

Suite 502

1150 Seventeenth Street, N.W., Washington, D.C. 20036

Telephone: (202) 777-3000 Facsimile: (202) 777-3010

ECONOMIC NEWS UPDATE

IRWIN M. STELZER

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Elections Matter

Elections matter. Some 85% of French voters think so, but only about 60% of British and American eligible voters agree. That could be because we Anglo-Saxons see no difference in what is on offer from the various politicians begging for our votes, or because we are too satisfied with the way things are to bother to vote. (Our Australian friends are burdened with a compulsory voting law -- almost all do vote, but whether they actually care very much about more than avoiding a fine we cannot know.)

Either way, experience in America in recent months suggests that elections matter a great deal. And not only in the crucial foreign-policy area, where a Democratic congress is attempting to force President Bush to pull American troops out of Iraq soon, the devil and Al Qaeda take the hindmost.

Consider issues of corporate governance. After a spate of legislation

following the Enron and other corporate scandals, Republicans felt that all that need be done had been done. Not the Democrats who, now in control both houses of congress, are pushing legislation that will require companies to give shareholders the right to an advisory vote on executive compensation, which they consider too high and are arguably insufficiently related to performance.

That's all part of the Democratic Party's tilt in favor of "the little guy", "Joe Sixpack". Another is the Democrats' plan to raise the minimum hourly wage from \$5.15 to \$7.25. That is designed to help directly the 5.6 million workers (4% of the workforce) now earning less than \$7.25 per hour, and indirectly the 7.4 million (6% of the workforce) earning close to that wage whose pay would also go up. To them, the recent election has mattered. As it will for those whose jobs disappear because they are not

profitable workers at the new, higher wages.

That same theme -- a tilt from "the rich" to the poor and the middle class -- will be reflected in tax policy. Most Democratic presidential aspirants, and congressional Democrats, have promised to eliminate those of President Bush's tax cuts that provide relief to households earning more than about \$200,000 per year, and shift the burden to families earning more than \$500,000 per year. That would in effect eliminate the reductions Bush pushed through in taxes on dividends -- from 38.6% to 15% -- and capital gains -- from 20% to 15%. And all Democrats favor restoring the inheritance tax that Bush has been gradually phasing out.

Trade policy is also importantly affected by the shift in political power from Republicans to Democrats. Bush has been an ardent supporter of freer trade, with a relatively few nods to protectionist sentiment when political pressures forced his hand. Not the Democrats, who see freer trade as a threat to the jobs of many of their constituents, and who won't sign on to any new deals unless they include clauses requiring America's trading partners to adopt laws guaranteeing the rights of workers in poor countries to form trade unions. Never mind that free trade has been the single most powerful force reducing world poverty.

And while on that subject, the Democrats plan to tilt the balance of power in the direction of unions, which are staggering from massive membership losses as the economy shifts from unionized industries in which muscle-power matters, to those in which brain-power is the driver, and in which workers see no need for trade unions. The Democrats want to replace the

secret ballot, now guaranteed to workers when unions demand recognition elections, with a non-secret card-check system that opens voting workers to intimidation from fellow-workers and trade union organizers. That might be a step too far for the President, who rumor has it is prepared to veto any such bill.

These differences in economic policy are far from trivial. Indeed, they add up to a Democratic revolution against the supply-side economics that have guided American economic policy since Ronald Reagan rode out of Hollywood and into the White House. Supply-siders believed then, and believe now, that tax cuts increase incentives to work hard and take risks. Cut taxes on corporations and dividends, and they will invest more; cut taxes on work, and workers will be more willing to put in those extra hours that drive productivity up and unit labor costs down. Keep trade routes open, and foreign competition will force manufacturers to be more efficient and keep prices down.

Democrats aren't buying any of that. Corporations must be regulated lest they abuse shareholders, workers and the environment. High taxes are needed to fund the expansions of the welfare state that they have in mind, including not least of all government-funded universal health care. Domestic jobs must be protected from "unfair" foreign competition. The rich will not down tools and work less hard if they pay more in taxes.

It might seem odd that America's highest earners, billionaire hedge fund and private equity operators, seem to agree with the Democrats. They have turned Greenwich, Connecticut, home of hedge funds managing \$100 billion in assets, some 10% of the funds

controlled by the world's hedge funds, into a Barack Obama ATM machine. Almost to a man (few are women) the hedge fund crowd is throwing its considerable financial weight behind Obama, who is attacking Hillary Rodham Clinton from the left. Hillary and Bill Clinton can only gnash their teeth in frustration. One of Obama's economic advisers says that the charismatic Illinois senator has nothing against the rich, it is just that he wants to help the poor, "and the resources have to come from where people are doing better."

Nothing new with the nation's billionaires: think George Soros. America's billionaires have always leaned left, while mere millionaires have leaned right. So America has joined France and Britain as places in which voters are being given a choice of economic policies. In France, they must choose between Nicolas Sarkozy's move to the right and freer markets, and Ségolène Royal's socialist nostrums. In Britain, they will have to choose between Gordon Brown's Labour Party's interventionist state and ... Tory policies to be determined, when the new leadership decides what it is for. In America, the choice is between supply-siders and redistributionists. These elections matter.



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