Bloomberg Opinion

Stephen Moore Is the Wrong Person for the Fed Board

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March 22, 2019

President Donald Trump has said that he plans to nominate Stephen Moore, a writer and policy analyst, for a position on the Federal Reserve Board. This isn't a good choice. Moore's appointment demonstrates Trump's increasing politicization of key government functions, and the valuation of loyalty and ideology over expertise and judgment.

Moore has been a think tank researcher and pundit for most of his career, having worked at the conservative Heritage Foundation and the libertarian Cato Institute. He served as chief economist for the former, though he is not a trained academic economist (he has a Master's in economics from George Mason University). He has co-founded multiple right-leaning lobbying groups, such as the Club for Growth and the Free Enterprise Fund, as well as serving on the Wall Street Journal's editorial board. At every stage, he has advocated tirelessly for conservative policies -- tax cuts, lower government spending and deregulation.

Moore has made a career of what law professor James Kwak calls "economism" -- a mix of simplistic economic models, convenient assumptions and rhetoric designed to make it appear as if economics provides scientific support for conservative policy priorities. There are many examples where wishful thinking appears to have distorted his assessments of economic conditions.

In 2015, for example, he claimed that tax cuts in North Carolina had caused a decline in the unemployment rate. But as Paul Krugman quickly pointed out, the reduction in unemployment was no greater than in the country as a whole, and was in large part driven by workers dropping out the labor force.

In 2012, Moore claimed that federal workers were paid 50 percent more than comparable private-sector workers, because their wages are 2 percent higher and their benefits are 48 percent higher. This, of course, is a math error -- the pay difference is not the sum of the differences in wages and benefits, but their weighted average, and is thus much smaller than Moore argued.

As a commentator, Moore has regularly made dubious economic claims, such as the assertion that 2015 saw the "strongest economy in 20 years" (the late 1990s would beg to differ) or that the deficit was $1 trillion in 2017 (it was slightly more than half of that). When writing about the effects of state-level tax cuts on employment in 2014, Moore overstated recent job gains in low-tax states and understated the gains in high-tax states. He has also made a number of unfounded claims regarding the outcomes of the Affordable Care Act.

One of Moore's biggest departures from the economic consensus is his belief that tax cuts mostly or completely pay for themselves, through increased economic growth. This belief, sometimes cited by advocates of supply-side economics, is shared by almost no academic economists:

About That Tax-Cut Magic...

Share of economists who agree with the following statement: "Since 1980, whenever substantial growth effects have been required to make a tax reform plan revenue neutral, the actual outcome has invariably been a fall in tax revenue as a share of GDP."

Source: University of Chicago Booth Business School, IGM Forum

In 2005, Moore claimed that President Ronald Reagan's tax cuts had caused tax revenue to double. But adjusted for inflation and population growth, the increase was only about 18 percent.

Recently, Moore wrote an opinion piece declaring that Trump's corporate tax cut is paying for itself. But despite the growing economy, federal tax revenue fell by about 4 percent between the fourth quarter of 2017, when the tax cut was passed, and the third quarter of 2018:

Notice What Tax Cuts Do?

Federal government current tax receipts

Source: Federal Reserve Bank of St. Louis

In recent years, Moore has attached himself to Donald Trump, serving on the president's economic advisory team during the 2016 campaign. In December, after Trump's criticism of Fed Chairman Jerome Powell (himself a Trump appointee) during a stock market decline, Moore called forPowell to resign. Trump and Moore both argued that Powell had kept interest rates too high.

Thus, as a member of the Fed, Moore can be expected to push for interest rates to be kept low. A cynical interpretation of Moore's desire for low interest rates would be that he wants to juice the economy and stock market in order to make the president look good politically, so that Trump will be able to carry out more tax cuts.

But even if this is wrong, Moore's record as an economic commentator is cause for concern. His seeming willingness to interpret any and all economic data so as to tell a story favorable to tax cuts and unfavorable to government spending marks him more as an ideologically motivated pundit than a true economist. That isn't the kind of person that should be serving on the board of an independent central bank.