

## TEA PARTY ECONOMIC MYTHS

Saul D. Hoffman

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Three of the most contentious issues in the current political campaign, including those in Delaware, involve health care reform, the future of the Bush tax cuts, and the Wall Street bailout. Many Republican and Tea Party candidates, including Christine O'Donnell and Glen Urquhart, want to undo the health care reform. They advocate extending the tax cuts for everyone, including the wealthiest Americans, while President Obama and many Democrats want to extend them for everyone except the wealthiest. And they criticize the bailout as a Wall Street giveaway and lambaste anyone who voted for it.

In fact, none of these Tea Party positions pass even the slightest bit of scrutiny. They may appeal to our anger and our frustrations, but they take great liberties with the facts and with serious economic analysis. They are poor policy prescriptions.

Let's start with the Obama healthcare reform. First, think about all the things Obamacare is not – and that it could easily have been. It is not a single-payer, government-run system like much of Europe. It does not even include a “public option” on the health exchanges that will emerge in 2014 to strengthen the individual insurance market. There are no government “death panels” to ration health care.

Second, the health care reform is based on three commonsense provisions: 1) a requirement that individuals obtain insurance, so they don't impose costs on the insured; 2) a requirement that insurance companies can no longer deny coverage to anyone; and 3) financial assistance to individuals who could not otherwise afford insurance. Take away any one of these and the other two are pointless. Without #3, the individual requirement would be unfair; without #1, the insurance company requirement would be ruinous. And without #2, the individual requirement would be infeasible.

While critics, especially some Tea-party candidates, claim that Obamacare amounts to a government takeover of the health care market, it is nothing of the sort. It is an incredibly centrist and moderate approach to a long-term escalating problem that we could continue to avoid only at our peril.

As for extending the Bush tax cuts for the wealthy, it is important to understand the dual context of the debate. First, the budget deficit is a very serious problem that must be addressed. It grew sharply under the Bush administration because of a combination of tax cuts and irresponsibly unfunded programs, like the Medicare prescription drug expansion. And it has grown under President Obama. But the deficit is unusually high now not because the Federal budget is out of control, but because the recession reduced tax revenues and precipitated the need for stimulus funding. The deficit would almost certainly have been just as high if John McCain had been elected President.

Second, the US has seen a truly unprecedented increase in income inequality, fueled by stagnant income growth for lower and middle income workers and huge increases for the wealthiest. In 2007, the top 1% of US households reached an income share not seen since 1928. These households now have 23% of all

income, up from just 15% in the mid-1990s and 10% in the 1960s, 70s, and early 80s. There is nothing inherently wrong with wealth flowing to productive individuals, but the increase is unprecedented by historical standards.

Any honest budget analyst knows that the deficit cannot be closed without some decreases in government spending combined with some increase in income taxes. No one likes to pay taxes, but paying taxes is not “unpatriotic,” as Sarah Palin once contended. It goes with the territory of having many of the things we rightly expect from the public sector – including national defense, education, national parks, and the protections that were often conspicuously absent in the Bush administration. And tax rates in the US, especially tax rates on the wealthy, are, in fact, modest by international standards and by our own standards from two to three decades ago. By and large, that is a good thing.

Eliminating the tax cut for the wealthiest 3% of Americans is the least unpalatable tax solution available. Raising them on any other group is unthinkable. Anyone in favor of extending the Bush tax credits for the wealthy owes you a detailed explanation of where he or she will find \$750 billion of budget cuts. The recently published Republican Pledge to American Agenda is particularly deceptive in that respect, calling for specific immediate tax cuts and general, unspecified budget cuts later, with much of the budget put off-limits

Finally, consider the Wall Street bailouts. No one, absolutely no one, enjoyed bailing out Wall Street. Make no mistake – Wall Street bears the lion’s share of responsibility for the economic recession and the trillions of dollars of damage done to the economy. It is responsible for the 10 million workers who lost their jobs. But the bailout was not for the benefit of Wall Street, it was to limit the damage to Main Street, to prevent the recession from becoming a full-scale 1930’s-style depression – something that was altogether possible in those days. The bailout was a necessary evil. Instead of criticizing a vote for the bailout, critics ought to be supporting a more active government role in regulating the financial sector, something Republicans have conspicuously not done.

It is easy to offer glib critiques or capitalize on genuine frustrations. But all too often those critiques lack substance and solid economic analysis. Delawareans are smarter than that.

Saul Hoffman is Professor of Economics and Department Chair at the University of Delaware.