



The Daily Dish

November 13th Edition

DOUGLAS HOLTZ-EAKIN | NOVEMBER 13, 2015

Nearly two thirds of small businesses are paying more for health care premiums this year. The National Federation of Independent Business found that although they are exempt from the ACA mandate, small businesses can't avoid health care's rising costs. Many of the businesses cite costs as the key reason that they don't offer care to their employees. This is at the same time that all Colorado businesses are facing, on average, an 8 percent hike in their health care costs.

92 percent of economists expect to see the Federal Reserve raise rates in December. Short term interest rates have remained at zero for the past seven years. When Chair Janet Yellen testified before Congress last week, she said that raising the rates would be a "live possibility."

Eakinomics: Media Mis-education on Growth

The business network CNBC has received a firestorm of criticism for its handling of a Republican primary debate ostensibly devoted to economic issues. It's too bad, as the public (and some journalists) need a solid economic education. Consider this gem in an [article](#) ostensibly evaluating flat tax proposals:

"So far, four of the GOP candidates have proposed flattening the tax system to a single rate, all of which would eliminate trillions of dollars in tax revenue *needed* to balance the federal budget" (emphasis added).

I thought balancing the budget involved matching tax revenues to government spending? Why are cuts to the spending side of the equation not mentioned as part of a strategy to balance the budget? The answer is that the level of economic ignorance is greater than I anticipated:

"The candidates argue that the deep losses in revenue would be offset because tax cuts would spur growth and create more jobs which, in turn, would generate more taxes. But that assumption doesn't take into account the impact of larger federal budget deficits or potential spending cuts on the overall economy. (Widening deficits would almost certainly increase pressure to cut government spending, which would create a drag on economic growth.)"

The accurate part is that some candidates flatly overstate the ability of economic growth to make their reforms revenue-neutral. But the rest is a doozy. Notice first that the mainstream media has done a u-turn and embraced the "starve the beast" political theory that deficits will reduce federal spending. Not likely. We've had huge, sustained deficits and the beast looks plenty fat and happy. Second, focus on "to cut government spending, which would create a drag on economic growth". The implication is that one can never reduce spending on any federal program or the economy will suffer. It also implies that one can always improve growth by simply spending more. Not true.

The sustained or trend growth rate of an economy is dictated by factors on the supply side: growth in the labor force and its skills, technological advances, and the accumulation of equipment, structure, intellectual property, and other capital assets. Government spending is part of the demand for goods and services. Increases in

spending displace the private sector (household and business spending) through higher taxes and greater federal borrowing. The flip side is that cuts in spending provide greater economic room for the private sector to flourish.

Conservatives are correct to focus on supply-side incentives to work, save, invest, and innovate. Progressives are obsessed with a “stimulus” view of government spending that has produced nothing but a shoddy record of growth.

From the Forum

[Medicare Part B Premium Increases for 2016](#) by Tara O'Neill, Health Care Policy Analyst

Fact of the Day

[From 2008 to 2013, the Lifeline subsidy program that connects low income households to wired and wireless telephone services increased 119 percent.](#)