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Growth after the Recession		
Recession Period	**Recovery Period (first 24 quarters from the bottom of the recession)**	**Average Annual Economic Growth Rate (Constant USD)**
Recession July 1981 – November 1982		
	1983 1st quarter – 1988 4th quarter	4.84%
Recession July 1990 – March 1991		
	1991 2nd quarter – 1997 1st quarter	3.40%
Recession March 2001 – November 2001		
	2002 1st quarter – 2007 4th quarter	2.81%
Recession December 2007 – June 2009		
	2009 3rd quarter – 2015 2nd quarter	2.23%
Source: Bureau of Economic Analysis		

Growth Lessons

By Richard W. Rahn

CAPITALIST ECONOMIES ARE THE ONES THAT PROSPER

Which presidential candidate's policies are likely to cause higher growth?

Did you know that at an average economic growth rate of 2 percent it takes 35 years for incomes to double, while at a 4 percent growth rate it only takes 17.7 years for incomes to double? At the moment, the United States is only growing at a rate of about 1 percent, and if no improvement comes it will take another 69.7 years — or a little less than one lifetime for incomes to double. At a growth rate of 4 percent, incomes will increase more than fourfold in the average lifetime.

Without moderately high rates of growth, there is no chance of reducing the debt, maintaining even a modest safety net, including medical and retirement programs, and creating more jobs at higher real wages. The good news is, in the absence of destructive economic policies, capitalist economies tend to grow rapidly.

There is extensive empirical evidence (and theory) of what works and what doesn't. In the last 35 years, the United States has experienced two deep recessions (1981-82 and 2008-09), and two mild recessions (1990-91 and 2001). The policy responses and the performance of the economy in the first six years (24 quarters) after the bottom of the recessions were quite different and are telling.

As can be seen in the enclosed table, the economy grew twice as fast after the 1982 recession than it did after the 2009 recession. In 1981, the new Reagan administration was faced with a declining economy and double-digit inflation. It needed to both reduce inflation and reignite growth. At the time, most economists still believed in the now-discredited "Phillips Curve," which postulated that there was a tradeoff between inflation and growth. The Reagan economists agreed that the economy needed a reduction in the growth of the money supply to reduce inflation, major tax rate reductions, spending and regulatory restraint, all to reduce the disincentives for work, saving and investment.

The program worked spectacularly well — far better than even those of us who had been advocates of the program had expected. Marginal tax rates were reduced from 70 percent to 28 percent, yet tax revenues increased by more than a third because of a much larger economy and many more people at work. Inflation fell from 12.5 percent the year President Reagan was elected to 4.4 percent in his last year in office under Federal Reserve Chairman Paul Volcker's guidance. Government spending as a percentage of gross domestic product (GDP) was slightly reduced from the time Reagan took office until he left, despite engaging in a defense buildup and having to contend with a Democratic Congress that resisted spending restraint for part of the time.

In 1990, just as the economy was falling into a recession, President Bush (41) increased tax rates, despite have pledged not to. The newly elected President Clinton compounded the error in 1993 by raising tax rates (again, after pledging not to). The result was a weaker recovery than under Reagan. To his credit, President Clinton and Congress cut the capital gains tax rate at the beginning of his second term, and worked with House Speaker Newt Gingrich and the Republicans to reduce spending as a percentage of GDP, causing the economy to grow at an average rate of more than 4 percent.

The second President Bush (43) was confronted with a recession (2001) the year that he took office. He was late in pushing through a modest tax rate reduction, and failed to curtail the growth in spending (part of which was due to the wars) and to bring real discipline to the regulatory agencies. The result was a weak recovery and the beginning of the Great Recession at the end of his term.

President Obama took office as the recession deepened and immediately applied the wrong medicine — the so-called massive spending "stimulus program," which failed to stimulate and was a waste of money. Then Mr. Obama made two other mistakes: increasing tax rates and going on a regulatory binge without adequate cost-benefit analyses. The result was the worst recovery (which is a slander on the word "recovery") in many decades.

The lessons are clear: reduce spending as a percentage of GDP because it is now much higher than the optimal level, reduce marginal tax rates to no higher than 28 percent and preferably lower, and remove all of those regulations that have not been justified by strict cost-benefit analysis and are unnecessary infringements on liberty.

Hillary Clinton and Green Party candidate Jill Stein have both proposed higher taxes, more spending and regulation — a prescription for no growth or worse. Donald Trump and Libertarian Party candidate Gary Johnson have proposed tax cuts, regulatory reform and spending reduction (but Mr. Trump also talks about a number of non-trivial spending increases).

It is dismaying that Mr. Trump and Mr. Johnson spend so much time talking about minor issues and so little time talking about their plans for the economy. And Mrs. Clinton's economic proposals are totally contrary to what worked for her husband ("the era of big government is over"). Do they have serious policy discussions with each other?

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