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Liberal Leaders Flunk Math

by Richard W. Rahn

FAIL TO GRASP HUMAN RESPONSE TO HEAVY TAXES

Dennis Van Roekel, president of the largest teachers union, the National Education Association, failed fifth-grade math last week. The question he failed is: If X (government spending) is growing faster than A (government tax revenue) plus B (new revenue from higher tax rates on “the rich”), when will A plus B equal X?

President Obama met with leaders of left-leaning organizations, including Mr. Van Roekel, to discuss the “fiscal cliff.” After the meeting, Mr. Van Roekel appeared on Neil Cavuto’s Fox News show to discuss the budget deficit. Mr. Van Roekel told Mr. Cavuto that he had recommended taxing the top 2 percent more to deal with the problem. Mr. Cavuto then correctly explained that taxing the top 2 percent could not solve the problem because even with the increase, spending would still be growing far faster than revenues — primarily because of entitlement programs. After some back and forth, Mr. Van Roekel could not identify one item in the budget that he was in favor of cutting and kept insisting the problem could be solved only by taxing the top 2 percent, even though Mr. Cavuto again correctly and clearly explained that even taxing the top 2 percent at a 100 percent rate would not produce enough revenue because entitlements are growing faster than the economy. Mr. Van Roekel appeared to be unable to grasp this rather simple concept.

At the end of last week, Hostess Brands Inc., the company that makes Twinkies and Wonder Bread, asked to be liquidated because the bakery workers and their union bosses could not understand this: If A (workers’ salaries and benefits) is growing faster than B (sales revenue), company H (Hostess) will run out of money and be forced into liquidation. So 18,500 workers are losing their jobs because a bunch of union bosses and many of the workers could not understand elementary school math. (Perhaps their teachers were members of the NEA. Note: There are many fine teachers who are not responsible for the folks who run the NEA, and many fine voters who are not responsible for the actions of our elected officials.)

When you first study physics and economics, you learn the difference between constants and variables. You also learn there are very few constants — the speed of light being one. Most everything is a variable, in that most everything is affected by other things or actions. A majority of the leaders and voters in California seem to have missed this basic lesson. They voted for a whole host of new taxes, including increasing the state’s income tax to more than 13 percent. For most of these tax increases, the political leaders made the assumption that people will stay put and pay these taxes — hence, big revenue gains. But how likely is this? Gov. Jerry Brown has, in effect, said that state personal income is a constant rather than a variable. If you multiply a higher tax rate by a constant income you get a bigger number and — voila — more tax revenue. However, state personal income is variable, which Mr. Brown will learn in a painful way. People can move either their personal or economic activity to another state, another country or even cease working in the above-ground economy. California will continue to lose economic market share and its budget problems will only get worse.

Many people (including a few left-wing economists who let their ideology overwhelm their knowledge of math) are arguing that, if taxes are raised on those making more than $250,000 a year, there will be no adverse effects. What theory or empirical evidence supports their assertions?

Most economists refer to themselves as Keynesian, monetarist, classical or Austrian — at least in part. None of these theories advocates increasing tax rates, particularly on labor and capital, during periods of economic stagnation, such as the United States is now experiencing. There is also no empirical evidence to show that a program of increasing the highest marginal tax rates and increasing entitlement spending leads to higher economic growth and employment. Look at what is happening to France, where the high tax-and-spend experiment is well ahead of ours. The laws of supply and demand have not been repealed. If you tax something you will get less of it, and if you subsidize something you will get more of it. If you increase the tax on labor and capital, you will get less — and economic growth requires more labor and capital, not less.

Mr. Obama said last week that he was not going to accept “dynamic scoring” (adjusting the projections to reflect changes in behavior resulting from the tax rate change) in evaluating the Republicans’ tax revenue projections. Thus, he is going to assume that the tax base is a constant rather than a variable. The president and his staff apparently fail to comprehend secondary effects of tax changes, or they are allowing leftist ideology to trump reality. Either way, it is a loss for the American people.

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