Government regulation made Canada fat and happy

FROMA HARROP

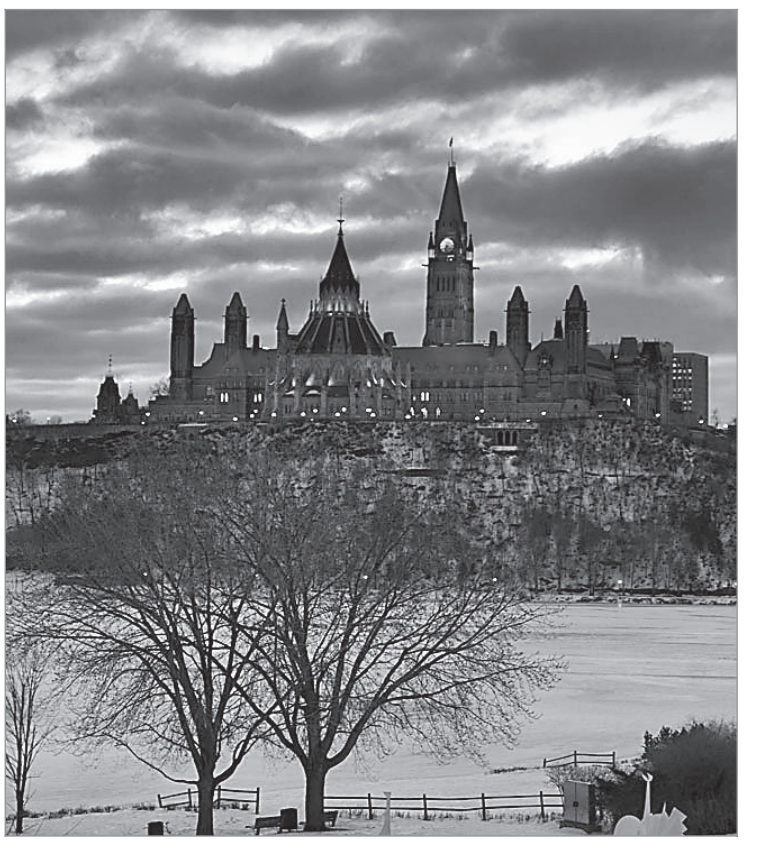
Suppose the U.S. government had posted a budget surplus in the 12 of the last 13 years. Suppose not a single major American financial institution had failed or needed a government bailout. Suppose the U.S. economy grew at an annual rate of 6.1 percent in the first quarter of this year, rather than at 2.7 percent.

Would that make you happy?

These cheering economic indicators happen to be reality in Canada. They did not come about because Canadians are more virtuous, or that they don't have subprime mortgages (they do), or that they didn't keep interest rates very low (their rates were much like ours). What Canada had was a civic culture that wanted government to regulate financial activity.

What *we* have is an elite willing to risk everyone else's economic security to let a few hotshots win big at the casino of recklessness and fraud — while maintaining a variety of taxpayer-financed backstops to reduce the hotshots' risks. The joint never gets closed, also thanks to the large numbers of ordinary citizens trained to holler "socialism" every time the government tries to set a ground rule. A satanic belief in the rightness of free markets to punish the unsophisticated almost halted the creation of a Consumer Financial Protection Bureau.

Canada has long had its Consumer Financial Agency, which stops the craziest of lending practices. Canada regulates mortgage terms so that borrowers — be they greedy, reckless or plain suckers — are less likely to crumple when, sometime down the road, an interest rate jumps.



WIKIPEDIA

Canada's legislature on Parliament Hill, in Ottawa

Yell all you want about Americans who borrowed beyond their means. Canada had rules that stopped people from borrowing beyond their means. As a result, Canada was spared a U.S.-style housing bubble fed in part by the ability of little people to borrow big and use the money to bid up home prices.

By the way, Canadian home prices rose almost 14 percent in May from a year earlier. And the World Economic Forum now ranks Canada's banking system the safest on Earth.

There are differences in the two countries' situations that do give Canada an advantage. One is Canada's enormous wealth of natural resources, oil being one. Another is the U.S. role as keeper of global security — a job that other countries are all-too-pleased to give us. This greatly cuts the amount Canada must spend on its defense.

But Canada's smart government regulation is its own creation. That may make it harder for a few financial wizards to score a quick fortune, but it keeps the economy on an even keel. Merchants, manufacturers and other economic players don't have their customers hauling off huge cartloads of stuff one year and then filing for bankruptcy the next. They can plan for the future.

Canada's health-care system likewise makes budgeting for operating expenses far more predictable for employers. The Canadian single-payer system is not my health-care ideal. I prefer the multi-payer setup in France — or the emerging American health-care system, if the reforms can control costs. But the vast majority of Canadians are content with their medical care.

So how are Canadian businesses doing these days relative to ours? It's true that the Standard & Poor's index of 500 large U.S. companies has done pretty well this year. But the Toronto exchange's index of large-cap Canadian stocks did 27 percent better.

Periodic booms and busts don't have to be Americans' fate. Some people get very rich off them. But for ordinary folk, slow and steady wins the race. Support for letting government install some speed bumps to enhance their financial stability has left Canadians fat and happy. We could live the same way.

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Rich are not here to give us jobs

FROMA HARROP

Let's cut the baloney about jobs and rich people's taxes. If corporate profits automatically turned into jobs for the little folk, the unemployment rate would be plummeting.

It happens that company earnings now exceed their lofty peaks of the housing boom. And big-business balance sheets are sloshing with cash. Corporate America's decision to stick with its current workforce is not for a lack of dough.

Companies don't create jobs because they have extra money jingling in their pockets. They take on new workers when they want to *expand*, and right now the demand's not there to warrant that growth. Corporations are in the business of maximizing profits for the benefit of their managers and shareholders. They're not in the business of creating jobs, and nor should we expect them to be.

And so how should we respond to Republican assertions that restoring Clinton-era income tax rates for the richest 2 percent would destroy jobs? We shouldn't. They are irrelevant.

An employment policy based on further enriching the richest Americans — who may or may not spend their wealth on job-creating ventures — is like trying to feed chickens in the barnyard by dropping feed from an airplane. It's far more logical to focus tax cuts on activities that are likely to expand American business.

That's why President Obama's proposal to make the research-and-development tax credit permanent — something many Republicans have advocated — makes more sense. It would give companies an incentive to spend their money on their businesses.

But to politically sell this fixation on keeping rich people's taxes low, Republicans must convince wage-earners that their jobs depend on enlarging a few already huge personal fortunes. Thus, House Minority Leader John Boehner, of Ohio, characterizes the Obama plan to let George W. Bush's tax cuts for the top brackets expire as "job-killing tax hikes."

Republicans made similar hysterical warnings when Clinton proposed raising taxes for the richest 1 percent early in his administration.

"This is really the Dr. Kevorkian plan for our economy," Rep. Christopher Cox (R.-Calif.) said in May 1993. "It will kill jobs, kill business and yes, kill even the higher tax revenues that these suicidal tax increasers hope to gain." (Cox later ran the Securities and Exchange Commission under George W. Bush; we saw how well that worked out.)

It didn't quite turn out that way. America gained a net 21 million jobs during Bill Clinton's two terms (against only 3 million during Bush's). Business investment was higher in the Clinton years. The economy grew more, as did tax revenues, and Clinton ended his presidency with a budget surplus. Even the rich got richer under Clinton, but most people didn't seem to mind because everyone else was doing better too.

For years, the right has cultivated an air of servility in a fearful workforce. I want to know what magic potion Republicans use to make so many Americans assume that they are wards of the rich.

Employers generally don't take on workers as a charitable gesture. They may be splendid human beings, but they hire you in the belief that your sweat will contribute to the business's bottom line. The employer's need for your labor and your desire for a paycheck makes for a mutually beneficial relationship. But it is not a one-way street.

Americans generally don't like class warfare. So labeling any tax increase for upper incomes as such is a time-honored way to bully the public into silence. Actually, it's not too much to ask the top sliver — whose wealth is running away from that of even ordinary millionaires — to do more to contain our soaring deficits.

If the rich get richer from a recovering economy, and they will, then good for them. But they're not owed tax cuts besides.

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Yes, we'll take the Swedish model

FROMA HARROP

Swedish voters have re-elected their center-right prime minister, and that has caused rejoicing among my right-wing colleagues. "Sweden votes for tax cuts, privatization and deregulation," a Wall Street Journal editorial proclaims. "It's time the world started imitating the Scandinavian — or at least the Swedish — economic model."

Know what? I agree! Sweden was rather extreme in its high taxes, intrusion into business affairs and extravagant benefits. Thus, the government of Fredrik Reinfeldt was right to reduce some of those crushing levies. It was right to privatize the maker of Absolut spirits. (Why on earth should the state be running a vodka company?) And it was right to end some cushy early-retirement deals.

But The WSJ's cute promotion of the "Swedish model" — something it normally abhors — steers clear of some key facts that might confuse readers. Some overly generous benefits have been trimmed, but no one is messing with the beloved health-care system.

Furthermore, the top income tax rate in Sweden remains almost 60 percent. Despite having the second highest taxes in the industrialized world (after Demark), Sweden enjoys the fastest-growing economy in Western Europe.

Americans wouldn't tolerate income tax rates anywhere near Sweden's. But it's nonsense to insist, as Republicans do, that letting tax rates for the richest 2 percent rise modestly would drive a dagger into the heart of our economic recovery.

Speaking of Republicans, why don't they copy the campaign vow that helped Reinfeldt win re-election?

"We won't promise any more tax cuts for 2011," he said. "The room for reform that exists should be used for spending on the core of welfare, on education and health care."

Reinfeldt said that he would like to cut taxes further, but not at the expense of raising deficits. During the campaign, his finance minister, Anders Borg, added that the government intends to run a budget surplus before proposing more tax relief. Happily, a budget surplus may come next year.

Imagine that, politicians who treat the voters like adults. They tell the people that if they want tax cuts, they must lower spending first. There is no free lunch.

Contrast this message with the Republican happy-hour promise of lower taxes combined with no specifics on spending cuts of any significance. Republicans couldn't even get behind reducing the overpayments to insurance companies in Medicare, and now they're talking real big about slashing government.

Meanwhile, they make great sport of calling President Obama a socialist. Obama is barely a liberal. His health-care plan — less socialistic than Medicare — should reduce budget deficits and contain the medical costs that are bankrupting American business. Why would any real conservatives object to that?

On public benefits, Reinfeldt's center-right Moderate Party stands well to the left of most Democrats. But on fiscal matters, it's far more conservative than most Republicans.

Reinfeldt is basically following the sort of Paygo rules adopted by the current U.S. Congress. Paygo requires that all new programs be paid for and that tax cuts be offset by reductions in spending.

In 2002, the Republican Congress let the Paygo rules die. That let them and the Republican White House cut taxes *and* enact a very expensive Medicare drug benefit without paying for a cent of it. It took a Democratic-controlled to restore Paygo.

Today's Republicans are peddling the same free lunch as last decade's Republicans. That makes the fiscally conservative part of me shudder at the thought of another GOP takeover.

But let me briefly join the "conservative" Wall Street Journal in toasting the new Swedish model, and with this promise: If the WSJ should promote the model's sense of fiscal responsibility, I will take the quote marks off the word "conservative."

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Make levies, not war, on the rich

FROMA HARROP

Most Americans dislike class-warfare talk aimed at rich people. It does not follow that they don't want the richest among us to pay more taxes. Polls show they do. That puts Democrats in the mainstream on such matters. But Democrats still need a sophisticated way to discuss this, one that does not rely on simple-minded formulations pitting a "greedy rich" against an "oppressed poor."

The angry electorate that just gave Democrats a beating — largely middle class, largely white — feels besieged by what it perceives as a freeloading lower class. And many think of the poor as dark people having children out of wedlock, living off Food Stamps, spending years on welfare and otherwise draining the productive members of society, that is, themselves.

There's little point in calling these folks racist. Some surely are, but one doesn't have to be racially biased to feel uneasy at the sight of so many minority 16-year-olds with big bellies and no prospect of marriage pushing strollers through the mall. True, the "baby mama" phenomenon is growing in white America, as well — look at Bristol Palin's star-studded single motherhood — but it's become the norm in many black and Hispanic communities.

Our post-industrial economy no longer accommodates high-school dropouts, and one of the biggest drags on educational achievement is a chaotic family life. Not recognizing the culture-driven causes of poverty is intellectually dishonest and alienates middle-class voters coping with their own economic anxieties.

As for the rich, liberals too often buy into the false notion that great wealth must come at the expense of others. For example, New York Times columnist Nicholas Kristof recently likened the United States to a banana republic where "the richest 1 percent of the population gobbles up 20 percent of the national pie."

But "the economy is not a national pie eating contest," as Dartmouth economist Andrew Samwick smartly responded on the Capital Gains and Games Web site. "The phrase casts income as something that is consumed, not as something that is produced."

Meanwhile, most super-rich Americans committed no fraud in building their piles. "Do I feel oppressed that I made Steve Jobs richer by buying an iPad?" Samwick asks. "Of course not."

That doesn't mean that billionaires should be able to buy elections. It doesn't mean that hedge-fund managers deserve outrageous tax loopholes. It doesn't mean that financiers should be allowed to hobble Securities and Exchange Commission rules and then demand taxpayer bailouts when their risky deals collapse.

And it doesn't mean that raising these people's taxes to help reduce deficits is anything but a fine idea. Taxes must go up, and the higher the income, the less personal sacrifice in paying them. That's the reasoning behind our progressive income-tax system. Any resulting "wealth redistribution" is a byproduct.

Many conservatives have adopted an unpleasant strain of servility toward the rich. (No, they don't hire us as a charitable gesture.) But liberals shouldn't answer the worshipping of wealth with a demonizing of it.

What Democrats should say to the top tax brackets is this: "Congratulations on your good fortune — assuming it didn't come from cheating anyone or corrupting our civic life. May you long prosper, and, by the way, thank you for doing your bit to end our national deficit crisis."

Any effort to hike taxes for the upper incomes will spawn charges of "class warfare." But Democrats need not stoke these phony claims by cluttering their arguments with nonsense about income pies and implications that tycoons can't be perfectly nice people.

Keep it simple: This is about raising enough money to pay the government's bills in the fairest and most effective way.

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Tax those nasty bankers *and* reform the banking system

FROMA HARROP

Tax the bankers' profits, tax their bonuses, tax their golf scores. I mean it. Take their windfall, and give it to the taxpayers who bailed them out. Britain and France plan a 50-percent tax on banker bonuses — coordinated lest their financial bigwigs think of crossing the Channel for a better deal. President Obama's proposal to tax the big banks' extraordinary profits fits the theme.

This should help slake the public's thirst for revenge against Wall Street. Europeans don't seem to be complaining about these special taxes, and a little economic populism couldn't hurt Obama's approval ratings, such as they are.

But as a move toward serious financial regulation, this is just a shot over the industry's bow. Washington must pass new rules to curb the sort of financial recklessness that took America to the abyss of economic ruin. Such crusades aren't so crowd-pleasing, mainly because the crowd doesn't understand them.

That's why the moment's political passions are so focused on the bailout that created these record bank profits. With the panic over, it's easy to believe or pretend to believe that the bailout wasn't needed. But remember the day when tough talkers in the House defeated the Bush administration's bailout plan? The Dow Jones Industrial Average promptly plunged nearly 800 points. Congress quickly changed its mind and passed the measure.

Democrats don't need Republicans to promote counter-productive statements that draw warm applause from the apoplectic masses. They have Sen. Evan Bayh, of Indiana, who recently said, "I don't think the American people last year voted for higher taxes, higher deficits and a more intrusive government."

Actually, the people *did* vote for a more intrusive government. They wanted a government that would intrude on financial-industry practices that pushed them into a deep recession. The people wanted a government that would intrude between them and their health insurer trying to drop their family after a member was diagnosed with cancer.

No, there cannot be lower deficits without higher taxes. (How would you lower deficits, Senator?) In any case, by taxing bank profits, Obama would have banks paying back "every last dime" of their bailout. Perhaps the voters knew what they were doing.

And don't anyone send me quotes about Ronald Reagan and the magic of tax cuts. Taxes were cut in Reagan's first year, then rose in every other year of his administration. Meanwhile, the national debt doubled.

A far more perceptive (though sickening) quote came from another Democratic senator last April. Illinois's Dick Durbin said on a radio show that despite all the economic pain America has endured, the financial industry "still owns the place" — the place being Congress.

Clearly, there will be no serious financial reform unless Congress unchains itself from the Wall Street money masters. Real reform means ending the "too big to fail" doctrine that in effect places a taxpayer guarantee under the big banks' speculation. It means regulating the markets for derivatives. It means a creating a consumer-protection agency that puts brakes on the riskiest loans.

Sure, a tax on bank profits is justified. The big banks' fabulous year came out of the public's hide. We speak of the government guarantees of bank-issued debt; the AIG bailout (and by extension, AIG's creditors, the banks); near-zero interest rates, courtesy of the Federal Reserve. The taxpayers earned their share of the pot.

But the spotlight of outrage should linger only briefly on what the bankers did, then fix itself on what Washington let them do. America must protect its economic well-being against future marauding on Wall Street. The future is the only thing we can influence.

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