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The Biden Economy Is Flush with Self-Inflicted Problems

by Richard W. Rahn

It is depressing to see how government policymakers keep repeating the same mistakes repeatedly, e.g., Afghanistan. The great economist Robert Mundell, known as the father of supply-side economics and the euro, died this past April at age 88. Upon receipt of the Nobel Prize in economics in Stockholm in 1999, in his acceptance lecture titled, "A Reconsideration of the 20th Century," he made the following observation: "The experiment with flexible exchange rates in the 1970s started as a disaster, from the standpoint of economic stability, but nevertheless, it set in motion a learning mechanism that would not have taken place in its absence. The lesson was that inflation, budget deficits, big debts, and big government are all detrimental to public well-being and that the cost of correcting them is so high that no democratic government wants to repeat the experience."

We have just celebrated the 40th anniversary of the Reagan tax cuts on labor and capital, which were part of Bob Mundell's prescription for economic renewal – including reversing the excessive monetary growth that gave us the great inflation of the 1970s. President Carter had appointed Paul Volcker as Fed Chairman in 1979 after his predecessors Arthur F. Burns and the G. William Miller had failed to rein in inflation.

President Reagan, who took office in January 1981, agreed with Mr. Mundell, Art Laffer, Marty Anderson, and his other economic advisors that Mr. Volcker's monetary austerity – which induced a painful but necessary recession - was essential to reduce inflation and reignite economic growth. The tax rate cuts did not kick in until the beginning of 1983, but once they did, the economy took off like a rocket, giving record growth and job creation, with declining inflation.

The experiment was so successful that it was copied by most major countries and many smaller ones, giving rise to a new golden age of global prosperity. As wise as he was, Bob Mundell did not foresee that the lessons of success would be thrown away two decades after giving his Nobel lecture.

The shorthand for the cause of inflation is "too much money chasing too few goods." Not hard to understand – so obviously, the quantity of money needs to be reduced and/or the supply of goods and services increased. During the pandemic shutdown last year, the government mandated a huge decrease in the production of goods and services. At the same time, the Fed was producing new money to enable the government to increase spending to keep nominal incomes from falling for most Americans. The current surge in inflation is no mystery to most people – but most people are not Fed Chairman Jay Powell or Treasury Secretary Janet Yellen, who claim to be surprised by the big increase in inflation.

One of the things I have noticed is how many smart people become dumber when they enter government. For example, Arthur Burns was a distinguished professor of economics at Columbia University, where I was a graduate student. He taught macroeconomics, including the impact of the money supply on inflation. When he became Chairman of the Fed during the Nixon Administration, he seemed to have forgotten what he had taught generations of students. Or was it that reducing monetary growth necessitated increases in interest rates and tightening credit, which President Nixon did not want? Subsequently, President Reagan appointed Burns as Ambassador to West Germany, where he did a fine job, apparently regaining his smarts.

Secretary Yellen supports President Biden's proposal for much higher corporate and personal income tax rates, including the capital gains tax rate. She seems to be totally unaware of the damage that such tax increases will do and unaware of the history of tax rate increases and reductions from the time the income tax was placed in law in 1913. For instance, an excellent study that Treasury Department economists did some years ago found overwhelming empirical and theoretical evidence that the capital gains tax rate is already higher than the revenue and growth maximizing rate. So I am willing to bet that if the capital gains tax rate increases, real (inflation-adjusted) revenue will fall.

Is Secretary Yellen ignorant of relevant economic history, or has she become stupid while in government to keep President Biden and the other know-nothing political operatives in the White House happy? Tens of millions of Americans will suffer due to the excessive spending and taxing that Mr. Mundell and many others warned about. If you know a policy will hurt your fellow citizens but go ahead and support it, what does it say about your character?

Last week, representatives of the Biden Administration tried to pressure Saudi Arabia and some of the other large oil-producing countries to increase production to bring down prices. At the same time, others in the Administration were promulgating regulations that would reduce U.S. oil and gas production (which is less environmentally damaging than most foreign production). Were these actions the result of ignorance, stupidity, or a woke, mean-spirited dislike of U.S. producers?

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