The Washington Times
www.washingtontimes.com

Who will create jobs and cut the deficit?

By Richard W. Rahn
THE WASHINGTON TIMES
Published October 9, 2003

The Democrats running for president have pilloried President Bush about job creation and the deficit, and all claim they will cure the problem despite different policy proposals.

Which proposed policies make sense and which don't? Some of their proposals are merely wish lists because they contain no specifics — e.g., "I will create a fairer and simpler system of taxation," Howard Dean — and hence are meaningless.

Many other proposals are too limited to have a significant impact on job creation or the deficit. The following is a quick analysis of proposals that could have some major impact on employment growth or the deficit.

Retired Gen. Wesley Clark to date, as might be expected from the latest entrant, has the fewest specifics in his program. He says he will cancel the Bush tax cuts for those making more than $200,000 and will spend the savings on a variety of programs.

Upper-income people on average save and invest a high percentage of their income, so increasing their taxes reduces the amount of productive investment. Increasing government spending, while reducing productive savings and investment, kills more jobs than it creates.

Mr. Clark's proposals put him in the job killer rather than creator camp. He says he will "return to fiscal discipline" — without being specific — which is what most of the folks who created the current excessive spending also say. There is no evidence Mr. Clark has real programs that will cut the deficit or reduce the growth in spending.

Former Vermont Gov. Howard Dean wants to repeal all of Bush tax cuts and spend the money on government programs. Repealing the tax cuts is clearly a job and growth killer, and, unfortunately for Mr. Dean, over the next few months, it will become increasingly clear the president's tax cuts are creating jobs. Mr. Dean has many spending proposals, yet claims he will set us "on the path to a balanced budget," without explaining how that path is going to come about.

Sen. John Edwards of North Carolina wants to help low-income Americans save more, but the caps on his proposed savings programs are so low they are unlikely to have any appreciable effect on job creation. At the same time, he wants to increase the capital-gains tax rate, repeal the cut in top tax rates and increase the minimum wage, all of which will be job killers.

Mr. Edwards says he "will give a 10 percent tax cut to corporations that produce goods here ... and will stop corporations getting tax cuts for renouncing their citizenship." He and some of the other candidates seem not to fully understand that because the U.S. corporate tax rate is higher than in most foreign countries, U.S. companies are at a substantial cost disadvantage with their foreign competitors.

Hence, the correct solution to the problem is to cut the U.S. corporate tax rate to below the average of their foreign competitors — which would be a lot more than 10 percent.

Mr. Edwards has produced specific and useful ways to slow excessive government spending. His proposals include reducing the number of government employees by 10 percent over 10 years, and closing "government agencies that have outlived their usefulness."

Rep. Richard Gephardt of Missouri wants to repeal all the Bush tax cuts and create a national health insurance program. It is unambiguously clear that Mr. Gephardt's tax increase proposals and massive spending and regulatory expansion proposals, including trade protectionism, would slow growth or worse, thus killing jobs and greatly adding to the deficit.

Sen. John Kerry of Massachusetts also says he wants to repeal part of the Bush tax cuts, and at the same time proposes several tax credits. His limited tax credits are insufficient to offset the economic damage from scaling back the Bush tax cuts.

On the spending side, Mr. Kerry has set forth a number of constructive proposals, including a cost-effectiveness test for discretionary spending programs, and forcing federal agencies to submit annual plans to reduce costs.

Senator Joseph Lieberman of Connecticut has developed a detailed set of tax incentives to both spur job creation and investment, but at the same time he wants to eliminate part of the Bush tax cut, so it is most likely his proposed tax increases will do more damage than his proposed tax cuts. However, on the spending side he does propose to "cap all other nondefense discretionary spending, possibly at the rate of inflation," as well as some other constructive measures.

A year from now, it is probable we will have a rapidly growing economy that is producing many new jobs: therefore, the "no new jobs" line of attack on Mr. Bush is likely to be less potent.

However, Mr. Bush is highly vulnerable on the charge of excessive spending, and many of the Democrats will be positioned to come at Mr. Bush from the right on that issue. The challenge for the Bush campaign will be to set forth an economic vision that makes it clear how growth will be maintained, and how excessive government spending and regulation will be reduced.

Richard W. Rahn is a senior fellow of the Discovery Institute and an adjunct scholar of the Cato Institute.