

The Real Economic Choice

There is a basic difference between the economic philosophies of John McCain and Barack Obama.

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Underneath the rhetoric and 10-point economic plans advanced by John McCain and Barack Obama lie two fundamentally different philosophies. It's not, as John McCain puts it, a choice between a tax-raiser and a tax-cutter. Nor is it simply a matter of whose plan is more fiscally responsible (although McCain's blows the roof off of the budget deficit). What's really at stake is a choice between two basic ideas of how economies work and how prosperity is created. McCain's theory can best be described as top-down economics. Obama's is bottom-up.

Much of the last 30 years has been a long experiment with top-down economics. It originated with Ronald Reagan's supply-side tax cuts and met its full flowering in George W. Bush's reflexive insistence that tax cuts were the answer to any question. McCain's latest version holds that:

- Tax breaks will give wealthy people incentive to work harder and invest more. Their harder work and added investments will generate more jobs and faster economic growth, to the benefit of average working people.
- Tax breaks for corporations, along with reduced payroll costs and fewer regulations, will enable them to compete more successfully in global commerce. This, too, will result in more jobs for Americans and faster economic growth in the United States.
- The best way to reduce the energy costs of average Americans is to give oil companies access to more land on which to drill and to lower their taxes and capital costs. If this happens, they'll supply more oil, reducing oil prices.
- The best way to deal with the crisis in credit markets is to insure large investment banks against losses from sub-prime mortgages, in order to maintain liquidity, but not to protect individuals in danger of losing their homes.

All of these propositions are questionable in a global economy. Rich individuals do not necessarily invest in the United States; they invest wherever around the world they can get the highest returns. American-based corporations are doing business all over the world; their supply chains extend to wherever they can find low labor costs combined with high output. They sell wherever they can find willing buyers.

Oil companies, too, operate globally and set prices at the point where global supply meets global demand. Additional drilling here creates environmental risks for us but generates the same marginal benefits for consumers in China, India, and Europe as it does for us. Credit markets are global as well, so the beneficiaries of bailouts of large investment

banks are also worldwide while the potential costs and the moral hazard fall on American taxpayers.

This isn't to argue that top-down economics is completely nonsensical. America is, after all, the world's largest economy. So whatever helps the top of it will to some extent trickle down to everyone else here.

But in a global economy, bottom-up economics just makes more sense. Bill Clinton briefly tried aspects of it, but at the insistence of Alan Greenspan, largely gave it up. Barack Obama's economic approach embodies it completely. His new version holds that:

- The growth of the American economy depends on the productivity of our workers. They are rooted here, while global capital and large American-based global corporations are not.
- The productivity of American workers depends mainly on their education, their health, and the infrastructure that connects them together. These public investments are therefore critical to our future prosperity.
- Global capital will come to the United States to create good jobs not because our taxes or wages or regulatory costs are low—there will always be many places around the world where taxes, wages, and regulatory costs are lower—but because the productivity of our workers is high.
- The answer to our energy costs is found in the creativity and inventiveness of Americans in generating non-oil and non-carbon fuels and new means of energy conservation, rather than in global oil companies accessing more oil. That calls on us to subsidize basic research and development in energy alternatives.
- To avoid a recession or worse, our priority should be improving the financial security of average Americans who are now sinking into a quagmire of debt and foreclosure. Otherwise, there won't be adequate demand to absorb all the goods and services the economy produces. The financial institutions that did the lending and knew the risks involved should bear the responsibility for the crisis, not the borrowers.

If the last 30 years offer any lesson, it's that top-down economics is a cruel hoax. As a result of top-down, a majority of Americans now find themselves with lower real wages and less health and pension protection than they did three decades ago, inequality is wider than it has been in 80 years, and the American economy is going down the tubes. Isn't it time we tried bottom-up?

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