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Clueless or Despotic?

By Richard W. Rahn
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Foundation lacking in Constitution

Do you think people who refuse to (or cannot for whatever reason) purchase health insurance should be subject to a $250,000 fine and/or five years in jail?

Well, a slim majority of the U.S. House of Representatives seems to think such a draconian (and probably unconstitutional) measure is just fine because that is one of the provisions of the health care reform bill they just passed. A person, or group of people, who are unable to think through the consequences of their actions and often resort to oppression of others are either clueless or despotic.

Thinking and compassionate people understand that there may be many good reasons why people do not buy, or do not wish to buy, health insurance. The health care bill is Exhibit A to demonstrate that a majority of Congress is now clueless when it comes to economic sense or understanding about how the U.S. Constitution was designed to protect individual liberty.

No provision gives government the power to require people to buy health insurance, let alone fine and/or send them to jail for non-purchase.

Sen. Jack Reed, Rhode Island Democrat, tried to justify the constitutionality of the health bill by saying it was like the "draft." This recalls a debate 30 years ago between Gen. William Westmoreland and Milton Friedman about whether the United States should go to an all volunteer army.

Westmoreland said he "did not want to command an army of mercenaries," to which Friedman replied, "Then sir, you would prefer to command an army of slaves." (To his credit, Westmoreland changed his view many years before his death, upon seeing the success of the all-volunteer army.)

Implicitly, members of Congress like Mr. Reed seem to believe the American people are the "slaves of government," not the other way around as the Founding Fathers intended. Sound - and constitutional - proposals for health care reform may be found on the Web sites of the Cato Institute and the National Center for Policy Analysis.

Exhibit B exposes those in the Obama administration, Congress and in certain state governments who say they believe government can collect more tax revenue to fund the health care bill and "cap-and-trade," as well as other counterproductive and coercive government activities, by increasing tax rates on the "rich."

Perhaps they have failed to notice that there is strong empirical and theoretical evidence that the maximum marginal U.S. federal income tax rates, plus high state marginal rates, are already above the revenue and national welfare maximizing rates.

If the Bush tax rate cuts are repealed and if the proposals for funding health care and the energy bills by increasing marginal tax rates are passed into law, it is a certainty that total long-run tax revenues will be lower, not higher, and that economic growth and employment will be lower.

Ah, but this concept is just too complex for the clueless who work in Washington. (They seem to have missed the widely reported fact that many of the highly taxed in New York, California and elsewhere are moving to lower-tax states, a number of which have no state income tax.) Check the Institute for Research on the Economics of Taxation Web site for first-rate analyses and papers on tax rate/revenue issues.

Exhibit C: Members of Congress have just introduced the "Foreign Account Tax Compliance Act," which would force foreign financial institutions, trusts, corporations and tax advisers to provide extensive information about U.S. account holders, owners, guarantors and clients.

The reporting provisions would be so costly and onerous (and in many cases violate local law and privacy rights), and the fines so draconian, that few foreign entities would continue to operate and/or invest in the United States.

At a time when the United States is running record deficits and needs large amounts of foreign capital to finance these deficits, it is clueless to drive away trillions of dollars to try to obtain a few extra billion dollars of tax revenue. If the Internal Revenue Service wishes to go after Americans who it believes are evading taxes, it should do so directly. The IRS has no business bullying foreign private companies and governments to make them its unwilling agents. The Center for Freedom and Prosperity has extensive information on this issue.

Exhibit D: Those in the administration and Congress who blame "deregulation" for the financial crisis and, in particular, portions of the Glass-Steagall Act, which was partially repealed a decade ago, and are now proposing many counterproductive regulatory proposals. Peter Wallison, former general counsel of the U.S. Treasury and now a senior fellow at the American Enterprise Institute, has just produced an excellent paper debunking this myth.

Mr. Wallison shows the "crisis was caused by the government's own housing policies, which fostered the creation of 25 million subprime and other low-quality mortgages - almost 50 percent of all mortgages in the United States - that are now defaulting at unprecedented rates ... the fact that two-thirds of these weak mortgages are now held by government agencies, or were produced by government requirements, shows the demand for these mortgages - and the financial crisis - originated in Washington." The clueless in Congress, rather than abolishing Fannie Mae and Freddie Mac, which were responsible for much of the crisis, continue to encourage them to make loans to those who will be unlikely to be able to service their mortgages, thus setting up the next crisis.

The good news is, at some point, it is likely that a majority of the voters will understand that many of their elected representatives are either clueless or have little regard for the U.S. Constitution and will vote out the rascals.

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