



If Libertarian Rand Paul Was President, Here's What the U.S. Economy Would Look Like

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Rand Paul rode to the Senate five years ago on the furious energy of the Tea Party movement. His election was, in part, a grassroots backlash to the Obama administration's success in passing the Patient Protection and Affordable Care Act, the American Recovery and Reinvestment Act, known as the stimulus package, the Lilly Ledbetter Fair Pay Act as well as the loans, since repaid, to bring General Motors and Chrysler out of bankruptcy.

In Paul's view, Obama had overstepped the role of government. All of those efforts, he argued, were mistakes for which the U.S. would suffer for generations to come.

Having been immersed in libertarianism by his father Ron Paul, the irascible former congressman from south Texas and two-time Presidential candidate, the Younger Paul, a first-term senator from Tennessee, "yields to no other candidate in his opposition to taxes, spending, debt, regulation, and Obamacare," David Boaz, the executive vice president of the Cato Institute, wrote in April.

Although he's mired in a distant 8th place among aspirants to the Republican presidential nomination, Paul's ideas and proposals are embraced by many of his rivals, in particular, Texas Senator Ted Cruz, Florida Senator Marco Rubio and New Jersey Governor Chris Christie. Of course, even as president, Paul would encounter opposition from mainstream Republicans and their organizational supporters.

Paul's opposition to funding the Export-Import bank, has hurt U.S. corporations' ability to conduct business overseas. But for Paul, who would close the Commerce Department as president, such government loans and incentives for U.S. businesses are viewed as bad for the longterm health and welfare of the U.S. economy.

Here's what might happen in the economy if Paul became President.

The Federal Reserve

At the forefront of Paul's economic agenda is his crusade against how the Federal Reserve is currently managed. The Fed, he says, badly overstepped its mandate by buying billions of dollars in poorly-performing bonds in order to spark the economy out of the worst recession in more than 75 years. Paul has repeatedly warned that the Fed's so-called "quantitative easing" would spark hyper-inflation. (Inflation currently stands at roughly zero percent, a level even below the Fed's target of 2%.)

As President, Paul would either cripple or close the Federal Reserve. Paul views the Fed as an uncontrolled money-printing machine that is allowed to operate without oversight. His signature "Audit the Fed" bill that would force the Fed to submit to greater congressional oversight regarding its decisions about interest-rates, putting at risk the independence that has defined it for more than two centuries.

Just what might happen is unclear, but more than likely, the Fed would be forced to act along partisan grounds. Rather than pursuing goals irrespective of whichever party held Congress, the Fed would likely be at the mercy of political whims.

While Democrats largely dismiss Paul's legislation as little short of kooky, his proposals have also drawn the ire of Republicans and inflation hawks on the Fed. Dallas Fed President Richard Fisher, long critical of bond-buying under Ben Bernanke and Janet Yellen, said Paul's "audit the fed" legislation would be bad for the economy, adding that the central bank is "audited out the wazoo."

Fed Governor Jerome Powell, another inflation hawk charged that Paul's bill "risks inserting the Congress directly into monetary-policy decision making, reversing decades of deliberate effort by the Congress to insulate the Fed from political pressure."

Taxes

President Paul would institute a flat 14.5% tax rate applied to all citizens regardless of personal wealth. He laid out his vision in *The Wall Street Journal*. While his supporters claim such a radical changing the tax code would be a boon to business, others counter it would devastate schools, public transportation, hospitals and healthcare, police and firefighting services, creating a \$15 trillion hole in the federal budget, according to one estimate.

The impact on the economy would be fast and furious. People making more money through their jobs or investment would receive a larger tax break than those generating less personal income. By repealing the progressive personal income tax, the estate tax and the federal payroll tax, the U.S. government would have roughly \$1.2 trillion less in tax revenue for fiscal year 2016.

The total pool of federal spending for such programs would be even smaller given that Paul wants to allocate an additional \$190 billion for the military over the next two years. As has been argued by Democrats, spending on schools, public transportation, healthcare and business development does help grow the economy.

Paul argues that a flat tax rate will prevent the wealthy from using any number of tax loopholes.

"The left will argue that the plan is a tax cut for the wealthy. But most of the loopholes in the tax code were designed by the rich and politically connected," Paul has written. "Though the rich

will pay a lower rate along with everyone else, they won't have special provisions to avoid paying lower than 14.5%."

The conservative Tax Foundation, itself a target of criticism, here as well, forecasts that if Paul's flat tax was instituted, the economy would grow by 12.9% in the "long run," and "create 4.3 million jobs."

Balancing the Budget

President Paul would also push for legislation requiring a balanced budget. By forcing Congress to only allocate funds it could immediately spend, the government would unlikely be able to continue to operate programs such as Social Security and Medicare, or even fund the military, infrastructure construction or medical research. It's also unclear whether the U.S. government would be allowed to borrow in times of emergencies such as for a natural disaster such as Hurricane Katrina or to wage war, such as in Iraq and Afghanistan.

The Defense Department, Homeland Security and every other federal agency would receive about one-third less than the \$1.2 trillion they currently spend. The impact on the government would be sweeping. Paul has said he would seek at least a partial privatization of social security to make it work.

Less money for social insurance spending would mean less funding for Medicaid as well as the Supplemental Nutritional Assistance Program for Women, Infants and Children, programs that are viewed as especially essential during economic downturns. Essentially, many of the poorest among us might suffer, at least in the short term.

Regulation of Business

Rand Paul argues that government regulations, whether for workplace safety, equitable pay, water and air contamination or even corporate consolidation are not only bad for the economy, but that the general public would be better off without them.

A massive curtailment of funds for departments such as Commerce, the EPA and the Occupational Safety and Health Administration would likely usher in an era of corporate self-regulating. Paul would like to shutter the Commerce and Energy departments, housing and urban development, education, the Environmental Protection Agency and the Internal Revenue Service as well as the National Science Foundation.

Critics contend that the result would be more of the kinds of law-breaking that forced General Motors and more recently, Volkswagen, to seek to settle claims by victims as well as regulators. Proponents argue that less or no regulation of business would make for a more innovative economy.

Social Security and Retirement

A favorite of the Club for Growth and the Koch Brothers' Americans for Prosperity, Paul has called for privatizing Social Security and raising the retirement age for anyone seeking to receive their full allotment of monthly payments. Such actions would be integral to his larger goal of requiring Congress to pass a balanced budget.

By creating private accounts for employees, Paul's plan would risk wiping out a workers' savings in the event of an economic downturn such as the 2008 recession, according to the left-leaning public policy group Think Progress. Paul would also seek to privatize Medicare, a dramatic change that would pass healthcare costs to local cities and towns, or simply to individuals regardless of income level.

Minimum Wage

Rather than debating whether raising the federal minimum wage to \$15 from its current \$7.25 per hour, Paul argues that employees would be better off if the federally-mandated floor on wages were eliminated altogether. The "free market," he says, can decide best how much people should be paid.

Even some Republicans, including former presidential nominee Mitt Romney, support raising the minimum wage though below levels sought by Democrats such as Hillary Clinton who would like the raise it to \$12 per hour by 2020.

The elimination of the minimum wage would likely mean wages would fail to keep pace with inflation, a detriment to both those living near or under the poverty line, or even middle-class families struggling with higher prices, rent, tuition costs, according to a study from M.I.T., which found that in 14 states and Washington, D.C., the cost of living for one person is already near or above \$12 an hour.

Saving Money on Military

As for the military, Paul's default position is that U.S. interventions abroad are a losing game. While campaigning for the Senate, Paul called George W. Bush's invasion of Iraq, and subsequent attacks on the Taliban in Afghanistan, a colossal waste of more than \$2 trillion of taxpayer money, calling it an expense that did nothing to improve the life of the Iraqi people nor made the U.S. safer. On that point, Paul has won support from some liberals.

Yet in his run for the presidency, Paul has reversed course, becoming either more pragmatic or, in the eyes of some libertarians, a sell-out. Republican presidential nominees who routinely call for lower taxes generally don't include the military in the cutbacks necessary to make those reductions work. As such Paul has more recently said he would like to increase military expenditures \$190 billion over the next two years.

The upshot of higher spending on the military coupled with a balanced budget and a flat tax rate would redistribute even more of the country's wealth into the hands of fewer people, says Matt Bruenig of Demos, a New York-based liberal policy group.

Social Issues

Paul has also clashed with his party's leadership on government surveillance, sternly calling for limits to the Patriot Act, the legislation that gave the National Security Agency the right to extensively track communications involving U.S. citizens. Paul has also courted the marijuana industry in Colorado under the libertarian precept that as long as you're not harming anyone, individuals can do as they please.

Paul like to think of himself as a pragmatic libertarian, willing to relax from orthodoxy on certain social issues provided that he can push forward with his central mantra of much lower taxes, the evisceration of the Federal Reserve and the repeal of Patriot Act.

When considering Paul's candidacy, remember that his father's followers want him to go further. In an era when compromise equals appeasement, some aren't so sure if his son is a real libertarian.