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When to Violate the Top Two Commandments of Antigovernment Crusaders

By ROBERT H. FRANK

When asked to identify the two most important items from their list of 10 public policy commandments, most antigovernment crusaders pick (1) public spending shall be kept to an absolute minimum and (2) the state shall not transfer income from rich to poor.

No government heeds these admonitions in any literal sense. Yet they have had a profound impact on public policy decisions, especially in the United States. Often, however, their impact has been the opposite of what antigovernment crusaders intended.

The problem is that many compellingly advantageous public policies cannot be enacted without violating the two commandments. Every significant policy change benefits some people and harms others. If the gains to winners substantially outweigh the costs to losers, solutions can always be found that allow everyone to come out ahead. But those solutions often involve higher taxes and income transfers to the poor.

Regulations that limit auto emissions are a case in point. Because these regulations increase car prices, legislators in most jurisdictions exempt older vehicles to avoid imposing unacceptable costs on the mostly low-income motorists who drive them. Yet the cost to society of this exemption far outweighs its benefit for the poor.

For example, although fewer than 10 percent of the vehicles in Los Angeles are more than 15 years old, these cars account for more than half the smog. Exempting the old cars thus necessitates much stricter regulations for new ones. But the cheapest ways of reducing emissions from new cars have long since been adopted. According to a RAND Corporation study, meeting air quality targets by further tightening new-car standards is several times as costly as meeting those targets by eliminating the exemption for older vehicles.

By raising taxes on high-income motorists, the government could finance vouchers that would enable low-income motorists to scrap their older vehicles in favor of cleaner used cars of more recent vintage. The required taxes would be much smaller than the resulting savings from not having to adopt such costly standards for new vehicles. Both rich and poor motorists would win.

The problem is that taking these steps would violate the two commandments.

Antigovernment crusaders have prevailed for now. The ostensible champions of economic efficiency, they have kept government budgets smaller and blocked some transfers to low-income families. In the process, however, they have made everyone poorer.

Some believe that minimal government is synonymous with economic efficiency. But it is not. As the emissions example illustrates, economic efficiency sometimes requires that government play a larger role.

This example is part of a much broader pattern. In health care, for example, the private insurance system employed in the United States delivers worse outcomes at substantially higher cost than the single-payer system employed in virtually every other industrial country. But switching to the single-payer system would require higher taxes and increased benefits for low-income citizens, steps that would violate the two commandments. So for now, we remain saddled with a system that everyone agrees is dysfunctional.

In the realm of antipoverty policy, most economists agree that raising the earned-income tax credit would be the most efficient way of increasing the living standard of the working poor. Under this program, general tax revenues support income subsidies to those whose earnings fall below a given threshold. Its compelling advantage is that unlike a higher minimum wage, it does not discourage hiring. But raising taxes to increase the earned-income tax credit would violate the two commandments.

Because the most efficient antipoverty policy is deemed politically unfeasible, many economists support current legislative proposals to raise the minimum wage for the first time in a decade. If this legislation passes, antigovernment crusaders will be able to claim, truthfully, to have prevented an increase in the federal budget. But they will have won a hollow victory. For unlike an increase in the earned-income tax credit, an increase in the minimum wage not only limits job creation for the least- skilled workers, it also raises the prices of goods they produce. Over all, it would have been cheaper to raise the earned-income tax credit.

Antigovernment crusaders have also prevented the adoption of energy policies that would produce better outcomes for all. For example, economists of all political stripes have argued that a stiff tax on gasoline would relieve traffic congestion, reduce greenhouse gases, accelerate the development of energy-saving technologies and reduce dependence on foreign oil. But it would also impose significant economic hardship on low-income families, making it necessary to increase transfer payments to those families. Both the tax on gasoline and the transfers to low-income families would be clear violations of the two commandments. And so gasoline taxes continue to be far lower in the United States than in other industrial countries.

That democratic forces limit the economic hardship that government can impose on low-income families is a good thing. But sometimes imposing hardships on those families would create far larger gains for society as a whole. In such cases, we can always devise solutions that make everyone better off. But it is impossible to put these solutions into practice without violating the two commandments.

Is it better to solve a problem by spending two extra dollars in the private sector than by spending one additional dollar in the public sector? The two commandments insist, preposterously, that it is.

Economic efficiency is a worthy goal because when the economic pie grows larger, everyone can have a larger slice than before. Antigovernment crusaders deserve credit for emphasizing the importance of this goal. But as events of recent years have repeatedly demonstrated, they are often the biggest obstacles to its achievement.

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