

## ***Fairness And Wisdom in Economic Policy***

### **A Sample Column for Review**

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It is politically correct to be a "fiscal conservative"—it's nice to be nice, but it just doesn't pay the bills. While that's often the case in managing the household budget, deciding between "sensitivity" and "practicality" in the economy at large usually amounts to a false choice: The fairest economic policies are almost always the wisest economic policies.

An important fact of macroeconomic life is that approximately two-thirds of the Gross Domestic Product consists of "personal consumption expenditures": The economy is inherently demand-sided. Expenditures by consumers must always be greater than those by businesses—a kid has to sell his lemonade for more than he paid for the lemons, or else he'll have to take down his stand. Sales pay for all expenses and profits for business and, thus, ultimately generate all taxes for government.

Another economic fact of life is that the higher your income, the more of your income you tend to (typically choose to) save; the lower your income, the more of your income you tend to (typically need to) spend. The fact that the vast majority of households fall into the latter category means that the middle class and the poor conduct the lion's share of personal consumption expenditures—that previously mentioned majority of economic activity.

Businesses may pay back loans, with interest, for start-up and expansion and may generate profits for themselves (and paychecks for their workers and taxes for the government) if and only if they sell more—primarily to the middle-class and the poor—than they borrow—primarily from the savings invested by the rich.

Thus, anything that puts money into the hands of the middle class and the poor will tend to stimulate business activity and, thus, help workers and the government; anything that takes money out of the hands of the middle class and the poor will tend to stifle business activity and, thus, hurt workers and the government.

The "wisest" economic policies—those that help the business community the most—are the "fairest" economic policies—those that help the entire community the most.

In particular, the wisest policies of taxation are the fairest policies of taxation. The current administration is "half right": In order to stimulate the economy, we must get money into the hands of "the people"; but you get "more bang for the buck" by getting that money into the hands of the middle class and the poor than into the hands of the wealthy. Regardless of whether those who have more income and pay more tax are more "deserving" of tax cuts than

those who have less income and pay less tax, tax cuts targeted to the top brackets are far less effective at stimulating the economy than those targeted to people in the middle and lower income levels.

The best—the fairest and wisest—taxes are the most "progressive," taking a higher percentage of higher incomes; the worst—the most unfair and unwise—taxes are the most "regressive," taking a higher percentage of lower incomes. While progressive taxes tend to be more obvious (traditional income, inheritance, and luxury taxes), regressive taxes tend to be less obvious (traditional sales taxes, Social Security taxes, and user fees). Notably, because the lower your income, the more of your income you tend to give to charity, "volunteerism" and similar donations of time or money tend to serve as regressive taxation (laudably selfless and often essential, but generally less fair and, for the economy as a whole, less wise than more progressive forms of support).

In addition to progressive taxation, a union movement can be healthy for the economy. Henry Ford—a King of Capitalism, no Comrade of Communism—paid his workers enough to buy his cars; and he encouraged his fellow employers to be likewise "generous" (far-sighted).

Moderate inflation and moderate interest rates are healthy signs of a growing economy: If demand for products, services, and capital is greater than supply, it will drive up the prices for goods, labor, and money itself. In a recession or depression, demand and, thus, prices fall, as businesses fail.

"Greed is good," perhaps, for short-term self-interest; but for long-term national interest, "a rising tide lifts all boats": Businesses—and their employees, investors, and government—need middle class and poor consumers to have sufficient money to purchase the products and services for sale.

The wisest policies are the fairest policies: As Americans, moreover as members of the world economy, we ultimately prosper or fail together.