**Government Should Stay Out of Economy's Way**



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In the wake of the September 11 attacks, America’s economy has slowed notably. Layoffs have been announced throughout the economy, and those sectors directly affected by the attacks already are pleading their case for a federal bailout. The airline industry, whose stocks plunged 32 percent as businesses and consumers reconsidered travel plans, has worked out a tidy package of federal aid. With consumer confidence low, and businesses struggling, the federal government has turned to crafting a stimulus package for the economy. To bolster economic growth, what should be included in such a package?

Many have called for federal bailouts of lackluster industries and massive new spending programs to inject new money into the economy and spur economic growth. In many ways the debate over the economy gives rise to the same arguments hotly disputed back when Ronald Reagan was running on a platform of rebuilding the American economy. Understanding what was at stake then can provide insights as to what the best policy should be in response to our current economic situation.

Before revisiting the past, however, it is important to take stock of where we are today. It is clear that the economy has faltered, but signs of economic trouble began to appear well before September 11. The uncertainty generated by the threat of terrorism has exacerbated economic uneasiness, making it more costly to conduct business or budget a household’s income. This uncertainty accelerated adjustments already underway in the economy, giving rise to a round of layoffs in weakened sectors. Addressing concerns over terrorism are clearly required to settle a skittish economy.

That being said, there are bright spots that should not be overlooked. First, the stock market has performed ably upon its reopening. While it is true that new uncertainties devalued the market as a whole and that sectors such as the airlines may have faltered, economist James Glassman points out that other sectors, such as defense, have made sizable gains. In other words, the market is doing what it does best: allocating capital and resources to those areas where they are most highly valued.

At the same time, the terrorist attack has put a halt to all partisan bickering over the fact that government has been collecting far more from taxpayers than it has been spending. As the economy sputters, it is ludicrous to have taxpayer dollars lie idle in Washington rather than put to work for long-run economic growth. Which brings us back to the question President Reagan faced twenty years ago: How to boost a stagnant economy?

For many, the answer has been a reliance on increased government spending as a means of putting more money into the economy. Today’s variations on this theme often call for federal bailouts of different industries, consumer rebates, and new spending programs. Typically, recommendations suggest that these actions be temporary in nature in order to avoid any adverse impacts on long-run economic growth. This was not the path chosen by President Reagan, and we would be wise to avoid it as well.

The economy is dynamic and complex; the best of intentions cannot make it more manageable. The federal government can do little in the way of managing the economy. Federal spending programs can only indirectly affect economic decisions in the private sector and many of these effects are unintended or unpredictable. Moreover, any federal program moving through Congress is subjected to the pressures of interest groups and partisan politics. Economic decisions that are better made by entrepreneurs and those with the experience and knowledge of specific economic conditions are replaced with resource allocation decisions made in Washington by those far removed from the question at hand. Governments have proved to be poor economic managers the world over, so there is no reason to believe the U.S. government would perform any better today.

The alternative to big government and more spending is to provide the private sector with the means to rebuild itself and restore consumer confidence. While it typically is true that government has failed to "create" economic growth—indeed, it is probably impossible—government can encourage new growth by removing barriers to private sector wealth creation. In other words, government can "get out of the way." This entails a return to fundamentals that provides investors and consumers the incentives to strengthen the economy. This approach, in line with the strategy followed by President Reagan, fosters economic growth by lowering taxes, removing unnecessary barriers to economic growth, and providing entrepreneurs access to capital markets. Many of the economic policies endorsed by President Bush are similar in nature, which is encouraging.

With respect to monetary policy, the Fed has cut interest rates nine times already, bringing rates down by 3 percent since January. However, economic reform requires more than just low rates, as the current market attests. Fiscal policies—both taxes and spending—play a major role in economic performance, as do regulatory policy and trade policy.

Tax reform was a key component of President Bush’s campaign platform. The Bush tax cut was an important step toward fundamental tax reform, and after the terrorist attacks, the president should continue to emphasize tax reform. Cutting the capital gains tax rate (or eliminating it altogether), reforming the alternative minimum tax, and accelerating depreciation schedules can all revitalize business investment decisions. Also, the Bush tax cut should be accelerated and made permanent. Indeterminacy in the tax code makes planning difficult and limits the economic benefits of a tax cut. President Bush should move forward with his plans for fundamental tax reform.

Regulatory barriers can also hamper economic growth, raising the cost of doing business and the ability to employ new technologies. Our economy currently shoulders a regulatory burden of more than $700 billion annually. Eliminating unnecessary regulations is an important step towards a stronger economy. Likewise, excessive oversight of businesses and business practices can hamper economic activity while raising costs for consumers.

President Bush faces tough challenges in the coming months, both at home and abroad. Even now, operations are underway to address terrorism throughout the world. At home, the economic package is winding its way through Congress. While the war on terrorism may be different than any other war in our nation’s history, economic downturns vary little in their appearance and their remedies are similar as well. Policies that provide the right incentives to consumers and businesses while limiting government interference in the marketplace have served our country well in the past. President Bush is correct to continue his push for tax reform while removing unnecessary barriers to economic growth. Most importantly, understanding that entrepreneurs and investors in the marketplace create the wealth and income that fuels our prosperity serves as an important reminder of the limitations of a big-government solution for a sagging economy. Now is not the time for the government to step into the economy; it is the time to unleash the creative abilities that built America’s modern economy.