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## ECONOMIC NEWS UPDATE

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North Korea's ability and willingness to set off a nuclear device of some sort is being blamed on a failure of American diplomacy. Never mind that Kim Jong Il's survival depends on the continued support of China, or that Russia has consistently refused to support moves to pressure North Korea to end its bid to become a nuclear supplier to the world's jihadists, or that even now the UN Security Council refuses to take meaningful action to force North Korea to change course. When it comes to failed diplomacy, there is blame enough to go around.

But when it comes to failed economic policies that produce failed diplomacy, the buck stops in Washington. It is the economic policy of the Bush administration that has hobbled its efforts to veto North Korea's application to join the nuclear club.

Start with fiscal policy. It is indeed true that the Bush tax cuts were key to ending the recession the Republicans

inherited from the Clinton administration. And it is also true that some of the tax cuts have proved to be revenue generators for the Treasury. That has enabled the administration to gloat over a 22% reduction of the budget deficit from last year's \$319 billion. But in a booming economy, a continued deficit of \$248 billion is hardly chopped liver, as the analysts in New York's delis say. And when those deficits result in stacks of IOUs held by China, America's diplomats are forced to walk softly lest they antagonize so large a creditor.

It is this fiscal situation, this unwillingness to rein in spending so that the boom in tax receipts can be used to provide support for American diplomacy, that has made it impossible for America to have an effective foreign policy. Indeed, it is arguable that George W. Bush has presided over the largest decline in America's ability to influence world events since, well, since the 1920s, when we decided it was in the

nation's interests to let the world take care of itself while we partied at that era's equivalents of today's discos, the jazz joints and speakeasies that offered solace to the Wall Street crowd after a hard day of share-price manipulation.

North Korea was confident that America would not use force to eliminate its nuclear facilities, or to bring its long-range missile program to a crashing halt, or to stop its massive counterfeiting of \$100 bills -- counterfeits so good that they are dubbed "superdollars" and can be detected only when they turn up at the Federal Reserve Banks. After all, even that country's cloistered politicians can see that the Bush team is unwilling even to commit the resources needed to bring the Iraq intervention to a successful conclusion, or to prevent the Taliban from retaking large swathes of Afghanistan. Rather than call upon the American people to make some sacrifices, in the form of higher taxes, the President invited them to visit America's malls more often. And if consumers didn't have the cash needed to buy that new flat-screen television set, there was Alan Greenspan, keeping interest rates so low that borrowing was easy and it was irrational to build up equity in your house rather than remortgage to fund current consumption.

So America is already stretched, not beyond its capacity to implement Bush's vision of a democratic and reconstructed Iraq, or to turn tough talk to North Korea into action, but beyond what that same president is willing to call upon its citizens to sacrifice. Unlike Thomas Jefferson, who pledged millions for defense but not a cent for tribute when our commerce was threatened by pirates, Bush has pledged billions for

prescription drugs for unpoor elderly Americans, and allowed more billions to be poured into congressmen's wasteful pet projects (aka set-asides), but only a relatively few pennies for the military he asks to back his diplomatic drive to spread democratic values.

There is worse. The President's energy policy consists of begging OPEC not to prevent petrol prices from easing by cutting back on oil production. Meanwhile, he has allowed America's addiction to oil to weaken his diplomatic hand in Latin America and the Middle East. Revenues from American oil consumption are funding Hugo Chávez's campaigns to elect anti-American politicians in Ecuador and Nicaragua, and his trips to meet with his old pal, Fidel Castro and his new friend, Mahmoud Ahmadinejad. Billions travel from US petrol stations to Caracas and to Saudi sheiks, who fund madrasas where anti-Western bile is poured into the ears of potential terrorists.

Experts agree that the best way to reduce this source of terrorist financing would be a substantial tax on imported oil, or on gasoline, but that would require the President to demand sacrifice of the American people, something he is unprepared to do.

Meanwhile, the American economy continues to tick along, unfazed by the failures of US diplomacy. If markets are indeed all-knowing machines that correctly appraise future risk, then the robust performance of share prices tells us not to fret unduly over a nuclear North Korea, an Iraq descending into murderous civil war, an Iran that is preparing to acquire its own nuclear weapon as part of its stated plan to eliminate Israel, or a cooling of the housing market.

After all, analysts are increasingly convinced that the economy is re-entering the goldilocks stage of low inflation, full employment and reasonable growth, or at worst is headed for a soft landing as business investment takes up any slack left by a fall in consumer spending. In either case, they now expect the Fed to confine itself to publicly worrying about inflation, meanwhile continuing its interest rate pause.

Even the prospect of an election that will turn control of both houses of congress over to the Democrats can't seem to dampen investors' enthusiasm. They may have it right: the American economy is a productive thing, and resilient. It will survive more ruin than most politicians are capable of dishing out.



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