The Washington Times September 20, 2016

A Reality Check of the Election

By Richard W. Rahn

RETURNING TO THE REAGAN PLAYBOOK FOR 'POLITICAL COURAGE' IS IN ORDER

Government spending and borrowing are once again growing as a percentage of GDP. The federal debt held by the public was 35 percent in 2007. It is 74 percent today, and is projected to be 140 percent in 2046 — provided nothing goes wrong. Neither Hillary Clinton nor Donald Trump have presented a comprehensive plan of what they intend to do about this problem that will sink America many decades before rising sea levels (even if the global alarmists are right, which is unlikely).

The candidates promise not to do anything serious about "entitlements" even though it is the major problem. But it probably doesn't matter what they say until after Election Day — at which point they will be confronted by reality and have to start dealing with it. Both Bushes, Bill Clinton, and Barack Obama all largely abandoned their tax and spending promises shortly after winning election — so why should we expect anything different this year?

Libertarian Gary Johnson has promised to sign any tax cut Congress sends him and to veto many spending bills. He actually did make a record number of vetoes when he was governor of New Mexico, so his promises are probably close to reality if he is elected. His problem is that too few know of his record or even who he is, and his chances of being elected are minimal. Green Party candidate, Jill Stein, has promised to spend, tax, and regulate more, so it is fortunate there is zero chance she will be elected. Dr. Stein (she is an M.D.) does, however, illustrate why financial scam artists like to go after M.D.'s. Too many medical doctors know nothing about economics or finance; yet, many think they do, because they know how to transplant a heart.

Ronald Reagan was the last president who was not only serious about his campaign promises regarding taxing, spending, and regulation, but was the last one to actually do something close to what he promised, particularly the tax rate cuts — and the economy boomed. All of which brings us back to Hillary and the Donald. Hillary has promised tax increases (but only on the "rich" of course), more regulation, and more spending — all of which will reduce growth, which presently is almost zero. But she says we shouldn't worry because she is going to turn economic policy over to Bill. The United States did grow at more than four percent per year during Bill Clinton's second term, when he signed the Republican authored capital gains tax rate cut into law, and went along with the Gingrich Republicans' spending freeze. So Hillary is on two sides of the same issue — and how are we supposed to know which Hillary to believe?

Mr. Trump has promised major tax rate cuts, unspecified spending reductions, and specified spending increases, e.g. the military, child care, etc., regulatory relief, and tariffs on runaway companies. The tax cuts are good, as are the regulatory reductions and the spending cuts, but not the spending increases and tariffs. But he seems much less confused on economic policy than Hillary, albeit a very low bar.

All of which brings us to the Congressional Budget Office (CBO) tax and revenue forecast. They are the folks who give Congress the "official" estimates of what is going to happen in the future. The problem with them is they are economic accountants trapped in a mythical Keynesian head — which means much of their thinking is backwards, so their forecasts are most always wrong. Not that anyone can know the future. Back in 1978, when a big cut in the capital gains tax rate was being debated, CBO projected huge revenue losses. The tax cut actually resulted in big revenue gains, because it was a discretionary tax, and unlocked much frozen capital and changed the incentive structure. But never mind, all during the 1980s, 1990s and the new century, CBO continued to confuse tax rates and tax revenues — as if changing the incentive structure did not matter.

Once again, CBO is advocating tax increases to reduce the growth rate of the future deficit — while admitting that there is no tax increase which can get the country out of the problem and that tax increases slow economic growth. They also argue that Congress is incapable of significantly reducing the growth rate of the "entitlements," particularly the medical ones — Medicare, Medicaid, Obamacare — where the biggest problems are.

Fortunately, there is a solution. Reignite economic growth and real job creation with rising real wages by — radically cutting high destructive tax rates and cleaning up the tax system; getting rid of all of the costly and destructive regulations that are not fully justified by real cost-benefit analysis, no matter how small; and freezing government spending, including making those necessary growth rate reductions in the entitlements. It is called, "having political courage." The left will claim the tax cuts will benefit the "rich," which means the people who pay the bulk of the taxes, and that freezing government spending programs will hurt the poor — while conveniently ignoring the basic fact that the poor suffer most from economic stagnation.

Yes, it is the old Reagan play book — but it worked.

Richard W. Rahn is chairman of Improbable Success Productions and on the board of the American Council for Capital Formation

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