, chairman of the House Ways and Means Committee, tried to ram through a sharp cut in the capital gains tax. Even opponents of the capital gains tax generally acknowledge that cutting it does little to stimulate the economy in the short run; furthermore, 80 percent of the benefits would go to the wealthiest 2 percent of taxpayers. So Mr. Thomas signaled, literally before the dust had settled, that he was determined to use terrorism as an excuse to pursue a radical right-wing agenda.

A month later the House narrowly passed a bill that even The Wall Street Journal admitted "mainly padded corporate bottom lines." It was so extreme that when political consultants tried to get reactions from voter focus groups, the voters refused to believe that they were describing the bill accurately. Mr. Bush, according to Ari Fleischer, was "very pleased" with the bill.

Wednesday Mr. Thomas finally offered what he considered major concessions. "Republicans have given a lot," he declared. And Mr. Bush urged the Senate to pass this new, "bipartisan" bill.

What, exactly, did Mr. Thomas concede? Here's a comparison that may help you feel his pain.

The original bill, though sold as a short-run stimulus package, was actually a long-term tax cut in disguise; it would pump less than \$100 billion into the economy in its first year, but would cost about \$250 billion over the next five years. By contrast, the new bill — well, actually the numbers for the new bill are just about identical.

The original bill consisted almost entirely of tax cuts — 95 percent of the total cost — with virtually nothing for the unemployed. The new bill offers slightly more to the unemployed, enough to reduce the share of tax cuts in the bill's total cost to a measly 92 percent.

In the original bill 69 percent of those tax cuts were for corporations; in the new bill this is

reduced to a mere 63 percent.

In its most controversial provision, the original bill retroactively eliminated the alternative minimum tax on corporations, refunding \$24 billion in past corporate taxes. The new bill doesn't entirely eliminate the alternative minimum tax — but it still offers corporations about \$16 billion in refunds, spread out over time instead of all at once.

To console himself for all these compromises, Mr. Thomas added a new individual tax break, useful only to very affluent families.

Strangely, these awesome sacrifices didn't impress the Democratic leadership. And so we have no stimulus bill.

The question the American people ought to ask is why the Bush administration, given the deadlock in Congress, didn't push for a minimalist package — rebate checks for those who didn't get them last summer, plus extended unemployment benefits, and a temporary investment tax credit. This would have disappointed Democrats who also wanted medical coverage for the unemployed, but it would surely have passed, and it would have been better than no deal at all.

But such a package would not have lived up to the hopes of administration strategists, who thought they could use Sept. 11 to advance their long-run domestic agenda. It therefore would not have counted as a personal win for Mr. Bush. And so he took his bat and ball and went home.

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