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Running from success

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Why do individuals and countries engage in self-destructive behavior? Many books have been written on the topic, but given the U.S. election campaign, it is worth examining why some politicians and other opinion leaders advocate policies contrary to both good theory and empirical evidence.

During the last quarter-century, most countries on the globe went through an economic renaissance as Austrian and Chicago school economists gained the upper hand from the old Keynesian and socialist policymakers. This was due to the political triumphs of Ronald Reagan and Margaret Thatcher and their many disciples around the globe. The successes of lower tax rates, deregulation, privatization, and freer trade are obvious to all who care to look, yet both in Europe and the United States many in the political class are running from these successful policies.

The accompanying chart gives a quick snapshot of the progress in reducing maximum tax rates within the nine freest and also high income economies.

TOP TAX RATES				
Country	Personal			Corporate
	1980 (%)	2007 (%)	Percent Reduction	2008 (%)
Hong Kong	15	15	0	15.5
Singapore	55	20	-64	18
New Zealand	62	39	-37	30
U.S.	73	39	-47	39.3
Ireland	60	42	-30	12.5
Switzerland	38	34	-11	21.3
Australia	62	47	-24	30
Canada	64	44	-31	34
U.K.	83	40	-52	28
Average	56.9	35.6	-32.9	25.4

Reduction in both maximum individual tax rates and corporate rates for all these successful countries has resulted in much greater tax revenues for the governments as tax impediments to work, save and invest are diminished.

Despite this evidence of success, Sens. Hillary Clinton and Barack Obama want to increase the top tax rates, though there is no evidence that raising the top rates will result in any more revenue but there is evidence it will result in slower growth.

The "rich" they want to tax have more options than most people as to how much they make and in what form they take their income, and history shows they will go to great lengths to avoid paying high rates. The United States now has the highest corporate tax rate in the world (including the average of the states' corporate tax rates) and is increasingly noncompetitive, yet only the Republican candidates are arguing for a reduction.

In Europe, we find a similar situation where, despite the success of the tax rate reductions, many politicians and opinion leaders are pushing for higher taxes. The reason politicians get away with putting forward economically counterproductive proposals and often just plain nonsense is that many student textbooks, particularly in Europe, and only to a lesser degree in the U.S., have a strong anti-capitalist, pro-government or socialist bias.

Business people are often portrayed as greedy and evil, rather than the providers of the goods and services most people want. In European textbooks, one can easily find capitalism described as "brutal," "savage," "neo-liberal" and "American." Some American college economic textbooks (and left-leaning professors) still ignore key issues, such as revenue and welfare-maximizing tax rates, cost-benefit analysis applied to government spending programs, regulatory costs, etc.

So it is no wonder that when politicians and others propose "economic stimulus" spending programs there is little discussion of the cost of sucking the revenue out of the private sector for the "new spending," or serious cost-benefit analysis of how the money should be spent?

Since education in almost all countries these days is chiefly in public institutions, except for relatively small numbers of students educated in U.S. private schools and universities, it should come as no surprise that the government employees doing the "educating" are biased toward the public sector and are anti-business.

The most risk-averse individuals in society naturally seek out positions where there is little chance of job loss (tenure or civil service protections). Given human nature, they are envious and resentful of those who, by willing to accept higher risks, earn more. They naturally infect students with their own risk-averse and pro-government security blanket attitudes. This, in turn, results in an economically ignorant electorate.

As Mr. Reagan and Mrs. Thatcher showed, all is not lost. Knowledgeable and strong political leaders can educate the public. Business leaders, business associations, and public policy organizations also can teach the public the importance and virtues of free enterprise.

Anti-business, anti-free market politicians gain control of political bodies when those who know better fail to put enough of their own time and money into educating the public. Argentina, in the first decades of the 20th century, had the third-highest per capita income on the planet; but its politicians, starting with Juan Peron seven decades ago, ran from success by imposing destructive economic policies. Argentina now ranks number 86 despite being rich in resources. Switzerland, by contrast, has ranked near the top in per capita income for several decades despite having few natural resources.

What does this tell us about the long-run perspective and commitment of the Swiss business and civic leaders to sound economic policies versus those in Argentina?

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