

Repeat After Me

By N. GREGORY MANKIW

The Wall Street Journal, January 3, 2006

CAMBRIDGE, Mass. -- Now is a time when most of us sit back and reflect on the past year and on how to do better in the year ahead. Since I know, however, that economic policy makers inside the Beltway are often too busy for such introspection, my gift to them is a list of seven New Year's resolutions. Any senator, congressman or presidential wannabe is free to adopt them as his or her own. Just repeat after me:

- #1: This year I will be straight about the budget mess. I know that the federal budget is on an unsustainable path. I know that when the baby-boom generation retires and becomes eligible for Social Security and Medicare, all hell is going to break loose. I know that the choices aren't pretty -- either large cuts in promised benefits or taxes vastly higher than anything ever experienced in U.S. history. I am going to admit these facts to the American people, and I am going to say which choice I favor.
- #2: This year I will be unequivocal in my support of free trade. I am going to stop bashing the Chinese for offering bargains to American consumers. I am going to ask the Bush administration to revoke the textile quotas so Americans will find it easier to clothe their families. I am going to vote to repeal the antidumping laws, which only protect powerful domestic industries from foreign competition. I am going to admit that unilateral disarmament in the trade wars would make the U.S. a richer nation.
- #3: This year I will ask farmers to accept the free market. While I believe the government should provide a safety net for the truly needy, taxpayers shouldn't have to finance handouts to farmers, many of whom are wealthy. Farmers should meet the market test as much as anyone else. I will vote to repeal all federal subsidies to growers of corn, wheat, cotton, soybeans and rice. I will vote to allow unrestricted import of sugar. (See resolution no. 2.) I will tell Americans that eliminating our farm subsidies should not be a "concession" made in trade negotiations but a policy change that we affirmatively embrace.
- #4: This year I will admit that there are some good taxes. Everyone hates taxes, but the government needs to fund its operations, and some taxes can actually do some good in the process. I will tell the American people that a higher tax on gasoline is better at encouraging conservation than are heavy-handed CAFE regulations. It would not only encourage people to buy more fuel-efficient cars, but it would encourage them to drive less, such as by living closer to where they work. I will tell people that tolls are a good way to reduce traffic congestion -- and with new technologies they are getting easier to collect. I will advocate a carbon tax as the best way to control global warming. Because we may well need to raise more revenue (see resolution no. 1), I'll always be on the lookout for these good taxes.
- #5: This year I will not be tempted to bash the Fed. Ben Bernanke, soon to be the new chairman of the Federal Reserve, will not inherit Alan Greenspan's halo, and so may be a tempting target. But I will resist temptation. I know that the U.S. has an independent central bank for good reason. I know that sometimes the Fed needs to raise interest rates

to fight inflation, even if it risks slowing growth in incomes and employment. I will let Mr. Bernanke and his colleagues do their job. Difficult as it is, I will hold my tongue.

- #6: This year I will vote to eliminate the penny. The purpose of the monetary system is to facilitate exchange, but I have to acknowledge that the penny no longer serves that purpose. When people start leaving a monetary unit at the cash register for the next customer, the unit is too small to be useful. I know that some people will be upset when their favorite aphorisms become anachronistic, but a nickel saved is also a nickel earned.

- #7: This year I will be modest about what government can do. I know that economic prosperity comes not from government programs but from entrepreneurial inspiration. Adam Smith was right when he said, "Little else is required to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice." As a government official, I am not going to promise more than I can deliver. I am going to focus my attention on these three goals -- peace, easy taxes, and a tolerable administration of justice -- and I am going to trust the creativity of the American people to do the rest.

Mr. Mankiw, a professor at Harvard, is a former chairman of President Bush's Council of Economic Advisers.