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Abstract

Elected on a platform for change, Bill Clinton neither wasted time nor minced words as he outlined his Vision of Change for America during his first State of the Union Address.President Clinton has proposed a comprehensive economic recovery plan aimed at reducing the deficit by $477 billion over the next five years, as well as simultaneously providing short-term relief and long-term solutions to the puzzles of unemployment and sluggish growth. In general, Clinton intends to meet these seemingly contradictory objectives by (1) revising tax codes, (2) instituting growth initiatives and (3) reducing government spending.

Clintonomics: A Vision of Change

by **Barb Kube**

With the Reagan/Bush years behind us, so too are the days of supply-side economics. Unfortunately, the problems of high unemployment and ballooning debt remain. These, accompanied by a sluggish growth rate and an increasing disparity between those that have and those that have not, are the problems facing the Clinton administration.

Elected on a platform for change, Bill Clinton neither wasted time nor minced words as he outlined his Vision of Change for America during his first State of the Union Address. President Clinton has proposed a comprehensive economic recovery plan aimed at reducing the deficit by $477 billion over the next five years, as well as simultaneously providing short-term relief and long-term solutions to the puzzles of unemployment and sluggish growth. In general, Clinton intends to meet these seemingly contradictory objectives by (1) revising tax codes, (2) instituting growth initiatives and (3) reducing government spending.

Clinton's proposals are consistent with macroeconomic theory, which advocates using expansionary fiscal policy (increase spending and decrease taxes) to combat high unemployment, and a contractionary policy prescription for reducing the deficit (less government spending and more taxes). The diametric nature of the two policies is obvious. If a proper balance is not found and stimulus measures work too well or too quickly, Mr. Clinton will find himself fighting another enemy, inflation. On the other hand, when trying to provide meaningful deficit reduction, the President must be careful to avoid crowding out private investment which could push our economy back into recession. It is a precarious balancing act, much like walking a tightrope. Mr. Clinton's proposals attack these problems with a similar dynamic and creative energy.

At the heart of Clintonomics is a belief in the urgent need to restore a sense of equity to the way government deals with our economic system, something that was lost in the 1980s. Leading the fight for equity is the tax reform package. In essence, the President would 1) raise the tax rates on affluent individuals; 2) increase the corporate tax rate from 34% to 36%; 3) tax 85% of income for wealthy Social Security recipients; 4) create an investment-tax credit for expenditures on new plants and equipment, provided that the investment is held for at least five years and does not exceed $1 million; and 5) initiate a BTU energy tax that will affect taxpayers who earn more than $30,000. Each change is aimed at creating a feeling of "shared sacrifice" by making those who have the most pay more. Thus, a greater sense of progressivity will emerge.

In addition to being fair, instituting a BTU tax at the production level will help promote energy efficiency and economic independence for the United States. Clinton's plan, which is to be phased in over a four year period, places the highest per unit rate on oil. This is no accident. It is believed that placing a high rate on oil will help decrease America's dependency on foreign oil as well as encourage research on more environmentally safe and efficient forms of energy. Certain politicians and other critics of the BTU tax argue that this will actually hurt the American economy by increasing production costs. However, energy prices under the BTU tax would still be much lower than the corresponding prices in Europe and Japan. Some of these nations pay higher energy prices and still maintain a trade surplus with the United States. This suggests that lower energy prices cannot guarantee a better balance of trade; perhaps changes need to take place within the corporate structure.

Fueled by corporate down-sizing and increased worker productivity, the nation's unemployment rate is uncomfortably high and wages are stagnant. Furthermore, it has been estimated that permanent job losers accounted for 43.1% of the unemployed in 1992 (Hage 42). At the risk of being labeled "just another tax-and-spend Democrat," President Clinton has proposed numerous short- and long-run growth initiatives. Included in this agenda is increased funding for highway and other infrastructure projects, a national service program for the repayment college loans, a summer jobs program, the National Science Foundation (research grants) as well as programs for children such as Head Start and WIC. Choosing to invest in human capital sends a powerful message to the public—it tells taxpayers that the government does care about those who pay the bills; they will no longer be giving something for nothing. At the same time, such programs will benefit the entire economy in the long-run.

This second result is what distinguishes President Clinton's proposals from those of other "tax-and-spend" economic plans. His proposals recognize two fundamental economic principles. First, taxes are a function of government. Second, increasing taxes as a form of revenue-raising is not inherently bad, but rather the effectiveness of such fiscal policy is determined by the manner in which tax dollars are spent. Using tax revenue to fund long-term growth initiatives rather than one-time pet projects will benefit everyone. Even those who are being asked to bear more of the present tax burden will benefit from an improved economy in the future.

Investments in human capital, infrastructure, technology will do more than just create jobs in the short-run. Such programs will also increase efficiency, productivity and quality. This can help American businesses become more competitive in the global marketplace in the long-run. Increasing American competitiveness through greater commitment to training and education should increase real economic growth. The cumulative benefits—more tax revenue and fewer government outlays for automatic stabilizers—far outweigh the costs of such programs.

One way in which the Clinton administration addresses the issue of costs is by calling for spending cuts, particularly in inefficient and out dated programs. The dissolution of the former Soviet Union has provided President Clinton with a unique historical opportunity—he is now in the position to reduce military spending and reap the peace dividend without jeopardizing national defense. Cuts in the Defense Department budget account for the largest proportion of spending cuts. Reductions will also be realized through such actions as establishing a cap on agricultural subsidies, reducing the White House Staff and putting a freeze on federal salaries.

Critics complain that Clinton's program will only cut spending by $1 for every $2 increase in taxes. However, discretionary spending can only be reduced by so much. Unfortunately, entitlement and interest payments are assuming an increasingly more prominent role in the government budget; and when government has less control over where its money is spent, it also has fewer available policy options. Thus, the strength of this fiscal plan can only be seen by assessing the deficit-reducing benefits of the immediate spending cuts along with the long-term decrease in transfer payments that will result from various growth initiatives.

No matter how economically sound fiscal policy is, it will only succeed if it is closely coordinated with monetary policy. Such coordination was symbolized during the State of the Union Address, where First Lady Hillary Rodham-Clinton was seated next to Chairman of the Federal Reserve Alan Greenspan. This marked the first time in over a decade that the Fed and the Oval Office are pursuing similar objectives. Without FED cooperation, rising interest rates could result in a crowding out of private-sector investment. Greenspan has acknowledged that the Fed must play a crucial role in maintaining low interest rates, and has offered his silent support to Clinton's plan. So far, so good.

Ultimately the true test of President Clinton's budget plan will be less a test of math than it will be a test of fairness. Its fate rests in the hands of the Washington politicians and the voting public. Members of Congress will assess the plan's strengths and weaknesses using a mysterious formula which involves same notion of economic theory as well as a hefty dose of self-interest (re-election maximizing strategy); the ability of the American people to influence such decisions cannot be underestimated. If a majority of both the voting public and the law makers believe that this is an equitable solution, it is still an open question as to whether or not they will be willing to give up certain special interest ("porkbarrel") projects in order secure a brighter economic future for the entire nation. Will they denounce their plea for change by reverting back to the same old habit of trying to minimize their individual burdens, at the expense of someone else?

While no single proposal can possibly alleviate all of the economic pressures that are being felt in this country, Clinton's Vision can be an important turning point toward instituting meaningful debt reduction and long-term growth. These goals are vitally important to all socioeconomic sectors of American society. The choices are not easy; no one can please all people all of the time. Perhaps President Clinton identified the most appropriate criteria by which to judge his plan when he said, "My fellow Americans, the test of this plan cannot be what is in it for me. It has got to be what is in it for us."

Model GATT

Dr. Lowry and Franklin Nnebe

The General Agreement on Tariffs and Trade (GATT) is an international agreement created to address critical issues affecting international trade. The current round of GATT trade negotiations, The Uruguay Round, began six years ago and has not yet been completed. The Model GATT course over winter-term was offered to provide the students with an opportunity to understand the inner functions of GATT and its role in world trade as well as attempt to complete the Uruguay Round at a mock negotiating conference. The course's unusual title coupled with Dr. Lowry's innovative and stimulating teaching skills attracted a broad scope of majors and backgrounds.

The first two weeks of the course were spent learning about the specific mechanisms of GATT through class lectures and reading numerous articles on current GATT issues. There were no exams given on the material, but rather, students were themselves responsible for preparing for the conference. In addition, class lectures facilitated intense, yet sensible discussion and allowed for a relaxed class atmosphere. After this initial contact with the GATT material, everyone in the class (including Dr. Lowry), was assigned a country or trade group to research and represent at the Uruguay Round conference. The next week was allocated to political and economic positions of each student's country or trade group, as well as conferring with representatives of other countries, to depict as closely as possible the multilateral activities in "real world" negotiations. At the end of the research, delegates submitted proposals and amendments to the GATT Agreement for consideration at the conference.

The conference was a seven-hour negotiating session held on the second to last day of class. Four main areas of trade negotiations were undertaken, consistent with proposals submitted by the delegates: Textiles, Services and Intellectual Property Rights, Graduation and Safeguards, and Agricultural and Topical Products. All of these issues were arenas for fierce and intense debate, but gradually the interests of the countries were synthesized, and the countries successfully reached agreement in each area. At the end of the day, the four areas were brought to the general floor for voting, where the unanimous passing of the package marked a delightful conclusion to the six-year Uruguay