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Carrying the load longer

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You have now passed Tax Freedom Day and Spending Freedom Day, but you have yet to pass the Cost of Government Day, according to the good folks at Americans for Tax Reform.

The Cost of Government Day (COGD) is equal to the number of days that all of you hard working taxpayers must work, on average, each year to pay for all the federal, state and local government expenditures, federal regulatory costs, and state workers' compensation, and tort law costs.

As you can see, in the accompanying table, you are spending more of your life working for government and less for yourself and family. Only after July 13 will you be able to enjoy the fruits of your labor. Growing government not only diminishes individual freedom but robs us of our economic vitality. It is not coincidence that periods of rapid growth and falling unemployment are associated with government shrinking as a percent of gross domestic pay, as we experienced during the 1980s, and vice-versa.

Unfortunately, President Clinton's economic program if enacted will mean more taxes, government spending, and higher regulatory and litigation costs. The proposed program would accelerate the growth of government even more than we experienced under the Bush administration. Thus, at a minimum we can expect the Cost of Government Day to be after July 30 by 1997, and is likely to result in a four-year period with no net growth, which we last experienced from 1979 to 1982, coupled with an increase in inflation. The open question is: Will Congress resist enacting the program in and attempt at self-preservation, or will the president reverse course soon enough to revive the economy and give himself some chance for re-election?

Most business people implicitly understand the above scenario. They will tell you that more taxation and government regulation reduces the incomes of their customers, and increases their own costs of employing workers, raw materials, and operation. More government reduces the incentive for productive economic activities and makes both businesses and the American people worse off. Yet we continue to see the sorry spectacle of some business leaders supporting government policies that clearly will make American business both less competitive in world markets and diminish our domestic economic growth; and in many cases cause direct harm to their customers, suppliers, employees and stockholders.

The president tells us his program will create jobs, yet most business people clearly understand that those jobs created by government spending have to be paid for by increased government taxing and borrowing that destroy at least an equivalent number of private sector jobs. The failed socialist economies of the world clearly demonstrate the fallacy of the myth of government job creation. In reality, government can only increase jobs by reducing the average wage level, or by productively employing more people in infrastructure development than they are spending on increased transfer payments - a feat no large modern day government has been able to achieve.

The president tells us his tax increase program will reduce the deficit, yet most business people understand that tax rates are different than tax revenues, because they know taxes are a price, and they have learned that increasing prices after some point leads to lower profits rather than higher. History clearly shows us that the tax increases will slow economic growth thus, increasing the demand for additional government spending; will result in far less revenue than predicted as people alter their behavior to avoid the tax increases; will weaken the economy, naturally produce less tax revenue; and will result in higher prices and lower real incomes, particularly increasing the misery of those least able to afford it.

The president tells us that increase government regulation will protect us, yet most business people understand that increased regulation increases the cost of doing business and paperwork. In a competitive economy, these costs cannot be absorbed to any significant degree by businesses. They are accounted for by reduced employment, lower real wages, higher prices and lower profits. Regulatory growth is a free lunch only to power-hungry politicians and bureaucrats in Washington; to businesses and consumers it is food poisoning.

Why then are some business leaders supporting the tax, spending, and regulatory increase; or being so mincing in their opposition? Business supporters of economically destructive policies, for the most part, fall into two categories - those who are ignorant of the facts, and those who have been either seduced or intimidated by the Washington protection racket.

It is no surprise that many business people are ignorant of the facts, given the blatant misrepresentations by Washington political figures and the lack of "in depth" and accurate press coverage of the issues particularly by the electronic media. How many of you know that the Clinton tax package increases the marriage penalty? Unfortunately many business people are unaware that: the so-called spending cuts are in effect reduced spending increases from promised spending increase; the pre-existing spending caps have been removed and the budget calls for increased spending: many of the tax increases and user fees are listed as "spending reductions": the projected revenue increase numbers are phony because they are largely based on static rather than dynamic revenue numbers; the increase in inflation and the economic slowdown generated by the tax increases will force up government spending on entitlements; the so-called increase in investment spending largely comes about by redefining "investment" (e.g. the projected increases in food stamp spending as a result of reduced real incomes from the energy tax is listed as an increase in "investment"); and on and on and on.

The second category of business people who support bad policy largely consists of players in and victims of the Washington protection racket.

This racket is analogous to local Mafias who tell business people "pay protection money or we burn down your store." In Washington, it is played with a bit more sophistication. Members of Congress, administration officials or their representatives contact business people and tell them "support our proposal" if: (A) You want a particular tax or trade provision to benefit your company or industry, or to protect you from foreign or domestic competition. (B) You do not want to have us tax or regulate your firm or industry in a way that you would find painful, as opposed to some other company or industry. (C) You would like a particular government contract or perhaps an invitation to the White House (maybe even for your spouse). These activities are well-known, and specific instances are frequently reported by the press. Yet politicians frequently trot out some business person they have bought, to support some absurd proposal, and all too often the press treats this as a serious endorsement. If the "Foreign Corrupt Practices Act" was applied to the "in kind" acts of member of Congress and other government officials in dealing with business people, Washington would have to build a new jail.

The bad news is that all too many business people succumb to the Washington protection racket (and often for so little). The good news is that most members of the business community are courageous in their willingness to stand up and oppose bad policy despite attacks from some in the media and threats from politicians, even when their Washington representatives waffle.

The distinguished economist, Paul Craig Roberts, has noted that during the Middle Ages the typical serf paid on average a third of his product to the Lord of the Manor. Americans now work more than half a year to pay for government. It will be interesting to see which politicians and business people support a tax bill that will slow economic growth, increase unemployment, reduce America's competitiveness, increase prices, increase the marriage penalty, and reduce economic and individual freedom; and which politicians and business people will have the courage to stand and say NO!

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