Economists’ Policy Recommendations Often Unpopular

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Laypeople often peg academic economists as either conservative or progressive, which seems a byproduct of a divided political culture. Anyone interested in policy must be partisan. In fact, academic economists seldom think of themselves this way. Rather, they adopt a particular approach to policy making, which entails applying basic assumptions about human behavior to policy making, and then following these assumptions to their logical conclusion.

First among these assumptions is ‘people respond to incentives’, which are determined in part by taxes. Hence, governments should not tax what is desirable and should tax what is undesirable. From this assumption flows straightforward policy on which nearly all economists can agree.

Second, stop taxing income because it is desirable; instead, eliminate the income tax and replace it with a progressive consumption tax. This is not as radical an idea as it sounds initially. It could be achieved by eliminating the cap on IRAs. Such a policy would encourage saving and ultimately lead to faster economic growth.

Third, eliminate payroll taxes, which amount to a tax on jobs paid by employers. Jobs are desirable, so do not tax them. Make up the difference with consumption taxes.

Fourth, eliminate corporate income taxes, which are a disincentive for investment. By eliminating such taxes, we reduce the incentive to lobby, thereby limiting a corrupting influence on legislatures. The popularity of the corporate income tax seemingly derives from a desire to tax the rich, but this is better accomplished by taxing the rich; specifically, taxing the rich on the dividends they receive.

Fifth, impose a carbon tax. Unfortunately, the market does not value the climate. A carbon tax fixes this negative externality problem.
Although a carbon tax would boost gasoline prices, which would be unpopular, it would reduce pollution by discouraging vehicular traffic.

A sixth policy, based on an application of cost-benefit analysis, is ending the ‘War on Drugs’. Most academic economists agree the cost of drug enforcement far exceeds its benefits. Rather than waste funds on ineffective law enforcement, they would be better spent on training doctors or drug treatment. The case is particularly strong for marijuana, but also applies to cocaine and heroin.

Other than drug legalization, which has entered into mainstream discussion, the aforementioned policies are unpopular with voters. Neither major party platform recommends these policies, which explains why economists rarely are elected to political office. Nor are these policies left- or right-leaning.

Will the public ever adopt the policy recommendations of academic economists? A decade ago, it would have been difficult to predict the current status of marijuana legalization, but now two states have legalized recreational use. Perhaps there is hope. If we can just organize stoners to back elimination of the payroll tax…

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About the Author

Dr. Chris Erickson is a professor of economics at NMSU, where he teaches money and banking to undergraduates and economic development to graduate students. His major area of academic research is the role of the financial system in economic development.