The Democrats: Better for Business

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Every indication is that business is strongly supporting Vice President Bush. While not unusual by historical standards, this is ironic in 1988, since Vice President Bush's economic views are out of step with those in the business community.

While the vice president thinks that we are on the right course, with little need for adjustment, we suspect that much of the business community believes the challenge of international competition is not being met. To compete more effectively in the future, business needs the following from the next administration: 1) reduced budget deficits and appropriate budget priorities, 2) more successful trade policies, and 3) constructive—rather than destructive—regulatory policies. On all three counts, it would be better off with Michael Dukakis and Lloyd Bentsen.

Budget Policies. Two weeks ago, at the latest meeting of the Business Council, the vast majority of the CEOs of the nation's largest companies agreed that the budget deficit was public enemy number one. They see that continuing to allow federal deficits to soak up two-thirds of the economy's private savings risks major financial disruption in the short run, and gradual American decline in the long run. They recognize that now, with a new president coming into office, the economy growing rapidly, and export demand expanding, is the ideal time for deficit reduction. Unfortunately, there is little basis for expecting a Bush administration to make progress on the budget.

Candidate Bush's flexible-freeze plan does not indicate a single specific spending program that will be cut back, but simply promises overall spending reductions. Even Ronald Reagan with his two massive electoral mandates was not very successful in curtailing federal spending. In fact, federal spending relative to gross national product was higher in each of the past seven years than in any peacetime year in the nation's history. While the vice president blames all of this on Congress and vows to get tough, the indictment does not really stick. While Congress has differed with the president on the mix between domestic and defense spending, it has added less than 2% to overall administration spending requests over the past seven years. Even if Congress had enacted all of the administration's budgets, we still would have accumulated well over $1 trillion in debt.

The flexible freeze notwithstanding, the vice president calls for new spending programs that will cost close to $10 billion, and for eight new tax breaks that non-partisan experts estimate will cost the Treasury more than $20 billion a year. More ominously, the vice president has done everything possible during the campaign to reduce his flexibility following the election by repudiating the National Economic Commission before it has even made recommendations, opposing efforts to collect taxes that are illegally evaded and absolutely ruling out new taxes.

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In contrast, Gov. Dukakis has identified some specific steps he would take to reduce the deficit, including cuts in agricultural subsidies and funding for Star Wars deployment, and serious efforts to collect taxes that are owed but not paid. He also has avoided any proposals for major new tax incentives, and has been very careful about new spending commitments.

On issues like child care, infrastructure investment and health care, he has spoken of the need to make a start, but stressed that initial funds will be very limited given the magnitude of the federal deficit. His promises on new spending are far smaller than the vice president's proposed new tax expenditures and outlays. Gov. Dukakis has maintained the flexibility a president needs by treating tax increases as a last resort rather than absolutely ruling them out, and by recognizing the potentially constructive role of the National Economic Commission.

Despite Republican distortions to the contrary, the governor's Massachusetts record makes clear that he is not a big spender. As the state's human-service advocates can attest, he has been frugal in spending the public's money, signing five tax reductions into law in the past six years. Massachusetts now ranks 35th of the 50 states in terms of the share of personal income taken by government, and was rated by the Washington-based Corporation for Enterprise Development, a privately funded center for studying economic growth in the states, as having one of the best business climates in the nation. With government as a constructive force, per-capita incomes have increased more rapidly in Massachusetts than in any other state over the past five years.

Trade Policies. Few business leaders believe that our massive trade deficits and foreign borrowing are sustainable. The roots lie in the Reagan-Bush administration's confusion between a strong dollar and a strong nation. The wild exchange-rate gyrations of the early 1980s ravaged the U.S. manufacturing sector and called forth pressures that doubled the share of imports subject to protection. It's hard to see how the Democrats could do worse.

While the vice president has praised the status quo and labeled our trading relationship with Japan superb, Gov. Dukakis has called for new approaches. Rather than continue the minimalist efforts of the past eight years, a Dukakis administration would take a comprehensive approach to opening foreign markets for U.S. producers. U.S. negotiators would not short-change American business by focusing on the sale of aluminum baseball bats to Japan, when Japanese telecommunications equipment was flooding our market. And a President Dukakis would not have sacrificed U.S. trade interests in return for diplomatic concessions from Prime Minister Nakasone on Star Wars, as the Reagan-Bush administration did in 1983.

Government Regulation. Neither political party has a monopoly on regulatory failure. True, there were excessive burdens placed on business by some of the regulatory policies of the Carter administration. But one wonders how they stack up in terms of cost with the bill of $50 billion or more that the federal treasury and the American public face for the total regulatory neglect of the thrift crisis during the past eight years. Those who worry about the adverse effect of regulation on investment should pay more attention to the effect on investment of the huge debt burdens and slavish attention to quarterly earnings that have become necessary as the hostile takeover market has been thrown wide open during the 1980s.

Gov. Dukakis's proposal to mandate (with some exceptions) that employers provide their workers with health insurance is one regulatory policy that would help most businesses. The overwhelming majority of employees work for companies that already provide health insurance to their workers. Far from a new health program acting like a new tax on these companies, it would actually benefit them. Official estimates suggest that employers who do not provide insurance impose a $15 billion annual cost on the rest of the system, because of the health care their workers receive but can't pay for. This adds up to almost $200 per insured worker. Eliminating this cost will help most businesses compete more effectively.

These policy arguments are supplemented by an overall lesson of experience—Democratic administrations are better for business. In part because every postwar Republican administration with the exception of Ronald Reagan's second term has begun with a recession, after-tax corporate profits in the postwar period have averaged 5.9% of capital under Democratic administrations, compared with 4.6% under Republican administrations. Results are more important than rhetoric. Businesses with an interest in profiting from balanced budgets, pro-competitive international policies, and constructive regulatory policies should support the Democratic ticket this fall.