Michael Kinsley

Greenspan the Pitchman . . .

For Alan Greenspan, if it's not one damned thing, it's another. The Federal Reserve chairman used to worry about large federal deficits. His hangdog mien was the very emblem of fiscal gloom. "I have testified previously that all else being equal a declining level of federal debt is desirable," he reminisced last week to the Senate Budget Committee. Actually, even Chairman Deadpan used to make the point more forcefully than that. So his dream came true. And now he worries about large government surpluses. With, if anything, even more emotional intensity than he brought to his crusade against deficits, he describes the looming surpluses as a "critical longer-term fiscal policy issue."

For George W. Bush, by contrast, the message of any development, bad or good, is: Let's party! During the campaign, he called for tax cuts on the grounds that prosperity was generating more tax revenue than the government deserved. Now that prosperity is in some doubt, Bush's recommendation is? Why, tax cuts, of course. Mad cow disease turns half the population into human sponges? Tax cuts. The second coming of Our Lord Jesus Christ? What better way to mark the occasion than by cutting taxes?

Bush and company give the unfortunate impression of glee at the thought of an economic downturn, as if it were a lucky break. It's like a child hoping to be sick so he can take that yummy medicine. They were thrilled, naturally, by Dr. Greenspan's prescription last week, which many handwriting experts are interpreting as an endorsement of tax-cut therapy. Actually, Greenspan specifically rejected the use of tax cuts as a fiscal stimulus. As the chairman cried to the heavens: "Lately there has been much discussion of cutting taxes to confront the evident pronounced weakening in recent economic performance. Such tax initiatives, however, historically have proved difficult to implement in the time frame in which recessions have developed and ended." But he prescribed the same medicine for the disease we didn't know we had—surplus sickness—and who cares if the Viagra is supposed to be for your athlete's foot?

Of course another reason the Bushies have trouble suppressing the hope that we're in a recession is that they can blame it on their predecessors. They gave Bill Clinton no credit for the gusher of money that allows them to call for a tax cut, but they'll certainly try to make him responsible if the gusher dries up. Until a few months ago, it was pretty well settled, especially among Republicans, that Greenspan (and, ultimately, Milton Friedman) was right: Fiscal fiddling doesn't work. The fate of the economy, to the extent it can be affected by government, rests with the monetary authorities—that is, with Alan Greenspan. Greenspan himself, and other sensible people, acknowledge that the taxing and spending branches can make his job easier or harder, which is why he endorsed, or pseudo-endorsed, Clinton's deficit-reducing tax increase in 1993. (That, and his apparent policy about new presidents that every dog gets one free bite.) Partisan Republicans—once they stopped predicting that the tax increase would lead to disaster—took the more extreme monetary view that presidents are irrelevant to the general state of the economy.

All that is out the window now. In pushing his tax cut as a short-term fix for an economic slowdown, Bush stamps himself as a Keynesian of the most old-fashioned, micromanaging sort. If that's his conclusion after re-reading Keynes's "General Theory," so be it, and hats off to him, because it could be politically costly. Once you claim to be driving the car, you are responsible for where it goes.

The Democrats, meanwhile, have also undergone a weird transformation. They are now firmly the party of fiscal responsibility. They are obsessed with it almost beyond reason, calling for constant vigilance, finding cause to doubt cheery projections—just like the Republicans of old. The role reversal that began in 1981 is now complete.

The fiscally responsible Democrats are more right than wrong here. It will be a great day when the national debt is eliminated. But there really is no good reason for a debt-free or near-debt-free government to collect taxes beyond its needs, just to let the money pile up. If one purpose of a tax cut is short-term stimulus, the tax to cut isn't the estate tax. No one wants to benefit from that in the short term. The tax to cut is FICA, the payroll tax for Social Security and Medicare. Unlike the income tax, which lower-income workers don't pay, and therefore get nothing if it is reduced, every working American pays FICA starting from dollar one. Taxpayers well into the middle class typically pay more FICA than they pay in ordinary income taxes. From a classic Keynesian point of view (if we're back to that) you would get more stimulus for the buck in lost revenue from cutting FICA, because low- and middle-income people are more likely to spend an extra dollar than folks who would get the most from a tax cut for capital gains.

A FICA tax cut would be no threat to future Social Security and Medicare payments. Everyone seems to agree (I don't know why, but they do) that while FICA revenues are a sacred trust that can't be "raided" for other government expenses, it's perfectly okay to use money raised for other expenses to cover the shortfalls in FICA. Cutting FICA instead of the income tax just means one more dollar available in the general surplus for every extra dollar FICA will need. This idea has everything going for it. Well, everything except a gnomic endorsement from the Fed chairman. Alan Greenspan may or may not be to economic policy what Tiger Woods is to golf. But, undeniably, Greenspan is to economic policy what Tiger Woods is to Wheaties. I wonder what he charges.

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