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WHAT HAPPENED UNDER PRESIDENT REAGAN AND PRESIDENT OBAMA?				
	Receipts	Outlays	Deficit	Maximum Tax Rate
	As Percentages of GDP			
Reagan Years				
1980	18.5	21.1	2.6	70.0%
1989	17.8	20.5	2.7	28.0%
Obama Years				
2008	17.1	20.2	3.1	35.0%
2017	18.1	21.2	3.1	39.6%
Source: Office of Management and Budget				

Choosing Political Bias Over Economic Reality

by Richard W. Rahn

Why is it that those who have been right in the past are often ignored, while great attention is paid to those who have been wrong? Many "politically correct" forecasters' words are accepted as gospel by the media despite dismal records. New York Times economic columnist Paul Krugman, who has a long record of gross error, said immediately after Donald Trump won the presidency a year ago: "If the question is when markets will recover, a first-pass answer is never." His forecast was off by a mere $5 trillion (the rise in the value of the market since Election Day), and those who followed his advice are poorer — but Mr. Krugman still has his job, because he works for a fake news outlet rather than a profit-making investment group.

The debate about climate change, the minimum wage and the proposals for tax reform illustrate why so many get it wrong. All of the major climate models forecast a much more rapid rate of global warming than has actually occurred, yet rather than admit error, many forecasters and their media allies have doubled down instead of lauding those who were closer to the mark.

For some unknown reason, advocates of a higher minimum wage have "determined" that $15 per hour is a "livable wage," whatever that may mean. Despite the fact that advocates are unable to give a coherent answer as to why it is $15, rather than $14, $16, $10, $20 or even a $100 per hour, they have many cheerleaders in the mainstream media who characterize those who oppose it as heartless rather than rational.

There is a union-backed group demanding that Walmart raise its wages despite the fact that Walmart pays about the same average wage as Amazon for similar jobs. They argue that Walmart can "afford it," ignoring the fact that it is in a very competitive retail market and would probably have to raise prices for its customers (many of whom are low-income), lay off some workers and close some stores. Amazon's chief is the politically correct Jeff Bezos, who also happens to own The Washington Post. Mr. Bezos' wealth topped $100 billion this past week, so he most certainly "can afford" to raise the wages of his workers. But because he dislikes President Trump and owns major mainstream media, he gets a pass from those who attack other "greedy capitalists."

The debate about the tax rate cut proposal shows this same reality disconnect. Minority party leaders Nancy Pelosi and Charles Schumer and many of their colleagues claim it is a tax cut for the rich when, in fact, almost all low- and middle-income people will receive a meaningful tax reduction. And yes, in Mrs. Pelosi's San Francisco and Mr. Schumer's New York, some of their fellow wealthy constituents might pay higher taxes.

Some economists argue that the tax bill will cause little additional growth, and almost all state that it will increase the debt (in the absence of cutting useless spending and waste). Presidents Reagan and Obama promulgated very different tax policies to deal with the recessions they both inherited. The Reagan recession was longer and shallower, while the Obama recession was deeper and shorter. President Reagan cut the maximum individual tax rate from 70 percent to 50 percent and, ultimately, to 28 percent. President Obama raised the individual tax from a maximum of 35 percent to 39.6 percent. Yet, the debt under Mr. Obama increased much faster in both nominal and real terms than it did under Reagan. Once their programs were in place, real growth in the Reagan years was more than double that in the Obama years.

The growth stemming from Reagan's program permanently raised the real level of gross domestic product (GDP), resulting in a boom in real incomes and jobs. The deficit soared after both recessions. But as tax revenue recovered and federal government spending approached its recent historical average of about 21 percent of GDP, deficits returned to the 2-3 percent range.

The accompanying table shows federal government revenues and outlays the years Presidents Reagan and Obama were elected and the years they left office. It appears that changes in marginal income tax rates have a much greater effect on economic growth rates than on overall government revenues.

The majority of economists claimed at the time that the economy could not grow nearly as fast as it did after the Reagan tax rate cuts — and they were wrong. The majority of economists and major institutions, such as the Federal Reserve and the International Monetary Fund, also forecast that the economy would grow much faster than it did after the Obama spending "stimulus" — and they were wrong.

Most economists and even members of the media understand that high taxes on cigarettes and sugary drinks discourage consumption. Why then is it that so many seem to have such a hard time understanding (despite the empirical evidence) that lower tax rates on work, saving and investment will stimulate economic growth and grow the tax base? Why do members of the media (e.g., The New York Times editorial page) give more credence to those who failed in their past predictions than those who got it right? Is it political bias or ignorance of history that causes the reality disconnect?

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https://www.washingtontimes.com/news/2017/nov/27/mainstream-economists-refuse-to-admit-lower-tax-ra/