

The Washington Times

November 13, 2002

Serious economic debate due

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Senate Majority Leader Tom Daschle states that, going into the election, the Democrats had an economic policy but they did not communicate it clearly.

Let's test his argument. See if you can answer the following:

(A) The Democrats' position on taxes was:

- (1) The Bush tax cuts should be repealed.
- (2) The Bush tax cuts should not be repealed but allowed to expire.
- (3) The Bush tax cuts should be made permanent.
- (4) The Bush tax cuts should remain and some additional taxes cut.

(B) The Democrats wanted to reduce the deficit by:

- (1) Increasing taxes.
- (2) Cutting spending.
- (3) Increasing taxes and cutting spending.

(C) The Democrats' Social Security plan was to:

- (1) Do nothing.
- (2) Increase Social Security taxes.
- (3) Allow people to put some of their Social Security tax into private accounts.

If you answered yes to all of the alternatives, you get 100 percent. The fact is the Democrats had no consensus position on any of the above basic issues, which left voters confused and turned off their base supporters.

This is sad because there are plenty of legitimate economic issues for the two parties to disagree about in a responsible way. Instead, the Democrats offered only economic complaints rather than policies. Democrat Chairman Terry McAuliffe, and many of his colleagues, consistently denied that the recession began under the Clinton administration, even though the objective empirical evidence is clearly to the contrary. The Democrat spokespeople, by blaming President Bush for economic problems that began before his administration took office, lost credibility with the American people.

The Democrats would have been far better off if they had merely told the truth, which is that neither Bill Clinton nor Mr. Bush caused the recession. It was largely, like most recessions, caused by unintentional miscalculations by the Federal Reserve. If they had said this, and then laid out a coherent program for economic growth, they would have fared far better.

There are a number of basic economic issues about which we need to have a good national debate, but to do so the participants must be in agreement about the numbers. When estimating revenue losses and gains from any proposed tax change, both Congress and Treasury traditionally use "static" estimates which, in essence, means they assume no change in taxpayer behavior as a result of the tax change. Such numbers are clearly wrong and lead to bad tax policy.

For example, the revenue estimators declared the government would lose revenue when the capital-gains tax rate was reduced in 1978, again in 1981 and again in 1997. In fact, after each tax rate reduction, capital-gains tax revenue went up, as people became more willing to both invest and realize profits from investments. Conversely, capital-gains tax revenue fell when the rate was increased in 1969 and 1987.

Efforts are now being made, both in the administration and Congress, to obtain better revenue estimates but some Democrats are trying to block these efforts. This is foolish. No American, Democrat or Republican, is well-served if tax rates are higher than the revenue-maximizing and growth-maximizing rates. Economists know that, for every tax, there is a rate that is so high the government actually loses revenue because it discourages work, saving, investment or consumption. Economists have honest disagreements about where that rate is for many different taxes and, hence, the importance of getting the best possible numbers for each tax.

Most Republicans and many Democrats, like Sens. Zell Miller of Georgia and Evan Bayh of Indiana, believe we should remove unnecessary tax impediments in order to encourage more economic growth. Other Democrats, like Sens. John Kerry and Edward Kennedy of Massachusetts, believe it is more important to redistribute income, so they want the rich to pay more. The top 10 percent of taxpayers already pay 67 percent of taxes, even though they only earn 46 percent of the income. We need to have an honest debate about how progressive the tax system should be. Let every candidate clearly state what the maximum tax rate he or she believes any American ought to pay, and then let the people decide.

Finally, we need to have an honest debate about what to do about Social Security. The number of workers per retired person is declining sharply due to lower birthrates and much greater longevity. Thus, it is a mathematical requirement that changes must be made in the system. There are many alternatives, such as increasing taxes, increasing the retirement age, cutting benefits, investing part of the payroll tax in private securities to get higher rates of return, etc. Senator-elect Elizabeth Dole of North Carolina and others showed that voters will reward politicians who are honest and thoughtful concerning Social Security, even though they may not agree with every aspect of the proposed solution.

Reasonable and honest people can disagree about how to fix the system. What is not reasonable or honest is to attack an opponent's solution without presenting an alternative solution, or using false assumptions and numbers in the debate.

One thing the election showed is that the electorate is increasingly impatient with those politicians who misstate economic facts and do not present constructive solutions.

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