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Midterm politicking hovers over economic decisions

By TOM RAUM (AP) – Jul 22, 2010

WASHINGTON — Midterm politics are distorting economic decision-making as leaders of both parties spin rival views of the road ahead, offering visions based on questionable economics.

The resulting political angst is leaving a mark on major legislation. A far-reaching financial overhaul bill signed by President Barack Obama on Wednesday reflects voter anger over bankers, bailouts and bonuses. A measure extending unemployment insurance, soon to be on Obama's desk, was scaled back from an earlier, far more ambitious Democratic stimulus plan.

Angling for advantage, Democrats look to troubles before Obama took office. "It's a choice between the policies that got us in this mess in the first place and the policies that are getting us out of this mess," asserts Obama.

Republicans seek an edge by looking ahead. "More government, fewer jobs: This isn't the picture of recovery; it's the epitome of failure," says House Republican Leader John Boehner of Ohio.

Both sides are exaggerating, say economists and political analysts. And things will only get messier as November's congressional elections draw closer. Politicians of all stripes are under heavy pressure from polls that show increasing voter worry about alarmingly high unemployment, growing government debt and rising skepticism over Obama's ability to help the economy.

By contrast, 64 percent of economists surveyed in a Wall Street Journal-NBC News poll said the economy would get better over the next 12 months — compared with just 33 percent among the general public who said they believed that.

"The election is certainly coloring the decision-making process in Washington, as one would expect," said Mark Zandi, chief economist at Moody's Analytics.

Zandi, who has advised both Republican and Democratic lawmakers, said the political gamesmanship comes as the economy remains "in a precarious situation" despite earlier signs of a rebound.

Fed Chairman Ben Bernanke reinforced this view, telling Congress on Wednesday the economy is "unusually uncertain." But he did not forecast that it would fall back into recession.

In office 18 months, Obama is still running against the policies of George W. Bush and cites "nearly a decade of not paying for key policies and programs" such as the wars in Iraq and Afghanistan, big tax cuts and a costly Medicare prescription drug program.

Bush came to office with a \$236 billion budget surplus in 2001, says Obama. "The day I took office, eight years later, America faced a record \$1.3 trillion deficit."

But blaming the country's economic woes on Bush tax cuts and spending is a stretch.

It ignores the fact that as recently as 2007, the budget deficit was just \$162 billion — long after Bush's tax cuts of 2001 and 2003 kicked in and spending on the two wars and on the Medicare program were in place.

Furthermore, the projected surplus reflected a continuation of the bubble economy of the late 1990s, when the stock market was soaring, high-tech businesses were on a roll and corporate profits were surging. Those surpluses would have evaporated no matter who became president in 2001.

The rise in the annual deficit from \$162 billion in 2007 to over \$1 trillion now is largely due to collapsing tax revenues from the recession that began in December 2007, and stimulus and bailout spending by both Bush and Obama, said Brian Riedl, a budget analyst at the Heritage Foundation.

The Bush tax cuts and other policies are "a convenient scapegoat for past and future budget woes," he said, but can't be blamed for today's trillion-dollar deficits — or future ones.

"Over the next 10 years, virtually 100 percent of the rising deficits" will be driven by "entitlement" programs such as Social Security, Medicare and Medicaid and interest payments on the \$13.2 trillion national debt, Riedl said.

Most economists — as well as Obama — seem to agree.

For their part, Republicans paint a grim picture of Obama's stewardship, claiming his \$862 billion 2009 stimulus package failed to produce many new jobs — with over 14.7 million Americans out of work and the jobless rate stuck for months near 10 percent.

But economists generally agree that the Obama stimulus measures, plus bank and auto company bailouts begun under Bush, did keep the economy from plunging into another Great Depression and have recently contributed, at the least, to modest job growth.

"Even GOP economists acknowledge that without the big fiscal stimulus and two years of near-zero interest rates, we wouldn't have moved from losing half a million jobs a month to a small gain," said Rob Shapiro, a former economic adviser to President Bill Clinton and now chairman of Sonecon, a consulting firm.

"The Republicans are simply making a political case. The economy is slow, which is true



President Barack Obama, center, signs the Dodd Frank-Wall Street Reform and Consumer Protection Act in a ceremony in the Ronald Reagan Building in Washington, Wednesday, July 21, 2010. (AP Photo/Pablo Martinez Monsivais)

Map



