The Washington Times

TUESDAY, JANUARY 15, 2002
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Why is the level of discourse so low?

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Discussion of economic policy matters among politicians has sunk almost to the level of a frat house food fight.

There are several reasons for this sorry state of affairs. First, there is an appalling level of ignorance among many political leaders about economic fundamentals. For instance, Senate Majority Leader Tom Daschle recently blamed the recession, in part, on the president's tax cut, which was not passed until after the recession began.

Even now, only a tiny portion of the tax cut has been implemented. (Hint to Mr. Daschle: tax cuts don't cause recessions — they are part of the cure.) Second, many members of the press know very little about economics and hence cannot seem to differentiate between silly comments like Mr. Daschle's and serious policy debate. Third, the numbers given to economic policymakers by official government organizations that are supposed to measure the consequences of proposed policy changes are so inaccurate that they make weather forecasting look like an exact science.

Most of our current crop of political leaders received their college educations in the '50s, '60s, and '70s. I expect a substantial minority of them had at least one course in economics. However, during those years at most universities, the Keynesians were in full flower with such beguiling notions as "unemployment could be cured by merely increasing government spending." By the late 1970s, serious economists and economic observers could see that the Keynesian formulas and fantasies just were not working.

Unfortunately, many of those who had learned the wrong lessons never caught up. Even today, more than a quarter-century after Nobel Laureates Friedrich Hayek, Milton Friedman, James Buchanan, Robert Mundell and many others intellectually buried the Keynesians, many universities still teach the old rubbish.

Several think tanks and universities have tried over the years to run seminars for members of Congress and their staffs, taught by competent economists. These well-intentioned programs have not met with great success because of the enormous time pressure on the people who work on Capitol Hill.

A meeting with a potential donor or an aggrieved constituent is always going to take precedence over attending a lecture by an economist. Being an optimist, I hope that, at some point in the future, there will be many members of Congress with solid backgrounds in economics. Unfortunately, the two best economists in the Congress, Sen. Phil Gramm and House Majority Leader Dick Armey, are both retiring this year. This does not bode well for the future level of national economic debate.

Many members of the press assume and assert that you can be a good reporter without knowing anything about the subject on which you are reporting. I do not know if this attitude comes from lack of commitment or an excess of hubris, but it clearly does not serve the public well. The irony is that several of the most widely syndicated reporters/columnists and TV commentators, such as Bob Novak, George Will and Charles Krauthammer, work hard to know the issues before commenting. Yet, week after week, they are paired with people who seem to think an uninformed opinion is as valid as one founded on fact and sound theory. What is needed are not only more reporters who have a basic understanding of economics, but a willingness among those who do to demand answers to basic questions.

For instance, every time a politician proposes a new spending program, the press ought to demand to know who is going to pay for it. By "who," I don't mean "the government," but the flesh and blood person who is going to give up an additional amount of his or her labor or assets to pay for this new spending scheme. When politicians say, "we need to tax the rich more" or, "we should not cut the taxes of the rich," the responsible journalist should always ask the politician to explain what is meant by the term "rich," to state explicitly what the maximum share of their income any citizen should pay in taxes and to provide the logic behind this number. Reporters need to ask about the hidden consequences of additional government spending programs, more regulations or tax increases. All such changes have effects on incentives to work, save and invest. If reporters do not insist on politicians explaining the consequences of any new policy proposal, they are not doing their jobs.

Another major problem is that the government agencies responsible for calculating the costs of tax and spending changes are incompetent. They consistently assume changes in the tax code have no effect on the economy, and consequently they overestimate both the amount of revenue gained from any tax increase and the amount of revenue lost from any cut in tax rates. The two agencies responsible for these errors are the Office of Tax Analysis in Treasury (OTA), and Congress' Joint Committee on Taxation (JCT). They use simplistic, static revenue models that do not adequately capture the changes in behavior caused by tax changes.

For instance, there have been a number of changes in the capital gains tax rate over the past quarter-century. In each case, when the rate was lowered, the revenues went up and vice versa. The government agencies always got it wrong, because they never factored in the fact that people adjust investing behavior after taking tax disincentives into account. The Office of Management and Budget and the Congressional Budget Office also do economic forecasting but use the OTA and JCT revenue numbers. Remember, the Clinton administration was telling us up until 1996 that we were going to have yearly deficits of $200 billion "as far as the eye can see."

Then we started running big surpluses that the government did not see coming. Last year, we were told the entire government debt would soon be paid off, which would cause its own set of problems. Now suddenly, we have deficits again that no one in the government forecasted. It is possible to do far, far better, as many private forecasters have shown.

What is really needed is a model of the entire economy that would capture the total individual and business behavioral effects of any policy change and adjust economic forecasts accordingly. A major model-building effort will not give us perfect numbers but it can give us numbers that are far less wrong, and it can help us isolate the critical assumptions that have a profound effect on economic forecasts. Better numbers will result in better taxing, spending and regulatory policies that will make all Americans better off.

Lawrence Hunter, former chief economist of the Congressional Joint Economic Committee, has proposed that we establish a National Economic Laboratory, modeled after the national weapons labs, to create and operate such models. The administration should give Mr. Hunter's proposal careful consideration because if they are unable to get better numbers out of their own bureaucracy, they will never be able to get the necessary support for those policies that are required for us to achieve our economic potential.

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