The Washington Times
www.washingtontimes.com

Published May 15, 2003
Page A17

DISCOMFORT FOR FOES … AS FANS GROW

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What do the U.S., Ireland, Switzerland and the Cayman Islands have in common, and what do France, Belgium, and Germany have in common? The first group has created a largely investment-friendly environment, with relatively low taxes and government spending, coupled with the rule of law.

The second group of countries has maintained very high taxation and government spending. As a result, the first group has achieved much higher income and employment for the countries' citizens while the second group is mired in economic stagnation.

The current debate about President Bush's proposed tax cut is really a conflict about what size of government maximizes economic welfare for most citizens. If you look at the world as one huge social-science experiment where almost every form of political and economic organization devised by the mind of man has been tried, the results are now in. Communism and pure socialism were such colossal failures all serious people have ceased defending or advocating them.

The remaining struggle now is between limited government, free-market, democratic capitalism and the European form of semi-socialist welfare statism.

In the U.S., those who oppose the tax cuts are basically opting to move toward a European-type system because, without tax cuts roughly the size of the president's proposal, the tax burden grows (due to our progressive tax system). That is, if you do not want government to grow as a percentage of GDP, periodic tax cuts are needed. Rep. Richard Gephardt, Missouri Democrat, with his call to repeal the previous Bush tax cuts and not enact new ones, while advocating building a large national government-run health-care system, is clearly promoting the European statist alternative.

On May 9, both the left-leaning Brookings Institution and the right-leaning Heritage Foundation published papers on the president's tax package.

The Brookings economists, William G. Gale and Peter R. Orszag, made the same mistaken arguments that had been made against President Reagan's tax-cut proposals a generation earlier. Their claim is that the tax cuts will cause larger deficits and, in turn, higher interest rates. They fail to understand that not all tax cuts are the same. Ronald Reagan's critics also failed to understand that increasing the incentives for productive work, saving and investment will enhance economic growth, job opportunities, and the general welfare.

These critics fail to distinguish between the president's proposed tax cuts on capital (i.e., dividends, interest, and capital gains), which do not increase real interest rates, and those on consumption, which can increase them. At a given level of government spending, an increase in the deficit (i.e., government dis-saving) will not increase interest rate pressures if the deficit increase is offset by an increase in private savings.

The president's tax proposal will increase private savings because it reduces the tax bias against saving and increases economic growth. At the core, the policy prescriptions of the president's critics would lead to the same type of economic stagnation that has infected "old Europe."

The Heritage paper, authored by Ronald D. Utt, former associate director of the Office of Management and Budget, is well reasoned and informative. Mr. Utt deals with the charge that the first Bush tax cuts "did not work" by

correctly noting that most of the first tax cut package has yet to come in to effect but, even so, has managed to give us an economic growth rate last year of more than twice that of the Euro Area.

Of particular interest, Mr. Utt notes that in 1982, French per capita income was 82 percent of America's. In the U.S., Mr. Reagan's supply-side tax cuts were enacted while France embarked on the opposite course of an aggressive tax and spend policy. French taxes now absorb 46.3 percent of their GDP while in the U.S. the number is 29.4 percent. The result is that French GDP per capita is now only 71 percent of that in the U.S. Mr. Utt also notes that "[i]n comparison to the U.S. per capita GDP, German per capita GDP peaked at 81 percent in 1991 and has since fallen to 74 percent, in part due to a tax burden of 42 percent."

The president's critics claim that his tax cut proposals are a "huge fiscal gamble." However, the facts are that the president's proposals are not the gamble. What would be a "huge fiscal gamble" is to not cut taxes, which would mean that our tax burden would grow as a percentage of GDP.

This, in turn, would increase unemployment and lower our standard of living.

No country on Earth has succeeded in taxing and spending its way to prosperity. Critics of the president's tax cut and spending growth restraint approach need to answer only one little question: "Where on the planet has your alternative model worked?" The only honest answer is "nowhere."

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