

The new American President's economic plan



CHAKLADER MAHBOOB-UL ALAM
writes from Madrid

THIRTY-eight days after his inauguration on January 20, 2001 as the President of the United States of America, Mr. George W. Bush made his political debut by delivering his budget message (which sounded more like a State of the Union address), to a joint session of Congress. He did neither mangle his words nor falter in his delivery. On the contrary, he exuded great self-confidence. Although his oratory did not match the brilliance of Clinton's witty rhetoric, altogether it was an impressive performance. In any case, it marked the beginning of an ideological battle in favour of conservatism which some had hoped he would forego, at least for the time being because of his narrow victory in the presidential election.

Mr. Bush laid out his budget plan which was short on details but long on lofty aims. According to his experts, there will be a federal budget surplus of \$5.6 trillion over the next ten years. He said that he would use this projected surplus by spending more on education, military, healthcare and energy. He would also "pay down all the debt that is available to be paid down", which means approximately \$2 trillion over the next ten years. That would still leave an unpaid balance of \$1.2 trillion in the national debt account, which apparently is not easily redeemable. After all these disbursements, Mr. Bush felt he would still have enough reserves to introduce tax cuts worth \$1.6 trillion (including the death of the death tax, surprisingly against the wishes of some of its would-be beneficiaries like the father of Bill Gates) to help revive a flagging economy. In short, Mr. Bush offered a miracle—huge tax cuts, reduction of the national debt and increased spending on defence, healthcare, education and energy. How can he do that? What are the theoretical foundations of this extraordinary economic

programme?

According to many analysts, Mr. Bush's economic policy is based on certain principles which are known as supply-side economics with a humanitarian touch (Mr. Bush himself likes to describe his policy as compassionate conservatism). Actually the battle between supply side economics and Keynesian demand management has been going on in the United States since 1975. From the Great Depression of 1929-30, up to 1975, the US economic policy was largely guided by Keynesian economic theory. Keynes argued that under-consumption was the principal cause of the Great Depression. Therefore, government's economic policy should be directed towards

stimulating demand for goods and services via budget deficits and easy money. In other words, the government should directly influence demand and therefore employment by deliberately altering tax policies and public expenditures. According to this theory, there is an inverse relationship between inflation and unemployment. In other words, the higher the inflation is, the lower the unemployment will be. Unfortunately, during the recession of 1974-75 in the US, there occurred something quite extraordinary which baffled the Keynesian economists—a combination of high federal budget deficit, high unemployment and soaring inflation. They were unable to offer a solution. This gave rise to a "new" economic theory, which is generally known as "supply-side economics". Actually, there is nothing new about it. It used to be known as Say's Law after Jean Baptiste Say, a nineteenth century French economist which was accepted by James Stuart Mill and David Ricardo. Anyway, what is supply-side economics? What is the difference between this school of economics and the Keynesian school?

While in the Keynesian school, the emphasis is on increasing demand for goods and services, the supply-siders put more emphasis on "productivity" and "capacity creation through capital formation and research". They argue that a simple increase in demand without a corresponding increase in productivity will merely create more inflation. In contrast with the Keynesians, the supply-siders also place much greater emphasis on the private sector and deregulation of the market. They firmly believe that sustained economic growth of a nation is the responsibility of the private sector. The third important difference between the supply-siders and the Keynesians lies in their attitude toward taxation. While to the Keynesians it has exactly the same effect on the demand whether the government makes an

aggregate tax cut of a certain amount or increases government spending by the same amount, the supply-side economists feel that there is a huge difference between an aggregate tax cut and increased government spending of a similar amount. They feel even more strongly about different types tax cuts and tax rebates and their different impact on the economy. The supply-siders feel that the tax-cut mechanism should be discriminatory in favour of the private sector, which would involve "rebuilding capital stock, reinvigorating productivity growth, reducing structural unemployment". According to this view, "growth comes from investment, investment relies on savings and the wealthy save." Therefore, in a free market economy, the government policy as regards tax cuts should be geared to promoting the rich more than the rest of the population. This policy, needless to say, goes very much against the current trend (in line with Democratic Party thinking) which favours increasing taxes for high-income individuals and corporations and cutting taxes for citizens with low incomes.

The Reagan programme (1981), which was designed by supply-side economists, offered rapid economic growth, more employment, lower inflation, lower interest rates, an unprecedented five-year \$749 billion tax cut, enormous increases in military spending and above all a balanced budget. No wonder some economists dubbed it as "voodoo economics". One had to be a magician to achieve all this at the same time and Reagan was no magician. According to the economist Michael Evans, an optimal supply-side programme is like a three-legged stool: personal tax cuts, business tax cuts, and government spending cuts. If any one of the three legs is removed, the stool will collapse. That is precisely what happened to Reaganomics. Huge cuts were made in both per-

sonal and business taxes but there was no corresponding cuts in government spending. Instead, it went up in a significant manner creating huge budget deficits. Besides, in retrospect we now realise that the architects of the Reagan programme failed to take into account one very important factor related to tax cuts, that was the timing difference at the initial stage of the implementation; the supply-side effects of massive tax cuts in the form of higher investment and productivity do not take place immediately. It takes a few months or even years before their effects are felt on the economy. Actually if this factor is not managed properly, instead of economic recovery, the country may sink into an even greater recession. So, in view of this experience, what are Bush programme's chances of success?

When President Reagan assumed office, he inherited a stagnant economy with a small trade surplus, low unemployment, a modest budget deficit but high inflation and interest rates. At the end of Reagan presidency, unemployment, inflation and interest rates had been successfully brought under control but the federal budget deficit and the country's trade deficit had reached all-time high figures. The national debt increased to such

question is: Where is the money to do so many things at the same time?

As far as the proposed tax cuts are concerned there is another factor which merits special attention from Bush administration, particularly if one remembers the consequences of tax cuts during the Reagan presidency. What will be the effect of these tax cuts on government and private savings rate in the US? Most probably they will fall, at least at the initial stage. If they do, can the US expect the world to come forward with additional finances as it did during the Reagan era? After all, now the situation is completely different. Instead of being the world's largest creditor country at that time, the US has today become an uncomfortably large debtor country. Usually, no one bats an eyelid while lending money to the world's largest creditor, but how eager one will be to lend further sums of money to an already overburdened debtor? What will be the impact of all this on the dollar (both domestically and internationally), the interest rates, the stock market and the world economy? After all, in economics, there are so many factors at work at the same time and they all are so interconnected that it is impossible to predict their effects accurately.

Of course, a different scenario is also possible. The supply-side effects of the Bush programme (if finally approved by the Senate) may spur the economy to an unprecedented growth, yielding much higher revenues. The experience acquired by the Republicans during Reagan presidency to manage the timing difference of the supply side effects of tax cuts may also help the current administration to manage the economy better.

The most serious criticism that has been laid against the Bush economic programme is that the figures simply do not add up. First of all, there is considerable scepticism about the size of the projected budget surplus over the next ten years, which will most probably be off-mark by a few trillion dollars either way. Some have even gone so far as to say that this is all make-believe money. There are so many unknown factors involved in making long-term macro-economic projections (ten years in this case) that under the best of circumstances, they should merely be considered as trends. Besides, budgets are often prepared on the basis of rosy revenue predictions and over-optimistic control of expenditures. Therefore, one needs to be cautious. There may be a surplus, of which approximately \$2.6 trillion is, in any case, blocked in the Social Security Fund, which, by law can only be used to pay down the national debt and Social Security. There are other smaller reserves which are equally off limits for tax cuts or spending increases. So the

LETTER FROM EUROPE

The supply-side effects of the Bush programme (if finally approved by the Senate) may spur the economy to an unprecedented growth, yielding much higher revenues. The experience acquired by the Republicans during Reagan presidency to manage the timing difference of the supply side effects of tax cuts may also help the current administration to manage the economy better.

modest tax cut). The debate between the Republicans and the Democrats is not over the tax cuts but on its size, timing and distribution among different groups of tax payers.

The Reagan programme (1981), which was designed by supply-side economists, offered rapid economic growth, more employment, lower inflation, lower interest rates, an unprecedented five-year \$749 billion tax cut, enormous increases in military spending and above all a balanced budget. No wonder some economists dubbed it as "voodoo economics". One had to be a magician to achieve all this at the same time and Reagan was no magician. According to the economist Michael Evans, an optimal supply-side programme is like a three-legged stool: personal tax cuts, business tax cuts, and government spending cuts. If any one of the three legs is removed, the stool will collapse. That is precisely what happened to Reaganomics. Huge cuts were made in both per-

sonal and business taxes but there was no corresponding cuts in government spending. Instead, it went up in a significant manner creating huge budget deficits. Besides, in retrospect we now realise that the architects of the Reagan programme failed to take into account one very important factor related to tax cuts, that was the timing difference at the initial stage of the implementation; the supply-side effects of massive tax cuts in the form of higher investment and productivity do not take place immediately. It takes a few months or even years before their effects are felt on the economy. Actually if this factor is not managed properly, instead of economic recovery, the country may sink into an even greater recession. So, in view of this experience, what are Bush programme's chances of success?

When President Reagan assumed office, he inherited a stagnant economy with a small trade surplus, low unemployment, a modest budget deficit but high inflation and interest rates. At the end of Reagan presidency, unemployment, inflation and interest rates had been successfully brought under control but the federal budget deficit and the country's trade deficit had reached all-time high figures. The national debt increased to such

question is: Where is the money to do so many things at the same time? As far as the proposed tax cuts are concerned there is another factor which merits special attention from Bush administration, particularly if one remembers the consequences of tax cuts during the Reagan presidency. What will be the effect of these tax cuts on government and private savings rate in the US? Most probably they will fall, at least at the initial stage. If they do, can the US expect the world to come forward with additional finances as it did during the Reagan era? After all, now the situation is completely different. Instead of being the world's largest creditor country at that time, the US has today become an uncomfortably large debtor country. Usually, no one bats an eyelid while lending money to the world's largest creditor, but how eager one will be to lend further sums of money to an already overburdened debtor? What will be the impact of all this on the dollar (both domestically and internationally), the interest rates, the stock market and the world economy? After all, in economics, there are so many factors at work at the same time and they all are so interconnected that it is impossible to predict their effects accurately.



All health information to keep you up to date

Asthma and exercise

Exercise and asthma
He runs about all right for five minutes or so, but when he stops his chest immediately tightens up so that within a short while he can hardly breathe at all.

A mother describes how her child's asthma is brought on (triggered) by exercise.

Why exercise may start an asthma attack
People with asthma have airways that are almost always red and sore (inflamed). Because they are inflamed the airways are quick to respond to anything that irritates (triggers) them. Although they vary from person to person, triggers such as flu, cigarette smoke and cold air can make the airways narrower by tightening the surrounding muscles. Exercise is also a common trigger and when the symptoms of asthma (coughing, wheezing, chest tightness or breathlessness) follow exercise this is either called exercise induced asthma or exercise asthma.

People with asthma often wrongly give up sports
Exercise induced asthma does not mean the end of exercising. It can often be effectively treated so that people with asthma can choose to take almost any sort of exercise: many Olympic medals have been won by people with asthma.

Safety of medicines in sport
The inhaled steroids used to treat asthma are called corticosteroids. They are not the same anabolic steroids which some athletes use to improve their performance. The sporting regulatory agencies allow most inhaled asthma medicines to be taken.

What to do if the medicines are not helping
If the medicines do not help sufficiently well it is worth remembering the following:

- * Wheezing is usually worse on cold, dry days.
- * Long spells of exercise are more likely to induce asthma than short bursts.
- * Exercise with arms or legs alone is less likely to trigger an attack than exercise using both.

So cross-country running on a cold winter day might not be a good idea but sprinting and jumping in the summer may be fine. Common sense decisions, such as playing a less active position in team games, can make all the difference between taking part and not playing at all.

Aged first

Regular exercise enhances the calcium content of bones to make them strong; it also decreases the incidence of osteoporosis of bones thereby reducing the chance of fracture in old age.

Tomorrow: Facts about AIDS

Excerpts from the main report of Hamoodur Rahman Commission of Inquiry as declassified by Government of Pakistan

POLITICAL BACKGROUND: VII

ON the evening of 25th March, 1969, General Agha Mohammad Yahya Khan, Commander-in-Chief of the Pakistan Army, imposed Martial Law and assumed to himself absolute power throughout the country designating himself as Chief Martial Law Administrator. He did not proclaim himself President to start with but on 4th April, 1969, he assumed the rank with retrospective effect.

He announced that elections would take place on October 5, 1970, and that political activity would be allowed with effect from January 1, 1970. The Legal Framework Order was to be made ready by March 31, 1970, and for the elections the One-Unit of West Pakistan was to be dismembered. The other fundamental issues upon which he stated that there was unanimity, were that the new constitution should be based upon the parliamentary federal form, elections should be on direct adult franchise, fundamental rights and their enforcement by the courts should be guaranteed, the independence of the judiciary and its role as the custodian of the Constitution should be secured and the constitution should have an Islamic character based on the ideology of Pakistan.

In accordance with this time table on the 30th of March, 1970, he promulgated two orders, namely the Province of West Pakistan (Dissolution) Order and the Legal Framework Order. By means of the first, various provisions were made for effecting the dismemberment of One Unit and the second provided for the Constitution of a National Assembly of Pakistan for the purpose of framing a Constitution and also provided for the election of Provincial Assemblies. The Legal Framework order required that the Constitution framed by the National Assembly should embody five fundamental principles. These principles were mainly those matters upon which agreement had been reached in the Round Table Conference and upon which he himself had announced that there was unanimity of opinion (the other matter upon which there was unanimity had already been settled by the Province of West Pakistan (dissolution order). In fact, therefore, the Legal Framework Order virtually, save for one very important exception, gave a Constitution. That one exception was the manner in which the distribution of power between the Centre and the provinces would be made. The relevant provision of the Legal Framework Order is Article 20(4) which states:— "All powers including legislative, administrative and financial, shall be so distributed between the

federal government and the provinces that the provinces shall have maximum autonomy, that is to say maximum legislative, administrative and financial powers but the Federal government shall also have adequate powers including legislative, administrative and financial powers, to discharge its responsibilities in relation to external and internal affairs and to preserve the independence and territorial integrity of the country."

Had the degree of provincial autonomy been clearly laid down in the Legal Framework Order, it is obvious that the only task that would have remained would be a mere matter of drafting. It is to be remembered that at one extreme, stood the demand for Six Points, the issue upon which the Round Table Conference negotiations broke down, if indeed one is justified in saying that they did break down. As against this, stood the principle, stated in the Legal Framework Order, that the integrity and solidarity of Pakistan had to be secured in the new Constitution. On the other hand he had at least three examples of a constitutional distribution of powers between the Centre and the Provinces, the Government of India Act, 1935, the Constitution of 1956 and the Constitution of 1962. The second of these, at any rate, was a Constitution framed by a Constituent Assembly and had been followed for a short time before it was abrogated in 1958, just before the first elections under it could be held. There is, therefore, considerable force in the argument that, knowing the sensitive nature of this particular point and the extremes to which feelings on it could go and having regard to the fact that but for this point the Constitution had been in effect promulgated by the Legal Framework Order, it would have been wiser in fact to promulgate a Constitution with a fairly substantial measure of Provincial Autonomy leaving it to the fully elected assembly to amend the Constitution by enlarging or limiting that measure of autonomy. Indeed, to anticipate events, much later in February 1971, General Yahya stated that to those who feared for the integrity of the country the answer was that the Legal Framework Order was a sufficient guarantee. Could that sufficient guarantee he held to be binding after an election; the campaign for which was later claimed to be a referendum on the Six Point issue; or now be regarded as of sufficient authority to impose a constitution which gave an autonomy short of Six Points with a viable Centre, functioning on its own power?

There were two other remarkable features of the Legal

Framework Order. One of these was that there was no provision made as to any specific majority needed for the passage of the Constitution or some other safeguard, as for instance the insistence that a stated percentage, say, 25 per cent of the votes of each region or federating unit should be necessary to constitute a valid majority for the passage of the Constitution. When General Yahya Khan appeared before us we asked him to enlighten us as to the reasons for this omission. He replied that he had incorporated in the Legal Framework Order only such matters as had been unanimously agreed to by everybody and the voting procedure was not one of them. He also said that he thought it was necessary to leave such a matter to the House itself. We are entirely unable to follow this reason. Unanimity was required, if at all, as to the actual provisions of the Constitution intended to be framed and surely not as to the procedural mechanics of the body which was to frame it. More important than this, however, is the fact that by omitting to state any such majority and leaving it impliedly, if not expressly, to that body itself, was in fact to say that the decision would be by a simple majority. This is obvious from the fact that when the question would arise before the assembly as to what should be the voting majority, that question itself would necessarily have had to be decided by a simple majority. Clearly, therefore, those who were in the majority in the House would have favoured such a decision and would have been able to make it. When regard is had to the actual circumstances of our politics the outlook was very bleak. By reason of the decision that there should be one man one vote, clearly, the representatives of East Pakistan would be in a numerical majority. As we have said before the only thing of any importance which the assembly was to decide was the question of quantum of Provincial Autonomy. Shaikh Mujibur Rahman was already for Six Points and even if it could not then be anticipated that he would win 98 per cent of the East Pakistan seats, surely there was enough material in the proceedings of the Round Table Conference to indicate that he would be a formidable power, if, therefore, the question of Six Points became an issue between East and West Pakistan, as it had every prospect of becoming, the decision to leave the question of how great a majority was needed for decisions in the House virtually meant that East Pakistan would decide this issue. In other words it meant that East Pakistan would decide whether or not it would secede.

Of course all that is stated in the

previous paragraph is based upon the assumption that East Pakistan would vote as a whole but, in the light of the Six Points, this was surely a serious enough possibility to be anticipated. If it could be safely assumed that East Pakistan would never go to the extent of demanding Six Points then both the gravity and the sensitivity of the question of Provincial Autonomy is considerably reduced and on that basis of course the importance of the minimum majority needed is greatly diminished.

It is not as if the importance of the voting procedure was not realised. Evidence shows that the Law Minister/ Law Advisor did point out to General Yahya how vital a matter it was and, indeed, both in his broadcast of 28th November, 1969, to which we have referred and in that of 28th March, 1970, two days before the promulgation of the Legal Framework Order the General mentioned the matter: "28.11.1969. As regards the voting procedure in this National Assembly, it is important to appreciate that the Assembly will be deciding upon basic constitutional issues. Constitution is a sacred document and it is an agreement to live together. It cannot be compared to any ordinary Law. It is, therefore, essential that the voting procedure to be involved by the Assembly for itself, should be just and fair to representatives of all regions of Pakistan. After the Assembly has completed its task and the Constitution made by it has been duly authenticated, it will assume the character of Pakistan's Constitution. The stage would then be set for the formation of the new Government." "28-3-1970. When the Legal Framework Order, 1970 is published you will notice that in the schedule dealing with the Rules of Procedure, the voting procedure for the National Assembly has not been included. This is a matter which is best settled by the House itself and it is my earnest hope that there would not be too much divergence in views on this issue. Unanimity would of course be ideal. In any case I do not personally like to talk on this subject on the basis of percentages. The point that I made earlier and would like to emphasize again is that a Constitution is not an ordinary piece of legislation but it is an agreement to live together. It is therefore essential that all regions are reasonably satisfied with the voting procedure that may be evolved by the House because unless they are so satisfied, the Constitution will not really and genuinely be acceptable to the people of different provinces and regions as such a document should be. I am sure it should be possible to

arrive at some suitable arrangement."

The reasoning is curious; it is precisely because a Constitution was to be framed that it was necessary to settle the voting procedure: the General appears to have

thought the exact contrary.

Tomorrow: POLITICAL BACKGROUND-VIII