The Washington Times

RAHN: Tax-raisers lack compassion

Larger government means earlier deaths for the jobless

By Richard Rahn - October 15, 2012

If you were unemployed, would you prefer a job or a handout? Most people would say a job because of the self-respect that comes with being productively employed. What is not widely recognized is both the emotional and physical damage long-term unemployment does to many people.

Over the past several decades, there have been many studies about the effects of long-term unemployment on individuals. If you do a Google search of such studies, you will find a remarkable consensus among the researchers — even though some are funded by government, some by labor groups and some by employer groups. In sum, all agree that death rates increase markedly for those who lose their jobs. The unemployed, not surprisingly, are much more prone to develop stress-induced conditions such as diabetes and depression. Not being able to find work is stressful, particularly for those with family responsibilities.

It is interesting that even though nearly all agree that involuntary unemployment is harmful to the individual and society, many policymakers are willing to accept it rather than focus on what can be done to prevent it.

Most people understand why taxing those who create jobs (generally upper-income people) will mean the creation of fewer jobs. Economists may argue about how many jobs will be destroyed for any given tax increase on job creators, but no one who understands the law of supply and demand will argue that there is no effect. Likewise, most people understand that a business that has to endure many expensive regulations will not have the funds to create as many new jobs or will be forced to increase prices for its products or services to cover the cost of the regulations. Higher prices mean fewer sales and, hence, fewer jobs. None of the above is rocket science, so most people "get it."

Current U.S. gross domestic product (GDP) is $15.6 trillion. If the economy grows at an average of 2 percent annually over the next eight years (in real dollars), GDP will be $18.3 trillion in 2020. (In reality, the economy has grown at an annual rate of about 2 percent since the end of the current recession in the spring of 2009, and now it is growing at less than 2 percent.) However, if the economy grows at an average rate of more than 4 percent, as it did from 1982 through 1989 under Ronald Reagan or from 1995 through 2000 under Bill Clinton), GDP will be about $21.4 trillion in 2020, or almost 20 percent larger in real terms than at a 2 percent growth rate.

Because of population growth, it takes an almost 3 percent economic growth rate to create enough new jobs to prevent the real unemployment rate (the percentage of the

adult population not at work) from rising. Thus, at a 2 percent growth rate, the percentage of the adult population at work will continue to decline. However, at an average growth rate of 4 percent, involuntary unemployment will almost disappear (staying between 4 percent and 5.5 percent) and the economy will be near full employment. There always will be some unemployment because of people between jobs or unwilling to accept jobs they don't like in hopes of finding a better one.

Many advocates of increasing taxes acknowledge that higher taxes, particularly on labor and capital, will slow economic growth, but they claim "the government needs the money." Part of the mistake they are making is treating tax revenue as a constant function of the tax rate rather than a variable that is dependent on the size of the economy. The Romney-Ryan plan is to have tax reform that produces about 18 percent of GPD in federal tax revenue (approximately the historical average of the past 40 years). Their economic plan, like Reagan's, is designed to achieve an average economic growth rate of 4 percent or higher, resulting in approximately $3.9 trillion in tax revenue in 2020 (eight years from now) and full employment.

The Obama administration not only wants to keep the present economic policies, which are resulting in less than a 2 percent growth rate, but also to increase tax rates, which will further reduce economic growth. The administration claims the tax-rate increases will produce tax revenue at about 20 percent of GDP, but at a 2 percent average growth rate, it will only result in federal revenues of about $3.7 trillion in 2020 — less than the Romney-Ryan plan. The Obama administration has claimed incorrectly for the past four years that its policies will result in 4 percent growth rates. Those policies have only achieved a 2 percent growth rate, yet somehow we are expected to believe that raising taxes on job providers will increase growth and job creation.

President Obama and his Democratic allies like to say they want to return to the Clinton-era tax rates (actually, they are proposing higher rates, given the additional taxes from Obamacare), but they leave out the fact that federal spending during the second Clinton administration was just 18 percent of GDP, not the current 23 percent. The empirical evidence (contrary to left-wing dogma) shows that economic growth and job creation slow as government gets bigger.

Those who support politicians whose policies are almost certain to produce low growth at best and then claim they care about the physical and mental well-being of the unemployed are either ignoring the historical evidence or are hypocrites. They are not compassionate.