The Washington Times
www.washtimes.com

Prime the pump for prosperity

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Published 10/24/2002

You are walking along a beach, a strange bottle washes up, you open it, and out pops an economic genie. The genie says, "If you give me $100, I will guarantee that the American economy will grow at 6 percent a year (roughly double the rate of the last 30 years), we will have full employment and no inflation, and the stock market will grow at 12 percent per year." If you are rational, you would of course agree to the deal.

If we did those things that we know would improve our economy, but are not now doing, the results would probably be very close to what the genie promised to deliver. A major reason we are not doing what we should be doing is that many politicians and government employees have found that it is not in their political or financial self-interest to do what should be done.

No one disputes the fact that government monetary, tax, spending and regulatory policies have much to do with how rapidly the economy does or does not grow. Those in the private sector quickly feel the results of good policy because more and higher-paying jobs are available and the stock market normally rises rapidly during good times. With more than 70 percent of American families now owning stock, changes in the value of the stock market have both real and psychological impacts on the willingness of stockholders to spend and invest.

Federal government employees are not laid off during recessions and economic slowdowns and, in fact, the number of federal government jobs often expands during bad economic times. Federal government employees do not suffer pay cuts and their real income tends to slowly rise both during good times and bad.

However, as many federal workers quickly point out, they do not get the benefit of stock options or incentive payments and bonuses that many private-sector workers receive. Because of conflict-of-interest regulations, senior government economic policies officials are restricted from full participation in the stock market, with the perverse result that if they do a good job, the rest of us can benefit, but they do not.

Assume for the moment that federal workers, including members of Congress and their staffs, and those employed at the Federal Reserve, had their pay increased each year by the average gain of the stocks listed on the major exchanges, but would also have their pay reduced by the drop in the average value of these same stocks in any given year. What do you think would happen?

We all know people respond to incentives. Every federal policymaker and worker would probably think, at least a little bit, about the effect on the stock market of their decisions. Many of them would be less prone to waste taxpayer dollars. Many more members of Congress and their staffs would think about whether a tax proposal was likely to spur economic growth or diminish it. Officials in regulatory agencies would be far more careful to make sure the regulations they were promulgating were cost-effective.

To illustrate the present problem, the vast majority of tax economists are opposed to the double taxation of corporate dividends because of its negative impact on investment, economic growth and job creation. Knowledgeable private sector economists and senior members of President Bush's economic team have recommended reducing this double taxation because it would almost certainly give both the stock market and the economy a needed positive jolt. However, nothing is being done about what is an obvious problem because many members of Congress and their staffs and Treasury Department officials are not sufficiently market sensitive.

Recently, the Europeans have been pressuring Treasury officials to help them collect taxes on their own nationals by forcing U.S. businesses to become tax informers and collectors for these foreign governments. Such proposals are clearly not in the U.S. interest because they increase the cost of doing business and drive needed foreign capital out of the U.S. A major reason these proposals have not been dismissed is that certain Treasury officials are wined and dined in European capitals at taxpayer expense. Doing the right thing by protecting the American economy and worker provides no direct benefit to these pleasure-seeking bureaucrats. If these same people had a strong vested interest in the U.S. stock markets their attitudes would likely be different.

One way to make the goal structure of the federal worker congruent with that of the taxpayer would be to require all federal workers to receive part of their pay in American corporate stock. There are now investment vehicles where an investor can buy the "whole stock market"; that is, have a small proportional share of all the listed shares so his or her gain or loss is identical to that of the entire market rather than just a few shares. These vehicles are ideal for federal employees (including members of Congress and the folks at the Internal Revenue Service). Providing a favor to an individual company will have no impact on the worker's stock portfolio, but making the right decisions on tax policy, government spending and regulation would have an impact on the portfolio of every government worker.

If government workers were required to put 25 percent of their pay into one or more of these broad stock funds with a restriction that they could not sell more than 10 percent per year even after leaving federal service or retirement, many federal workers' attitudes would fundamentally change, and all other Americans would be the beneficiaries.

To induce federal workers to accept the new arrangement, we, the taxpayers, would probably have to give them a big, one-time raise to buy the stock fund. The cost of the raise for the average taxpayer might be as much as $100, but like the payment to the genie the price would be well worth it.

Under such a program, many federal workers are likely to become very wealthy after several decades, but that would be just fine because the private sector workers also would have become much wealthier as tax, spending and regulatory policy would be far less unnecessarily punitive.

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