

Stimuli for the GOP

The Washington Times MAY 3, 2006

Compassionate conservatism of grand old particulars

By Irwin Stelzer

“We are the party of ideas,” says President Bush. So here are some that his refurbished team might think about.

Start with tax policy. Mr. Bush was right in 2000 to cut taxes so as to prevent a major recession. But the economy hardly any longer needs an economic stimulus, corporations are awash in cash and high earners seem to have sufficient incentive to take financial risks.

Meanwhile, the middle class is not sharing as fully in our phenomenal economic growth as the American Dream requires. Data suggest that inequality is increasing and economic and social mobility are decreasing as globalization transfers income from producers to consumers.

Still, no market-oriented conservative would consider stemming the globalization tide. But it would not be too soon for conservatives to ask themselves whether now is not the time to address our fiscal deficit. It is an economic stimulus we do not now need, and is eating into borrowing capacity that we should reserve for the inevitable next downturn.

And for the compassionate among us it is time to ask whether the tax system might be re-examined with a view toward tipping it a bit more in favor of those

who have not shared fully in our increasing affluence, perhaps by shifting the revenue burden to income taxes from regressive payroll taxes.

And with gasoline prices soaring, now is the time conservatives should be asking whether our energy policy makes any sense. Instead of subsidizing chosen technologies, or demanding investigations of the oil industry, conservatives should remember that the price system works, and that higher prices are not always a bad thing: They cut consumption and encourage the development of new technologies.

So conservatives concerned with reducing the flow of funds to terrorist-supporting oil-producing nations, with the ability of our economy to continue growing, and with the need to develop market-oriented environmental policies, should be clamoring for a tax on oil consumption. Better the money should flow to our treasury than to the House of Saud, Hugo Chavez and Vladimir Putin.

The revenues generated could be offset by reductions in the regressive, job-destroying payroll tax. “Tax dangerous oil use, not wealth-creating jobs” just might have some electoral appeal.

The next area of economic policy that compassionate conservatives might rethink relates to

trade. Free trade remains a conservative principle. But compassion requires that we pay more attention to ameliorating the plight of those adversely affected, especially those who have invested capital or their working lives in companies that changing circumstances make uncompetitive with overseas rivals. Think of this as no-fault insurance, and a policy approved by none other than Adam Smith.

The Great Scot also famously touted the social (let’s call it compassionate) and economic (let’s call it conservative) virtues of open, competitive markets. So conservatives should be devising ways to strengthen the force of the “perennial gale of creative destruction,” to borrow from the great economist, Joseph Schumpeter. That gale forces firms to innovate or die, and to offer products that combine high quality and low prices in a combination that consumers find attractive. America’s future lies with firms not now in existence producing goods and services we cannot now imagine, which means that incumbents cannot be allowed to bar the entry of thrusting newcomers.

Yes, we want efficient firms to succeed, even if that success puts them in a dominant position. But no, we do not want such a firm to use muscle rather than superior

efficiency to maintain its lead, or to employ predatory or anticompetitive tactics to leverage its well-earned position. Yes, we want firms to become dominant if they have the proverbial better mousetrap; but, no, we don’t want to let them use that dominant position to control the market for cheese, which other firms can provide more efficiently.

Allow monopoly to flourish, and government regulation will necessarily follow — not exactly a conservative prescription for a successful economy. Worse still, new entry and social mobility, key elements of the American Dream, will be reduced, and the pace of innovation and productivity growth slowed.

Finally, there is immigration policy. Compassion dictates welcoming newcomers; conservatism dictates controlling our borders; good sense suggests that we can do both by, yes, building a wall, and by providing a path to regularization of the status of illegals.

There’s more, but you get the idea: Compassionate conservatives have to forget the triumphs of 2000 and 2004, and ask how to apply their principles in a much-changed world.

Irwin Stelzer is a scholar at the Hudson Institute and a contributing editor at the Weekly Standard, which published a longer version of this article.

