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CBO experts often wrong on economic growth

February 28, 2018

Too often, people overlook the fact that experts may be professional and thorough, but are not infallible. And when expert opinion comes from the intersection of politics and economics, the associated predictions can be wrong as often as not.

Alan Reynolds, a senior fellow at the libertarian Cato Institute, makes this point explicit in a recent critique of economic projections offered by the Congressional Budget Office. The CBO's work is officially nonpartisan, and efforts are made to prevent political pressure from influencing its projections. Few argue that CBO's work product is slapdash.

Yet as Reynolds points out, the CBO has been wrong many more times than not when it comes to projecting economic growth.

From 1983 to 1999, the CBO issued two-year forecasts that added up to a 2.7 percent growth rate. Actual growth averaged 3.7 percent from 1983 to 1999 "despite a recession in 1991," Reynolds notes.

The CBO's latest forecast predicts national economic growth of just 1.9 percent, which is in stark contrast to the Trump administration's Office of Management and Budget prediction of 2.9 percent annually. "Could the CBO possibly be that far off?" Reynolds asks. "Sure. They've done it before."

From 1983 to 2000, Reynolds points out, the CBO underestimated national economic growth in all but two years (1990 and 1991), which he said makes the CBO's work "a triumph of theory over experience."

Move past the consistent underestimation, and other patterns appear.

Reynolds writes that "the CBO systematically *underestimated* growth of real GDP after the Reagan tax rate reductions were phased in during 1983–84 and 1988–90" and then "again after the capital gains tax was slashed" from 28 percent to 20 percent in 1997.

On the other hand, the CBO overestimated GDP growth after tax rates were increased in 1990, after tax rates were raised in 2013, and during the high-tax bracket creep years of 1976-82.

One reason the CBO's projections often miss the mark is the organization assumes recent trends will remain constant even when policies change. For the CBO's latest estimates, Reynolds writes that means the organization assumed the low productivity growth of the Obama years will continue unabated, and that labor force participation will also remain near the extreme lows of the Obama years.

Yet the tax cut approved by Congress and signed by President Trump in December was designed to change incentives, particularly via a significant cut in the corporate tax rate that makes the United States competitive with other nations.

The early returns from the tax cut have already been favorable, and positive momentum is only expected to grow. Critics point to the CBO's economic growth estimates to argue the tax cut will do little to improve the economy. Yet as Reynolds demonstrates, the CBO is consistently wrong about the impact of economic policy, and the organization's predictions are grounded in the idea that a dramatic change in incentives will produce the same results expected if no policy changes had been adopted.

That doesn't pass the common-sense test, which is why citizens and policymakers alike should view CBO's lowball growth estimates with a healthy dose of skepticism.