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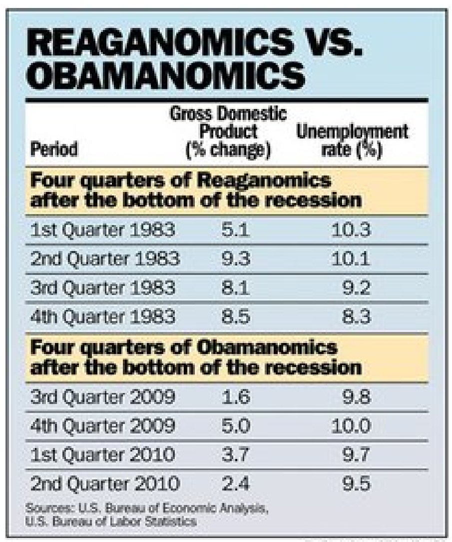
This Graph Proves That Tax Increases Always Spur Recoveries!

By Derek Thompson

Daniel Mitchell's "slam-dunk" case that Reaganomics beats Obamanomics is a brick. He finds a chart that shows that the 1983 recovery was faster and stronger than the 2010 recovery, and concludes "as you can see, Reaganomics is much better than Obamanomics." Here's the evidence:



REAGANOMICS VS. OBAMANOMICS

Period	Gross Domestic Product (% change)	Unemployment rate (%)
Four quarters of Reaganomics after the bottom of the recession		
1st Quarter 1983	5.1	10.3
2nd Quarter 1983	9.3	10.1
3rd Quarter 1983	8.1	9.2
4th Quarter 1983	8.5	8.3
Four quarters of Obamanomics after the bottom of the recession		
3rd Quarter 2009	1.6	9.8
4th Quarter 2009	5.0	10.0
1st Quarter 2010	3.7	9.7
2nd Quarter 2010	2.4	9.5

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics

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Well look, we can all omit variables to make a chart mean whatever we want it to mean. Here's my slamdunk case for *why tax cuts always ruin economies*:

In the year after President Reagan signed TEFRA (the "largest peacetime tax increase in American history") in September 1982, the economy exploded and unemployment decreased dramatically. In the four quarters after Obama signed hundreds of billions of dollars in tax rebates for Americans under Making Work Pay, the economy sputtered and unemployment went up. I did it! I just proved that tax hikes always spur economic growth, and tax rebates are bad for the economy. Here's my evidence:

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But here come the pesky variables to ruin everybody's fun.

1. **Monetary Policy.** The Federal Reserve helped create the early 80s recession by jacking interest rates up from 9 to 19 percent in 1981. It helped end the recession by slashing them back into the mid8s in early 1983. In the 2008 recession, the Federal Reserve had less ammunition. It was a financial calamity, the Federal Reserve has cut the federal funds rate to practically zero, and the economy is still crawling on its belly.

2. **The Stimulus.** It wasn't a monster. The Recovery Act has sent about $140 billion to states and localities since 2009. Is Mitchell really saying that $140 billion on Medicaid, firefighters, teachers, and infrastructure projects are costing the economy five percentage points of economic growth? That's simply impossible. Surely, there are better ways to argue against the stimulus.

3. **The New Normal for Jobs.** The last three recessions have ended with jobless recoveries. Here's why: the answer ranges from the challenges of globalization to the vagaries of executive compensation. Our unemployment picture is a little more complicated than "Oh my god, Obama is killing jobs by taking over the states' Medicaid burden!"

You get the point. Dan Mitchell's a smart guy. I hope he responds so we can have a real debate about taxes and recoveries.

This article available online at:

http://www.theatlantic.com/business/archive/2010/08/this-graph-proves-that-tax-increases-always-spur-recoveries/60934/