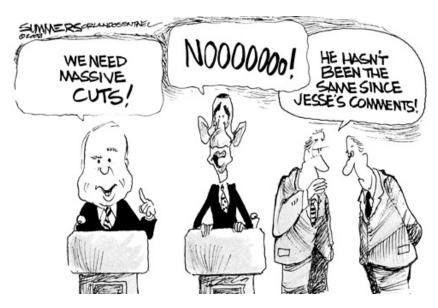
The Washington Times

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Economic Nonadvisers

By Richard W. Rahn Published July 16, 2008



Do you think the economic, energy and environmental policies of the presidential candidates are clear, understandable and plausible? If you answered "no" for at least one of the candidates, it is, in part, because the advisers have not done an adequate job. A policy adviser to a presidential campaign has two very important roles. One is to develop coherent policies with intellectual substance and political appeal, and the other role is to brief (in reality, educate) the candidate on the issues.

This year the voters will choose between two major candidates who lack substantial private sector business experience and, particularly, entrepreneurial experience. Neither has formal schooling in economics, and both have shown deficiencies in domestic and global economic issues. Thus, the burden on their economic advisers is much greater than it was with a candidate like President Reagan, who had a degree in economics and a great interest in the subject. (Note: I am not unsympathetic to their plight, having been an economic policy adviser to congressional candidates and a presidential candidate.)

Neither candidate (especially Barack Obama) has yet been seriously challenged by the media or the other candidate on his economic policies. The advisers would be foolish to think their candidate could skate to election without exhibiting a greater understanding of the issues.

When candidates promise to do something about the deficit, they need to present a plausible plan. In the 1988 campaign, the first President Bush had a highly credible plan to balance the budget - not allow aggregate government spending to grow faster than inflation, and allow real economic growth to bring down the deficit - all without increasing taxes. It was known as the "flexible freeze," and it gave him the necessary debating points to come from behind and win the election. (The plan would have worked if Mr. Bush had not abandoned it early in his term. Ironically, the essence of the proposal was implemented by a compromise between the Republican Congress and President Clinton in the late 1990s, which resulted in the budget surplus.)

Mr. Obama's fiscal plan is totally implausible. He has, according to the National Taxpayer Union (NTU), already promised to increase spending on a variety of government programs by more than \$344 billion per year. He intends to pay for it by increasing taxes on the "wealthy" (the top 1 percent of taxpayers already pay 39percent of the income tax). But the revenue he seeks will not be there, because the rich are able to find many legal (and illegal) ways to avoid paying much higher tax rates. Former Federal Reserve Board member and head of the National Economic Council Lawrence Lindsey has shown how the Obama proposal "would make the private sector \$5 poorer in order to make the government \$1 richer."

Nobel Laureate and "father of the euro" Robert Mundell said if Mr. Obama does not renew the 2003 tax rate reductions, "the U.S. will go into a big recession, a nosedive."

John McCain and his advisers have developed a more responsible fiscal plan, but need to explain more clearly how and where Mr. McCain will reduce spending (in light of his proposed \$69 billion spending increases - again using NTU estimates) to attain his projected balanced budget and economic growth targets. If Mr. McCain can clearly articulate and defend his plan, he will have a big advantage against Mr. Obama, whose economic agenda is grossly irresponsible and destructive.

Mr. Obama's trade position is ripe for attack. It is clear from his remarks that he doesn't understand free trade, though he says he believes in it. (Hint: Free trade means trade without destructive regulations, conditions and tariffs.) Every good economist from Adam Smith (circa 1776) on has favored free trade because it results in far more winners than losers among both buyers and sellers. Mr. McCain has a strong free trade record but he needs help articulating the case.

Mr. Obama has been particularly incoherent when he advocates "energy independence" and then, in the same sentence, supports increased taxes on oil companies, which will only reduce their desire and ability to produce more. Most of the rest of his proposals would also further reduce energy supply, and he has no plausible plan to increase domestic energy supplies enough to reduce dependency.

Mr. McCain has received a gift from Mr. Obama, but he is timid about going where he should - i.e., the Arctic National Wildlife Reserve. His advisers should craft language

explaining that drilling in ANWR provides more benefits than costs given our current national security and economic situation and advances in technology that now enable us to do it with little environmental impact.

Neither Mr. Obama's nor Mr. McCain's advisers have adequately explained economic policy tradeoffs to their candidates, nor given them the necessary facts and arguments, because they continue to make politically and economically dumb statements.

Mr. McCain has a far stronger economic team than Mr. Obama has, but Mr. McCain's advisers must wean him from some of his misconceptions. Mr. Obama is supposed to want "change," but his economic platform is nothing more than the old, tax-spend-and-regulate-more, Democrat-labor union agenda, which, as history has shown, will only lead to lower growth and more unemployment. Thus Mr. Obama is left exposed to the Republicans (if they ever get their act together) and responsible members of the media, who might start doing a real analysis of the consequences of his proposals.

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