



Beyond the Conservative Nanny State: Policies to Promote Self-Sufficiency Among the Wealthy

BY DEAN BAKER

Introduction

Conservatives have managed to dominate the national debate on economic policy over the last quarter century. They have implemented a wide range of policies that have had the effect of redistributing income from those at the middle and the bottom to those at the top. This effort has been successful in part because conservatives never acknowledged the government's role in this upward redistribution, claiming all along that it was simply the natural workings of the market.

Unfortunately, liberals and progressives have largely accepted this framing. As a result, the debate over economic policy is usually seen as a dispute between conservatives who favor market outcomes, where every person fends for themselves, and progressives who favor government intervention to ensure that everyone has a decent standard of living.

The purpose of my book, *The Conservative Nanny State: How the Wealthy Use the Government to Stay Rich and Get Richer*, was to expose the ways in which government policy has been designed to redistribute income upward. This paper offers strategies for undoing the effects of the conservative nanny state by implementing government policies that are less oriented towards the needs of the wealthy.

1) Trade and Immigration

Conservatives understand very well that income for one person is a cost to another. For example, if all custodians received a 50 percent pay increase, then the price of their services would rise. This means that either the firms employing custodians would have lower profits or they would have to pass on the cost to customers through higher prices. This latter option would mean that other people's income would not go as far, so conservatives have sought to drive down

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the wages of most low- and middle-income workers through a variety of policies, including trade and immigration laws. These policies put downward pressure on the wages of less-skilled workers by putting them in direct competition with workers in the developing world who are willing to work for much lower wages.

While these policies redistribute upward by putting less-skilled workers in competition with workers in the developing world, they can be redesigned to redistribute income downward. New trade agreements should focus on increasing competition for the most highly paid professionals rather than less-skilled workers (e.g., physicians, lawyers, accountants, etc.). This should be done by standardizing licensing requirements across states and making them fully transparent so that people can train and test anywhere in the world to meet U.S. standards. (This is analogous to what has been done to facilitate imports of manufactured goods.)

This means that medical students in Mexico, India, China or any other country could train to meet the U.S. standards, and then test to prove their competence and gain licensing approval to practice medicine in the United States, all without leaving their home countries. The same would be the case in other professions.

Foreign professionals should be allowed to freely enter and work in the United States. Current protectionist restrictions that require employers to first attempt to employ U.S. citizens or green card holders and require employers to pay prevailing wages, should be eliminated. This would allow for huge gains from trade in the form of lower costs for health care, college tuition, and many other expenses, thereby raising the real wages and incomes of the vast majority of families. In other words, this would be free trade that leads to a more equal distribution of income. (If physicians in the United States received the same pay as physicians in Europe, this step alone would save \$80 billion a year from the country's health care bill – approximately \$800 per family.)

In order to prevent the problem of “brain drain” from developing countries, there should be some tax/fee assessed against their earnings, which will be repatriated to the country of origin. This fee should be set at a high enough level to allow 2-3 professionals to be trained for every one that works in the United States. (One possible mechanism would be to auction off immigration slots that are not for purposes of family reunification or political refugees. The proceeds from the auction could then be paid out in proportion to the home country of the immigrants.)

2) The Federal Reserve Board

All the members of the Open Market Committee (OMC), which controls the country's money supply and interest rate policy, should be appointed by the president and approved by the Senate. (Currently 12 of the 19 OMC members are appointed through a process that is controlled by the banking community.)

The current law requires the Federal Reserve Board to target 4.0 percent unemployment, which is defined as full employment. In order to create more political pressure to take this target seriously, the Fed should be required to report annually its estimate of the lost output due to the fact that the unemployment rate is above 4.0 percent. It should also have to break down this estimate by demographic groups. For example, unemployment for Hispanics tends to be 50 percent above the overall unemployment rate, while unemployment for African Americans tends to be twice the

overall unemployment rate. The Fed should have to report the cost to these demographic groups that results from the fact that the unemployment rate was above 4.0 percent in a specific year.

In the first decades after World War II, most economists believed that some types of wage-price guidelines could be helpful in constraining inflation (as an alternative to deliberately raising the unemployment rate). There is a considerable body of research that indicates that centralized wage-bargaining in Europe is an effective way to constrain inflation. The U.S. government should support research into methods to constrain inflation that would be alternatives to the Fed's current practice of deliberately throwing millions of people out of work in order to constrain wage growth.

3) Rules for Corporations

Corporate CEOs receive outlandish pay packages because they largely control the process through which their pay is set. The best response is to rewrite the rules of corporate governance to shift more power to shareholders and away from management. There are three easy steps that could accomplish this task:

- 1) Management should not be allowed to count proxy votes that are not cast in shareholder elections. The current practice allows management to count these votes as supporting their position.
- 2) Management should be required to send out the compensation packages for top executives for shareholder approval at regular intervals (e.g., every 3 years).
- 3) Directors should be personally liable to shareholders for failing to use reasonable care in determining the pay packages for top executives.

4) Drug Patents and Copyrights

Patents and copyrights are government-granted monopolies. They raise the price of the protected items by as much as several hundred percent above the free market prices, creating perverse incentives and leading to large economic distortions. While patents and copyrights provide incentives for innovation and creative work, it is possible to design more efficient mechanisms that don't require as much interference with the market.

- 1) The federal government currently spends \$30 billion a year supporting bio-medical research through the National Institutes of Health. If it doubled spending on research to \$60 billion a year, it would be more than enough to fully replace the research spending undertaken by the pharmaceutical industry. (Roughly two-thirds of its \$40 billion in annual research spending goes to developing copycat drugs.)

The additional funding could be paid out to private contractors for extended periods (e.g., 5-10 years). These contractors could either undertake research themselves and/or subcontract with smaller firms and university-based researchers. The rules with this research money are that all results from research supported with this money must be made public as quickly as feasible, and all new

discoveries are patented, subject to copyleft rules,¹ so that new drugs can be immediately produced as generics and sold at competitive market prices.²

The savings in the United States from having all new drugs available at generic prices would be more than \$150 billion a year. The cost of the additional research expenditures would be more than offset from the government's savings under the Medicare prescription drug benefit. In addition, it would be an enormous benefit to developing countries if they could purchase drugs at their free-market prices instead of being forced to pay patent-protected prices or rely on foreign aid, as is the case now.

2) The federal government could set up an analogous structure where it pays for the development of computer software programs. It could contract out with firms to develop new software with all new products being placed in the public domain. This would eliminate unnecessary duplication in software development and also the need to spend billions of dollars on software locks. It would also eliminate the need to have repressive laws to enforce copyrights. The proliferation of open software would also drastically lower the price of computers.³

3) The federal government could fund the writing and editing of college textbooks. This would save college students close to \$12 billion a year and allow faculty the option of freely picking sections from as many textbooks as they like at no cost.⁴ The rules would be similar to the rules for software development and drug research: all materials are placed in the public domain and are freely available to be downloaded and reproduced. As in the other cases, the current patent and copyright rules would be left in place, so anyone choosing to produce work under the existing system would still have that option.

4) In order to finance creative and artistic work (e.g., recorded music, movies, books, newspapers, etc.) the federal government could create a modest individual tax credit, an "Artistic Freedom Voucher" that could be used to support whatever creative worker(s) or intermediary that the individual chooses. A modest individual tax credit (e.g., \$75) could support the creation of a vast amount of work.

The mechanics for such a system would be comparable to the current procedures for institutions qualifying for tax exempt status. In order to be eligible to receive the vouchers, individual creative workers and/or intermediaries would have to register with the IRS, just as charities or religious

¹ Copyleft rules essentially allow anyone to use the patent as long as they do not themselves attempt to claim patent privileges. Anyone using a patent developed through this system to sell a drug as a generic would have no problem. A company that sought to derive a new patented drug based in part on a patent developed under this system would be forced to negotiate terms for use of the first patent.

² See Baker, D. 2004. "Financing Drug Research: What Are the Issues," Washington, D.C.: Center for Economic and Policy Research [http://www.cepr.net/publications/intellectual_property_2004_09.htm].

³ See Baker, D. 2005. "Opening Doors and Smashing Windows: Alternative Measures for Funding Software Development," Washington, D.C.: Center for Economic and Policy Research [http://www.cepr.net/publications/windows_2005_10.pdf].

⁴ See Baker, D. 2005. "Are Copyrights a Textbook Scam: Alternatives for Financing Textbook Production in the 21st Century," Washington, D.C.: Center for Economic and Policy Research [http://www.cepr.net/publications/textbook_2005_09.pdf].

organizations do presently to receive tax exempt status. All the work produced by individuals registered under this system would be in the public domain.⁵

5) Bankruptcy Laws

In a free market, businesses that make bad decisions on extending credit must suffer the consequences of their actions. They should not be allowed to use the government as their debt collector.

- 1) People who have accumulated unpayable debts should be allowed to eliminate this debt burden after some reasonable period of time.
- 2) There should be no special shielding of assets for homeowners. This stands against the current practice in Texas, Florida, and Kansas where rich people can shelter millions of dollars in equity in their home. It is not the government's business whether an individual prefers to own or rent. If a debtor has substantial equity in a home, then this should be subject to collection just as if a debtor had a large amount of money in a bank account. (It is reasonable to allow the debtor to continue to live in a home and pay the debt [plus interest] when the home is sold.)
- 3) The IMF has acted as an international debt collector for major lenders. These large banks should learn to use better judgment in lending money to the developing world and not rely on an international governmental agency to bail them out.

6) Torts and Takings

In a free market, individuals have the right to go to court to get compensation from individuals and corporations that have damaged them. Intelligent property owners know that some government actions increase the value of the property and some will decrease the value. They don't have to write a check to the government in the former case, they should not expect the government to write them a check in the latter case.

- 1) There should be no restrictions on contracts that plaintiffs can sign with lawyers, except on disclosure rules (e.g., no restrictions on the size of contingency fees that might prevent some individuals from being able to hire lawyers).
- 2) Punitive damages should be allowed in cases of extraordinary negligence, with most of the benefits going to the government. Individuals that pursue such cases are performing a public service and should be encouraged to do so.
- 3) The government should only be required to pay compensation in the case of taking where the taking is near total (for example, when it sets up a hazardous waste drop adjacent to a residential property).

⁵ See Baker, D. 2005. "The Artistic Freedom Voucher: The Internet Age Alternative to Copyright," Washington, D.C.: Center for Economic and Policy Research [http://www.cepr.net/publications/ip_2003_11.pdf].

7) Small Business

It is very difficult for small businesses to survive in the modern economy. As a matter of public policy, the government may opt to promote small businesses at the expense of larger, more established businesses, but this is *not* a free market policy.

A) There should be a clear rationale for any form of special treatment for small businesses (e.g., the government should not relax safety standards for small coal mine owners, as it has done in recent years – although the public has no interest in having miners working in unsafe mines).

B) Small business subsidies should not subsidize the personal consumption of small business owners. (For example, the accelerated depreciation allowed on investment effectively meant that the government was picking up one-third of the cost of SUVs that hundreds of thousands of small business owners bought primarily for personal use.)

C) Small business owners should be notified of the cost to taxpayers of their special treatments, such as the cost to the federal government of making loans available at below market interest rates or the added cost associated with issuing contracts on special set asides for small businesses. One program for small businesses that was designed to help in the recovery from Hurricane Katrina provided loans of up to \$1.5 million for 30 years, at an interest rate that was at least 4 percentage points below the market interest rate. This implies a subsidy of more than \$60,000 a year (more than 10 times the average cash grant to a family receiving TANF).

8) Taxes

Unpaid taxes are as much a burden to law-abiding taxpayers as any spending item. People who withhold taxes they owe are stealing from the government in the same way as someone who falsely files for TANF benefits, except the sums are likely much larger. The IRS estimated that in 2001, more than \$340 billion in taxes went unpaid, an amount that is roughly equal to 20 times federal spending on TANF in that year.

1) Tax collections should be serious (the IRS must get tough with people who lie and cheat) and it should focus on the people who owe the most money. Only 1 in 20 people who earn more than \$1 million a year get audited. By contrast, 1 in 5 people who file for the earned income tax credit (EITC) has their returns reviewed. The most that anyone can cheat the government out of on the EITC is \$4,500 a year.

2) Taxes should be applied as equally as possible. This means:

- a) People who shop at Wal-Mart should not have to subsidize people who shop on the Internet. The sales tax should apply equally to all retail outlets.
- b) People should not have to pay high taxes when they gamble in Las Vegas or on state lotteries, but not when they gamble on Wall Street. A very modest tax on financial transactions, like that in place on the London exchange, could raise tens of billions annually and have almost no impact on long-term investors.

9) Businesses Should Have to Compete With the Government

The American public wants services provided in the most efficient way possible. In some cases, a centralized system will be more efficient than a decentralized system. In such circumstances, there is no reason that the government should not seek to provide the service.

1) The federal government should offer universal voluntary defined-contribution and defined-benefit pension systems to which any worker can contribute regardless of where they are employed. This can offer enormous savings on administrative fees compared to existing systems. Also, only the federal government is in a position to provide a guaranteed benefit (smoothing out years of good and bad returns) on a defined-benefit pension. In this way, such a voluntary system can hugely increase workers' retirement security at no cost to the government.

2) The federal government should allow any employer or individual to buy into the Medicare program by paying an actuarially fair premium. (For example, an employer may have to pay \$2,000 a year in premiums for a worker in their twenties and \$4,000 a year for a worker in their fifties). This would allow the public to benefit from the much lower administrative costs that Medicare incurs (approximately 2 percent of payouts for Medicare, more than 15 percent for private insurers). The public could also benefit from price reductions that Medicare can demand from suppliers because of its size.

3) Local and regional governments should, if possible, provide wireless broadband for their residents. It is almost certainly much cheaper to contract with a single provider to supply this service than to have many different services establishing duplicate networks over the same space.

10) Stop Using the Right's Rhetoric!

Stop saying that conservatives want the market and that progressives want the government. We all need both the market and the government. Conservatives want the government to distribute income upward. Progressives want the government to benefit the vast majority of the people.