

# **The Basics of Good Economics - Framing the Issues Right**

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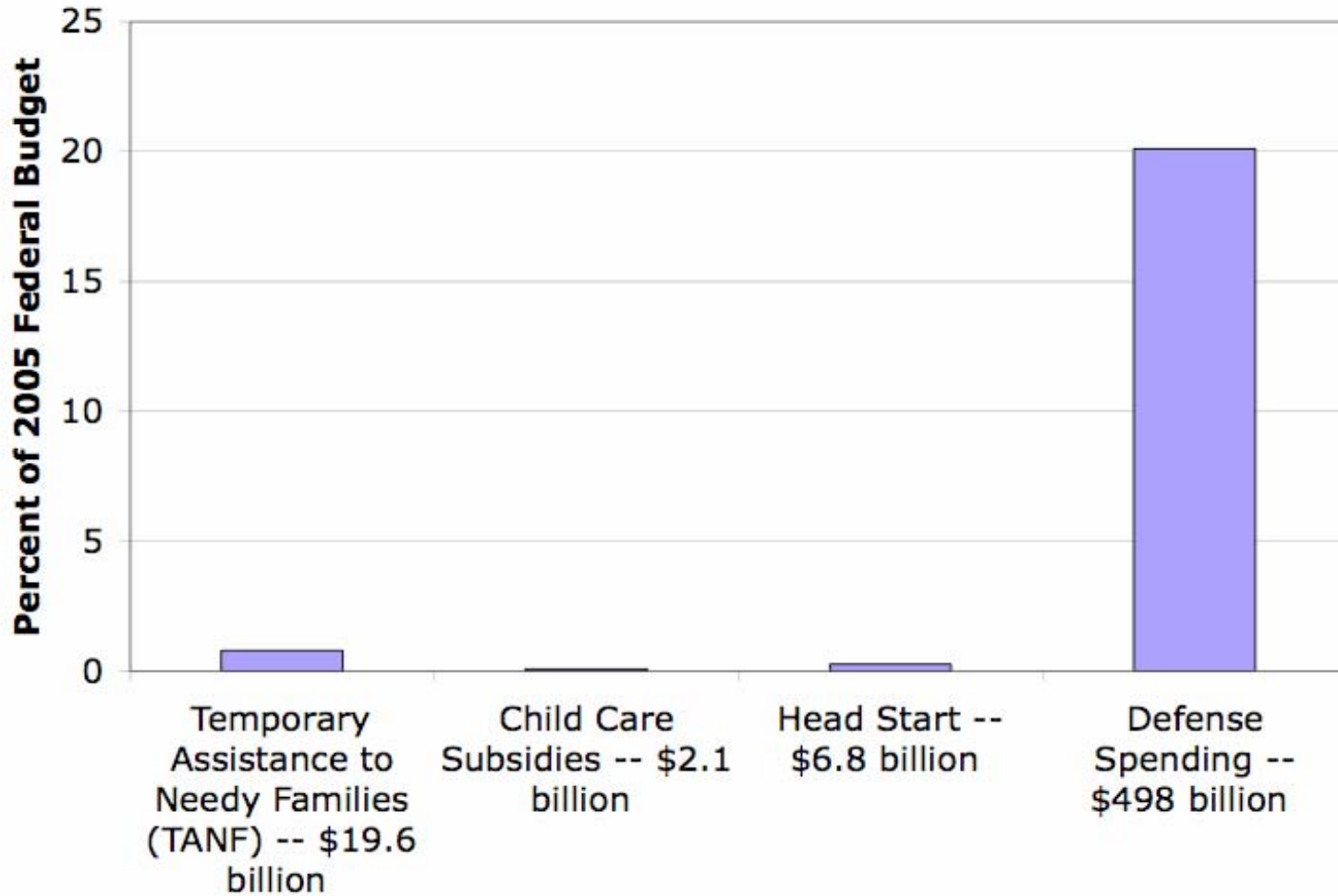
# **Keys to Good Economics**

- Always put numbers in context.
- The stock market is not the economy.
- Don't let them get away with name calling.
- We are right (there is no contradiction between a healthy economy and social justice).

# Always Put Numbers In Context

- **Budget Numbers**
  - i. **NO ONE** can make any sense of millions, billions, or trillions of dollars – expressing spending or tax items this way simply confuses issues (especially over 5-10 year budget periods).
  - ii. It is very easy to show budget and tax items as a share of total federal spending or revenue. For example, note the following appropriations for the 2005 federal budget...

### Select Programs as Percent of 2005 Federal Budget



**Use the CEPR Budget Calculator at:  
<http://www.cepr.net/calculators/bc/cbc.html>**

# Always Put Numbers In Context

- Deficits should be measured relative to the size of the economy.
  - i. The deficit as a share of GDP is what matters, not the absolute size of the deficit. If I owe \$500,000, that's a big deal for me. If Donald Trump owes \$500,000, that is not a big deal for him. It works the same way for countries.

# Always Put Numbers In Context

- The measure of the deficit should include borrowings from Social Security for most purposes. This is the “gross deficit” number which is available in every budget document.

# Always Put Numbers In Context

- iii. Ultimately, our ability to sustain a budget path depends on the change in the ratio of debt to GDP. If it is falling (the economy is growing more rapidly than the debt) then we can sustain the path forever. If it is rising, then we will have to change the path.

# Debt to GDP 1950-2005

	Public	Gross
1950	80.2%	94.1%
1960	45.7	56.1
1970	28.0	37.6
1980	26.1	33.3
1990	42.0	55.9
2000	35.1	58.0
2008	37.9	67.5

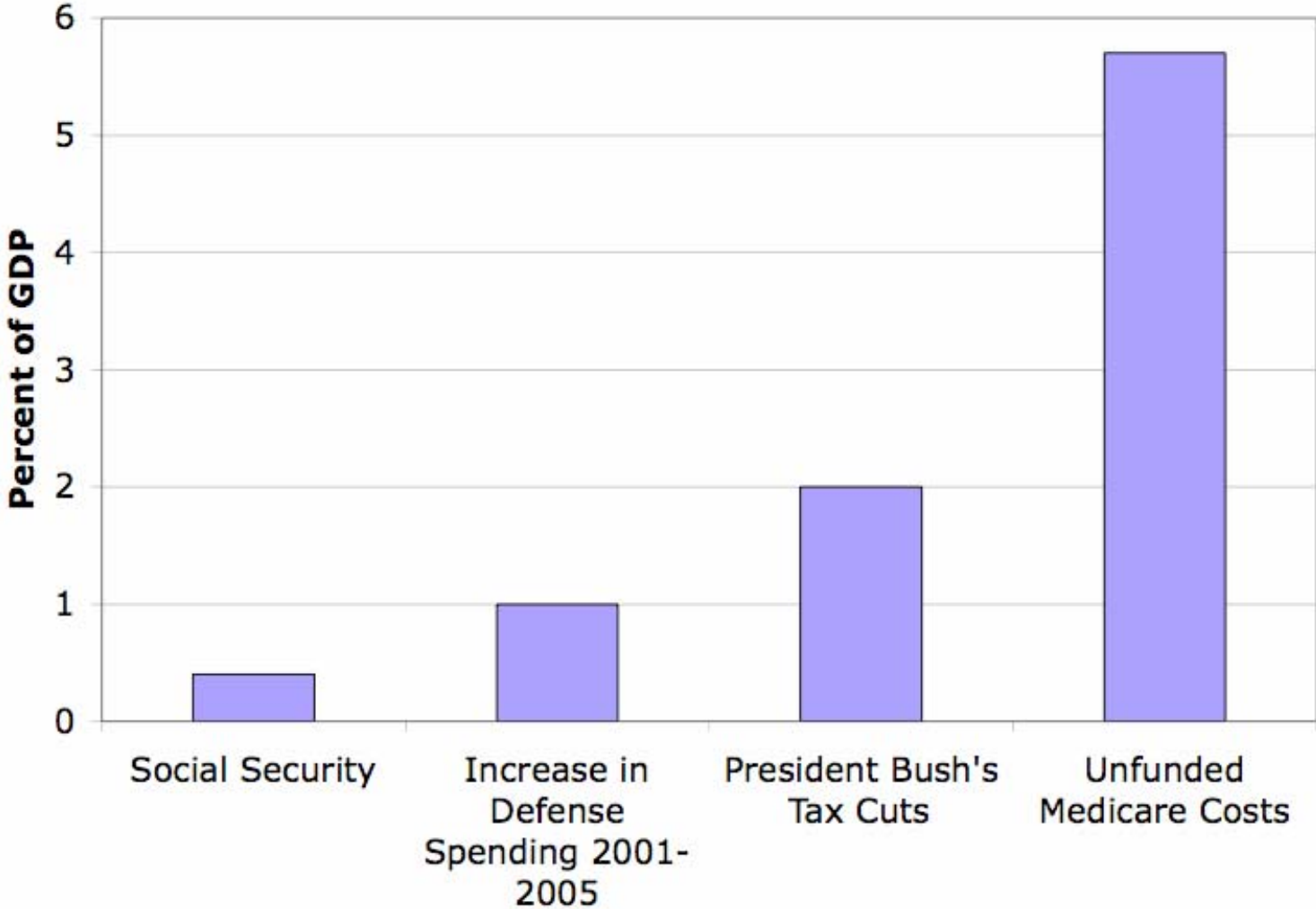
# Always Put Numbers In Context

- Social Security – the \$12 trillion shortfall: a cheap scare tactic.
  - i. Most of this projected shortfall comes after 2100 – we will probably have to change the tax or benefit structure somewhere in the 22nd century (if we haven't done it earlier).

# Always Put Numbers In Context

- ii. The \$4 trillion shortfall projected for the 75-year planning period is equal to 0.7 percent of projected GDP (*i.e.*, 70 cents of every \$100 of income).
  
- iii. CBO projects a shortfall equal to 0.6 percent of GDP (*i.e.*, 60 cents of every \$100 of income).

### Always Put Numbers In Context



# Always Put Numbers In Context

- Economies grow and create jobs, incomes rise; honest people talk about growth *rates*, not growth.
- During normal times economies expand. This is nothing to boast about; the real issue is the rate of expansion...

# Average Annual Growth Rates

Business Cycle	GDP Growth	Job Growth	Median Family Income Growth
1960-1969	4.4%	2.7%	3.6%
1969-1973	3.8	2.3	1.6
1973-1980	2.9	2.5	0.4
1980-1990	3.0	1.8	0.8
1990-2001	3.1	1.8	0.9
2001-2007	2.6	0.8	-0.04 (01-06)

# **The Stock Market Is Not the Economy**

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- One of three factors will typically explain a rise in stock prices:
  - i. The economy is expected to grow more rapidly and profits will grow with it;
  - ii. Profits are expected to grow at the expense of wages or government tax revenue; or
  - iii. Investors have become irrationally exuberant and stock prices make no sense.

# **The Stock Market Is Not the Economy**

- The stock market is supposed to represent the value of future profits, not the health of the economy.
- Only reason #1 is in general good news. A stock market that rises because of redistribution is only good for those who hold lots of stock (*i.e.*, just like rising corn prices are good news for corn growers).

# **Don't Let Them get Away With Name Calling: Fight Back**

- **Free trade and protectionism**
  - i. “Free traders” are terrified by free trade. If there were free trade in legal services and physician services, doctors and lawyers would see their wages plummet.
  - ii. “Free traders” also insist on protectionism in the forms of patents and copyrights, which are very costly forms of protection in both the U.S. and developing worlds (seminar 10).

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- **Double taxation:** The corporate tax is a completely voluntary tax. Every person who owns shares in a corporation has decided that the privileges the government gives them from allowing them to have corporate status outweigh the costs of the corporate income tax. They just want these privileges for free.

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- **Takings:** This term has come to be used in reference to environmental restrictions that reduce the value of property, and for which right-wingers demand compensation. But the government takes action all the time that reduces the value of property for other reasons. For example:

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- i. Allowing the development of wetlands near the coast made New Orleans more vulnerable to hurricane damage – why couldn't the people of New Orleans demand compensation for these “takings?” (Ditto building levees upstream in a river.)

# **Don't Let Them get Away With Name Calling: Fight Back**

- ii. Allowing Amazon and other Internet retailers to avoid the sales tax reduces the value of conventional retail stores – should owners of small stores be able to sue the government for this taking?
  
- iii. The government also takes action that increases the value of property (e.g., building infrastructure.) Should the government be compensated for such “givings?”

# We Are Right

- The economy grew fastest in the fifties and sixties, periods when the gains from growth were relatively evenly shared, as was the case in the late nineties boom.

# We Are Right

- Many of the countries with the most developed welfare states and most equal distributions of income also have low unemployment rates and strong economies (*e.g.*, Denmark, Sweden, Austria, and Ireland).
- Confusion and complexity work against progressive politics – they can hire more economists than we can. Keep It Simple.

# Reading List

- Baker, D. 2006. *The Conservative Nanny State: How the Wealthy Use the Government to Stay Rich and Get Richer*. Washington, D.C.: Center for Economic and Policy Research, [www.cepr.net](http://www.cepr.net).
- Baker, D. 2003. “Reflections on Economic Reporting: Seven Years of the Economic Reporting Review.” Washington, D.C: Center for Economic and Policy Research  
[[http://www.cepr.net/misc/err\\_reflections.htm](http://www.cepr.net/misc/err_reflections.htm)].
- See also *Beat the Press: Dean Baker’s Commentary on Economic Reporting* at  
[[http://www.prospect.org/csnc/blogs/beat\\_the\\_press](http://www.prospect.org/csnc/blogs/beat_the_press)].

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