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Santorum's problem isn't 'insiderism,' it's economic literacy

By Jennifer Rubin

Ben Smith reports that the Romney campaign is going after Rick Santorum with two major themes: "He's never run anything" and he is a Washington insider.

Certainly the former is a legitimate point of differentiation, but the second , I would suggest, needs refinement. Santorum's biggest fault is not that he's served in D.C., but rather that he is not an instinctive free-market capitalist and lacks a big picture view of the economy. Calling him a D.C. insider misses the point because it is both too narrow (the real problem is more substantive) and too broad (it implies he's an establishment Republican, which isn't really the case).

The most visible manifestation of this is, unfortunately, the centerpiece of his economic plan, his proposal to create a zero tax rate for manufacturing and a 17.5 percent rate for other firms. This is a quintessentially D.C.-centric view of the economy. The federal government, in his scheme, will pick one sector over another, rather than getting to a flatter, fairer tax code across the board. Santorum's plan reflects the perspective of a Pennsylvania senator who saw jobs decline in one sector in his state. It's the same viewpoint that caused him to vote against NAFTA and free trade deals and side with Big Labor. It might be temporarily good for Pennsylvania, but it's rotten economic policy. Conservative economists and fiscal conservatives, now that Santorum has become a serious contender, are speaking up, and panning his approach.

Andy Roth from Club for Growth calls the manufacturing-favoritism "bad tax policy." He tells me that it suggests Santorum believes that "government should be limited except when he is in charge." Really, there is no economic justification for giving firms in Pennsylvania and other manufacturing states a leg up on firms (e.g., financial services, health care) that tend to gravitate to other states. It is at bottom a provincial viewpoint that some jobs are better than others. But that's simply not the case.

Grover Norquist of Americans for Tax Reform gives the back of the hand to such tax favoritism. Why would we want to give one sector an advantage over another? He cracks, "Because multiple rates divide taxpayers, and they can be mugged one at a time." More seriously, he argues, “There is a good reason for a lower tax rate for all American businesses, not just manufacturers.” Santorum will argue that he’s also lowering the rate for non-manufacturers; But someone who understands the bigger economic picture would acknowledge that the non-manufacturers are in effect subsidizing the manufacturers in such a scheme.

Douglas Holtz-Eakin of American Action Forum makes the point that the tax rate break for manufacturers is not all that different from President Obama’s tax credit for manufacturing firms, and a super-duper tax credit for “high tech” firms. Such schemes, he says, are “completely at odds with tax reform.”

Moreover, a special preference for manufacturing shows a lack of understanding about the progress manufacturing has made *without* such gimmicks. Every conservative economist I spoke with confirmed that manufacturing jobs have declined for decades while manufacturing output has grown. That’s due to increased productivity. We are still, depending upon whom you consult, the first- or second-biggest manufacturing country in the world. Now Santorum and average consumers might think manufacturing is in the trash bin because we don’t make clothes and televisions here. But, in fact, more lucrative manufacturing businesses (chemicals, engine and aircraft manufacturing) are doing quite well. So should we give a break only to retail manufacturing firms? And if the goal is job-creation, maybe manufacturing *isn’t* the place on which to concentrate.

Finally, there is the definitional problem. Holtz-Eakins points out that under one “manufacturing” credit scam, McDonald’s qualifies. Likewise, Norquist points out: “How many hours of lawyer time will go into the argument whether a firm is manufacturer or in the service industry?” Surely, the Hollywood studios will claim they manufacture films. Should we really be giving that industry a break?

Chris Edwards of the Cato Institute thinks this preference for manufacturing is ”loopy.” He tells me, “Politicians just can’t help themselves from micromanaging, even though a broad array of economists tells them it’s bad policy. Why favor manufacturing? To an economist, $1 million in GDP from manufacturing is of the same value as $1 million of GDP from construction, retail or services. Providing special breaks for certain industries distorts the economy and thus reduces overall GDP (i.e., our standard of living). It also encourages yet more lobbying by companies who don’t get the new special break.”

The bottom line is that a manufacturing-favored tax code is not conservative, and it’s not wouldn’t produce the greatest growth possible. David Boaz of Cato sums it up this way: “Taxes should be lower, flatter, and simpler. All taxes distort economic decisions, but they should seek to distort as little as possible. Different tax rates for different industries are obviously intended to direct economic activity in a particular way. If you plan a certain level of corporate tax revenue, then it’s best to raise it through a tax with the fewest preferences and differential rates.”

So if Romney is going to go after Santorum, he should do it on something meaningful and substantive. Santorum has good instincts on social and national security policy, from conservatives' viewpoint. But his economic policy is not grounded in real-world experience or in conservative ideas. It is aggravated by his lack of policy advisers who can correct and reshape some well-intended but ill-conceived idea. My hope is that he would reconsider that manufacturing preference, recognizing that it's not good policy or good politics. If he does not, Romney is fully justified in attacking him on this basis.

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