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2011 and Beyond

By Richard W. Rahn

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Glimpse into the crystal ball reveals greater fiscal responsibility

Advice to forecasters: "Give a number or a date but never in the same sentence." The following is a forecast that ignores the good advice given in the first sentence.

For a change, there is some good news. The double-dip recession that some of us had feared if Congress raised taxes on the most productive people has been avoided for the moment, and as a result, many forecasters have increased their growth estimates for 2011 to more than 3 percent. But the country needs sustained growth rates above 3.5 percent to bring down unemployment in a reasonably rapid way.

More good news is that the unsustainable increase in federal government spending is likely to be curtailed because of the efforts of the House Republicans and one man in particular, Rep. Paul D. Ryan, Wisconsin Republican, the new head of the House Budget Committee. Mr. Ryan is a fine economist and a man of courage who understands the real world. His committee will take on both entitlement spending and discretionary spending, and the committee recommendations are likely to be passed by the House. Unfortunately, the still Democrat-controlled Senate will lack the courage and will continue to deny the reality of what needs to be done. The mainstream media will produce stories about how any reduction in the growth of entitlements will cause some to go without sufficient food, medical care and shelter - while, of course, ignoring the larger truth that without entitlement reform, most everyone will suffer. The result will be a real reduction in discretionary spending but little or no reform of entitlements until after the 2012 election, by which time the nation will be in a deeper budget hole.

The fact is that bigger government means slower growth, not faster, and slower growth means more unemployment and hardship. The snapshot of the performance of big economies for the past three years, as shown in the accompanying table, merely supports the broader evidence that big-government economies usually end up with subpar performance.

Total Government Share of GDP

Country	2006 (%)	2010 (%)	Real Growth 2007- 2010 (%)
France	52.3	56.3	-0.9
UK	40.3	46.6	-3.3
Germany	43.6	46.5	-0.6
United States	36.6	41.4	-0.1
Japan	33.4	39.7	+3.7
Brazil	38.3	38.0	+12.9
India	26.0	29.2	+23.3
China	18.9	22.3	+32.1

Under the new and very able chairman of the House Ways and Means Committee, Dave Camp, Michigan Republican, serious discussion of fundamental tax reform will begin, but, like the budget, even if the House passes tax reform, it will die in the Democrat-controlled Senate.

Vice President Joseph R. Biden Jr. said, shortly before the just-passed tax bill, that he found it "morally troubling" that Congress was not further increasing the marginal tax rates on many of the most productive citizens - who already pay about twice as much as their share of income. Mr. Biden seems unaware that the Constitution says all citizens are supposed to be treated equally under the law. He also seems to think it is right that a person who puts in more hours at work to better care for his or her family should be taxed at a higher rate than the less industrious and less responsible. What an odd sense of morality Mr. Biden has. The debate about how much each income group ought to pay in taxes will be fought until the 2012 election. Those who argue for a flat rate can win the argument if they do their homework and make a concerted effort to explain to their fellow citizens that such a tax system is the only fair and moral and the most economically efficient system.

The Federal Reserve, by its own admission, is off into uncharted territory, which, given past experience, is likely to end badly. As noted economist Robert Genetski recently wrote: "There are only two groups that have the power to spend money without having to produce anything of value. One of these is the Federal Reserve. The other is counterfeiters We put counterfeiters in jail."

The clear thinker George F. Will recently observed that one reason Americans have such a sour view of government is that the three agencies they are most regularly in touch with are the Transportation Security Administration, the U.S.

Postal Service and the Internal Revenue Service. Even those of us who are the greatest skeptics of government did not imagine a couple of decades ago, when the laws and regulations against sexual harassment began in major way, that they would result in a government agency (the TSA) having a legal monopoly on the right to inappropriately touch sensitive body parts. It is an easy prediction that there will be an increasing number of scandals connected with TSA employee behavior. As long as TSA continues to focus on possible dangerous items carried by individuals, as contrasted with those who are likely or potential risks, both our lives and our liberties will continue to be in danger.

Much else will still go awry. The Postal Service, Fannie Mae and Freddie Mac will still bleed taxpayer money - and the administration and congressional Democrats will block meaningful reform. After that, there's the IRS and North Korea.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.

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