A HOOVER INSTITUTION ESSAY

A Closer Look at the Left's Agenda: Scientific, Economic, and Numerical Illiteracy on the Campaign Trail

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Campaign Proposals and Policy Implementation

The 2020 presidential election is off to an historically early start, with two dozen Democrats running for president. Combined with the Democrats' 2018 retaking of the House of Representatives, it has led to a dizzying array of policy proposals, resolutions, and bills. Some are more fleshed out, some less. Most are quite radical; many are economically, scientifically, or numerically illiterate (by the way, some Republicans are not immune either).

If the Democrats retain the House and retake the White House and Senate next year, variants of these proposals likely will become law, even if their candidate does not come from the far left side of the party (witness the hostile reception to the few candidates questioning Socialism or Medicare for All and the serial moves left on many issues by moderate Joe Biden).[1] And they will remake virtually every aspect of our lives, including health care, technology, defense, education, foreign policy, treaties, environmental regulation, social security, monetary policy, taxes, spending, deficits, and debt—even the structure of government and our legal rights and liberties.

The policy community and media have too often not taken these Democrats' proposals seriously enough. Almost all the Democrat presidential candidates immediately jumped on board with the most extreme proposals, including Medicare for All and the Green New Deal. That made Nancy Pelosi's demand to vote on Obamacare—"We have to pass it to see what's in it"—seem innocuous by comparison. And the mainstream media, environmentalists, and left-leaning think tanks and academics laud the proposals for being wonderfully aspirational, if maybe a bit too difficult to achieve fully so quickly.[2] Opponents are mostly content to mock them as socialist and highlight the most extreme implications, such as eliminating cows or airplanes. The policies and their proposers deserve more than such a shallow analysis. From taxes, spending, and debt to climate risks, from lifting up the less fortunate to strengthening our constitutional republic, they legitimately raise vital national issues.

Unfortunately, each of the proposals could be quite damaging in its own right; taken together, they would be extremely dangerous, likely causing an economic, medical, and energy disaster trifecta. That is bad enough, but even more important, the radical proposals are crowding out any serious debate about solutions. These legitimate issues won't go away just by rejecting extreme proposals. After detailing some of the most salient arguments against these radical proposals, I will turn to some examples of policies that would be quite constructive, affordable, and potentially amenable to bipartisan compromise.

This profusion of proposals happens in every presidential election, although not always on so sweeping an array of issues or eliciting such radical policies. For example, the crowded 2016 Republican primary field featured seventeen candidates with competing policy proposals. Most were modest: for example, Jeb Bush's or Rick Santorum's proposed tweaking of the tax code, which paled in comparison to radical reforms such as Herman Cain's 9-9-9 fundamental tax overhaul in the run-up to the 2012 campaign or Steve Forbes's flat tax proposal in 1996 and 2000. And of course, in 2016, Donald Trump used sweeping rhetoric to describe his trade, immigration, tax, and other proposals.

Like most of those who win the presidency, Trump has tried to implement versions of his campaign proposals and, indeed, has regularized what previously was episodic presidential hyperbole to describe them. He has been successful, approve or not, in implementing them in several cases—for instance, withdrawing from the Trans-Pacific Partnership and the Paris Climate Accord and appointing highly qualified conservative Supreme Court judges from a list released during the campaign; moving America's Israeli embassy to Jerusalem, which his immediate predecessors claimed to support but never did; increasing funding to rebuild the military and freeing it to crush ISIS's land caliphate. In others, such as tax reform and some regulatory reform, he was successful but ceded details to the Republican-controlled Congress, as had President Obama to the Democrat-controlled Congress in his controversial 2009 stimulus bill.

He has been partially successful on some campaign promises, including finally getting some NATO allies to meet their defense-spending commitments; in others, the ultimate outcome was more modest than his campaign rhetoric seemed to suggest, such as the revised NAFTA, now called USMCA, which awaits a vote in Congress. While not a campaign promise, he signed bipartisan criminal justice reform. Still others have not yet gotten out of the gate, such as his infrastructure plan. And on others, only time will tell. While his tough stance on China is widely supported and was long overdue, his broad use of tariffs as a negotiating tool risks undermining the stronger economic growth and historically low unemployment his corporate tax reform and rollback of excessive Obama regulation helped engender. Finally, on immigration, his actions have been blocked by the courts and he has secured only limited funding for his border wall.

History is replete with such examples. In 1896, William McKinley battled William Jennings Bryan over the gold standard, echoed in Bryan's famous cross of gold speech at the Democratic convention. Neither the eloquent President Obama nor the blunt President Trump can compete with "You shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon a cross of gold." Richard Nixon and George McGovern in 1972 presented competing welfare reform plans. Nixon was savvy enough to call his the Family Assistance Plan, in contrast to McGovern's Negative Income Tax, which would have had the government sending a check to a majority of Americans. These ideas spawned the earned income tax credit, but as an addition to, not a replacement for, traditional welfare. In these and many more examples, a version of early campaign promises and proposals became the law of the land. Sometimes, however, the opposite occurs. In 1932, in the depths of the Great Depression, Franklin Delano Roosevelt ran on balancing the budget—a position he wisely abandoned after the election.

Medicare for All

Medicare for All would abolish the private employer-based health-care plans that two-thirds of Americans, or 180 million people, currently rely on, replacing it for everybody with a government-run single-payer system similar to those in Canada and western Europe. It is true that these countries spend less on health care than does the United States. But apples-to-apples comparisons reveal that the results are inferior, both in treatments and outcomes, for serious diseases from cancer to stroke and heart disease.[3] And extensive rationing of services is the norm, resulting in long waits even for urgent services—almost one in five wait two months or longer for urgent cancer treatment, four months for brain surgery, in Great Britain's National Health Service.[4]

Medicare for All would require roughly $32.6 trillion in new taxes over ten years to pay for the *increased* government health-care spending.[5] Its proponents argue that it will provide access for the estimated 28 million still without health insurance, improve quality, and lower costs. That is economically illiterate, as were analogous claims for Obamacare. While Obamacare expanded subsidized coverage, careful studies by distinguished health economists of Medicaid expansion in Oregon and California find there is no evidence thus far—perhaps it is too soon to tell—of improved health outcomes.[6] Try arguing that increasing demand without increasing supply (of doctors, nurses, and hospitals) would lower prices and costs while improving quality and you would flunk your first Economics 1 exam. In fact, Medicare for All would likely substantially *reduce* the supply and quality of doctors and hospitals, putting upward pressure on prices while limiting availability and quality.

Medicare is popular, in large measure because most of its costs are paid by taxpayers, not the beneficiaries themselves. But if it covers everybody, there will be no one outside the system to subsidize the recipients, just much larger, politically determined taxes and cross subsidies. It will eventually lead to the same strict *rationing* of health care prevalent in Canada and Europe, where long waits are the rule.[7] Worse yet, the current Medicare system faces unfunded liabilities more than twice the national debt, and the Part A Hospital Insurance Fund won't be able to pay all its bills in a few years. Massively expanding a system already facing a dire financial future, with substantial documented fraud, makes no sense.[8] At least they're not telling lies like "If you like your plan you can keep your plan."

Medicare for All is expected to provide benefits to most, if not all, of the 28 million without health insurance who would, or at least could, be covered. That they lack health insurance is not the same thing as lacking health care. Many undoubtedly get insufficient or tardy care, for instance at emergency rooms or county hospitals. In fact, federal law since 1986 has been that anyone, insured or not, including illegal immigrants, must be treated.

The most prominent Medicare for All plan—that of Senator Bernie Sanders—would have no co-pays, no deductibles, and no premiums. That would surely increase the demand for health services, relative to today's system, far beyond just the increased demand from the newly covered. Pricing medical services at zero to the consumer means they will demand an amount up to the point that the expected benefits to them are worth nothing rather than the 20 percent or more co-pay prevalent in most plans today.

With no plausible increase in supply (in fact, projected shortages of doctors would likely worsen, and some hospitals would fold) and regulated pricing (Medicare provider reimbursements run about 40 percent less than those from private insurance), the immediate result would be long waits and crowding out for everything from doctor visits to hospital beds. A mini-version of that happened with Obamacare's Medicaid expansion.

Pressure to raise regulated reimbursements (currently low but adjusted for prevailing local market conditions) from dissatisfied voters forced to switch into the system would be intense. If that happened, explicit costs would soar, as would the taxes necessary to pay for them. In fact, *current* Medicare, with its low reimbursement rates, would be unsustainable without the large role played by the higher-paying private (primarily employer-based) plans in keeping doctors and hospitals in business. Even the *New York Times* had to admit in a front page story that "Some hospitals, especially struggling rural centers, would close virtually overnight, according to policy experts. Others, they say, would try to offset the steep cuts by laying off hundreds of thousands of workers and abandoning lower paying services like mental health."[9] That would mean delaying, disrupting, or denying coverage to patients and disemploying large numbers of medical professionals and related workers.

Of course, if employer-provided insurance disappeared, there would be no need to exclude the benefit from taxable income. How much and how soon that would result in higher wages remains to be seen. To the extent that wages rose over time in response, income and payroll tax revenue would also rise. The tax expenditure for employer-provided insurance is estimated to be $3 trillion over ten years, and of course, there would in theory be no (in practice some, as in all countries with government-provided health care) private spending on health insurance or out-of-pocket expenses.

There will undoubtedly be other features that raise or lower costs. Medicare has somewhat lower administrative costs compared to private plans, but it is unclear how much that would persist in the expanded system. It also has considerably more fraud than private plans.[10] Overall, the claims to lower cost, increase access, and improve quality simultaneously are just economically illiterate.

The Green New Deal

The Green New Deal, mocked for some of its more absurd initial suggestions, such as abolishing airplanes and cows, is a top-down government-planning industrial-policy nightmare. It proposes over twelve years to:

(1) Require that 100 percent of power be provided by renewables. Impossible. Wind and solar now account for just 8 percent and, despite all the subsidies and mandates, are not projected to reach even 30 percent for several decades. Intermittent wind and solar require backup if electricity is to be reliably provided, and that will come from fossil fuels. The only renewable alternatives are hydroelectric power and nuclear power. Together they account for more than three times the power from wind and solar, of which nuclear accounts for two-thirds but will decline with impending plant retirements. We should be using more, not less, nuclear power, but it cannot be expanded quickly for a host of reasons, from a dearth of young nuclear engineers in the pipeline to permitting red tape. In any event, it is strongly opposed by most environmentalists, as are more dams. California's legislature and regulators are so captured by the solar and wind lobbies that hydro is excluded from meeting renewables standards, and of the state's two nuclear power plants, one is shuttered and the other likely soon will be.

Finally, battery storage is beyond prohibitively expensive, costing many trillions of dollars because of the required scale. Decades of publicly funded university and national lab—and private—research has not resulted in sufficient progress. Worse yet, *massive* amounts of rare earth minerals and a huge expansion of lithium production from China, or huge costs and significant time to discover, produce, and scale output from Australia, Brazil, and the United States, would also be required to produce the magnets for wind turbines and the batteries for electric cars.[11]

All that is before dealing with the load-balancing issues, which would require a vast time-consuming and expensive investment in a smart high-voltage grid, which many communities will be reluctant to allow. The experience in Germany, which set high renewable-energy targets and decommissioned nuclear plants following Japan's Fukushima disaster, is instructive. The balance and cost problems became so severe that Germany is importing lignite, the dirtiest form of coal. Good intentions are no substitute for the laws of physics, economics, and arithmetic.

(2) Upgrade all existing buildings to full energy efficiency. Estimates differ somewhat, but in round numbers there are 100 million single-family homes and apartment, commercial, industrial, and government buildings in the United States. That would require retrofitting well over four thousand buildings *an hour for twelve years* (almost two thousand per hour for fifteen years for Joe Biden's "retrofit 50 percent" plan). That is so mathematically and economically illiterate—just installing solar in a typical home takes two to three months on average—as to be simply ridiculous, even before considering the prohibitive cost.[12]

(3) Eliminate greenhouse gas and emissions in the transportation sector with zero-emission vehicles and high-speed rail. Even electric cars use considerable petrochemicals, from plastics to reduce weight and increase fuel economy to butyl rubber tire liners. Much of the battery charging will be from coal- and natural-gas-generated electricity, at least for several decades. Ditto the manufacturing process for batteries and other components. In fact, studies show that electric cars on balance currently do not produce less emissions than some diesel and gasoline cars, when the full life cycle of production and use is considered.[13] But that should improve over time as more electricity comes from renewables and batteries improve. And of course, cost and range limitations have kept consumers' appetite for electric vehicles quite small—2 percent of the new car market in the United States and Europe. That should rise somewhat as more new models are brought online from mainstream manufacturers.

California's high-speed rail fiasco, an example of the high-speed rail that Joe Biden foolishly proposes to complete in his Green New Deal lite climate plan, is instructive. A decade ago, voters approved a $9 billion bond measure out of an estimated $33 billion total cost for a high-speed rail line that promised a trip between Los Angeles and San Francisco in two hours and forty minutes. Due diligence reports noted that *no* high-speed rail system in the world achieved the promised speeds and safety requirements, and the state's Legislative Analyst Office criticized virtually every assumption in the report as unrealistic and blasted the High Speed Rail Authority's serial mismanagement.[14]

The balance of $24 billion was supposed to come from the private sector and the federal government. About $2.5 billion came from the 2009 Obama stimulus funding. When groundbreaking was finally announced in Fresno in 2015, the promised federal and private funding was, to be generous, nowhere in sight, save about $0.9 billion in since-canceled federal funds. And of course, spending the funds six to eight years later did nothing to accomplish the putative goal of the stimulus spending: alleviating unemployment in the Great Recession.

The High Speed Rail Authority announced a new revised cost estimate of about $100 billion in 2012, three times the original cost and ten times the cost Californians were originally promised would cap their payments. It was outrageous that Governor Brown did not halt things at that point or at least send it back to voters to decide if they wished to continue. Amid an uproar, the Authority shortly thereafter issued a revised report saying the cost would be “just” $68 billion—twice, not three times, the original estimate. Asked how they got the cost down, the head of the Authority replied that it was due to the optimism of our engineers.

Few paid much attention to the details of the report, but its main takeaway was that a lot of existing rail was going to be used to reduce the cost. Many communities don’t want these trains whizzing by. So high-speed rail became blended-speed rail, and the trip from LA to San Francisco would be much slower. The next problem was revealed when the project started drilling in previously seismically unmapped regions of the Tehachapi Mountains north of Los Angeles. It was much slower, costlier, and seismically riskier than anticipated. So much for the engineering optimism. The political solution was simple: just shift the first major phase, which went from the Central Valley south to Los Angeles, to a segment from the Central Valley north to San Jose. Once that phase was built, regardless of time delays and cost overruns, it would be impossible to stop the second half of what was very likely to become the biggest boondoggle in California history.

Then came the early steps of the very first short phase within the Central Valley, from Bakersfield to Merced, and another cost overrun: an overall new estimate of $77 billion (or up to $98 billion with less optimistic assumptions), not counting the large operating deficit run by almost all high-speed rail trains globally. And this for a mixed-speed 1970s technology that was beyond optimistically scheduled to begin serving riders in 2033.

To be fair, the array of crisscrossing high-speed rail routes envisioned by the Green New Deal won’t all be this bad. In fact, for the densely populated northeast corridor from Washington, DC, to Boston, it *might* make sense. But only if the political process can avoid most of the ridiculous mishaps that plagued California’s system until newly elected Governor Gavin Newsom wisely limited the project to the small initial part (he did that to have a putative claim to not refund the federal funds on the basis of nonperformance). The project still has some of the original bond funds and about $0.5 billion a year that

Governor Brown purloined from the state's cap-and-trade revenue, so it may be able to waste those funds on the Bakersfield to Merced piece. And if a new president wants to waste tens of billions of tax dollars paid by residents of the other forty-nine states to build the whole system, California would surely oblige.

(4) Eliminate greenhouse gas (GHG) emissions and pollution from agriculture. The modern intensive agriculture necessary to feed the world's 7.5 billion people relies extensively on the use of fossil fuels, for example for tillage, transportation, grain drying, the manufacture of fertilizer, pesticides, and farm equipment, as well as farm electricity. Pending a cost-effective scalable alternative that won't require large numbers of citizens to do their own organic farming (by the way, current organic farms use about 30–50 percent less fossil fuel, not zero), meeting this target anytime soon would result in large reductions in crop yields and soaring food prices. Studies of the controlled response of wheat and corn yields in the United States show yield improvement from fertilizer use of 70 percent and over 100 percent, respectively.[15] When President George W. Bush greatly expanded ethanol blending mandates for motor vehicle fuel in 2007, the resulting decline in food crop acreage and output contributed to corn prices spiking 20–40 percent and increased hunger and malnutrition, especially in corn-importing countries, such as Mexico, Egypt, and much of Africa and the Middle East. The risk from a much larger decline in crop yields is even worse.

To be sure, at least some of these roadblocks could eventually be overcome, or at least eased, by technology developments. The history here should lead to a cautiously optimistic outlook, tempered by the realities that the time frame will usually be longer and the costs higher than proponents presume. For example, major battery breakthroughs have been a just-over-the-horizon holy grail for decades, and cellulosic ethanol was an unmitigated disaster despite EPA regulations requiring refiners to blend ever-increasing amounts into gasoline or face stiff fines. Unfortunately, the small amount that was produced, with federal subsidies to boot, was illegally made from petroleum and shut down. Refiners were still fined, but the National Academy of Sciences then issued a study concluding it was not technologically possible to produce cellulosic ethanol at anywhere near the required scale. The EPA eventually had to give up.

So before risking potentially life-threatening unintended consequences, perhaps some greater respect is in order for the uncertainty, time, and cost involved in finding substitutes for the fossil-fuel-based products and processes now so essential to modern life, leading to more care in designing emissions reductions (I discuss what I consider the best option below). And that's before dealing with the fact that it is *global* emissions that determine effects on climate, so anything the United States does will have a small impact unless it occurs simultaneously with reductions in other countries, especially the major sources of projected emissions growth: China and India.

To these environmental proposals, the Green New Deal would add guarantees of a well-paid job, family and medical leave, paid vacations, and retirement security to all people (not just citizens and legal residents), free higher education and public ownership stakes (yes, public ownership of the means of production, the classic definition of socialism) through community grants, public banks, public financing, technical expertise, and supporting policies. And it guarantees *all* people in the United States health care (assumed by most to resemble the Medicare for All plan described above), housing, economic security, clean air and water, healthy food, and nature—by the way, whether or not they are willing to work.

Social Security and Many New Taxes

Other proposals by Democratic candidates include $1,000 monthly universal basic income; $1,000 government baby bonds for each newborn, plus up to $2,000 per year until age eighteen, with payments capped at high income; free universal preschool; expanded child-care subsidies; free community college or even free four-year public college; complete forgiveness of all $1.6 trillion of student debt, and slavery reparations. Add government rent subsidies whenever rent exceeds 30 percent of income. That, of course, will drive up market rents, due to the increased demand resulting from the government subsidies (optimistic price tag: $134 billion per year)! Of particular note are the bans on charter schools and the federal pay subsidies and minimum salary regulation for teachers, as they might well have negative long-run consequences for the quality of education and of our future labor force. And pledges to devalue the dollar, with which Mr. Trump apparently agrees. So much for the era of big government being over.

The Social Security 2100 Act is heralded as the biggest expansion of Social Security benefits since 1972. Actually, benefits per beneficiary upon retirement rise every year and have risen more than 120 percent above inflation since 1972. The immense Social Security unfunded liabilities—rivaling the national debt—are well known. Current taxes are sufficient to pay the present level of inflation-adjusted benefits as the baby boomers retire and beyond, without raising any taxes or cutting any benefits, but will not cover continually rising real benefits per beneficiary *and* a much larger ratio of retirees to workers.

The Democrats' proposal, which has 207 cosponsors, would raise taxes so much that on a static estimate it would not only close the deficit but finance additional benefit hikes forever (I support raising benefits for the elderly with the lowest incomes as part of a fiscally sound comprehensive reform focused on gradually slowing the excess growth of benefits beyond inflation; I discuss the best option below). It purports to pay for these ever-rising benefits by raising the payroll tax rate by almost 20 percent to 14.8 percent and uncapping the maximum earnings subject to the tax, thereby breaking the link between benefits and the payroll taxes that Social Security euphemistically calls contributions.

The many proposed new taxes and higher tax rates—whether a 70 percent top federal rate, a higher and uncapped payroll tax, a new 3 percent wealth tax, a higher estate tax, elimination of the lower capital gains rate or taxation of unrealized capital gains, a financial transactions tax and rise of one-third in the corporate rate (which has only just been reduced to a globally competitive level) are all designed to make the "rich and corporations pay their fair share." Actually, the United States has the most progressive tax system in the Organisation for Economic Co-operation and Development (although the tax and spending share of GDP is less than in Canada and Europe).[16] Indeed, the top 1 percent of taxpayers pay over 37 percent of income taxes, double its share of income and far more than the bottom 90 percent combined.[17] The top 1 percent's tax rate on income is seven times higher than taxpayers in the bottom 50 percent, who pay 3 percent of the total with an average rate of 3.7 percent.

I won't go into the threats to America's long-standing institutions from the proposals to pack additional justices on the Supreme Court, abolish the electoral college, lower the voting age to sixteen and extend voting rights even to violent imprisoned felons, abolish ICE and decriminalize illegal entry, even abolish the Senate (an idea originally proposed by the first socialist congressman, Wisconsin's Victor Berger, in 1911 and repeated by America's longest-serving congressman, Michigan Democrat John Dingell, shortly before his death last year), other than to recall the strong correlation between economic freedom and overall national prosperity and to lament the devastating consequences from the decline of civics education in K–12 schools and universities.

Taken together, these policies bear a striking resemblance to Eugene Debs's 1912 Socialist Party presidential campaign platform.[18] His successor as Socialist Party presidential candidate, Norman Thomas, is famously alleged—with no proof—to have said, "The American people will never knowingly adopt socialism. But, under the name of 'liberalism' they will adopt every fragment of the socialist program. Until one day America will be a socialist nation, without knowing how it happened."

With a majority of millennials responding in polls that they have a more favorable view of socialism than of capitalism, we must hope that the perennially misattributed aphorism "If you are not a socialist at twenty, you have no heart; if you are not a conservative at forty, you have no brain" implies an impending change in attitudes.[19] But given the sorry state of our schools, to the old adage "Those who forget the past are condemned to repeat it" must be added "And likewise for those who never learned about it." Before running off the rails the system that, despite its flaws, on balance has served America well for almost two and a half centuries, these folks should do some remedial reading of the Federalist Papers, especially numbers 10, 51, and 68.

Lots of Taxes and Lots of Debt

The proponents of this leftist agenda tell us not to worry about funding their tidal wave of new spending. They just invoke modern monetary theory (MMT) to support using government debt—on top of the $11 trillion over the next ten years that the Congressional Budget Office baseline already projects will be added to the $16 trillion in publicly held national debt, which is already at a post-WWII peak of 78 percent of GDP and heading toward 150–200 percent in coming decades—to pay for vast new spending proposals.[20] And good luck coming within hailing distance of a legitimate social cost-benefit analysis of the spending with this crowd in charge. Just have the Federal Reserve buy up the debt, which would vastly expand its already large balance sheet (President Trump has joined this chorus by arguing that the Fed should *temporarily* resume its asset purchases to ward off recession risks). While conservative politicians have railed against deficits, lambasting President Obama for doubling the national debt and talking a good game to this day, they managed only temporary minor deficit reduction. And now President Trump is running larger deficits than did Mr. Obama, who had the largest deficits of any president since WWII, even adjusted to remove the effects of the business cycle. Respected center-left economists are gagging: Larry Summers suggests that MMT would lead to hyperinflation.[21]

But Summers and others argue that there is no need to worry about deficits and debt—at least for some time—under the theory that the nation is stuck in a secular stagnation and that real (inflation-adjusted) interest rates will remain low, perhaps even below the slow-growth rate, for decades. Some prominent economists, on the left and on the right, argue that this is just an excuse for the weak Obama recovery, the slowest since WWII.[22] I do not impugn motives but rather treat the ideas on their own merits.

The idea is that the economy will have a secular shortage of demand, most important because proponents believe that firms have insufficient investment opportunities with attractive returns. They thus postulate that planned investment will chronically fall short of the desired saving levels of households, and that saving and investment can only equilibrate at negative nominal interest rates. That in turn renders monetary policy unable by itself to maintain full employment without fiscal policy assisting with deficit spending to absorb the excess saving.

While the much stronger economic growth of the past two years relative to the Obama recovery has taken some of the shine off the secular stagnation hypothesis, it is correct to point out that if the government can borrow at very low interest rates, some capital-intensive, long-lived public projects, with costs up front and benefits accruing over a long period, are more likely to pass a rigorous social cost-benefit test. But the recent history of public projects does not lead one to expect objective evaluation devoid of overarching, distorting, and ultimately quite costly political pressure. Recall that even

President Obama had to admit of his infrastructure stimulus spending plans that “the shovels weren’t ready.”

The nation certainly has infrastructure needs. Some are legitimately governmental responsibilities, and some of those are federal. But beware politicians thinking the funds for their constituents’ pet projects are virtually free. And of course, little mention is made of the huge problem when rates start to rise and the cost of servicing the much larger debt explodes as it is rolled over.

History reveals that economists and the bond market can be poor predictors of large shifts in interest rates. After the Fed lowered its target interest rate to zero in December 2008 to counter the Great Recession / Financial Crisis, short-term interest rates were expected to increase within one, not seven years![23] And it was only five years ago that the left was agog over predictions of the ever-increasing concentration of wealth based on the assumption that the return to capital substantially exceeds the growth rate.[24]

One thing seems certain: If even a nontrivial fraction of this agenda becomes law, we will be lucky to be stuck in a slow-growth secular-stagnation purgatory. The consequences could be far worse. Consider that the combination of a 70 percent top federal income tax rate, an average 7 percent top state personal tax rate, and the uncapped 14.8 percent rate for the payroll tax under the Social Security 2100 reform results in a 91.8 percent marginal tax rate (over 98 percent in California). Add another 0.9 percent for the payroll tax for Obamacare if it is not eliminated. Leaving out the Social Security 2100 proposal, the top rate is 77.9-percent (over 84 percent in California).

That is far beyond the revenue-maximizing Laffer peak.[25] And *not nearly sufficient* revenue to pay for the spending. The IRS reports taxable income of approximately $334 billion above the $10 million threshold in 2016, the latest year for which data are available. A 70-percent federal rate yields a static revenue estimate of $234 billion per year. Of course, that income is currently taxed; the IRS estimates at a 30-percent average rate or $100 billion per year. So the *net* revenue gain is $134 billion. However, that is before people and businesses adjust their behavior with more compensation in nontaxed forms, working and saving less, investing less in their human capital, and so on. The net of tax rate (what you get to keep of each dollar earned after you pay taxes) plummets to just 8.2 percent (and as noted above, just 2 percent in California), a roughly 85 percent decline relative to today—excluding the social security tax hike, a 60 percent decline in what you get to keep after tax.

While the large literature on the percentage responsiveness of taxable income to the change in the net of tax rate among high earners spans a wide range, reflecting different methodologies, time periods, countries, and tax rate changes, a mid-range estimate is 0.6.[26] That suggests taxable income would decline by roughly 51 percent, reducing the annual tax take to just $66 billion, well under $1 trillion over ten years; or 36 percent from the level excluding the higher payroll tax, and $86 billion or about $1.5 trillion over a decade. (Each of these figures has been updated to 2019, and assumes income taxes grow by 5 percent per year for the following ten years).

Using a low-ball estimate of $42.6 trillion (estimates run as high as $90 trillion), including the Green New Deal and Medicare for All but not including either the payroll tax hike or the many trillions of dollars in costs for Social Security's unfunded liabilities and the many other costly proposed policies, the soak-the-rich higher marginal tax hike raises only somewhat over 3 percent of the needed revenue.[27] No wonder some proponents claim the Fed can finance it all at little cost and risk. And that's *before* accounting for the harmful effect on the economy, and therefore reduction of incomes, from the other taxes above and beyond the effect from the higher tax rate on incomes over $10 million. Coincidentally, the $42.6 trillion minimum price tag coincides with the Congressional Budget Office's projected revenue over the next ten years from the federal income tax, corporate income tax, and payroll tax. What would the media be saying if a limited-government Republican had proposed something equally radical: abolishing all major federal taxes without replacing them?

Simply put, the taxes on everyone else's incomes would have to double, even on a static estimate, and that would likely do considerable harm to the economy and everyone else's income and reduce tax revenues by far more than the likely revenue yield from the 70-percent tax rate. Ms. Ocasio-Cortez's camp says, "Every billionaire is a policy mistake." Who would have guessed one of the biggest problems facing the left's agenda (I don't call it progressive, since the result would not be progress but rather quite the opposite) is that ironically there isn't nearly a sufficient number of "the rich" to pay for it? And it's not just the very rich who would pay. Reversing the Trump rate cut and uncapping Social Security would drive millions of upper-middle-income workers close to a 60 percent all-in marginal tax rate, making governments the majority partner in the returns to their work decisions.

Even more fundamentally, the proponents don't understand, or don't care, that high marginal tax rates are not just an incentive-destroying tax on the "rich" but, to borrow the title of Michelle Obama's book, a tax on *becoming* rich. And that these giant tax hikes would deprive the American economy and American families of the immense societal benefits resulting from people striving and competing to get ahead: notably, higher incomes and less need for government support and dependency. As Adam Smith noted two and a half centuries ago, "It is not from the benevolence of the butcher, brewer, and baker that we expect our daily dinner, but from their regard to their self-interest."

It must be noted that some conservatives have their own erroneous notions about taxation—for instance, that all tax cuts pay for themselves. As President Reagan well understood, that is true when rates get high enough or when the taxed item is especially sensitive to tax rates, such as for capital gains realizations.[28] But while lower tax rates increase the tax base—what is being taxed, income, purchases of goods, and so on—they only increase tax revenue when the tax base is sufficiently responsive to the tax rate, which is less likely when rates are low or the tax base is only modestly responsive, as in the case of cigarette or gasoline purchases. The point when the revenue effect switches from positive to negative is the peak of the Laffer curve, which graphically displays the relationship of the tax rate to tax revenue. Conservatives do have a legitimate complaint that the government's revenue-estimating methodology does not give much credit to the growth-promoting effects of lower rates.

Finally, spending and taxes have different effects on the economy. Evidence shows that consolidating the budget by raising taxes is far more harmful than reducing spending and that successful fiscal consolidations averaged about five to six dollars of spending cuts for every dollar of tax hikes.[29] Moreover, tax cuts provide more effective stimulus to combat recession than spending increases, the opposite of traditional Keynesian teaching and Obama administration economists' analysis of their 2009 stimulus bill.[30]

Scandinavia Is Not a Utopia

Many of the proponents of these policies cite a somewhat dated and inaccurate view of Scandinavia's social democracies, with their government-run health-care systems (which, by the way, unlike Senator Sanders's plan, do have deductibles and copays; in Sweden, a larger share of the cost is covered by out-of-pocket personal outlays than in the United States). While these small, homogeneous societies have done fairly well, they also adopt market-friendly policies, exercise less control of private business, and enforce property rights more strongly than does the United States. They even utilize school choice in Sweden and, in Holland, send a majority of students to government-funded private schools.[31]

They run roughly balanced budgets; most have abolished their wealth taxes and have corporate tax rates lower than even the new US combined 26 percent rate (21 percent federal plus 5 percent state average). Their high marginal personal income tax rates start far lower on the income scale: taxes are almost 60 percent in Denmark at $80,000, which is about median family income in California. Canada's top combined federal and provincial rate is similar to Denmark's, also at that income level. But these countries also have large value-added taxes, a cousin of a national sales tax, which apply to far more goods and services than do America's state sales taxes. Denmark's is 25 percent, Canada's up to 15 percent depending on province. It's the middle class that pays for the bulk of their social welfare state spending, primarily with regressive taxes.

In fact, the only practical solution to pay for all the proposed new spending is a huge European-style value-added tax, but note the result of Europe's high taxes and bloated social welfare. America's average after-tax income is 60 percent higher than Denmark, 52 percent higher than Sweden, and 42 percent higher than Canada. Of course, these countries have more expansive transfer payments than does the United States, putatively providing more income security, but at the cost of *much lower* incomes.

The United States is currently spending a historically low 3.1 percent of GDP on defense, but that is far higher than these other countries. Denmark and Canada fall well short of their NATO commitment to spend 2 percent of GDP on defense; Sweden spends even less but is not a member and thus doubly free rides. Adjusting for potential future taxes to cover NATO commitments and America's deficit—the payroll and income tax have bases about half of GDP—would reduce the huge American after-tax income advantage by about seven percentage points.

Finally, these nations are trying to rein in the excesses of their welfare states. The Dutch require welfare recipients to accept an available job within a three-hour commute. The Danes confiscate asylum seekers' assets and put them on an island previously used to conduct research on diseased animals.[32] The widely respected president of the European Central Bank, Mario Draghi, declared a few years ago that the European social model was dead, noting that the high taxes necessary to pay for generous benefits liberally provided cannot be sustained.[33] The tax rate necessary to pay for the welfare state transfers equals the ratio of the average benefits to average taxable income, called the replacement rate, times the ratio of social spending recipients to the working population paying taxes, called the dependency ratio. The pied pipers of the left are singing a siren song that claims you can ignore that arithmetic in pursuit of their not quite a socialism full Monty but an economic, medical, and energy disaster in the making nevertheless.

Unexpected Consequences

All that assumes these proposals actually more or less work out as planned and accomplish what they propose, a remote possibility. As noted above, the Green New Deal claims it would accomplish things that are not scientifically possible, are numerically illiterate, or are not within hailing distance of economic feasibility. And that's *before* considering the many ways the political process and government implementation would likely result in additional problems and unintended consequences. They embody the extreme environmental fantasy that the costs aren't very large and, in any event, are easily paid for with more taxes on the rich or the Fed "printing money."

This environmental rapid no-fossil-fuels absolutism is extremely destructive. For example, the fracking revolution has provided a huge increase in the supply of natural gas and lower prices that enable the economically efficient substitution of natural gas for coal. That is the main source of America's lowered carbon footprint in the past decade. The proponents need to wake up to the reality that the only way citizens will support policies that substantially reduce emissions is if the economy continues solid growth. Look at any poll: environmental issues are far down the list of concerns, with just 3 percent of respondents ranking them currently as a top priority.[34] In recessions, environmental concerns plummet: during the Great Recession, they ranked sixteenth on a list of concerns, just behind crime and moral decay.[35]

Sensible Alternatives

There are far more sensible and less costly solutions to these problems that a large share of the population might be able to support and which have a far better chance of achieving the desired results, without the risk of serial disaster. (For a comprehensive set of center-right proposals, *Blueprint for America*—to which I contributed with several colleagues—and for center-left proposals, *Fiscal Therapy*, are good starting points.)[36] Here are two important examples, including my own preferences and what might be a feasible political compromise.

Social Security Reform

The unfunded liabilities in Social Security rival the overall national debt (and are larger still for Medicare).[37] They are crowding out other important government functions and risk serious economic harm. While the precarious long-run financial status of Social Security has been apparent for some time, the system has not been substantially reformed since 1983.[38] Those reforms included some higher taxes and a small increase in the normal full retirement age phased in very slowly. The result was supposed to be a Social Security surplus that could be saved to reduce the need for future adjustments. Indeed, the reforms were supposed to solve the seventy-five-year projected actuarial deficit. However, the notional surplus in Social Security did not result in real capital accumulation but instead helped finance the rest of the budget.

Social Security has been highly successful in helping reduce the incidence of poverty among the elderly.[39] It is by far the largest and most popular government spending program. A variety of options for reforming Social Security have been suggested over the years, but reform attempts by President Bill Clinton and President George W. Bush ran aground, on a personal scandal and an attempt to lead with a private account component, respectively. Likewise, President Obama pulled the rug out from under the Simpson-Bowles Commission reforms, despite the fact that he himself had appointed the commission.

We have by now transitioned from a period of worrying about the increased pressure on Social Security's finances in a distant future when the baby boom generation retires, to that generation's impending retirement, to its having begun retiring ten years ago. Simply put, the current tax rate on Social Security is sufficient to fund the current real benefit level for the predicted rising ratio of retirees to workers *or* to pay the projected much larger future inflation-adjusted benefits for the current ratio, but not both. The current program includes automatically rising real benefits per beneficiary because initial benefits are indexed to wage growth, which generally exceeds inflation. Current taxes are sufficient to pay *all* future benefits without cutting anyone's benefits from today's levels or raising anyone's taxes, but not to fund the rising ratio of retirees *and* perpetually rising real benefits.

Switching from wage to price indexing would eliminate the deficit. I would also raise benefits for those at the bottom, which would finally realize President Franklin Delano Roosevelt's original mission for Social Security "to secure a measure of protection against poverty ridden old age." If further adjustments are required, the best option would be a small additional increase, phased in slowly, in the full retirement age, while maintaining a strong early retirement option for those who need it, such as workers in physically demanding jobs. And finally, if ultimately necessary as a political compromise—beyond the Democrats getting the increased benefits at the bottom and the Republicans getting solvency without a tax hike—further reducing benefit growth at the high end could be negotiated. It makes no sense to heavily tax people in their peak earning years in their forties and fifties and then heavily subsidize them in retirement.

Climate Policy: A Revenue-Neutral Carbon Tax

Another area where it may be possible to achieve bipartisan cooperation on an important policy issue is climate. The extremes of both sides—those on the left who say we are doomed if we don't radically transform our economy immediately and those on the right who say climate change (or at least humans contributing to global warming) is a complete hoax—get lots of airtime, as does President Trump's mocking of environmental extremists and their policy proposals. While there are clearly potential long-term serious risks from climate change, neither side seems willing to recognize the substantial uncertainty in climate forecasts and their possible consequences. Studies usually present several scenarios, but the media always (and authors often) focus only on the worst-case scenario and most extreme potential consequences.[40] Most fail even to mention the possibility that adaptation, not just mitigation, will and should be a sizable part of the response.

A wide-ranging group of public intellectuals and policy makers from the center left to the center right agree that there is a better way than our current complex, inefficient, distorting system of mandates, regulations, and subsidies at federal, state. and local levels.

Economists have long argued that when an activity imposes extra costs (or benefits) on others that are not accounted for directly in the price system, these “externalities” are best dealt with by imposing a tax, fee, or toll (or subsidy for benefits) equal to the difference between the social costs (or benefits) and the private costs (or benefits). Real world examples include time-varying congestion tolls and peak-load electricity pricing to shift usage off peak and decrease the need for costly added capacity to cover a higher peak demand and the large inconvenience and time costs imposed by congestion.

Analogously, a revenue-neutral carbon tax, levied per ton of carbon emitted with the proceeds rebated, is a far more effective and efficient method for dealing with climate risks. It would be neutral with respect to which technologies could most efficiently and effectively deal with the externality, while avoiding cumbersome, inflexible diktats from government bureaucrats trying to guess the future or succumbing to regulatory capture by the interests they subsidize and protect from competition and innovation. Studies suggest the tax should start at a modest level ($20–$40 per ton of CO_2 emissions), and rise slowly through time, *if* subsequent data and research suggest the risks are worsening as predicted. It should be combined with abolition of the industrial policy, regulation, and mandates cross-subsidizing particular technologies and firms, which are unlikely to provide the best route to reducing emissions.[41] I would add to this both an increase and a reorientation of federal government research and development funds to longer-term, potentially breakthrough, precompetitive generic research, which has the potential to scale to environmental and economic significance over time, rather than the short-term, feel-good funding that government agencies have too often favored in this area.

The leading proposal in this area is one I have supported to further discussion and debate on this important subject, and it has attracted both Democrats and Republicans.[42] It would wisely replace the mandates and regulations with a carbon tax, and it would rebate the revenue on a per capita basis, providing a so-called carbon dividend. I believe it would be far better economically and politically, and therefore environmentally, to rebate the revenue with lower income taxes. This would not only be better for the economy by promoting economic growth but far better for the environment because it would help sustain public support through a strong economy.

Some favor the carbon-dividend approach because it would make the tax system even more progressive or because it would be supported by recipients of the direct dividend payment. It is estimated that 70 percent of the population would receive more in rebates than the carbon taxes they would pay through higher energy costs. But I believe this is politically risky, setting up a mechanism where people could keep voting themselves more benefits and raise the carbon tax far beyond reasonable levels to pay for it. That would be as destructive as it being too low (account must also be taken of the taxes that already exist on carbon-emitting activity, such as gasoline taxes).

In any event, there is an opportunity for an important step in the right direction that could well be politically navigable. A backup in the negotiation that may attract some in both parties might use a percentage of the revenue to reduce the deficit, although attempts to sustain that in analogous circumstances—for instance, the Social Security surplus in the 1990s and 2000s, which was largely due to the 1983 reforms—did not reduce the overall deficit.

A Way Forward

But no sensible reform in these and other areas is possible if the public cannot hear the proposals and options described, explained, and seriously debated because they are drowned out by the radical, illiterate, dangerous nonsense now dominating the discussion. I can only conclude that either the proponents of these policies are ignorant of the economics, science, numbers, and facts on these issues or do not care to confront and deal with them—or that the proposals have far more to do with the accretion and maintenance of political power by making the government an ever-larger dispenser of rents, transfers, and protection from competitors. That would entice an even larger share of the population into dependency on government for such crony capitalism.

We instead need leaders willing to tackle tough problems and pursue worthwhile, if imperfect, solutions before the problems escalate. Examples in recent decades of politicians working across the aisle, or in parallel, to develop sound ideas and good policies include Ronald Reagan and Tip O'Neill (aided by Alan Greenspan and Pat Moynihan) on Social Security reform in 1983; Bill Bradley and Jack Kemp on the pro-growth tax reform of lower marginal rates on a broader base that became the basis for President Reagan's tax policies; Bill Clinton and Newt Gingrich on welfare reform and a balanced budget in 1996; and Alan Simpson and Erskine Bowles on deficit reduction and tax and entitlement reform in 2010.[43]

As these examples illustrate, presidential leadership and support are necessary, if not always sufficient. President Trump seems uninterested in dealing with these issues, at least for the time being, focusing, as did President Obama, on others he deems more important. But whether it is Mr. Trump in 2021 or a different president, serious center-left and center-right leaders need to start speaking up far more forcefully than has been their wont and stop ceding the policy debate to the loud barking of the political extremes.

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SYNOPSIS

Many of the Left's recent policy proposals are not only quite radical, but scientifically, economically, and numerically illiterate. They are crowding out discussion of serious proposals to deal with the legitimate issues raised. A closer look reveals, for example, that Medicare for All and the Green New Deal wildly violate the laws of supply and demand, physics, and arithmetic. The many tens of trillions of dollars of new spending would explode the already record-high post-World War II national debt, even after an array of new and higher taxes that would undermine incentives to work, save, invest and enhance skills, along with American firms' global competitiveness. Factual—not the left's fantasized—comparisons to European nationalized health systems, social welfare states, and taxes, and to energy and environmental realities, suggest these proposals could well result in an economic, health care, and energy disaster trifecta with dangerous unintended consequences (for example, to the food supply). Better, affordable solutions without the risk of serial disaster are available.

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