

William Niskanen, Wise and Principled

By Richard W. Rahn

CATO'S CHAIRMAN LEAVES BEHIND SIMPLE WORDS
THAT COULD SAVE U.S. ECONOMY

If only we had followed his recommendations, the United States and the rest of the world would not be in the present mess. On Oct. 26, the world lost one of its wisest, most competent and principled economists, William Niskanen. Bill did his undergraduate work at Harvard and earned a doctorate from the University of Chicago, where he studied under Milton Friedman. He then taught at a couple of leading universities, was a high-level official at the Office of Management and Budget and the Defense Department, served as chief economist of the Ford Motor Co., was a member and, ultimately, head of President Reagan's Council of Economic Advisers and finally, served for more than two decades as the chairman of the Cato Institute.

For those of us lucky enough to have known and worked with him over the years, we always knew he had done his homework and what he was telling us was what he really believed. His stubborn, principled trait of not tailoring his views to what was politically expected got him fired from Ford. He, at times, got into hot water in the Reagan White House by saying things that happened to be true but gave the media an opportunity to beat up the administration for not being "properly sensitive."

At the moment, the world is in a debt crisis, where the economic illiterates are pushing for tax increases "on the rich," where the eurozone is in shambles, and where ugly trade protectionism is once again rising. Mr. Niskanen had seen all of these problems decades ago and laid out solutions that, if followed, would have avoided the current mess. Bill was a very careful scholar with strong analytical skills, and his opinions were largely a result of where the evidence led him.

For instance, the evidence led Mr. Niskanen to believe, like Milton Friedman, that the optimal level of government spending as a percentage of gross domestic product was probably about 10 percent. But he wrote, "This does not suggest there is no value to government spending above the optimal level, only that the net cost to the economy of this spending is much higher than the direct expenditures for these programs." After careful analysis of the data, he concluded that the marginal cost of government spending and taxes in the United States likely ranged between \$2.75 and \$4.50 per additional dollar of tax revenue. He wrote, "One wonders whether there are any government programs for which the marginal value is that high." To put what he was saying more simply, GDP is reduced by roughly three or four dollars for every additional dollar the government taxes and spends. It was, of course, no surprise to Mr. Niskanen that President Obama's "stimulus" program did not work and only made matters worse.

For four decades, Bill Niskanen worked for a tax-and-spending-limitation amendment to the Constitution. In January 1995, in only 125 words, he presented his proposed constitutional amendment to the House Budget Committee, "consistent with the crisp and majestic language of most of the Constitution." Here is his amendment. After reading it, ask yourself how much better off the nation would be today if the body politic had passed what he proposed:

"Section 1. Congress may not increase the limit on the public debt of the United States without the approval of three-fifths of the members of each House.

"Section 2. Congress may not levy a new tax or increase the rate or base of an existing tax without the approval of three-fifths of the members of each House.

"Section 3. State and local governments must be compensated for the necessary additional costs of any new federal mandate specific to those governments. In the absence of such compensation, state and local governments need not implement such mandates.

"Section 4. Sections 1 through 3 of the Article shall be suspended in any fiscal year during which a declaration of war is in effect."

This simple, yet elegant, amendment covers nearly all the bases.

Bill Niskanen was a strong proponent of free trade and free capital movements and thus was critical of much of the current China bashing. He also saw the fatal flaws in the EU. In 2008, he wrote: "The major problem specific to the European Union trade area, however, is that it is difficult for a government to join this area without bearing a proportion of the costs of all EU activities. ... If I were an official in a European government, one of my priorities would be to restore or maintain membership in a European-wide free trade area that does not require membership in the European Union."

Those desiring more liberty and more cost-effective government could do no better than to support the Niskanen amendment to the Constitution. They should also insist before any government spending or regulatory program goes into effect a thorough cost-benefit study be done, including the \$2.75 to \$4.50 dead-weight loss to the economy for any additional dollar taxed and spent. Those two changes to our governing procedure would take care of our fiscal problems.

Some people have had increased influence after their passing. I would not be at all surprised if Bill Niskanen becomes one of them.

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