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RAHN: Immaturity in power

Richard W. Rahn

COMMENTARY:

A sign of immaturity - most often found in children and certain politicians - is being in denial or even unaware of the consequences of one's actions. The global political class has always suffered from an excess of immaturity, but every generation or so, political immaturity explodes like a star in its death throes and vaporizes everything in its vicinity.

Current examples are all too numerous. Much of the present global financial crisis was caused by the issuance of too much debt by both governments and by private players. A mature thinker would understand that part of the solution must be a reduction in debt, and only an immature mind would advocate the creation of mountains of new and almost never-ending debt - yet this is precisely what the majority of the political class in the United States and many other countries is doing in issuing many trillions of dollars of new government debt.

Stanford University economics professor and former Treasury Undersecretary John B. Taylor has shown how the proposed additional U.S. government debt could cause 100 percent inflation over the next few years, which means most people will see their real standard of living fall as prices double. Long-term interest rates on U.S. government debt have jumped a colossal 81 percent (annualized) in just the last five months and seem slated to go higher as markets see the increased risk of future inflation.

To ameliorate some of the inflation, immature political minds (and even a few immature economists) argue for a massive tax increase to pay for all of the new debt. Mr. Taylor estimates the tax increase would have to be about 60 percent, which, of course, would kill incentives to work, save and invest and would result in a stagnant economy, or worse, massive unemployment.

For centuries in the United States, and even before under English common law, bond holders were secure in the knowledge that in a business failure they would be first in line to collect from the sale of the assets. Suddenly, the immature actors in the Obama administration have overturned well-established bankruptcy law and put a politically favored union ahead of the bond holders in the case of Chrysler and General Motors Corp.

The predictable result is that firms with strong unions already find they have to pay higher interest rates because lenders demand a substantial political risk premium. As a result, unionized firms will be even less competitive and, thus, there will be even fewer union jobs (unless the taxpayers are forced to subsidize the higher union costs).

Another sign of political immaturity in Washington, Paris and London is the attack on low-tax jurisdictions with the demand that they enforce the tax laws of high-tax countries. Just this past week, the Organization for Economic Cooperation and Development in Paris - an organization originally founded to promote economic growth - said it would help coordinate the attack of the high taxers on the low taxers.

One result of this attack is that suddenly fewer and fewer banks will open accounts for Americans living or working in other countries. The banks find the new rules too costly to administer, and thus the safer and less costly course of action for them is to refuse to provide accounts for Americans. The reason given for the attack is to collect the purported $100 billion that Americans are evading in taxes.

The Internal Revenue Service commissioner was recently forced to admit that the $100 billion number was totally fabricated without any evidence. More mature minds (than those now found in much of the Congress, the Treasury and the IRS) would understand that trying to go after a fictitious $100 billion, while putting several trillion of needed foreign investment into the United States at risk, is a fool's game.

Without bank accounts, overseas Americans will not be able to write a check on a U.S. bank to pay U.S. bills or taxes, or to get a U.S.-issued credit card, or to transfer funds to American bank accounts, or to establish a credit rating in the United States, etc. To date, the IRS has refused to do a cost-benefit test on its proposed regulations, despite requests - probably because a legitimate cost-benefit analysis would show that millions of Americans would be harmed - and potentially hundreds of billions of dollars lost - in a futile attempt to catch a few tax evaders.

The good news is that there is still time to reverse the worst aspects of the destructive policies described above - to avoid ever-increasing inflation and interest rates. The bad news is those politicians responsible both for the current mess and these proposed harmful "cures" will probably continue to act like immature teenagers with too much access to money and power.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.