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RAHN: Flaccid brains

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If government spending is growing faster than gross domestic product (GDP), can the resulting deficit problem be solved by: (A) decreasing the rate of growth of government spending, (B) increasing tax rates, (C) decreasing the rate of growth of government spending and increasing tax rates? If you answered A, you have a strong brain and can go to the head of the class. If you answered B, you have a flaccid brain and will need to repeat the class. I will get back to the C students later.

People with flaccid brains have a hard time understanding the consequences of actions, and they tend to treat variables as constants (e.g., I know how to drive, so I should be able to drive drunk). As we know from both physics and behavioral science, almost every action causes some reaction. Flaccid brains, for various reasons, have a hard time understanding this basic principle of nature. Hence, they rarely do real cost-benefit analyses or think about the long run.

An example of a flaccid brain is that which occupies the skull of Sen. Bill Nelson, Florida Democrat, who, in a hysterical reaction to the Gulf oil spill, wants to shut down all offshore drilling. As damaging as the spill is, one major accident every 40-plus years (the Santa Barbara channel spill was in 1969) is something we can live with, given that we get about one-third of our oil from offshore platforms, which provide an enormous benefit to our economy and to everyone who drives.

The new health care bill contains a provision that has nothing to do with health care. In attempting to raise a little more revenue, Congress inserted a measure that requires both large and small businesses to flood the IRS with perhaps billions of documents, costing the private economy far more than the IRS might collect. Currently, the IRS requires businesses to file a 1099 form when it hires outside consultants, but the new provision will make businesses file the form anytime they make a payment of more than \$600. (Can you imagine having to file a 1099 form every time you pay your landlord, phone company, office-supply

vendor or catering company or buy an airline ticket?) This is sheer madness, which will result in huge numbers of errors and mismatches and endless battles with the IRS. Because it took a flaccid brain to vote for the health care bill to begin with, it is no surprise that the same flaccid brains could vote for this dopey and destructive provision.

Sen. Christopher J. Dodd, Connecticut Democrat, is well known for his flaccid brain, whose work is all too obvious in his financial reform bill under consideration in the Senate. The bill is filled with provisions that would cause havoc in future years - including giving banks deemed too big to fail a competitive advantage over their smaller competitors. It is so bad that even the president of the St. Louis Federal Reserve Bank, James Bullard, has gone public with his criticisms, including his belief that it would destroy the independence of the Fed. Yet it is no surprise that the bill is filled with exceptions for Mr. Dodd's cronies, such as attorneys, insurers and real estate agents as well as, of course, the two biggest culprits in the financial crisis, Fannie Mae and Freddie Mac.

Politicians are not the only ones to suffer from flaccid brains; often major business leaders suffer from the same ailment. For instance, this past week, heads of some major insurance companies asked Congress to raise taxes on their offshore competitors because they argued the offshore companies have a competitive advantage. We know government is above its optimal size, and we know taxes on companies tend to reduce the demand for their products (because taxes raise costs); therefore, these insurance executives should have asked Congress to reduce their taxes to make them more internationally competitive. A strong brain, as contrasted with a flaccid brain, would understand that in the long run, this is the win-win solution for the companies, the U.S. and the world economy.

There are some politicians with strong brains. Republicans Rep. Paul D. Ryan of Wisconsin and Florida Senate candidate Marco Rubio come to mind. Mr. Ryan is the only member of Congress to have presented a comprehensive and economically sound "road map" for getting us out of the U.S. fiscal mess, while most of his colleagues are in denial or hiding. Mr. Rubio, like Mr. Ryan, has correctly and courageously said changes must be made in Medicare and Social Security for those under age 55 to avoid the U.S. going bankrupt. Mr. Rubio's flaccid-brained opponent, Gov. Charlie Crist, immediately attacked Mr. Rubio for saying what all thinking people know to be true.

As for the C student in the opening paragraph, it is true that if government spending as a percent of GDP is stabilized at some level higher than the current one, tax increases might be required. But this is the suboptimal solution because we know the economy will grow faster with smaller government and lower taxes and create more jobs and economic opportunity. The Social Security burden can be lowered by moving toward privatized accounts, as 30

other countries, ranging from Chile to Sweden, have done with spectacularly successful results. Likewise, the cost of Medicare, Medicaid and other health care entitlements can be greatly reduced by putting in some element of cost-sharing by users, coupled with a major expansion of health savings accounts and a massive reduction in government-mandated paperwork and control.

The great danger of President Obama's deficit-reduction commission is that it is likely to come up with the C student's semi-flaccid-brained solution, as contrasted with the A student's strong-brained solution - leaving everyone poorer.

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