Reagan Succeeded Where Obama Failed

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The Obama administration and its apologists, including many in the media, keep telling us that the Great Recession was the worst since the Great Depression in the 1930s, and that is why the recovery has been so anemic.

Is that true?

When President Obama took office, the unemployment rate was 7.8 percent. When President Reagan took office in 1981 the unemployment rate was 7.5 percent. Reagan came into office during a double-dip recession (gross domestic product: -0.3 in 1980 and -1.9 in 1982).

When Obama was sworn in the economy was in recession (GDP: -0.3 in 2008 and -3.5 in 2009), but the recession had bottomed out by the second quarter of 2009 before his "stimulus" took effect. The unemployment rate reached 10.8 percent in the 1982 recession, but only 10 percent in the 2009 recession. When Reagan reached the Oval Office the inflation rate was 12 percent. In contrast, when Obama assumed office, the inflation rate was zero percent.

Reagan was faced with the problems of slaying the dragon of inflation and reviving economic growth. Obama only had to revive economic growth.

How did they each do?

Under Reagan, the economy grew by an average of 5.6 percent for the first three years from the bottom of the recession, unemployment dropped by 3.8 points, and inflation was cut by two-thirds.

Under Obama, the three years of economic growth from the bottom of the recession only averaged 2.2 percent, unemployment dropped by only 1.8 points, and inflation has increased by more than 2 full percentage points.

Obama has consistently missed his employment and growth targets, including another downgrade on Friday. Reagan exceeded his growth, employment, and inflation targets.

In many ways the economic situation in the early 1980s was as dark, if not darker, as the one that Obama faced when he took office.

The claim that the economic situation Obama inherited was worse than Reagan's is arguably incorrect, or subjective at best. The "misery index" — the inflation rate plus the unemployment rate — was 19.5 when Reagan took office, but only 7.8 when Obama assumed office.

There were six quarters of negative economic growth in the 1980-82 episode (the worst being -7.9 percent under President Carter) and five quarters of negative economic growth in the 2008-09 episode (the worst being -8.9 percent under George W. Bush).

The 1980-82 recession was longer and a bit shallower but with higher unemployment and much higher inflation than the 2008-09 recession.

Which was worse? Pick your poison.

Obama's apologists also argue that the recent recession was "different" because it was a "financial recession."

The fact is that recessions differ from each other in some respects, but all of the recent recessions have been "financial recessions."

The reason for this is that in past times, there were periods with very large unintended inventory build-ups, which could trigger a recession, but in the modern era of tight inventory control and "just-in-time manufacturing," this problem has waned.

The current recession was largely caused by a housing bubble created by Fannie Mae and Freddie Mac, two mammoth government-sponsored corporations, and fueled by the Federal Reserve.

The inflation disaster in the late 1970s was also created by the Fed through excessive monetary expansion. In both cases, bank balance sheets were heavily damaged.

The Reagan administration's response to the lack of economic growth was to cut tax rates by about a third for all income levels and restrain the growth in government spending and regulations.

The Obama administration's response to the lack of economic growth has been to increase some taxes (Obamacare contains many new taxes), to provide a short-term cut in payroll taxes (which undermines Social Security funding), and to push for higher taxes on those who create jobs.

The Obama program has deliberately increased government spending and regulation greatly — most often without undertaking responsible cost-benefit analyses.

The Reagan tax program was aimed at reducing the high marginal tax rates on labor and capital, the inputs necessary to grow an economy. The Obama approach has been to increase taxes on capital — income, capital gains and dividends — which is the seed corn of the economy.

Another major drag on economic and employment growth is the near-zero interest rate policy of the Fed, which now is comprised of a majority of Obama picks. This policy is having a number of negative economic effects.

The first is that capital is increasingly allocated on the basis of connections rather than price, so that well-connected big banks and their political friends can get all the capital they want, while smaller businesses and individuals are often finding it nearly impossible to get loans.

Yet, individuals and others who have been responsible savers are now being heavily taxed

on their savings. If inflation is running at 2.5 percent and the interest rate an individual receives is only 1 percent, which is typical now, there is a loss of principle (which is an inflation tax of more than 100 percent), even before paying income tax on the 1 percent.

During the Reagan recovery, with falling inflation, people were receiving substantial, positive rates of returns on their savings after taxes, which encouraged more savings and productive investment.

The Democratic-controlled Senate voted last week to increase tax rates on interest, dividends and capital gains, and on the incomes of those who create the most jobs. How do you think that will work out?

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