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Ailing Economy Needs a Remedy From Bush

By JEFF MADRICK

It is being said by some that President Bush has no economic policy. In fact, the administration does have one. But it is not working.

The policy is mostly made up of tax cuts in the future, and a good deal of cheerleading in the present. It has a staunchly laissez-faire foundation: the philosophy, in a nutshell, is that the White House neither can nor should do much about the economy, except to get out of the way.

Even Herbert Hoover had a fonder feeling for government. He at least heroically led the American relief efforts that fed so many starving Europeans after World War I.

Considering the litany of disappointments, however, you would think that Mr. Bush would begin to have some doubts about his chosen course.

Estimates of future federal budget deficits are rising. Corporate profits keep coming in lower than expected. The leading indicators have fallen three consecutive months. Capital spending softened again in August. The stock market oscillates around lows reached after Sept. 11, 2001.

Now retail spending, which has been the surprising prop under the economy, is starting to flag as well, even at Wal-Mart.

A double dip? How about one long recession?

Those who say we have already climbed out of recession focus on output or gross domestic product. But Robert Hall, the conservative economist who leads the committee that dates recessions for the National Bureau of Economic Research — a private organization that is considered the official arbiter of business cycles — notes that employment is also a crucial criterion for determining when recessions begin and end.

The nation's gross domestic product has grown at roughly a 3 percent annual rate for a year. By contrast, employment has not come back. Total employment fell for a year beginning last spring and then merely flattened out. If overall economic activity falters, the research group may well argue, based on sagging employment, that the recession has been continuous since the spring of 2001.

For all this, there is no serious stimulus package on the table in Washington. "Congress has gone dead on this issue," said Tom Palley, an economist at the Open Society, an international philanthropy group.

A new stimulus package in the neighborhood of $100 billion, or 1 percent of G.D.P., is needed now. The Federal Reserve will probably cut rates at its next meeting, but interest rates are already so low that further cuts may not help much.

Much of the federal money should go to workers, who need it and will spend it. The rising jobless rate has understated the jobs weakness. Discouraged workers are leaving the work force in droves and are not counted as unemployed.

By one important measure, this recession is every bit as bad as it gets. Lee Price, chief economist of the Senate Budget Office, finds that the number of people working as a proportion of the working-age population has fallen faster in this recession than the average of the last nine recessions. Moreover, it has fallen for 27 months, longer than in any other postwar recession.

The first priority of a stimulus package should be to extend unemployment benefits beyond the customary period. Unless the economy improves, two million workers will run out their unemployment insurance by the end of the year, and an additional couple of hundred thousand will lose coverage every month thereafter.

Part-time workers, now an increasing portion of the work force, should also be able to qualify if they work a certain number of hours. Benefits could also be raised. One easy way would be to stop taxing them for a year.

Extending and expanding unemployment insurance has another benefit. When the economy strengthens, federal outlays will fall because there will be fewer unemployed. So, unlike the Bush tax cuts, this will not add to the long-term deficit.

A second priority is to compensate for the reduced spending of state and local governments, much of which still lies ahead. As they lose tax revenue, these governments are reducing spending in crucial areas, including public works and education, by tens of billions of dollars. Again, as the economy strengthens, such federal spending would slow and not remain a long-term burden.

Finally, Congress should rescind the Bush tax cuts for the rich and channel a portion of them to middle-income and poorer workers. Some economists recommend a cut in payroll taxes.

The disorganized Democrats have not been able to cobble together a convincing stimulus package, but they are at least offering a plan to extend unemployment benefits before Congress adjourns later this month.

In all fairness, however, the president holds the best cards, and he has not even shown up at the table. Even the tax cuts on capital gains he discussed just after the economic meetings in August in Waco, Tex., have been shelved for now. And they would not have helped much, anyway. Instead, we got a pep talk from administration officials like Glenn Hubbard, the White House chief economist, who insisted over the weekend that we will not sink into recession again.

Maybe not. The president stumbled inadvertently into some stimulative policies. War spending plus tax cuts arranged when the economy was prospering have turned out to be timely. But they are not enough, and such fortuitous policy accidents do not generate confidence.

Overoptimism about the so-called new economy created serious obstacles to future growth, including excess capacity, especially in high technology and telecommunications, as well as high levels of consumer debt, an overvalued dollar, and an enormous trade deficit.

And poor leadership is no doubt taking a special toll as prospects for war mount. "The war puts everything on hold," said Albert M. Wojnilower, a Wall Street economist.

Ignoring economic reality may help the Republicans win in November, but they will then face an economy that may have slipped so far it cannot be managed, even if they finally decide they want to try.