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The Audacity Of Economic Ignorance

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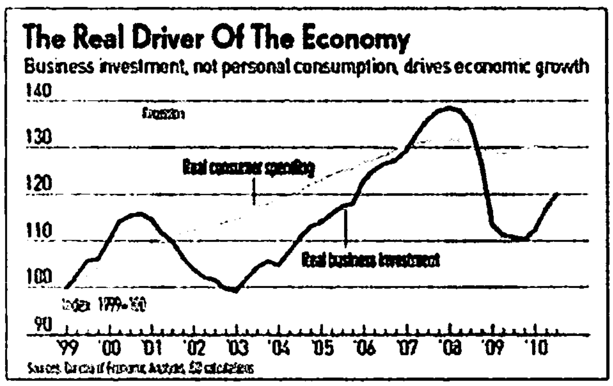

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Economy: Why do we seem so helpless in solving our current mess? A big reason is the shocking lack of basic economic literacy among many of our political leaders. Case in point: Ohio Democratic Sen. Sherrod Brown.

Brown ripped into GOP Rep. Eric Cantor, saying he "either failed English class or failed logic class or failed history class because these tax cuts for the rich that Bush did twice ... resulted in very little economic growth. We saw only 1 million jobs created in the Bush years, 22 million created in the Clinton years, when we reached a balanced budget with a fairer tax system."

This is false. From 2002, the last year before the cuts, to 2007, the last year before the financial meltdown, the real economy expanded by $1.77 trillion, or 15.2%. "Very little" growth? Jobs increased by 7.77 million, business investment surged 38%, and personal net worth soared 56%. Brown is wrong on every point.

Yes, gross domestic product did fall sharply in 2008 as the financial meltdown hit. But no reputable economist maintains the financial panic was a result of the Bush tax cuts.

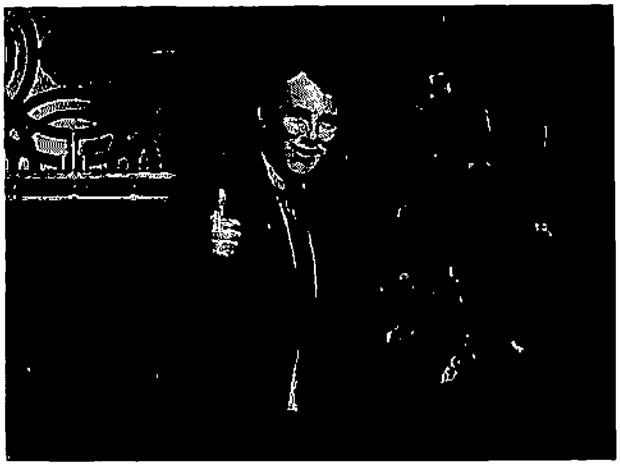
Laughably, Brown talks about how "we" reached a balanced budget during the Clinton years. What do you mean "we," senator? Since budgets are written and passed by Congress, and only approved by the president, Brown must know that it was Republicans who balanced the budget — not Democrats.

That's right, a GOP-led Congress controlled the spending that led to the surpluses of the late 1990s. It also proposed welfare reform and pushed through cap-gains tax cuts that helped the economy boom. To his credit, President Clinton signed these initiatives into law — but only after much political arm-twisting.

Brown's idea of "fair" when it comes to taxes is strange. Since when is unequal treatment under the law, which our skewed tax code promotes, considered fair? Talk about failing Logic 101.

He went on to say: "There is no real history illustrating that these tax cuts for the rich result in jobs. It's extending unemployment benefits that creates economic activity that creates jobs, not giving a millionaire an extra ... $30,000 in tax cuts they likely won't spend."

"No real history"? Taxes were cut on high-income earners in the 1920s (Coolidge), 1960s (Kennedy), 1980s (Reagan) and again in the 2000s (Bush). These cuts benefited the rich and everyone else. In all these cases, jobs boomed after tax cuts. In fact, history shows that the best way to boost jobs is to cut taxes on the rich.



Brown: Do extensions of jobless benefits really "create jobs"?
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"Extending unemployment benefits" stimulates nothing. It merely takes money from one person's hand and puts it into another. How do Brown et al. get it so wrong? Maybe they don't know any better. They come from a generation schooled on a now-discredited Keynesian model that assumes the economy is driven by consumer spending, and that when consumers falter, it's the government's job to step in and "boost aggregate demand" by spending more.

This, too, is exactly backward. Consumer spending doesn't drive growth; it results from growth. Economies grow mainly because of business investment. The chart above shows how consumer spending barely budged in the last two recessions while business investment plunged. Today we're still 14% below our peak on business investment, while consumer spending has bounced all the way back.

If we want a strong expansion, business investment must grow. It won't as long as Brown and his colleagues continue to believe that extending jobless benefits to boost consumption, and raising taxes on the "rich" would create economic activity.