Outside view: Good numbers, bad standards

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WASHINGTON, July 15 (UPI) -- Assume you work for a grocery store chain whose stock is listed on a public exchange, and your boss asked you for ideas on how to increase the company's profit. If you came back and said, "Let's double all of our prices," your boss would be justified in firing you, because he would know that almost no one would continue to patronize your stores when other choices are available.

However, if your boss accepted your projections and, in order to boost the stock price, announced to the outside world that the company was going to double its revenue and greatly increase its profits, it would be considered a dishonest forecast.

Such a projection would be dishonest because almost everyone understands that if you raise the price of something, you are likely to sell less and, as a result, revenue and profit might go down rather than up.

In order to have a properly functioning economy, it is absolutely necessary for businesses to provide correct information to their shareholders and to the government, and for executives who knowingly provide false information to be punished. But is it not equally important that government forecasts of revenues and expenses are as accurate as possible, and that the public be presented with honest numbers concerning the cost-effectiveness of government programs that are funded with hard-earned taxpayer dollars?

In recent weeks, politicians have been chastising business people for dishonestly reporting their company's numbers, and knowingly making false projections. Yet these same politicians are in a state of denial about the accounts of the government programs for which they have responsibility.

Politicians routinely supply false information to the public about government finances, and they often try to prevent good numbers from being collected and disseminated. An example of this occurred on June 25, when Sen. Tom Daschle, D-S.D., who currently runs the Senate, and Sen. Kent Conrad, D-N.D., wrote a letter to the chief of the Joint Committee on Taxation, demanding that the staff suspend efforts to improve the forecasts of tax revenues.

Traditionally, the JCT has assumed no change or little change in taxpayer behavior as a result of any tax change. The committee was actually embarrassed when Sen. Bob Packwood, R-Ore., bemusingly asked them a number of years ago to model a 100 percent confiscatory capital gains tax rate.

They replied that it would raise tens of billions of dollars, when in fact it would raise almost zero since no one would sell.

As in my above example of the doubling of the price of groceries, if you assume the law of supply and demand does not exist, you can project very precise numbers that are absolutely and always wrong. As a result of doing this "static" revenue analysis, the amount of revenue expected from a tax rate increase has been routinely overstated, as has the amount of revenue loss from a tax rate cut.

These bad numbers have helped Congress to resist needed tax cuts and engage in destructive tax increases.

For several decades, good economists have been urging the Congress to use "dynamic" or "reality-based" scoring. To his credit, House Ways and Means Committee Chairman Bill Thomas, R-Calif., created a "Blue Ribbon" panel of respected tax economists to look at the issue.

The economists were in agreement that the committee should begin including "reality-based" numbers in their forecasts. Yet Daschle and Conrad said they were "surprised and distressed" to learn of the JCT's plans to add a "dynamic" macroeconomic feedback element to the JCT estimates.

One has to wonder about the motive of politicians who would prefer to use information that they know is wrong, even though better but not perfect information is available. If executives in a private company did not use the best forecasting tools available to them, they would be considered irresponsible and negligent.

The Congress has the oversight responsibility for government spending, much like a business corporation's board of directors has oversight responsibility for the operation of the business. We know from the reports of the U.S. Government Accounting Office that many government departments' and operations' books are in such poor shape that they cannot be successfully audited.

For many years, the GAO could only give qualified opinions as to the accuracy of even the Internal Revenue Service's books. There are now several bills before Congress that would increase the civil penalties, and add criminal penalties, on business executives and members of corporate boards who permit the inaccurate or false information to be presented.

Just this past week, the Securities and Exchange Commission issued a requirement for many large companies that their chief executive officers and chief financial officers swear under oath that the numbers in their companies' recent financial reports are correct. Likewise should not we the citizen "stockholders" of our government demand the same degree of accountability from our "board" (the Congress) and from the managers of our money (government executives) as that applied to the private sector?

The accounting firm of Arthur Andersen has been largely destroyed because of the shredding of documents, which was considered "obstruction of justice," and many totally innocent employees have lost their jobs.

In contrast, Hillary Clinton's Health Care Task Force shredded documents when it was a target of a court probe. However, no one lost a job or was sent to jail over these matters, nor have heads of government agencies been fired for not providing accurate and complete accounting of their departments.

A civil society is weakened when there is one standard of justice for private companies and individuals, and another for well-connected people in government.

It is hypocritical for members of Congress not to apply the same standards to themselves and government executives and officials that they apply to everyone else. I am all for tough penalties for those who provide false information, whether it be the executives of Enron, the U.S. Postal Service, Amtrak, the Department of the Treasury, or members of Congress. There ought to be no double standard for dishonesty!

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