

Bush's Economic Agenda Deserves Support



President Bush's second term agenda is the most ambitious in memory. As a rule, a president's second term is characterized by drift, avoidance of the major challenges and opportunities, a high potential for scandals, fractious party leadership, and the various strange rituals expected of would-be presidential candidates. Few important reforms are proposed and approved in a president's second term, even when the president and a majority of Congress are of the same party.

Not so for President Bush. He has committed his administration to major reforms of Social Security, the federal tax code, tort law, and immigration, and the outcomes of the 2004 election should increase the potential for those reforms to be approved. Although Bush has yet to make a legislative proposal for any of those reforms, he has said enough to let us identify the general characteristics of the reforms that he will propose.

The most important economic policy reform to which Bush is committed would allow workers to divert some part of their payroll tax to fund personal retirement accounts in exchange for a somewhat more than proportional reduction of their future Social Security benefits. The primary open issue is the magnitude of the allowed diversion to personal accounts; the Bush proposal would allow a maximum diversion of 4 percent of covered earnings, and the bill with the largest congressional support is Cato's proposal to allow a diversion of 6.2 percent of covered earnings. The major political problems with this proposed reform are that congressional Republicans have yet to agree on a specific reform proposal and that no proposal has yet to receive support among congressional Democrats.

Bush has made a general commitment to reform the federal tax code but with little guidance about the types of changes that he would propose. He wants to reduce the complexity of the tax code, to reduce the taxation of private saving, and to preserve the deductions for home mortgage interest payments and charitable contributions. Bush has appointed a private commission to review various tax reform options; that commission will report by the end of July. Cato has recently completed a tax reform proposal for consideration by the commission. The president's own proposal is likely to come in September. The only tax measure that Bush will propose before then would be to extend indefi-

nately the tax cuts approved during the first term. My guess is that neither Bush nor Congress is prepared for a tax reform as comprehensive, for example, as the 1986 tax reform.

The cost of tort liability is now about 2 percent of GDP, much of which is the compensation of trial lawyers, and that cost is expected to double in the next 10 years if there is no change in tort law. For some years, congressional Republicans have supported various tort reform proposals, only to be thwarted by the Senate Democrats; the four additional Republicans in the Senate should be sufficient for a major reform of tort law. The Bush administration and Congress are best advised to focus on venue issues. Suits against a single out-of-state defendant should be shifted to a court in the state in which the defendant has the largest employment. Class action suits with defendants in several states should be shifted to a federal court. The major danger of addressing tort reform quickly is that the administration and Congress appear tempted to federalize the substance of tort law to address such problems as the occasional

huge awards for medical malpractice. Given the proposed sorting out of venue issues, however, competition among the states should be sufficient to discipline the substance of tort law and is more consistent with a healthy federalism.

For many years, beginning with his experience as governor of Texas, President Bush has wanted to reform our immigration laws in two dimensions: to give legal status to the 10 million or so undocumented aliens in the United States, so that they can have a driver's license, work in a legal job, and the like, and to process the many thousands of new undocumented immigrants a year through legal channels. In recent years, of course, this issue has been complicated

by the general concern about controlling the borders against potential terrorists. The primary substantive problem of the probable Bush proposal is that many undocumented immigrants may not opt for legal status if they would later be deported. Of the four major Bush reform initiatives, this is the least likely to be approved because it strongly divides both parties for different reasons.

Each of these four proposed reforms deserves careful thought and broad support. But all of them are potentially threatened unless the two 800-pound gorillas lurking on the sidelines—the continuing war in Iraq and the large federal budget deficit—are tamed. Although many of us at Cato opposed much of Bush's first term record and will probably oppose some of his future proposals, we wish the best for his second term economic reform agenda.

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—William A. Niskanen