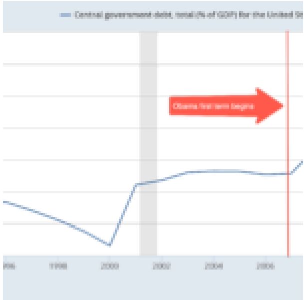


Robert Reich On Tax Cuts

My fraternity brother Al Braden posted a statement by Robert Reich on Facebook. Thanks to Don Clark (another brother) for bringing it to my attention.

> *Don’t you love how these former supply-side conservative economists are now coming out to say they were dead wrong — that the Reagan and Bush tax cuts on the rich DIDN’T spur growth and DIDN’T pay for themselves? And that the Clinton tax increase actually spurred growth? And that Trump is wrong — that his tax cuts on the rich WON’T spur growth?*
>
> *The record is now clear: When Ronald Reagan cut taxes on the wealthy i n 1981, the national debt was 25 percent of the Gross Domestic Product. By the time he left office, it was 40 percent.*
>
> *When Bill Clinton entered office and raised the top personal tax rate in 1993, the national debt was 48 percent of GDP. By the time Clinton left office, it was down to 30 percent of GDP.*
>
> *When George W. Bush cut taxes on the wealthy in 2001 and then again in 2003, the national debt was 35 percent of GDP. By the time Bush left office, it was 48 percent of GDP. And the economy tanked.*
>
> *The national debt is now 77 percent of GDP. If nothing at all happens, and the boomers collect their Social Security and Medicare, it will be 9 1 percent of GDP a decade from now.*

But if the Trump-Republican tax cuts on the wealthy are enacted, it will balloon to at least 100 percent of GDP.

Supply-side, trickle-down economics is and has always been a cruel hoax.

What do you think?

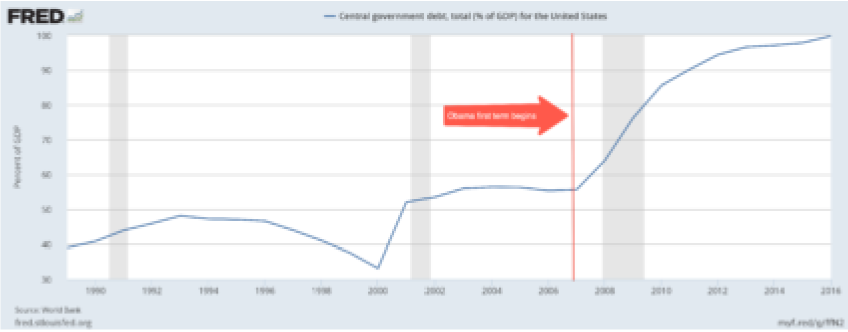
Well, Since He Asked

First, I don't know anyone who meets the descsription in the first paragraph. Certainly no economist. This claim is purely a product of Prof. Reich's incipient dementia.

Second, **there is a small germ of truth in what he says. Economists have known for 60 years that temporary changes in taxes do not affect behavior. Permanent tax changes that affect permanent income and permanent spending will, by contrast, have significant effects.** Sadly, most of the economics profession seems to have forgotten this simple fact. Temporary changes in income will be used to either pay off debt or they will be added to wealth as saving.

Prof. Reich long ago stopped calling himself an economist. The above statement is a nearly perfect illustration of the reason for this decision. **His entire focus is on the government debt. All of a sudden he's worried. WHERE HAS HE BEEN FOR THE LAST EIGHT YEARS?**

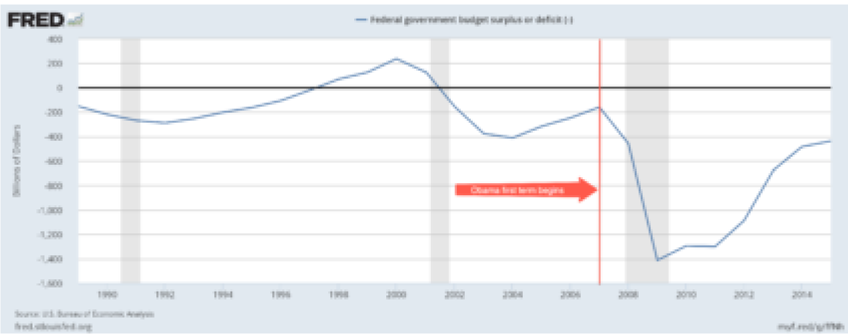
Before going further if you need to review the relationship between the government budget deficit and the government debt, click here.



U.S. Government Debt as a Percentage of GDP (click for larger image)

Under the Obama administration, the U.S. recorded its first annual government budget deficit over $1 trillion. **The debt rose from 55.6% of GDP to 99.8%**, This outcome would not have occurred if that administration had not taken so many anti-growth activities. Remember, **that percentage has GDP in the denominator. The anemic GDP growth during the Obama years is part of the problem.** This **was caused by (a) the tremendous growth of government, (b) the tidal wave of new regulations, and (c) outright crony capitalism disguised as the 2007 "stimulus" package.**

Reich's exclusive focus on the debt to GDP ratio is laughable. **Where was he when the previous administration recorded the largest government budget deficit in history ($1.4 trillion, 2009)?**



US government budget surplus and deficit (click for larger image)

In fact, the smallest deficit of the Obama administration was $160.7 billion in his first year in office, 2007.

What Prof. Reich Doesn't Know

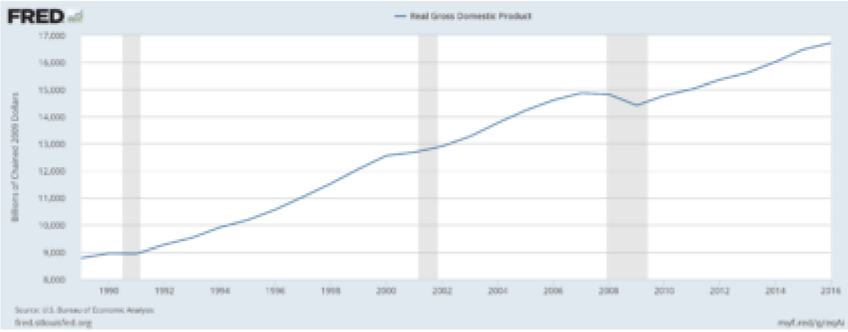
Practically everything. Actual economists can think about more than one variable at a time.

Practically everything. Actual economists can think about more than one variable at a time. We look at:

- the growth of real income and wages (stagnant for the duration of the Obama administration)
- the state of the labor market (not very good with a historically low unemployment rate largely the result of a drastic decrease in the size of the labor force)
- inflation (kept under "control" because demand has been so weak
- business fixed investment collapsed. Net growth since 1996: 0.00%.

Real net foxed investment (click for larger image)

Once again, the highest real investment was in 2007. **By the end of Mr. Obama's second term, investment had rebounded to about the same level it was in 1996. This despite real GDP growing from $10.6 trillion to $16.7 trillion over the same interval.** https://fred.stlouisfed.org/series/GDPCA



U.S. Real GDP (click for larger image)

Conclusion

Reich is an idiot. Years ago he became a shill for progressive politics. Whenever you see him commenting about economic issues you should ignore it. If you must read what he says, you should assume the truth is the opposite of what he says.