Clinton's Funny-Number Factory

by Edward McFadden

In the Fall 1991 issue of the *American Prospect*, Democratic pollster Stanley Greenberg laid out what his party must to do to regain the White House. For twelve years, Greenberg wrote, the Republicans had run against the Carter presidency, "a period that embodies what was bad about Democrats and this country—weakness before our enemies, things out of control, bad economic times for average Americans." The goal for the Democrats in 1992 was to redefine the past decade: "Democrats need . . . to create an imagery of Reagan-Bush America that supersedes the Carter years and impeaches the credibility of conservative governance for middle America."

As it happens, top Democrats were already hard at work, using a sophisticated research squad fully financed by the American taxpayer. Set up in 1974, in the wake of Watergate, it is called the Congressional Budget Office. In 1987, unable to run against the economic success of the Reagan years, Democratic leaders had decided to throw "fairness" at Republican proposals. Senate Majority Leader George Mitchell asked the CBO to generate the requisite family income statistics, quietly informing allies in the CBO (according to Senate sources) that he wanted the information to reflect as badly as possible on Reaganomics. Today, thanks in large part to CBO-generated numbers, every Democrat from Bill Clinton, Al Gore, George Mitchell, and Richard Gephardt on down claims that the 1980s saw the rich get richer, the poor get poorer, and the middle class get screwed.

CBO Director Robert Reischauer oversees a staff of more than 200 and a budget of $23 million. CBO statistics and analyses are officially incorporated in just about every bill dealing with taxes, revenue expenditures, and economic plans, and the agency's influence has grown since the 1990 budget agreement, because new proposals that affect the budget deficit must now be cleared by the CBO before coming to a Senate or House vote.

The CBO director is selected and appointed by the Democratic leadership in Congress. Republicans are informed but not consulted, and there is no formal confirmation procedure. Democratic control of the CBO is such that no one in the know was surprised when the Democratic National Committee selected a former CBO staffer, Dan Carol, to direct its opposition research team for the 1992 campaign. MIT economist and top Clinton adviser Paul Krugman has used faulty CBO statistics proficiently in the past to beat Republican economic policies about the head and shoulders. Krugman could well be named Clinton's chairman of the Council of Economic Advisors. Clinton is also backed by the unions funding the Center for Tax Justice, which uses CBO statistics to support its radical policy recommendations.

Rep. Dick Armey (R-Texas), who holds a Ph.D. in economics, has been waging war on the CBO for the past four years. He regularly skewers inaccurate or false CBO research and has been so successful at it that the agency no longer allows its family income data and numerical tables to be published in the Ways and Means Committee Green Book—which guides legislation on such issues as taxation, health care, education, and welfare. Secrecy is central to the CBO's operations. CBO methodologies are not available for viewing even to economists such as Armey or Sen. Phil Gramm (R-Texas), or to tax staffers on committees.

CBO obfuscation has damaged its credibility within Ways and Means. Privately, committee staffers say CBO reports and statistics are no longer considered valid or accurate. But using bad numbers to perpetuate bad policy apparently works well for Democrats. We'll see just how well in November.

The CBO's funny numbers have become the cornerstone of Bill Clinton's economic policies. "While the rich cashed in," Clinton writes, "the forgotten middle class—the people who work hard and play by the rules—took it on the chin." To buttress his statement, Clinton cites an often-quoted CBO statistic to claim that the richest 1 percent of American families received 70 percent of the income gains during the Reagan and Bush administrations. He neglects to show what even the CBO data show—that the richest 1 per-

Edward McFadden is a reporter in Washington, D.C.

cent received *100 percent* of the gains during the Carter years. In other words, everybody else lost money.

When evaluating the Reagan-Bush years, the CBO often starts its analysis in 1977—four years before any Reagan economic policies could possibly have been implemented. It takes information from the Census Bureau and the Internal Revenue Service and attempts to make forward projections from the hard data. It misdefines "the family" and neglects such factors as inflation on capital income and income mobility. These methods allow the CBO to concoct the numbers the Democrats need for their class warfare.

A favorite CBO trick is to provide the Ways and Means Committee and other Democratic-controlled entities with income data that exaggerate the gains of the rich and depress those of the poor. In ranking families by income quintile, the CBO lists single persons as "families"—including graduate students on financial aid, and independent singles working part-time. It ignores most capital gains for those in the lower three-fifths of the spectrum. A home that appreciates in value is not factored in, nor are the capital gains on $3 trillion in pension funds. And, astonishingly, the CBO does not remove inflation when calculating (real inflation–adjusted) capital gains. For example, the net real gain on an investment purchased in 1977 and sold in 1991 would be exaggerated by the failure to remove inflation. But CBO includes these figures anyway in what it calls "inflation-adjusted income."

The result is an economic picture that even the CBO now admits is incomplete. In a letter to Armey, Reischauer acknowledged that taking inflation into account would allow a very different picture of the U.S. tax structure to emerge. "If the inflationary component could be [taken into account], the incomes of those near the top of the distribution would be reduced relatively more than the incomes of those in the middle and bottom of the distribution. In a given year, the distribution of the tax burden would then be seen to fall more heavily on upper-income groups than is depicted by the currently available analysis."

In the past, the agency has said it cannot get the type of information it would require to fill the voids. Armey is unimpressed. "The CBO," he says, "takes different sets of data, erroneous data, incomplete sets of data, rolls them all together, and tries to pass it off—without even a footnote of explanation—as a complete picture. What CBO is doing is perpetrating academic fraud on the American taxpayer."

The fraud is costly:

- In 1990, several congressmen pressed for changes in the acreage quota for peanut farmers which would have opened the market to smaller growers. Looking to kill the amendment, Charlie Rose (D-N.C.), a subcommittee chairman on the House Agricultural Committee, called the CBO. By the time the bill reached the House floor, Rose was able to provide the House parliamentarian with a budget-effect figure that showed the amendment would break the budget agreement. To this day the CBO cannot explain where that number came from.
- The CBO routinely withholds negative information at the request of committee chairmen. A March 1988 analysis of a minimum wage bill backed by Gus Hawkins (D-Ill.) showed that the bill would cost between 250,000 and 500,000 jobs. Hawkins refused to accept the report—so a new one was released with the job-loss data removed.
- At the behest of Senate Finance Committee chairman Lloyd Bentsen (D-Texas), CBO undertook an analysis of the effects of Senator Daniel Patrick Moynihan's well-known bill to cut the federal payroll tax. Bentsen, looking to sink the bill, directed the CBO to withhold the study until just before the vote. His machinations worked, and thanks to CBO's assistance American workers continue to pay out several hundred dollars' worth of additional nondeductible Social Security tax a year.
- When CBO estimated costs for portions of the catastrophic care bill passed in 1989, one estimate showed that costs for some hospital programs could run as much as $5 billion. A year later, CBO released figures showing its estimates were off by as much as 100 percent.

The CBO's most serious misrepresentation came with the 1989 tax bill. The office overestimated annual capital gains income by more than $134 billion, leading to an $804 billion error for tax years 1990-95. At the time, a capital gains tax cut amendment was gaining wide bipartisan support. To kill it, Democratic leaders first released flawed CBO data based on the wildly erroneous claim that capital gains for 1990 would be about $254 billion. IRS data for 1990 showed capital gains income was in fact only $120 billion. CBO's methodology for scoring capital gains had created a 112 percent error, which allowed the Democrats to use a non-existent $134 billion to make the capital gains tax cut look like an unfair windfall for the wealthy.

By dooming the amendment, the CBO's numbers ultimately led to the infamous 1990 budget summit, and increased the deficit by about $30 billion, since Congress had—of course—already spent the anticipated tax income. CBO staff has excused its failure to notify Congress of its $134 billion capital gains mistake by making the absurd argument that revenue estimation wouldn't have been affected significantly by a 112 percent error in the tax base. But what is most shocking is that, while its numbers contributed billions of dollars to the deficit and pushed a weakened economy closer to the brink, the CBO never informed Congress about the error used to score its members' legislation in 1989 and 1990. Only because Armey exposed the error has any of the information been placed in the public arena.

How could the CBO have made such a serious error? Gary Robbins, a former Treasury official who currently runs the economic forecasting service Fiscal Associates, has used his own methodology to make accurate projections of capital gains and other tax revenue, as well as deficits, for the past four years. Robbins says that because the CBO formula for estimating revenue is static, it can never arrive at an accurate revenue or deficit projection. "The CBO assumes that there is never any change in the value of an investment. It never assumes that a family can move from one income level to another. It simply assumes that everything remains the same," says Robbins. "It would be relatively easy for them to create the kind of dynamic forecasting system that we and others use. They simply don't want to. It isn't in their interest."

Even when the CBO gets the numbers right, it uses crooked means to warp distributional statistics. In a 1992 memorandum sent to Joint Tax Com-mittee staff, the CBO in fact acknowledged that a lower capital gains tax would lead to higher tax payments, offsetting a large part of any revenue losses. But when measuring the effects of capital gains tax cuts, the CBO chose to ignore the "revenue feedback"—the additional tax payments induced by lower tax rates. Clearly if one overstates the revenue loss by exaggerating the tax base by 112 percent, and then ignores tax payments generated by the lower tax rate, it's not too difficult to make a capital gains tax cut look grievously unfair.

The distortion is routine. As late as 1984, CBO was claiming and reporting to Congress and telling the press that the average tax payments of high-income taxpayers had fallen since the 1981 Reagan cuts—despite the fact that the CBO had IRS data showing the exact opposite: we now know that the effect of the Reagan tax cuts was to increase the payments from high-income taxpayers.

Through the Census Bureau and the IRS, better working models can be developed. People like Robbins do it every day; why can't the one agency required to provide accurate data for the budget?

What has gone unexplained is why Republicans and the Bush Administration do not fight back more vociferously against the continual misrepresentation of the economic data—why officials like OMB director Richard Darman and Treasury Secretary Nicholas Brady refused to defend Bush economic proposals, many of them based on capital gains cuts.

Dick Armey, for one, says he will continue his campaign to bring the CBO under some form of accountability. Between 1987 and 1990, he says, Democrats and their CBO minions released so much inaccurate information and data that it sapped Republicans' will to combat it.

Meanwhile, the damage grows. "Every time we turned around," says one Senate tax staffer, "another story using CBO data was being published in the *New York Times* or *Washington Post*, saying the rich got richer and the poor got poorer. When people are reading stories based on 'official government data,' how do you fight that?" ❐

American Spectators . . . more than observers.

Rush H. Limbaugh III
Herbert Stein
Michael Barone
George Gilder
Michael Novak
John F. Snodgrass
Herbert London
Erwin A. Glikes
Thomas J. Bray
James Q. Wilson
Leonard Garment
Lloyd H. Smith
William R. Fitz
Joseph Areddy
Roland M. DuLuart
Tom Wolfe

Mike Valentine, entrepreneur, electronics engineer and Fourth Amendment enthusiast, who wants to know when he's under traffic-radar surveillance. His newest invention, the Valentine One® Radar Locator, goes beyond simple radar detection by showing the radar's location too. Its performance just won *Car and Driver*'s highest rating.

Timothy J. Wheeler
William F. Buckley, Jr.
Ernest van den Haag
Kenneth Tomlinson
Russel J. Van Coevering
Mr. and Mrs. James A. Abele
William Coberly, Jr.
Col. Harry G. Summers, Jr.
Jim Gidwitz
Morton Blackwell
David Stockman
Countess Vivi Crespi
William C. Dennis
Laurence Snelling
Owen Harries
Fred L. Smith, Jr.
Hon. Robert W. Kasten, Jr.
Alan Abelson
Sen. Daniel Patrick Moynihan
Joshua Muravchik
Eugene Methvin
Howard Rich
Daniel Pipes

THE AMERICAN SPECTATOR ® **thinks *you* can be one of us. The few, the proud . . . the literate. To subscribe, call us at 800-783-6707 (business hours, eastern time) and we will send you twelve issues for only $35.**

William Regnery
Paul McCracken
Hon. William E. Simon
Dixy Lee Ray
Hugh Kenner
Joel M. Stern
Stuart C. Irby, Jr.
T. Boone Pickens
Jude Wanniski
Edward Noble
J. Peter Grace
Walter E. Williams
Gertrude Himmelfarb
John Naisbitt
Adam Myerson
William F. Harvey
Hon. Richard M. Nixon

Yes, Minister

by David Brooks

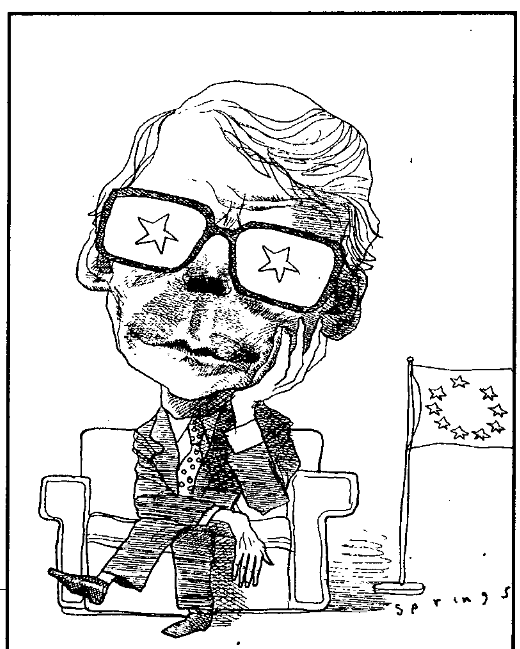
British prime minister John Major's victory over Labour challenger Neil Kinnock was a stunning upset, and shocked nearly all observers except Major himself. Yet, when victory was sure, and Major emerged from 10 Downing Street to greet his delirious supporters, he could do no better than drone on about the virtues of a national health service.

Is there anything that arouses emotion in him? Major built his career in banking, and strikes the casual observer as one who is happy only when working through a mountain of paperwork. Yet in the House of Commons years back, when he was chancellor of the exchequer and *She* was prime minister, he could occasionally be seen during debates with head tilted back and a beatific smile on his face. It was the smile of a man who, after a hard climb up the ladder, discovers that . . . yes, it really is fun to have power. John Major, who dropped out of high school and failed the exam to become a bus conductor, is an establishmentarian, and a happy one.

Major entered the Commons in 1979, the year Margaret Thatcher became prime minister, along with a distinguished crop of young MPs. Its most promising members—mostly Oxbridge graduates who had known each other since school days—formed a dining club called the Blue Chips, so named because each of them was a potential prime minister. John Major was not asked to join. Among the group's leaders were Tristan Garel Jones, now Major's European affairs minister; John Patten, now Major's education minister; William Waldegrave, who oversees Major's pet project, the Social Charter; and Chris Patten, who was made governor of Hong Kong after managing Major's recent campaign.

The Blue Chips were not Thatcherites but "wets," thoroughgoing moderates. They believed in fiscal prudence but disdained Mrs. Thatcher's confrontationalism and her radical streak. Coming from a higher class than she, they saw less of a need to shake things up. (Had Richard Darman been British, he would have been a good Blue Chip.) In the short run, Major's isolation from them served him well: while the Blue Chips waged a wet counterrevolution against Thatcherism, Major was consolidating his position as a junior minister. Only when he had made something of himself, in 1985, was he admitted to the Blue Chips.

Now he surrounds himself with Blue Chips and embodies many of their habits. In important ways he is their superior: he shares none of their superciliousness and is allergic to snobbery. But Major is an establishment conservative to the core, one who believes in a government of "the best men." He believes government can perform a wide range of duties if managed well. At the same time, he has no use for intellectuals or for philosophic principles which in today's argot are known as "ideologies."



Yet he is not George Bush, with the attention span of a cartoon character and a domestic policy record all over the map. Major is extraordinarily stubborn, in many ways more unyielding than Mrs. Thatcher was, once he has made up his mind. For example, he seems to be the first British prime minister viscerally to hate inflation. It was only under intense pressure that he gave in and devalued the pound when European currencies went berserk in September.

Major also believes in controlling government spending. To the crucial cost-containment posts in his cabinet he has appointed not Blue Chips but the true Thatcherites who dominate the parliamentary Class of 1983. Members of the hard-line No Turning Back group, these include Michael Portillo, who manages Major's budget; and Peter Lilly, in charge of restraining social security spending. If God loves Britain, Michael Portillo will one day be prime minister.

But Major's lack of true Thatcherite principle is evident. Not too long ago, he was asked by *Time* magazine what he would like to achieve as prime minister, a simple question that should have called forth his highest ideals. This is his complete answer:

David Brooks is deputy editorial page editor at the Wall Street Journal Europe.