Exposing the Hidden Costs of Legislation

"A well-established principle of public finance holds that taxes impose costs on society beyond the amount of revenue the government collects," writes Christopher J. Conover, research scholar with the Center for Health Policy and Inequalities Research at Duke University, in **"Congress Should Account for the Excess Burden of Taxation"** (Policy Analysis no. 669). But members of Congress are often unaware of how high these costs actually are—they average about 44 cents per dollar of tax revenue for all federal taxes. Conover looks at the marginal excess burdens of federal spending and uncovers some striking findings. "One recent analysis estimates that the net present value of current and future-year output losses amounts to $3.40 for every dollar of federal expenditures financed by borrowing," he writes. He argues that "accounting for the excess burden of taxation is essential to honest policymaking," but those burdens "will not receive the attention they deserve until Congress includes them in its official cost estimates." This ignorance of costs is perhaps nowhere better illustrated than with the enactment of the Patient Protection and Affordable Care Act of 2010 (PPACA). "The total excess burden associated with PPACA could amount to $550 billion, or more than half of the bill's official cost estimate and $3.85 per dollar of supposed deficit reduction," Conover writes. He concludes, "It is irresponsible for members of Congress and the president to spend taxpayers' earnings without understanding the full burden they are imposing on those taxpayers."

Toward Truly Free Trade

It's a tale as old as trade itself. Protective tariffs drive up costs to consumers and keep capital and labor from finding more efficient, productive uses. In July 2010, Congress advanced the cause of trade liberalization when it passed the U.S. Manufacturing Enhancement Act, which suspended duties on hundreds of imported goods of special interest to U.S. manufacturing companies. But Congress left in place tariffs that protect many domestic producers from competition. In **"The Miscellaneous Tariff Bill: A Blueprint for Future Trade Expansion"** (Trade Briefing Paper no. 30), Daniel Griswold, director of the Cato Institute's Center for Trade Policy Studies, praises the bill, calling it a "rare step forward in U.S. trade policy in recent years," one that "could provide a template for expanding the freedom of Americans to buy and sell in global markets." But it doesn't go far enough, Griswold argues. When the House begins work on the next miscellaneous tariff bill, he writes, "House Republican leaders should. . . work with their counterparts across the aisle to expand the reach of the next bill to cover even more categories of imports—for the benefit of consumers, the manufacturing sector, and a U.S. economy struggling to shake off a steep recession."

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Trade with Korea Is Good for Americans

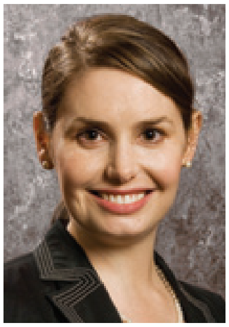
Americans sit on the unemployment line while China's economy grows—with China now displacing the United States as the number one trading partner of South Korea and other East Asian states. "How have the Obama administration and Democratic Congress responded to these challenges?" asks Cato Institute senior fellow Doug Bandow in **"A Free Trade Agreement with South Korea Would Promote Both Prosperity and Security"** (Trade Briefing Paper no. 31). "By retreating economically from the region." What's needed, Bandow argues, is for Congress to ratify the already-negotiated U.S.–South Korea free trade agreement (KORUS FTA). Enacting the FTA would increase American access to the South Korean market, adding, according to the U.S.–Korea Business Council, $35 billion worth of exports, $40 billion to the national GDP, and 345,000 jobs. The FTA would enrich South Koreans, too, resulting in a larger market for American goods and, thus, even greater benefits for U.S. workers and firms. Bandow examines the roadblocks in the agreement's path, including concerns over the sale of beef and automobiles. The FTA is not perfect, he admits. "Numerous compromises were made for political reasons—including retaining protectionist restrictions for American industries, such as ethanol and sugar." He argues that "the FTA should be viewed as a starting point from which Washington could continue to press for further liberalization" and that "Congress should ratify the already-negotiated accord with South Korea. The stakes, both economic and security, are high."

Can Socialism Get You Where You Want to Go?

"One industry has unquestionably been socialist for decades: urban transit, more than 99 percent of which is today owned and operated by state and local governments," writes Cato senior fellow Randal O'Toole in **"Fixing Transit: The Case for Privatization"** (Policy Analysis no. 670). And as we've come to expect from socialism, the results are terrible. In the past 40 years, transit worker productivity has fallen more than 50 percent, "urban transit is the most expensive way of moving people in the United States," and the "majority of transit systems use far more energy and pollute far more per passenger mile than the average car." O'Toole says the solution is not to expand transit through greater subsidies, but to privatize it. "Private operators would have incentives to serve customers, not politicians, with cost-effective transport systems." The paper traces the history of government transit involvement, beginning in 1964 when the "vast majority of the nation's transit systems were privately owned and profitable." It looks at the impact of the recession, looming transit debt, the crushing weight of employee pensions, crumbling infrastructure, and lack of innovation. O'Toole concludes with a privatization action plan, eight steps federal, state, and local governments can take to realize a truly efficient transit system.

Trade Preferences Are Still Protectionism

The Generalized System of Preferences, which benefits certain developing countries and aids their development through preferential access to the U.S. market and saves Americans hundreds of millions of dollars a year from duty-free imports, expires on December 31, 2010. In **"The U.S. Generalized System of Preferences: Helping the Poor, But at What Price?"** (Policy Analysis no. 43), Sallie James, policy analyst with the Cato Institute's Center for Trade Policy Studies, says that Congress should renew the GSP, but should also recognize that it doesn't go far enough. "To the extent that preference



recipients jealously guard their special access and resist global efforts to liberalize trade on a nondiscriminatory basis," James writes, "unilateral preference programs can be counterproductive to achieving a more liberal global trade regime and a more stable and permanent path to economic growth." James provides a thorough analysis of the impact of the GSP on the United States and its trading partners and outlines the program's benefits and costs. The expiration of the GSP offers the United States an opportunity to correct these faults by opening the U.S. market on a permanent and nondiscriminatory basis. "Those changes," James concludes, "would give American firms and consumers undistorted, permanent, and transparent access to the most efficient supplier, access that would not depend on the changing whims of Congress."

Introducing Cato Working Papers

In October, the Cato Institute launched a new publication series, the Cato Working Papers. Intended to share ideas and elicit feedback before being submitted to a peer-reviewed academic journal, the Working Papers offer cutting-edge policy research.

The series began with a paper by Andrew J. Coulson, director of the Center for Educational Freedom at the Cato Institute, examining whether **vouchers and tax credits** increase private-school regulation. In November, George A. Selgin, William D. Lastrapes, and Lawrence H. White assessed **whether the Federal Reserve has been a failure** and offer alternative arrangements that might do better. That same month, Michael F. Cannon, Cato's director of health policy studies, evaluated a contract-based solution to reforming **medical malpractice liability**.

Cato Working Papers are available at www.cato.org/workingpapers. ■