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Pursuit of economic literacy

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Recent opinion polls show that substantial numbers of Americans believe: We are in a recession; free trade reduces jobs for American workers; controlling prices will make us better off; government can create jobs; the tax cut hurt economic growth; and corporations hurt American workers by moving their legal homes to lower-tax jurisdictions.

None of the above statements are true. Why then do so many Americans believe these things? The reason quite simply is that most people who are given a steady diet of misinformation will eventually believe it. Radio and TV, newspapers and even serious opinion magazines provide a steady diet of economic nonsense, which, as you would expect, leads to an ignorant citizenry. One is never sure whether those who report the news incorrectly do so out of ignorance or political bias, but either way the effect is to distort the economic policymaking process so we have fewer jobs and lower growth than we would otherwise have.

Ronald Reagan and Margaret Thatcher were keenly aware of this problem but, rather than just moan about it, they took to the "bully pulpit" and went out and educated their citizens (and citizens of the world) about the destructive effects of high tax rates and undue government interference. They also sent their staff and allies out to spread the message.

Contrast that with the situation today, where we have an administration with many very good economists and leaders from the president on down who basically understand good economics, but who do little to educate the American people on the key issues. Instead they have fallen prey to the old Washington disease of compromising their principles in the hope that really bad legislation will not pass the Congress.

During a "Meet the Press" interview (on July 26) with Treasury Secretary Paul O'Neill, the show's host Tim Russert presented a poll showing that a large number of Americans believe we are in a recession. Mr. O'Neill correctly argued that the economy has been growing at a good rate for the last two quarters, and that we were not in a recession. Mr. Russert was able to put Mr. O'Neill on the defensive concerning the state of the economy and the effects of the tax cut in part because Mr. O'Neill was a polite and passive gentleman. Mr. Russert's attack should have been answered with an aggressive explanation of how the economy works and a jab at Mr. Russert for irresponsibly stating false premises as facts.

A recent poll showed that 45 percent of Americans believe that free trade loses more jobs than it creates. The empirical evidence is overwhelming that free trade creates jobs and wealth, and every good economist knows this.

Yet, with the recent political debate as to whether to give the president "fast track" authority to promote trade, which the Senate finally approved, some of its opponents' intellectual rubbish has been treated as serious argument by many in the fourth estate. The press is not going to change until challenged to get it right by the administration. Again, as Ronald Reagan showed, an aggressive president can force even the liberal press to debate on the proper field (e.g., what is the growth maximizing tax rate, etc.).

The pharmaceutical companies have come under attack for high drug prices. Some politicians have advocated price controls, which are then echoed by their cheerleaders in the press. Responsible members of the press should explain that prices are information, and that prices allocate scarce resources and motivate future production. The press should make price-control advocates explain why new drug research would not be seriously impeded by price controls. But again, the press will not do its job unless forced to by those who have access to the "bully pulpit."

The folks in Congress have just increased the penalties for corporate executives who issue false financial statements and engage in fraud. The administration had a perfect opening to force better government accounting and projections by demanding that those in the public sector play by the same tough new rules as those in the private sector — but they were silent. Not even the liberal press could have ignored the debate if the administration had pushed it.

Even when the administration makes the correct decision, it is reluctant to explain it to the public. For instance, there is a proposal from the Europeans (the European Savings Directive) that would greatly undermine our personal privacy and drive hundreds of billions of dollars of needed capital out of the U.S. The economists in the administration wisely decided that the U.S. government would not support the proposal, and then quietly let the economic policy community know of the decision.

When asked why members of the administration did not make a public announcement, some of us were told they did not want to offend certain Europeans. I have no doubt Margaret Thatcher and Ronald Reagan would have understood that what was offensive was the European proposal, and correctly responded with a very public "no."

We have now come to the issue of some corporations moving their headquarters offshore. The problem, as the Bush people well know, is that the U.S. corporate income tax is now one of the highest in the world. The correct solution is to cut the corporate rate, but many in the administration are too timid to make and sell the argument.

It is difficult to get support for good policy if the people are not told why it is good. Margaret Thatcher and Ronald Reagan understood that the enemies of freedom and prosperity depend upon ignorance, but as Mrs. Thatcher and Mr. Reagan proved, the people can understand and will support good economic policy if it is repeatedly explained to them in clear language.

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