

The Washington Times

www.washingtontimes.com

What are they thinking?

By Richard W. Rahn

Published May 24, 2007

Do you think the Republicans or the Democrats are winning the race to prove they are the dumbest and most incompetent political party?

The Republicans were clearly winning the race until January 2007. They threw away their majorities in both houses of Congress, by not only failing to have a realistic postwar strategy in Iraq but by such things as greatly expanding government and federal spending when they had promised the voters the opposite.

The Democrats won the congressional elections by promising they would have a clear and coherent plan to end the stalemate in Iraq and to be "fiscally responsible" by holding down the growth in government spending and not increasing taxes. So, what have they done since they have been in power? They have fulfilled virtually none of their campaign pledges, including raising the minimum wage (a bad idea) and cleaning up Congress' ethics problems (a good idea).

Regarding Iraq, each Democrat appears to have a different plan, and those who favor withdrawal have so far been incapable of stating what they would do if likely mass killings between groups begin as we withdrew our troops. The Democrats' obvious incompetence and incoherence have managed to give the Congress an approval rate of only 29 percent, in some polls, even lower than the president's.

Not content with taking away their almost sure bet to continue to control Congress and winning the presidency next year, the Democrats are now actively trying to snatch defeat from victory. In the last week, they presented a budget that would result in massive tax increases (\$2.7 trillion over 10 years) and greatly increased spending -- discretionary spending would be up 9 percent next year alone.

Some Democrats have figured out that increasing taxes generally is not a winning strategy, so they have decided to lie about it by claiming their budget does not increase taxes, though the words and numbers in the budget resolution show it does. (The chart shows the tax rates implied by their budget resolution.)

TAX RATES 2011		
	Current Law (extending Bush cuts)	Democrat Proposal (from budget resolution)
Capital Gains	15%	20%

Average worker (marginal rate)	25%	28%
Death Tax (maximum rate)	0%	55%

Let's assume for the moment that the Democrats can fool enough people into believing any tax increase will only hit someone else, and thus manage to win the 2008 elections. The tax increases they propose are aimed at the most productive people in the economy -- skilled workers, managers, entrepreneurs and professionals. The capital gains tax will increase 33 percent, the dividends tax will rise more than 100 percent and most workers will see substantial rate increases.

We know from experience in the U.S. and other countries that tax increases reduce the incentives to work, save and invest, and so there will be a large chance that the economy will go into a recession after the tax increases. In a recession, federal tax revenues drop sharply, spending tends to go up and deficits soar.

Remember that the Bush tax rate cuts have resulted in far more revenue increases than were predicted, and the deficit is rapidly disappearing again. We also have learned, both from theory and trial and error, that revenues from some types of taxes -- most notably capital gains -- are very sensitive to the tax rate, and tax rates above 15 percent have been shown to lose rather than increase revenue.

A new study just released from the National Bureau of Economic Research shows tax rates greatly affect the number of hours worked by people in the developed countries. Higher tax rates cause people to work less, thus reducing economic growth and prosperity.

It will be so obvious the Democratic tax-and-spend policies caused the forecast recession that even some of the mainstream media will be forced to acknowledge it, and the Democrats will likely lose power again. Just imagine what the news stories will be like in January 2011, when the death tax rate goes from zero -- on Dec. 31, 2010, to 55 percent on Jan. 1, 2011. We can predict many "excess" deaths in December of that year -- and then the finger pointing will begin: "members of Congress as accomplices," etc.

If the Republicans got smart, they would start being more principled again and vigorously oppose increases in taxes, spending, regulations and trade restrictions. Getting the necessary press attention for these principled (and politically smart) stands would require that President Bush start vetoing bad bill after bill after bill.

If the Democrats were to become smart, they would start doing the sensible things they said they would do during their campaign, and specifically reduce government spending and not increase taxes.

But given the recent history of both parties, it would be safer to bet on which party will be less suicidal. Most politicians, despite all the empirical evidence, have yet to learn that lasting positive reputations go to those who are both principled and have a long-run view of their responsibilities.

Richard W. Rahn is the chairman of the Institute for Global Economic Growth.

Copyright © 2007 News World Communications, Inc. All rights reserved.