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## ECONOMIC NEWS UPDATE

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Suddenly, several policy issues that have until now been swept under the rug are being brought into the open.

- With eleven million illegal immigrants scattered around the country, it has been difficult for politicians to close their eyes to the need for a more sensible policy, but close their eyes they have managed to do.
- America's trade deficit is running at close to 7% of GDP, but policy makers have contented themselves with a few warnings to the Chinese about currency manipulation and theft of intellectual property, a lot of sound and fury, signifying policy paralysis.
- Some 46 million Americans are without health insurance, but no politician has been willing to come to grips with what many see as an important problem, or with the rising cost of health care.
- Gasoline prices are on the rise, with no energy policy in sight that can relieve the plight of America's motorists as they head into the driving season.

As if to ruin congressmen's Easter recess, all four divisive issues popped into the news just as the people's representatives headed home for an early start on their November election campaigns.

Start with immigration. The Republican House of Representatives started a fracas by passing a bill that would make it a felony to employ or in any way aid illegal immigrants. That riled employers who depend on such labor, and the Catholic clergy who often tend to the needs of illegals unable to avail themselves of the nation's social services. The Senate attempted to pass a more balanced bill, combining tighter border controls with the regularization of the illegals' status, and a path to eventual citizenship. But partisan wrangling killed the bill, at least for now.

Meanwhile, millions of legal and illegal immigrants took to the streets of Phoenix, New York, Dallas, Washington and other cities, many carrying Mexican flags and signs saying "We were here first," a tactic quickly abandoned when it proved counterproductive. Congressmen are having trouble counting votes on this issue. Hispanic

immigrants who have become citizens threaten to retaliate at the polls if their congressional representatives penalize illegals or stem the flow of such immigration. On the other side, residents of communities overrun with illegals who crowd their schools and hospitals promise to make any pro-immigration politician regret a vote to grant amnesty to illegals.

Having fled Washington without resolving the immigration problem, congressmen got home just in time to see Mitt Romney, the Republican who managed to get himself elected governor of the ultra-liberal state of Massachusetts, appear on their television screens to announce passage of his new health care plan. Never mind the details, which may make the scheme unworkable in the end. More important is the fact that it promises universal coverage. Romney, who makes no bones about his plans to seek the Republican party's presidential nomination, was saying to Americans that he can arrange insurance coverage for every citizen of his state. Voters around the country will undoubtedly ask their representatives, "If Romney can do it, why can't you?" Third, there is trade, and a deficit to which neither congress nor the president has a solution. The issue has been brought to the fore by the announcement last week that China's trade surplus soared in March to a near record level – these statistics inconveniently preceding the impending visit of Chinese president Hu Jintao to the White House.

The Chinese authorities paved the way for the heads-of-state tête-a-tête by sending hundreds of its leading businessmen around America to distribute 106 contracts worth \$16.2 billion for a variety of goods including

auto parts, optical devices and software, manufactured in a wide variety of congressional districts.

This was a partial response to President Bush's challenge to Mr. Hu to explain to Americans "where there's equity in trade" with a country that sells \$200 billion more to the US than it buys from it. In addition, China also agreed, again, to do something to stop the massive theft of American intellectual property: some 90% of software used in China, worth \$3.5 billion, is unlicensed by its owners, including software used by the Chinese government. All of this buying and promising, much of the latter merely a commitment to review matters in 2007, has not placated the business community, or voters in the congressional districts hurt by Chinese imports.

Finally, there is gasoline. In the good old American tradition of believing there is a solution to every problem, voters want to know what congress is planning to do about gasoline prices, which are once again on the rise. Perhaps holding off until congress was safely out of shouting range, the Department of Energy announced a precipitous drop in gasoline inventories, and released its forecast of gasoline prices. It expects the average price of regular grade gasoline to hit \$2.73 next month, 57¢ and 26% higher than in May of last year. Part of this is due to the mandated increase in the use of ethanol, which is rising in price as producers find themselves hard-pressed to meet skyrocketing demand – up from 1.8 million barrels a month in 2002 to 7.4 million barrels this month. This is a perfect example of the law of unintended consequences – not unforeseen by experts, but neither foreseen nor intended by legislators. In

order to blend ethanol into gasoline and still avoid violating air quality regulations, refiners must remove other components, with the net effect of reducing gasoline supplies by 1.7% in the face of increasing demand.

Congress has no better answers to what President Bush calls America's "oil addiction", than it has to the immigration, the trade deficit, or rising health care costs. It will spend this week offering voters around the country a variety of excuses for its ineptitude, before returning to Washington to strut and fret once again on a national stage before an audience divided evenly between the frustrated and the bored.



## **THE SUNDAY TIMES**

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