

Betting on John McCain

AN ECONOMIST EXPLAINS WHY HE THINKS MCCAIN'S ECONOMIC POLICIES MAKE MORE SENSE

By Steven Landsburg

My whole life I've been mystified by the concept of the "undecided voter." I've never had any problem choosing my candidates and didn't see how anyone else could either. But this year, I've been genuinely on the fence, partly because I haven't been paying close attention, and partly because there seemed ample reason to dislike all of the options.

But over the past few days, as McCain and Obama have ratcheted up their rhetoric over each others' "disastrous" economic policies, I decided to do a little research. Along the way, I had a few surprises about John McCain's voting record, some but not all of them pleasant. Now I don't think I'm undecided anymore.

Here are some of the things that made my decision easy, and some that made it hard:

1. Free trade and immigration are my top issues, and McCain wins on both.

These are my top issues for several reasons. First, trade is the engine of prosperity not just for the United States but also for the poorest of the world's poor. Nothing matters more than that. Second, the instinct to care about the national origin of your trading partner (or employer, or employee, or landlord, or tenant) is an ugly one, and the instinct to care about the national origin of other people's trading partners—and on that basis to interfere forcibly with other people's voluntary transactions—is even uglier.

Finally, protectionism, like creationism, requires an extraordinary level of willful ignorance. The consensus for free trade among economists is approximately as solid as the consensus for evolution among biologists, and it is a consensus supported by a solid body of both theory and observation. To ignore that consensus betrays a degree of anti-intellectualism that frightens me.

McCain is quite good on this issue, not just in terms of rhetoric (which I've known for a while) but in terms of voting record (which I've just recently researched). Obama, by contrast, promises to be our first explicitly protectionist president since Herbert Hoover. Some intervening presidents (Reagan, Bush I, and to a lesser extent Bush II) have been weak in their commitments to free trade, but none between Hoover and Obama has so explicitly rejected it.

2. McCain is not Bush. This came as a surprise to me. I'd been assuming, in my ill-read, uneducated way, that McCain had been complicit in most of the great travesties of the Bush administration and the execrable Republican Senate. I've learned that's largely untrue. He voted (to my great surprise!) against the prescription drug entitlement, against the Farm Security Bill, against milk subsidies, against Amtrak subsidies, and against highway subsidies.

Obama, by contrast, is in many ways a continuation of Bush. Like Bush (only far more so), Obama is fine with tariffs and subsidies. Like Bush, he wants to send jackbooted thugs into every meatpacking plant in America to rid the American workplace of anyone who happens to have been born on the wrong side of an imaginary line. Like Bush, he wants a more progressive tax code. (It is one of the great myths of 21st century that the Bush tax cuts made the tax code less progressive; the opposite is true. If you are in the bottom 38% of taxpayers, you now pay zero income tax—and therefore have an incentive to support any spending bill that comes down the pike.) Like Bush, he wants more regulation, not less.

3. But there's a lot about economics that McCain just doesn't get. This shows up most significantly in his energy policies. Every economist knows that the best way to discourage carbon emissions (or anything else for that matter) is to tax them. But McCain rejects a carbon tax in favor of one slightly inferior policy (cap and trade) and one grossly inferior policy (direct regulation, such as the CAFE standards for fuel efficiency).

In a world of perfect capital markets and perfect information, a cap-and-trade system (provided the government auctions off the permits rather than giving them away) is exactly equivalent to a carbon tax – same effect on everything down to and including the prices of consumer goods. In the real world we live in, it's inferior for two reasons: First, small firms might find it difficult to raise the necessary capital to buy a permit; this gives an inappropriate advantage to big firms over small ones. Second, I believe it will be harder (for technical reasons I won't go into here) to calculate the efficient number of cap-and-trade permits than to calculate the efficient per-ton carbon tax. Aside from that, the two policies are equivalent in every way. McCain presumably doesn't get this, or he wouldn't have such a strong preference for cap-and-trade.

Worse, he endorses the CAFE standards, which are just a terrible way to control carbon emissions. While a carbon tax gets incentives right at every decision point, fuel efficiency standards give people no incentive, for example, to bike to work instead of drive (in fact, they flip the incentive in the wrong direction). Worse yet, they concentrate brainpower on improving fuel efficiency when there might be far more effective ways to control carbon emissions; with a tax, all innovations are rewarded.

In his support of CAFE standards over carbon taxes, McCain betrays a serious failure to understand how incentives work. The same problem shows up when he thinks you can simply mandate campaign finance limits, as if people who are competing for control of a \$15 trillion economy won't be creative enough to find some way to spend hundreds of millions in the effort, no matter how you write your laws.

4. McCain gets health care right. The reason poor Americans get too little health care is that rich Americans get too much. The reason rich Americans get too much is that they're overinsured, and therefore run to the doctor for minor problems. The reason they're overinsured is that employer-provided health benefits aren't taxed, so employers overprovide them.

It has been clear for decades that the single most effective way to control health care costs is to eliminate the tax break for employer-provided health care. According to one careful study by my colleague Charles Phelps (admittedly several years old, but I'm not sure anything relevant has changed), this single reform could reduce health care costs by 40% with essentially no effect on health care outcomes.

Essential as this reform may be, I'd always assumed it was a political non-starter. I was therefore astonished to learn that it's the essence of McCain's health care reform. (At the same time, he would give each individual \$2500, and each family \$5000, to use for health care.)

I am astonished that I hadn't heard about this, and particularly astonished that Barack Obama hasn't thrust it in my face with a negative spin. Possibly he has and I just wasn't paying attention. In any case, this is just what the doctor ordered, and I am delighted that McCain has put it on the table.

Obama, by contrast, wants poor people to get more medical care without addressing the problem of overuse by rich people. Where is that extra medical care going to come from? If the answer is "nowhere," then a primary effect of the Obama plan must be to raise prices, making doctors and hospitals the big beneficiaries.

Of course, there are other things that matter. Foreign and defense policy might matter more than anything, and if I were sure that one or the other candidate were far wiser about these issues, that might be enough to win my vote. But I have no expertise on these matters and no particular reason to trust my own judgment.

I'm sure I'm right about trade and pretty sure I'm right about taxes and health care, but that's because I've thought long and hard about these issues for decades. It seems to me that we ought to be humble about the things we *haven't* thought hard about, and for me that includes foreign policy. The best I can do is bet that whoever's getting most of the other stuff right is getting this right too.

The bottom line is that I support John McCain. With trepidation.

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