
Religion, Politics, Biology, and Economics: The Struggle of Reason with Emotion

April 27, 2011

**copies of this presentation can be found at
www.antonydavies.org**

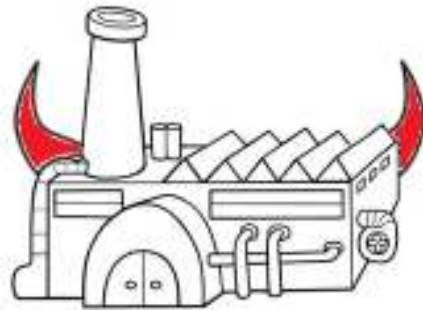
Much valuable discussion fails to occur because of pride and prejudice.





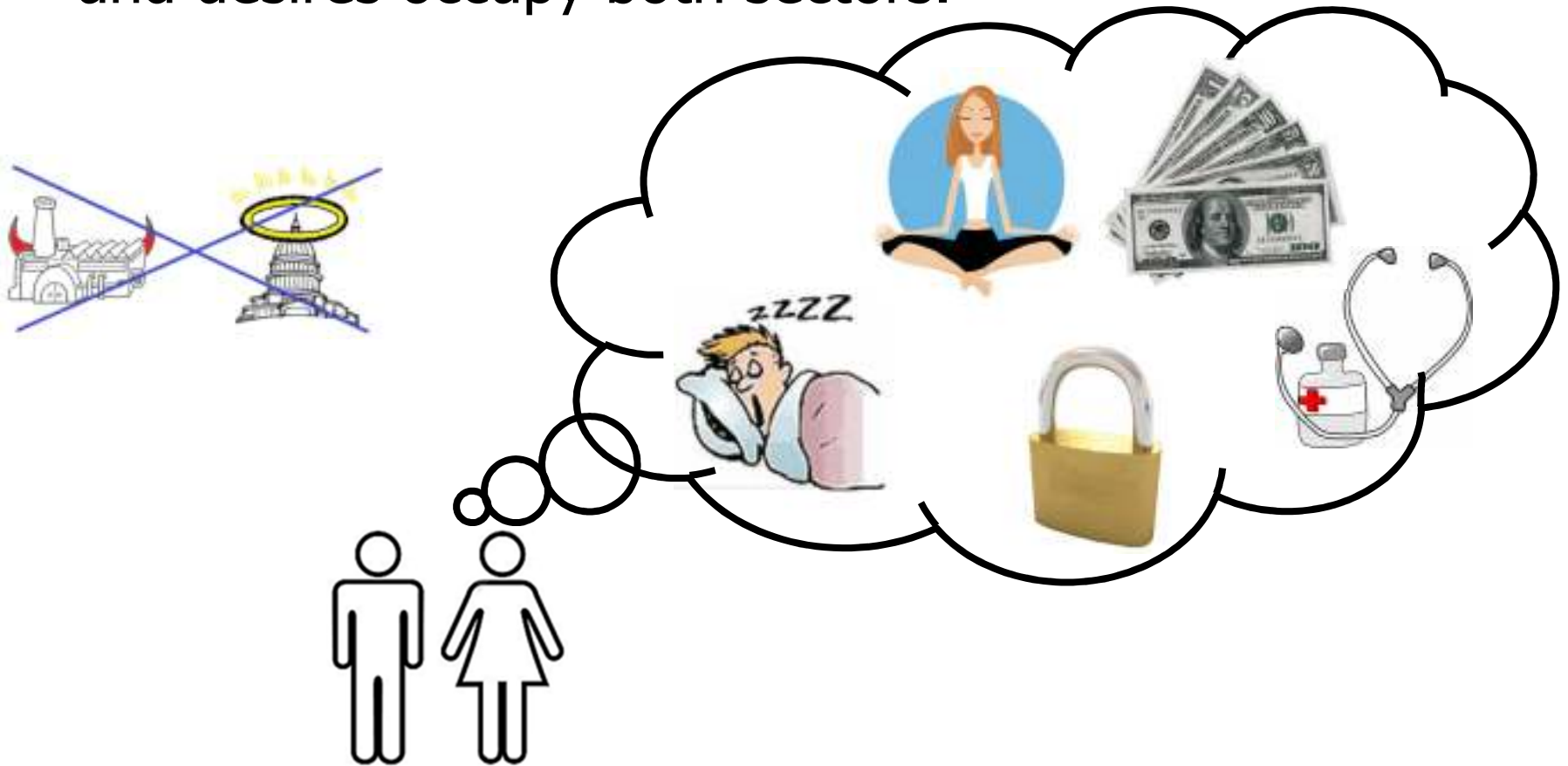
Prejudice

- Humans who work in the private sector are greedy.
- Humans who work in the public sector are altruistic.



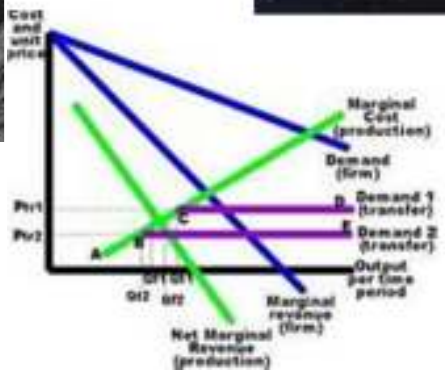
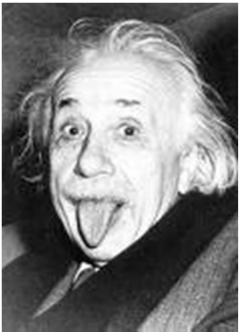
Truth

- The same humans with the same strengths, failings, and desires occupy both sectors.



Pride

- Economic truths are opinion (relativism).



$$D_i = \frac{I(n-1)}{P_i} \quad \left. \frac{dM}{dD} \right|_{D^*} = 0$$



Truth

- The whole point of economic theory is to describe the real world.
- Disconnects arise when we try to reconcile the theory pertaining to a single phenomenon to the net effect of multiple overlapping phenomena.

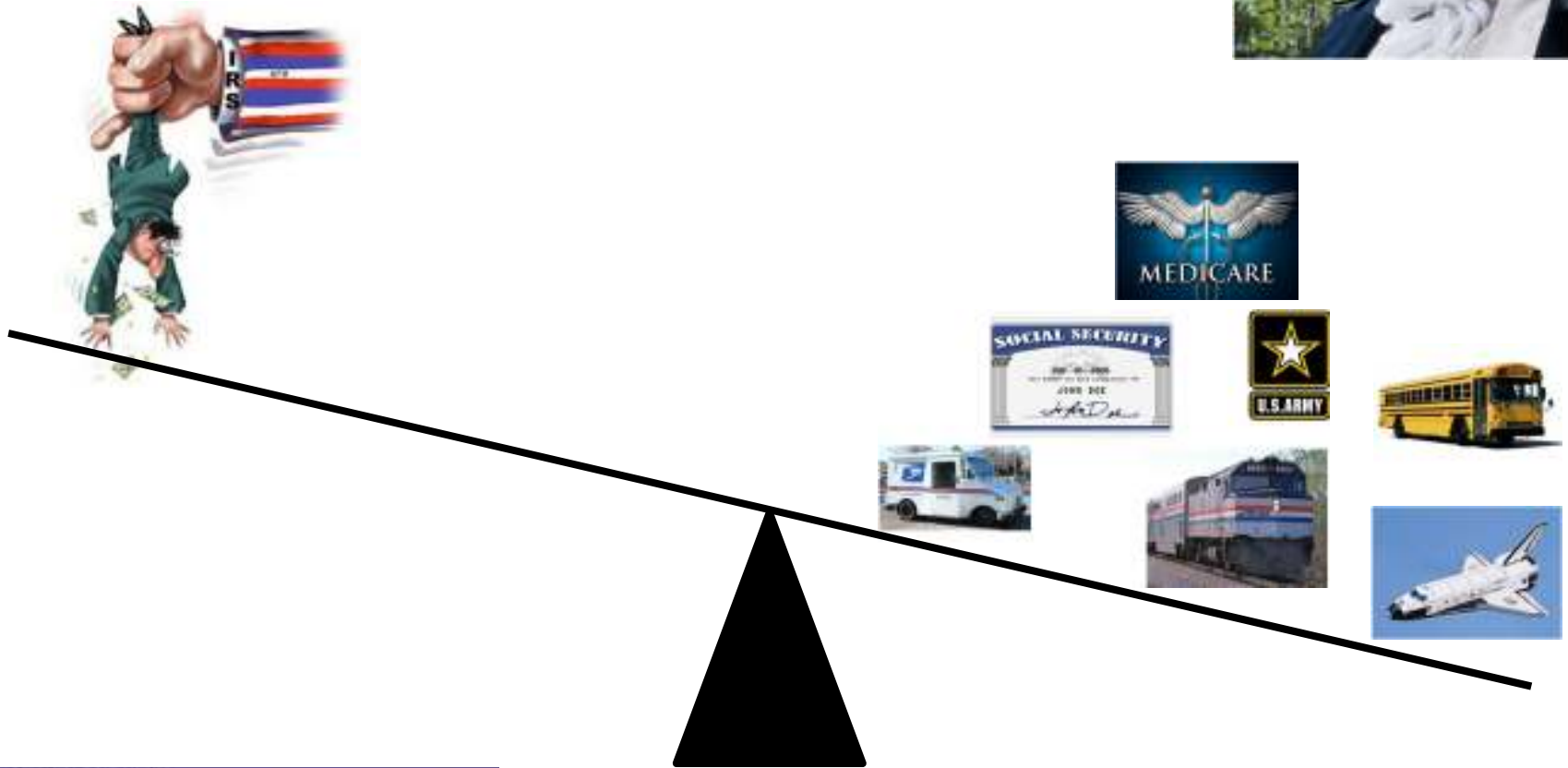
Theory: Demand increases → price rises.

Observation: Population grows but the price of food falls.

Reconciliation: Supply of food is also rising.

Pride

- Inability or unwillingness to admit limitations (hubris).



Truth

- It is impossible for an economy to provide everything that everyone wants.

- Corollary: A majority vote does not bestow magical powers to circumvent limitations.

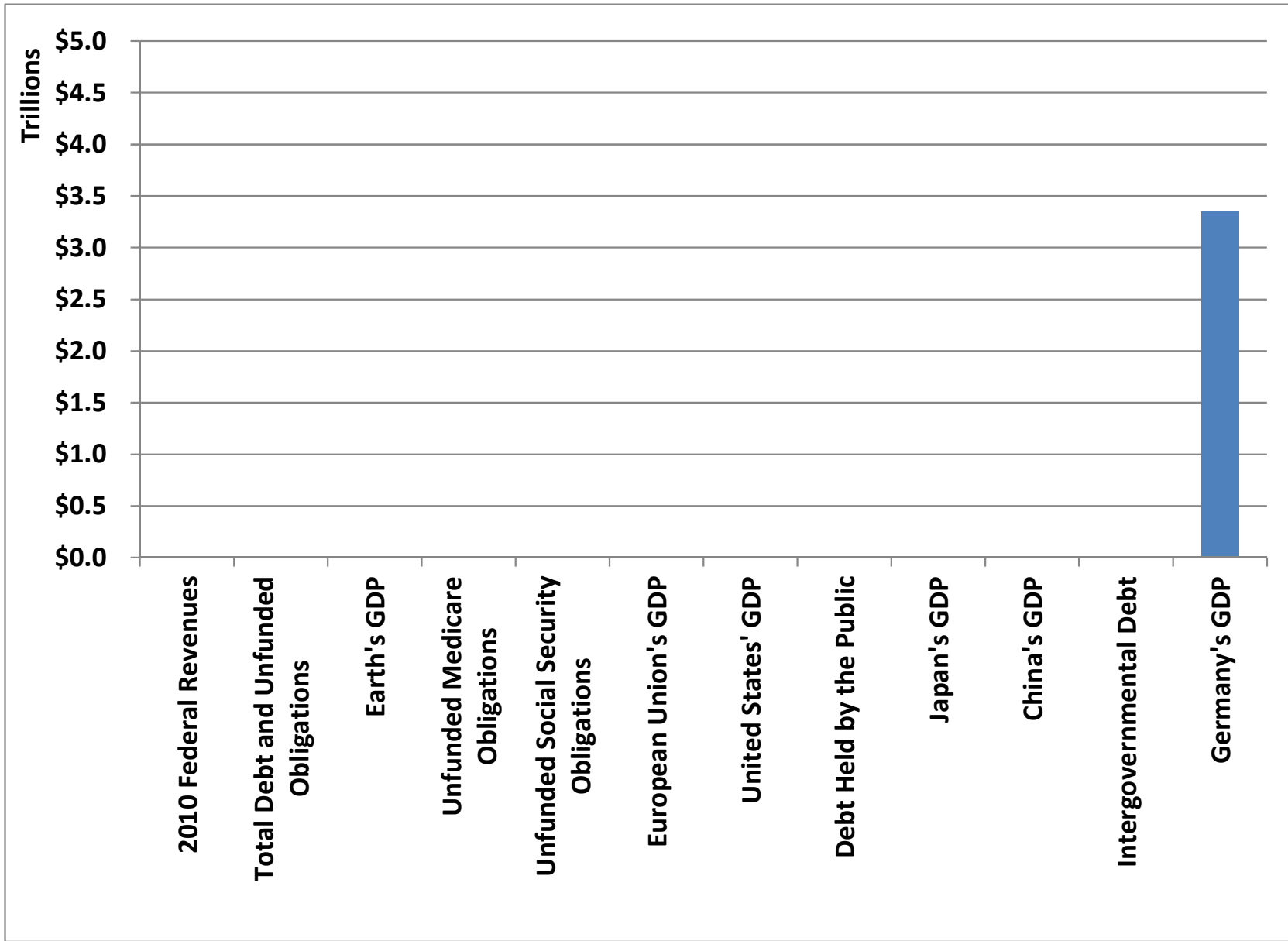
What is the point of this lecture?

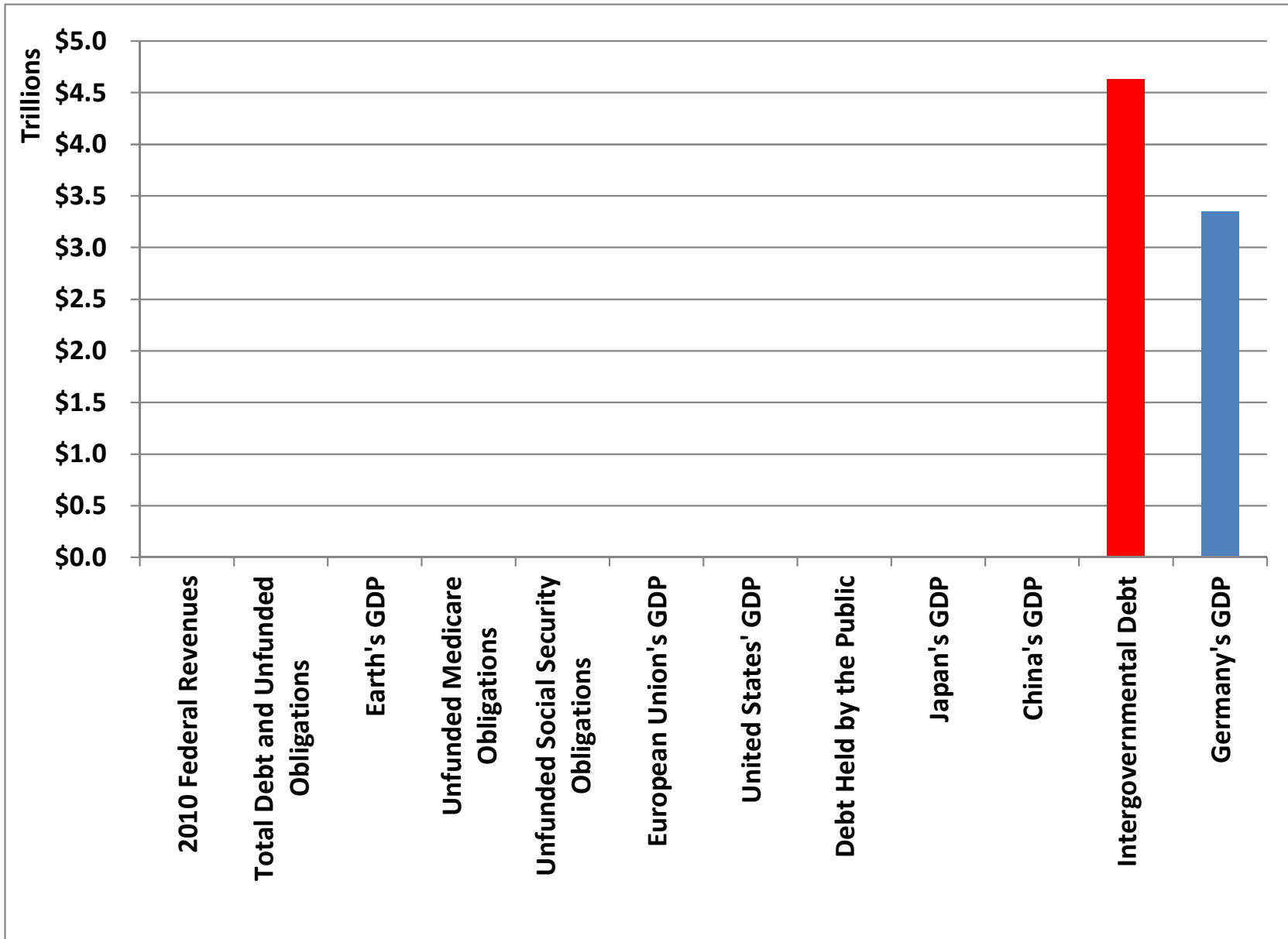
Conventional wisdom

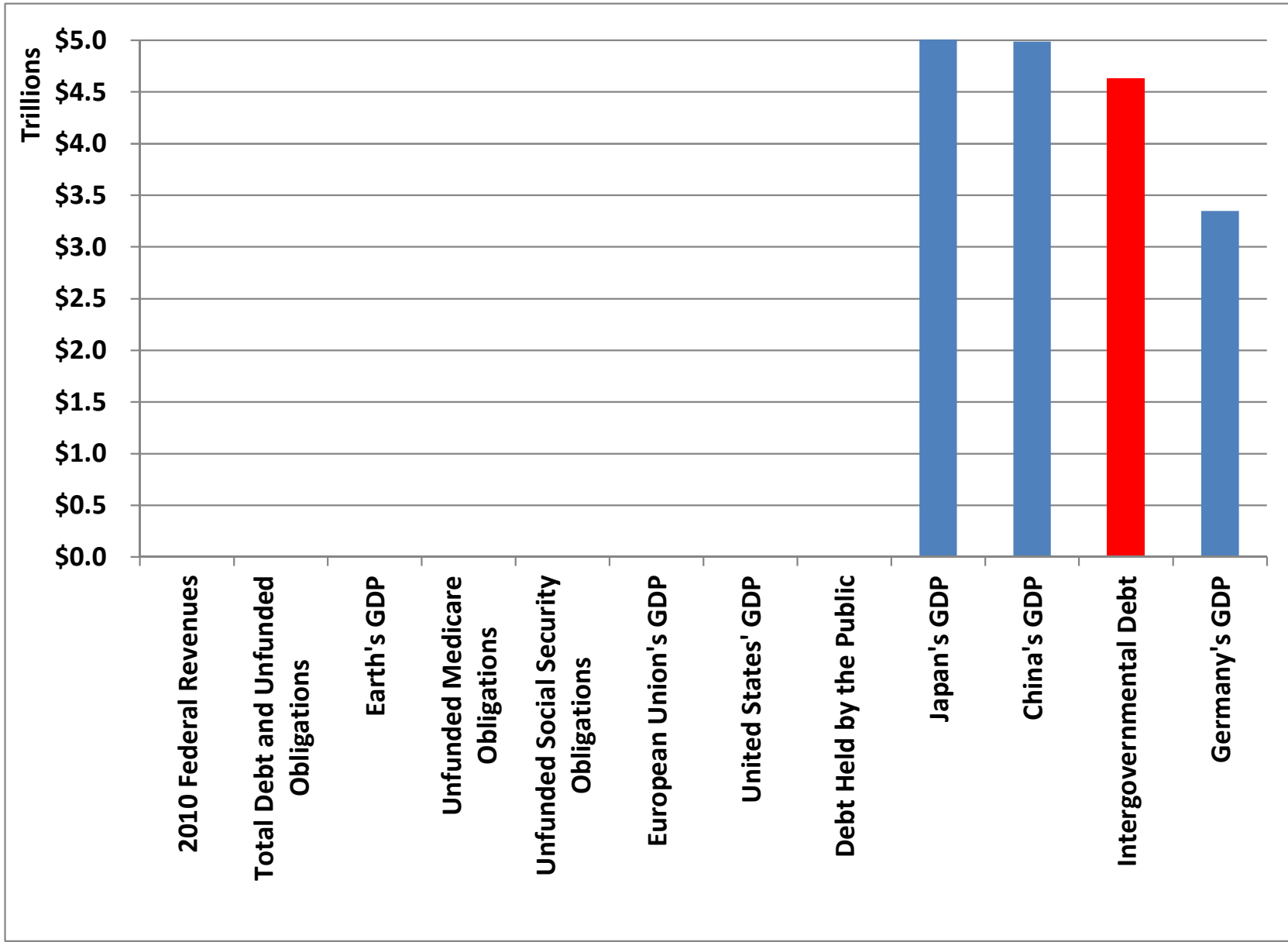
Data pwns pride and prejudice.

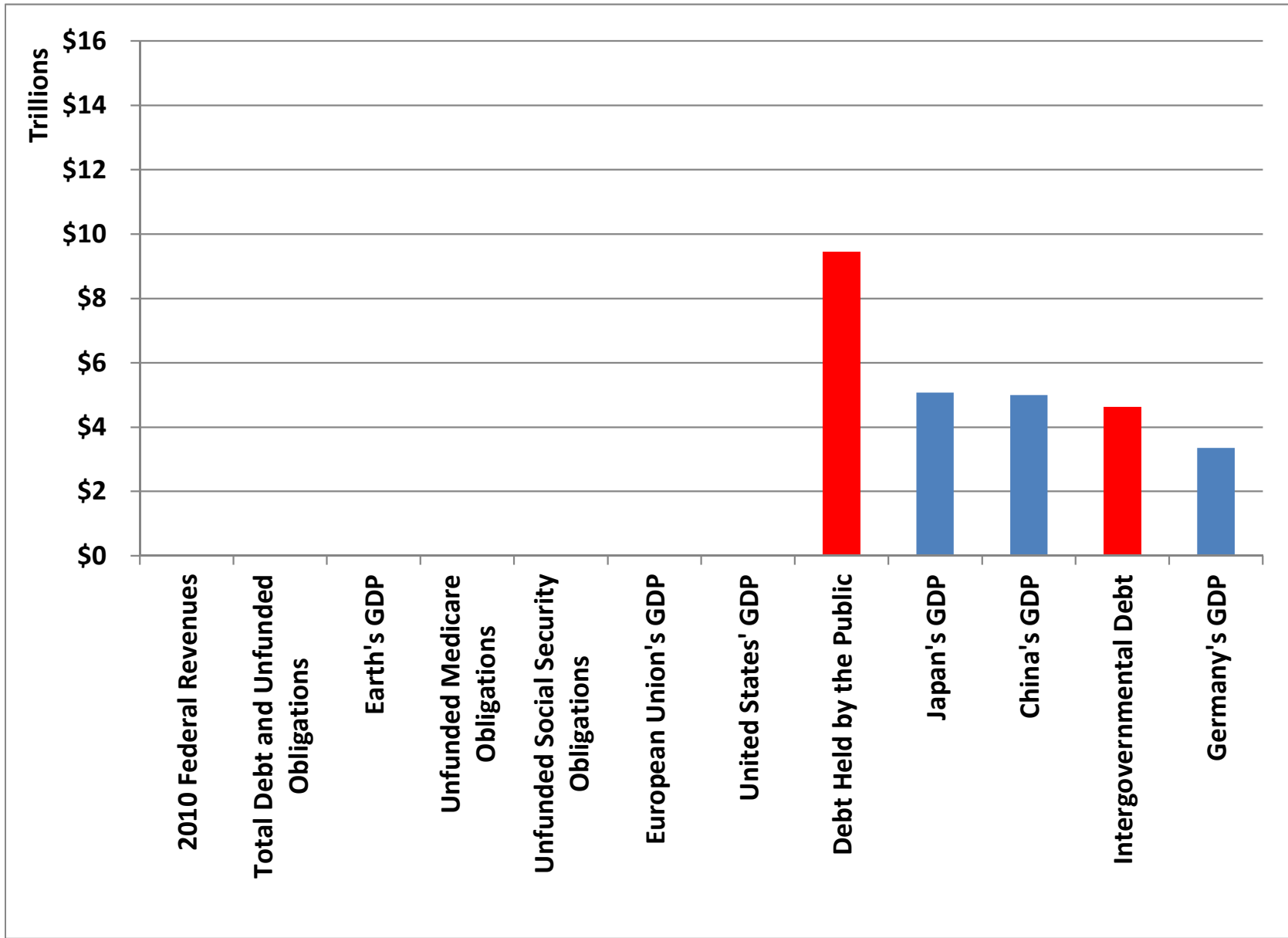
Conventional Wisdom #1

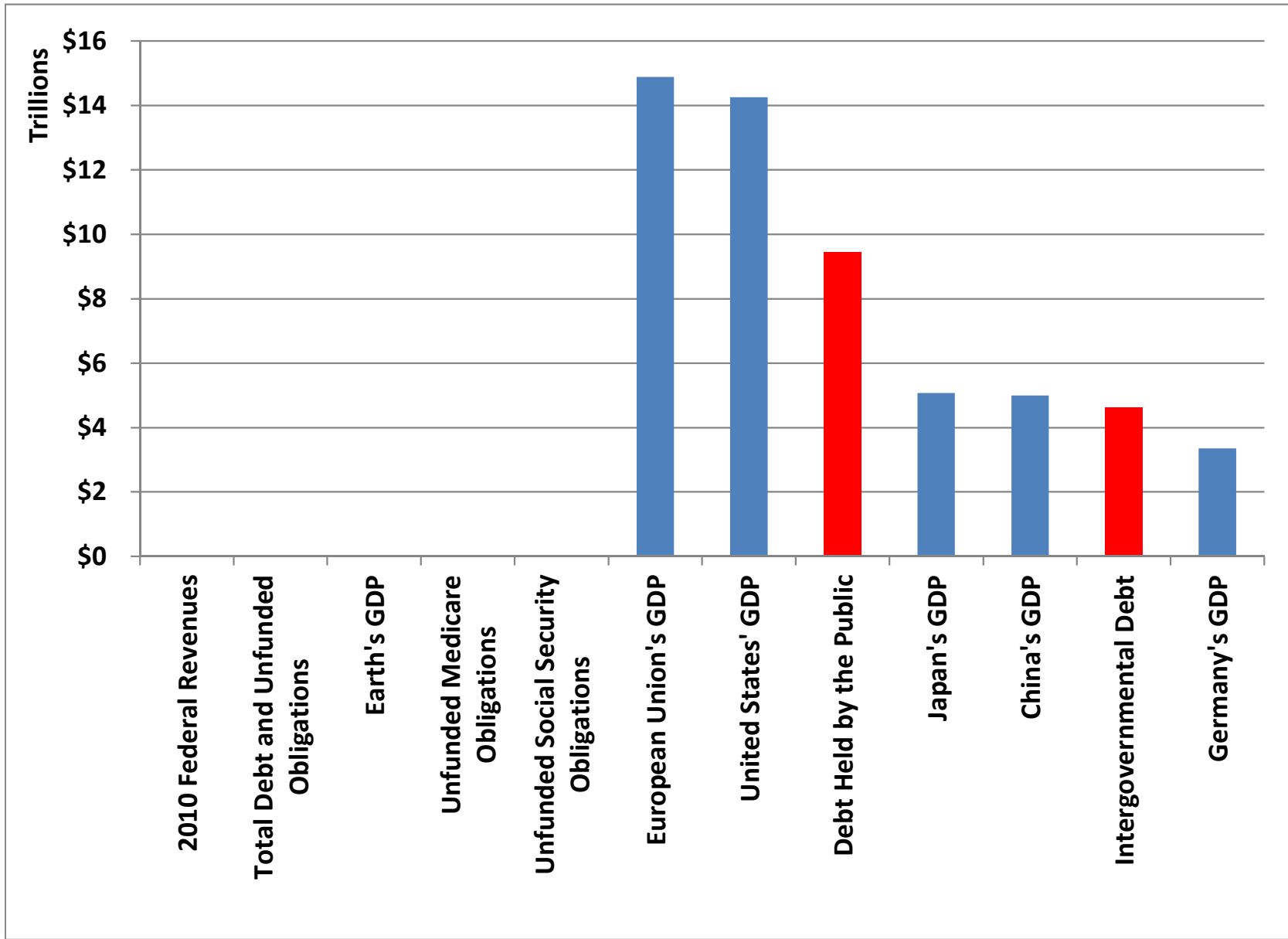
The government is financially sound.

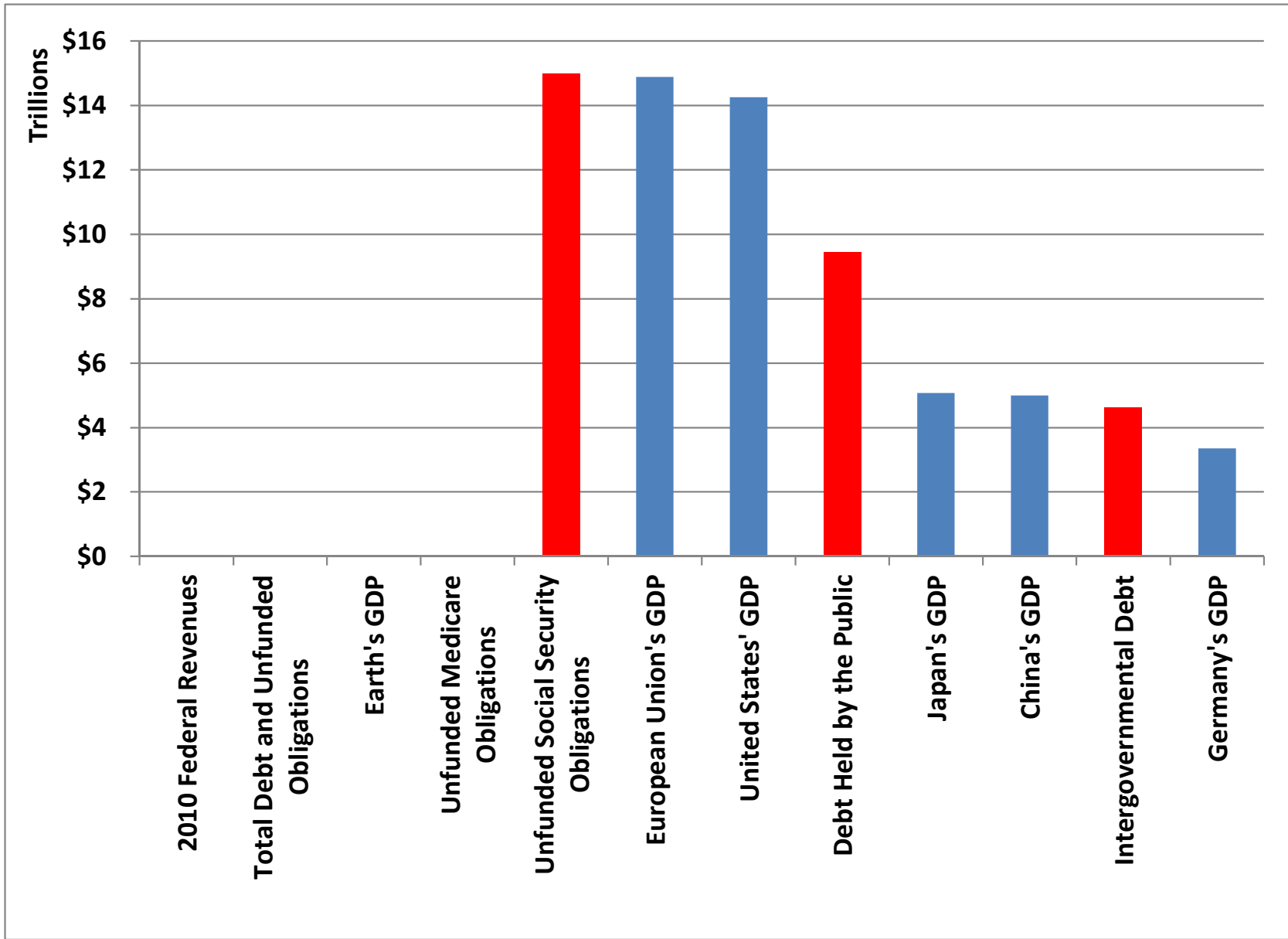


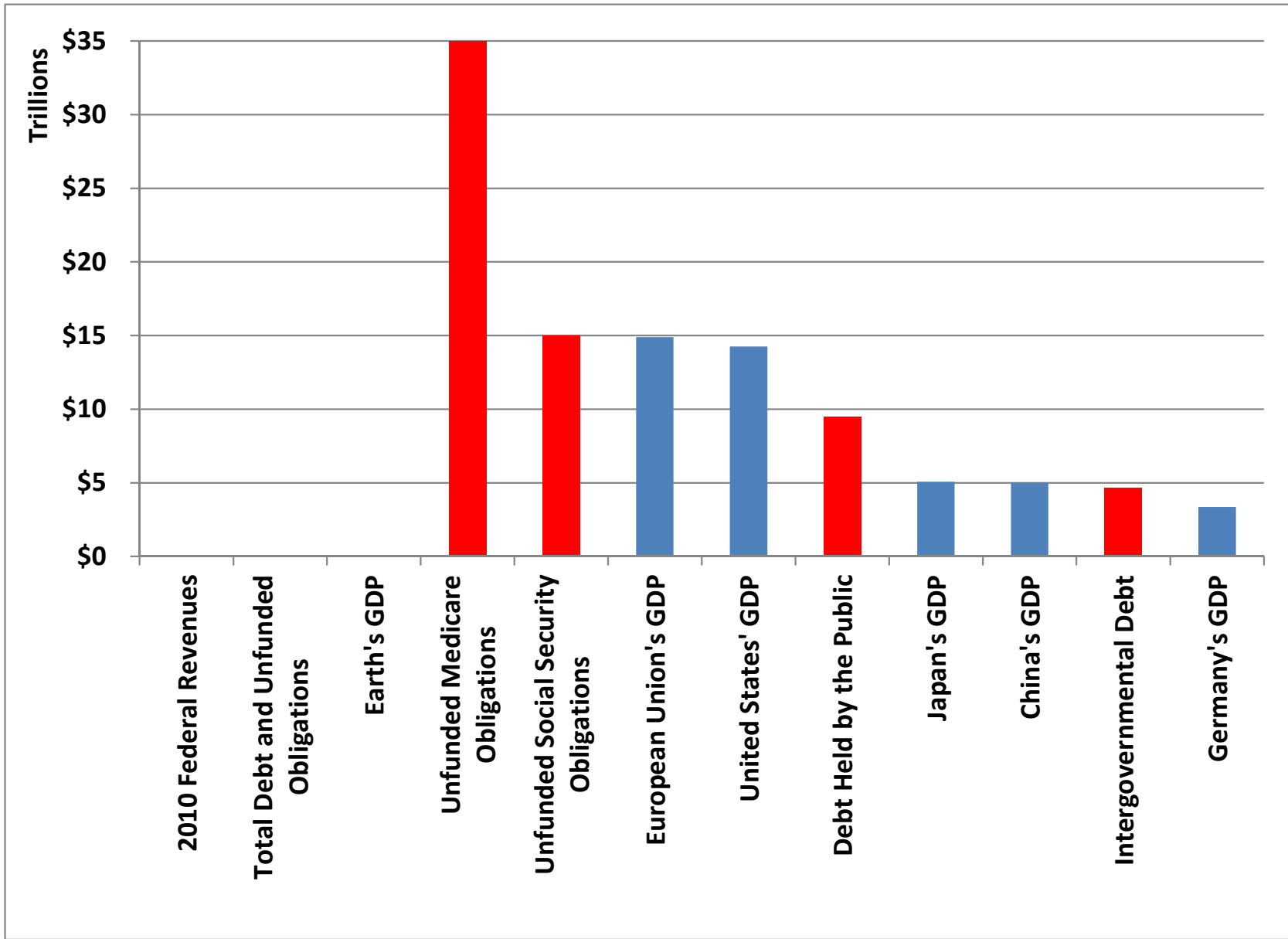


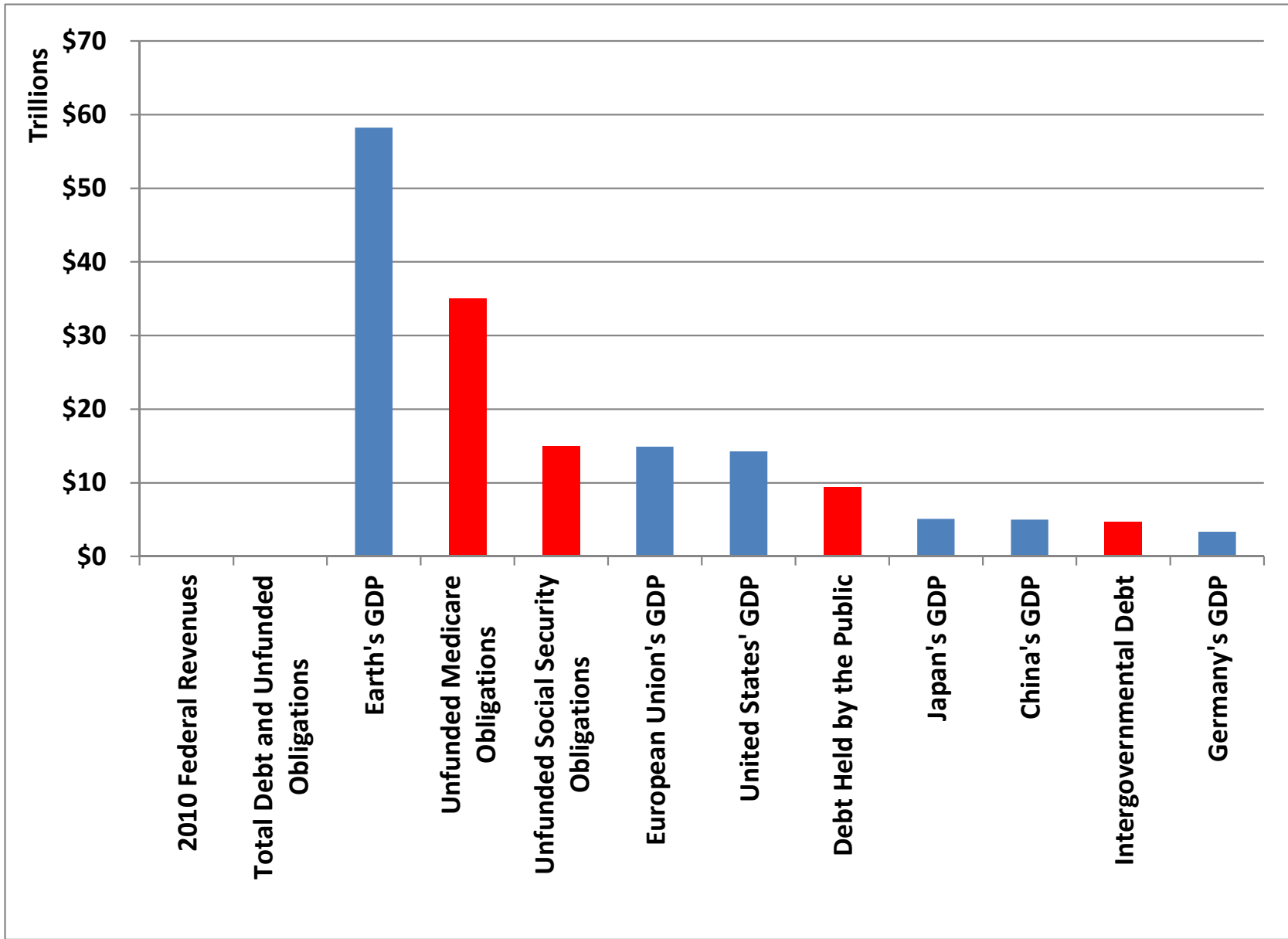


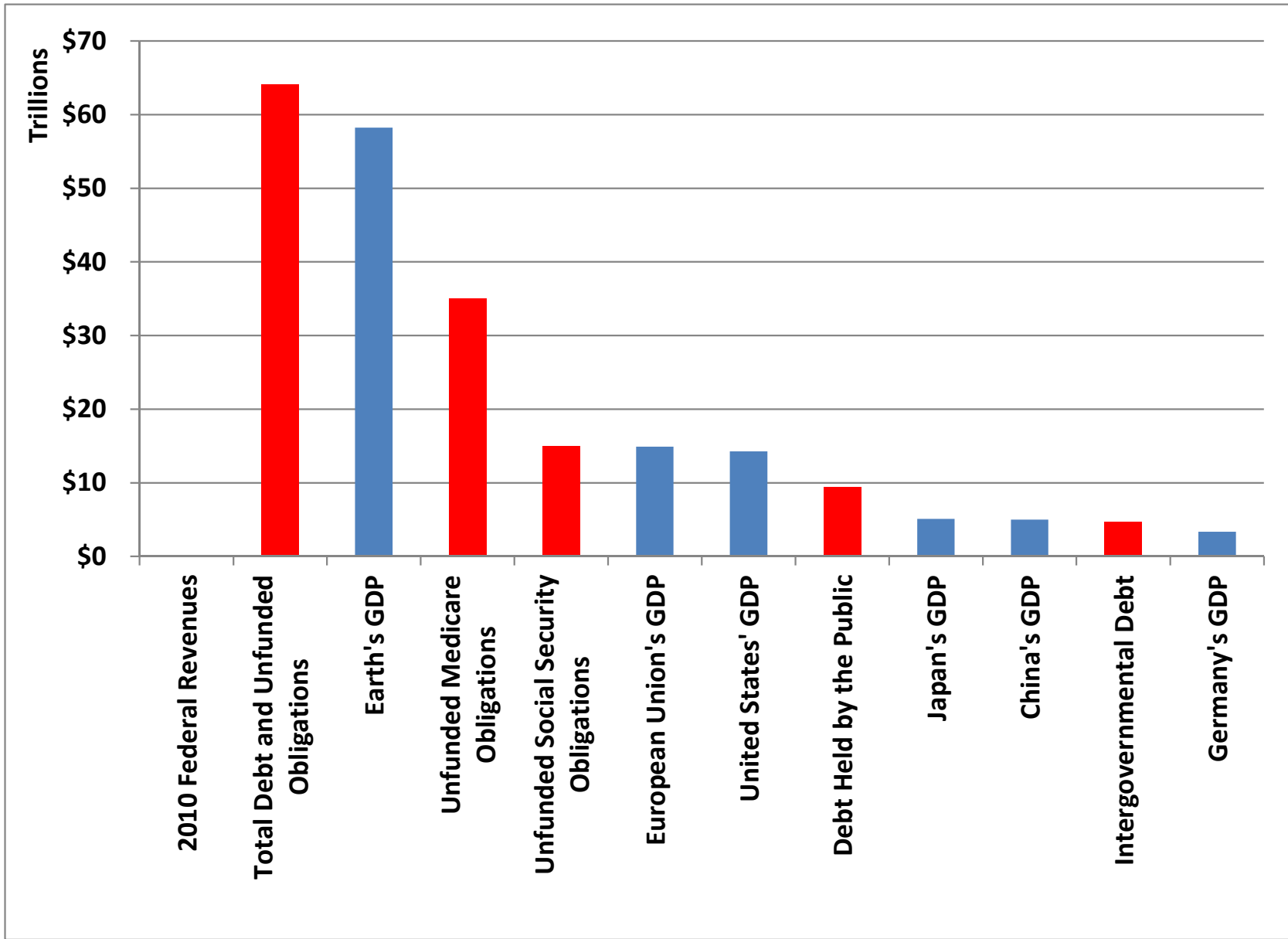


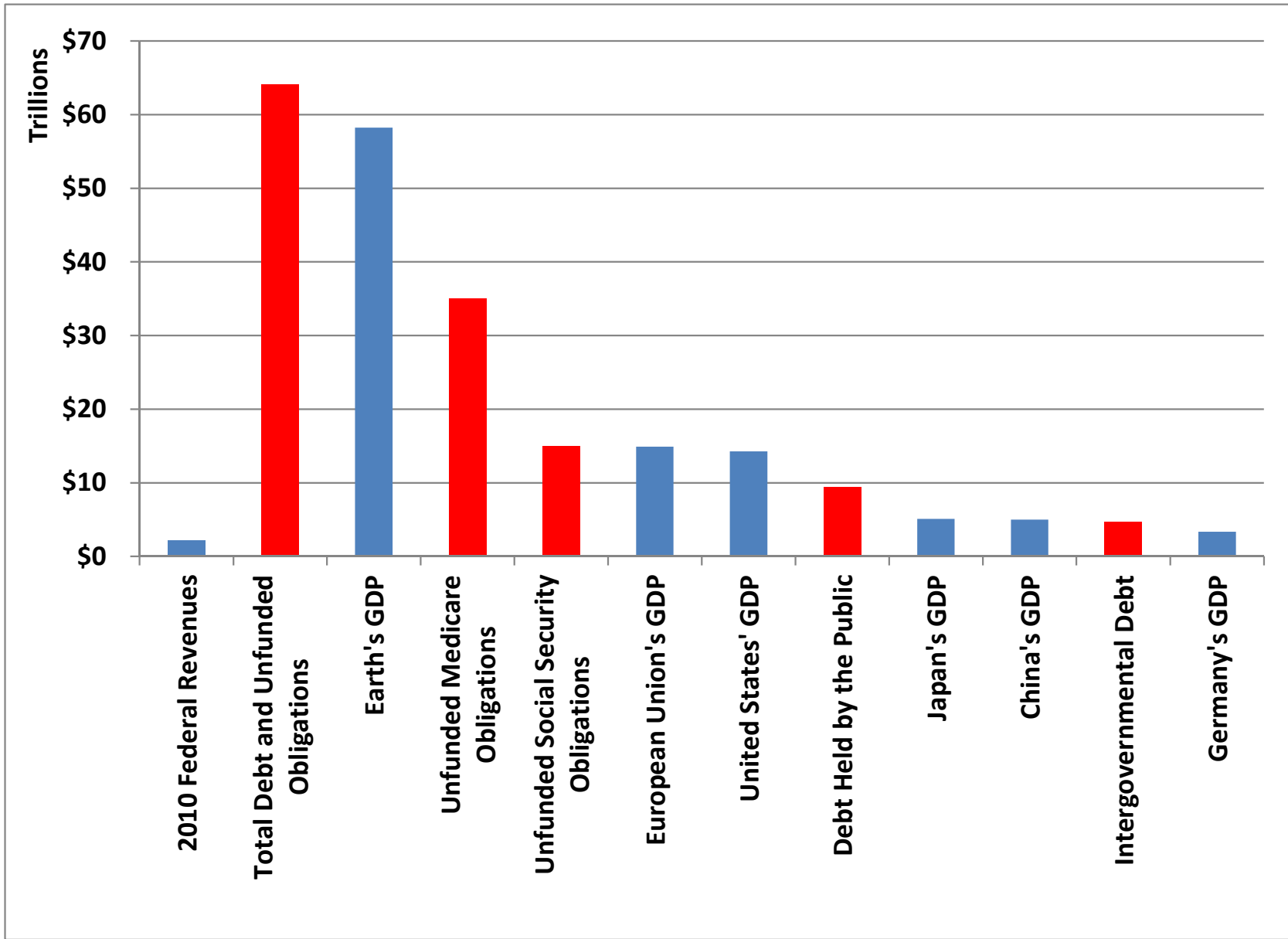












In perspective...

The President's 2012 budget includes a \$300 million cut in Community Development Block Grants.

The cuts will fund the government for a total of 45 minutes.



Conventional Wisdom #1

The government is financially sound.

Data: The government will soon reach a point at which it will be mathematically impossible to pay its debts.

Conventional Wisdom #2

The government has a debt problem.

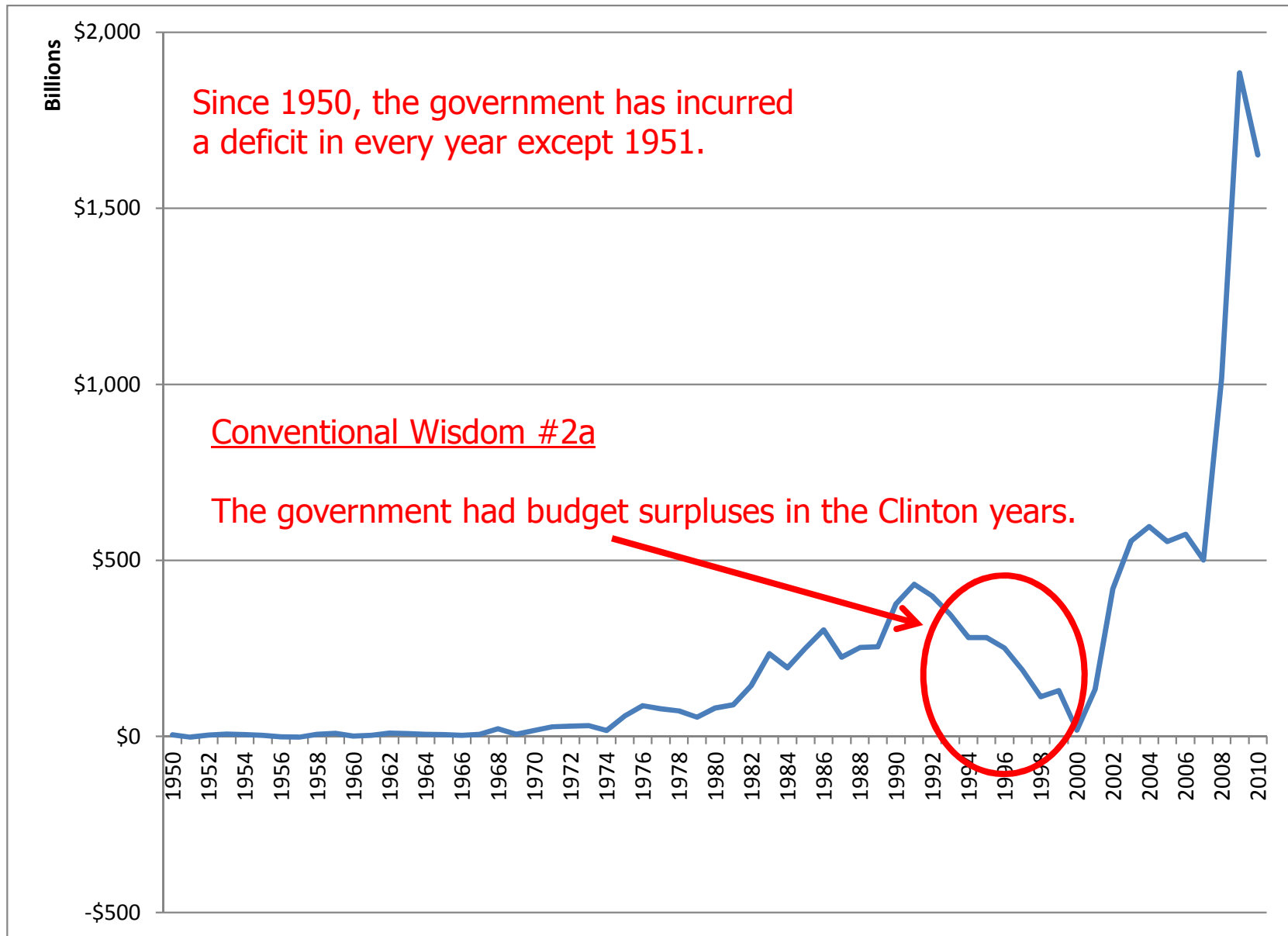
But, debt is caused by deficits.

So, the government really has a deficit problem.

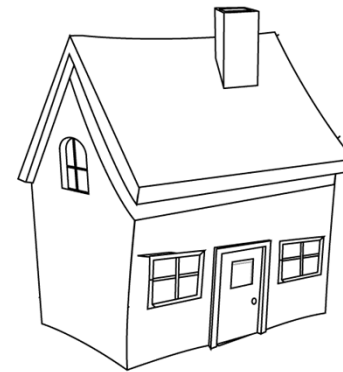
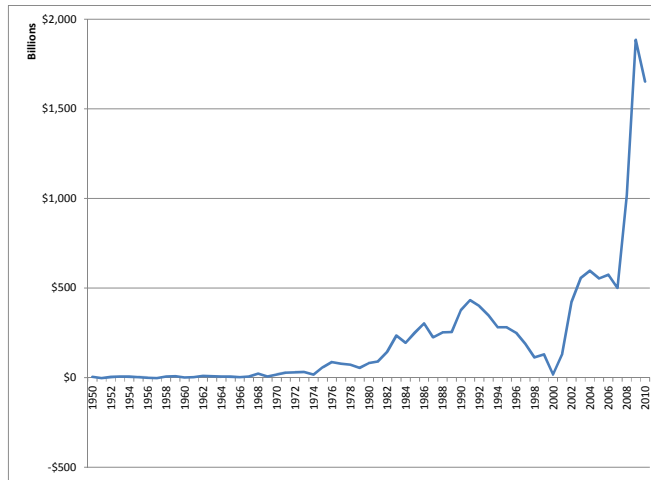
Deficit



Debt



Data source: US Department of the Treasury (public debt outstanding)



Federal tax revenues = \$2.2 trillion

Federal spending = \$3.8 trillion

Federal debt = \$14.3 trillion

Income = \$50,000

Spending = \$84,000

Debt = \$325,000

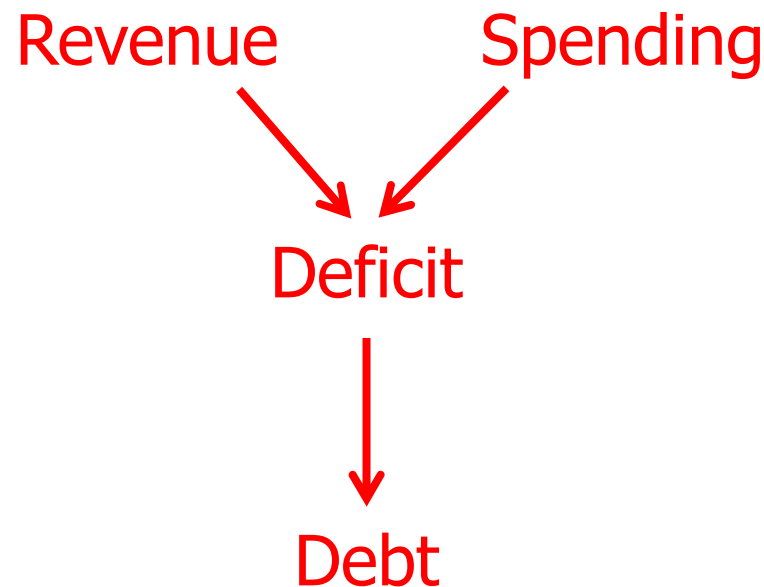
Conventional Wisdom #2

The government has a debt problem.

Data: The government wouldn't have a debt problem if it would quit running deficits.

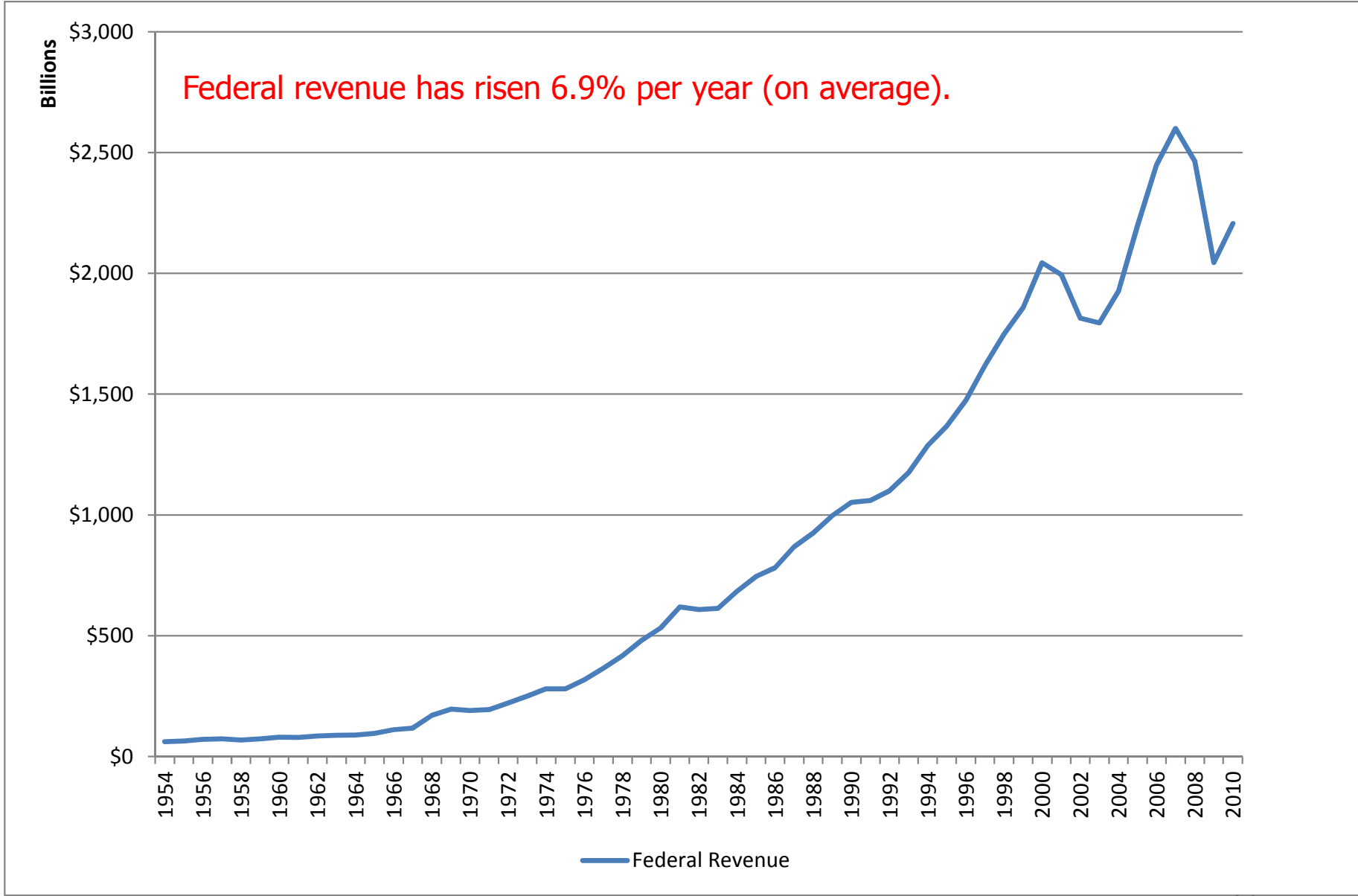
But, a deficit is caused by either too little revenue or too much spending.

So, we really have revenue and spending problem.

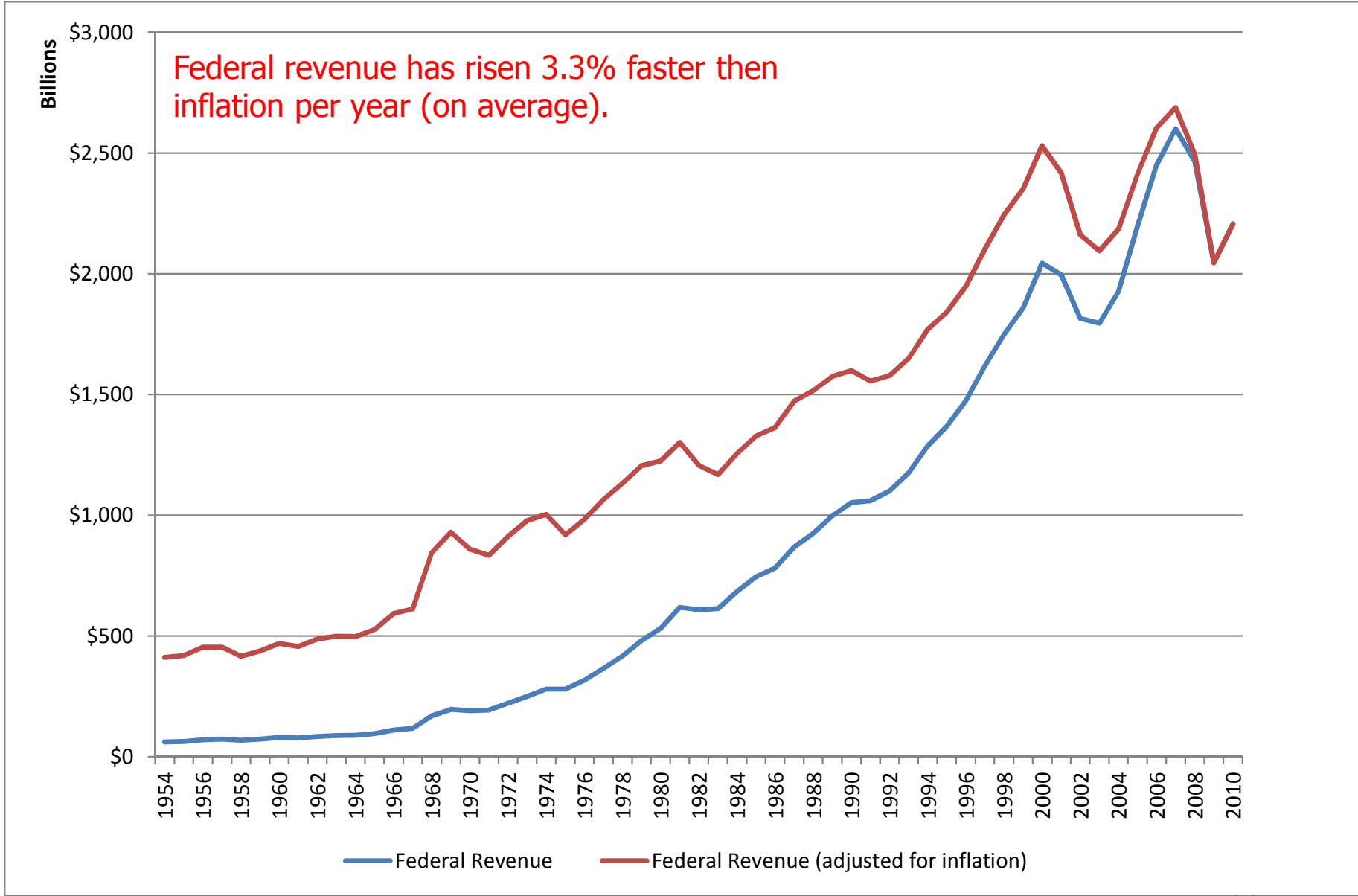


Conventional Wisdom #3

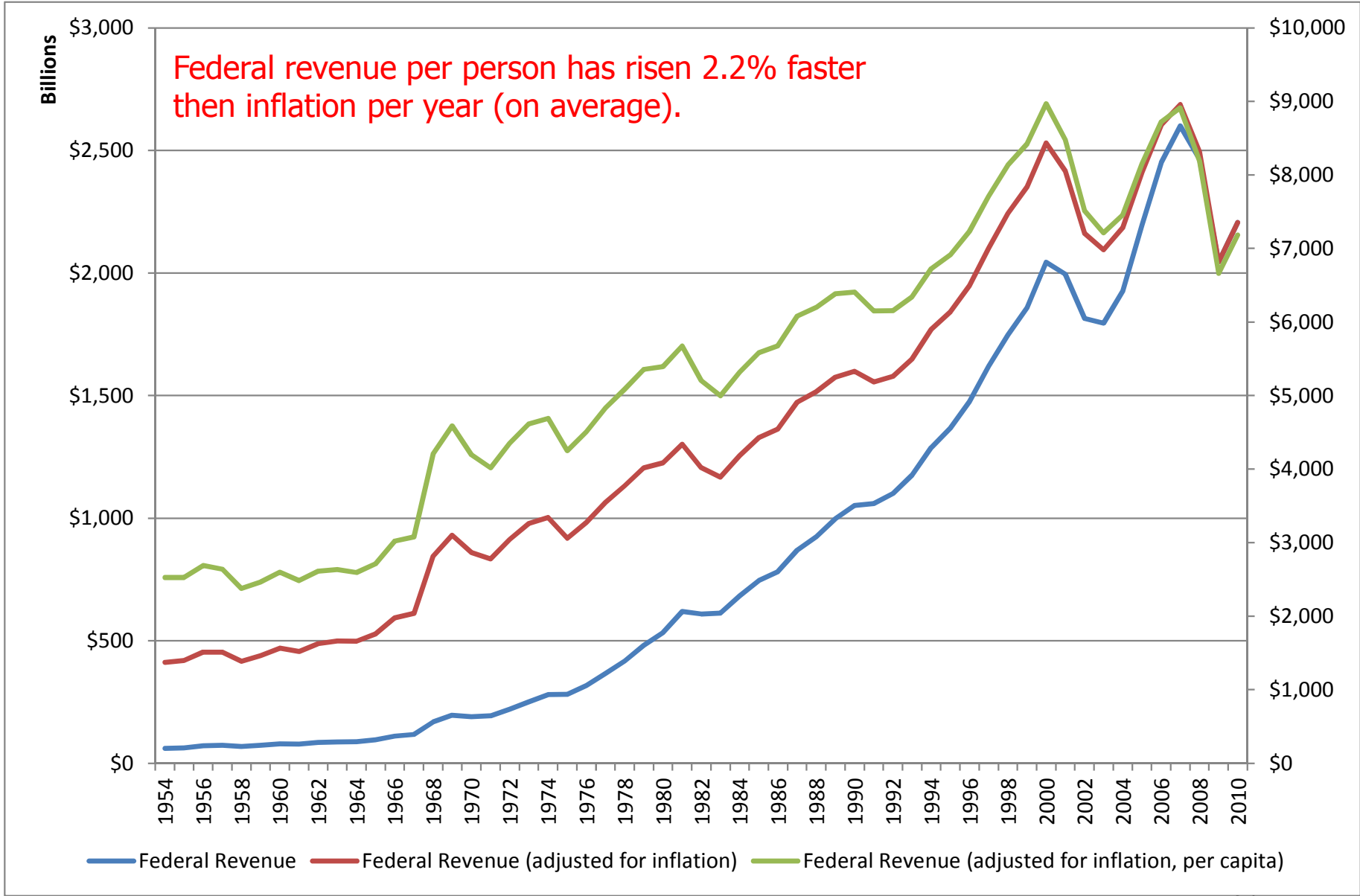
The government has a revenue problem.



Data source: US Department of the Treasury



Data source: US Department of the Treasury



Data source: US Department of the Treasury

Conventional Wisdom #3

The government has a revenue problem.

Data: Government revenue has been rising on an inflation-adjusted and population-adjusted basis.

So what if revenue has been rising?

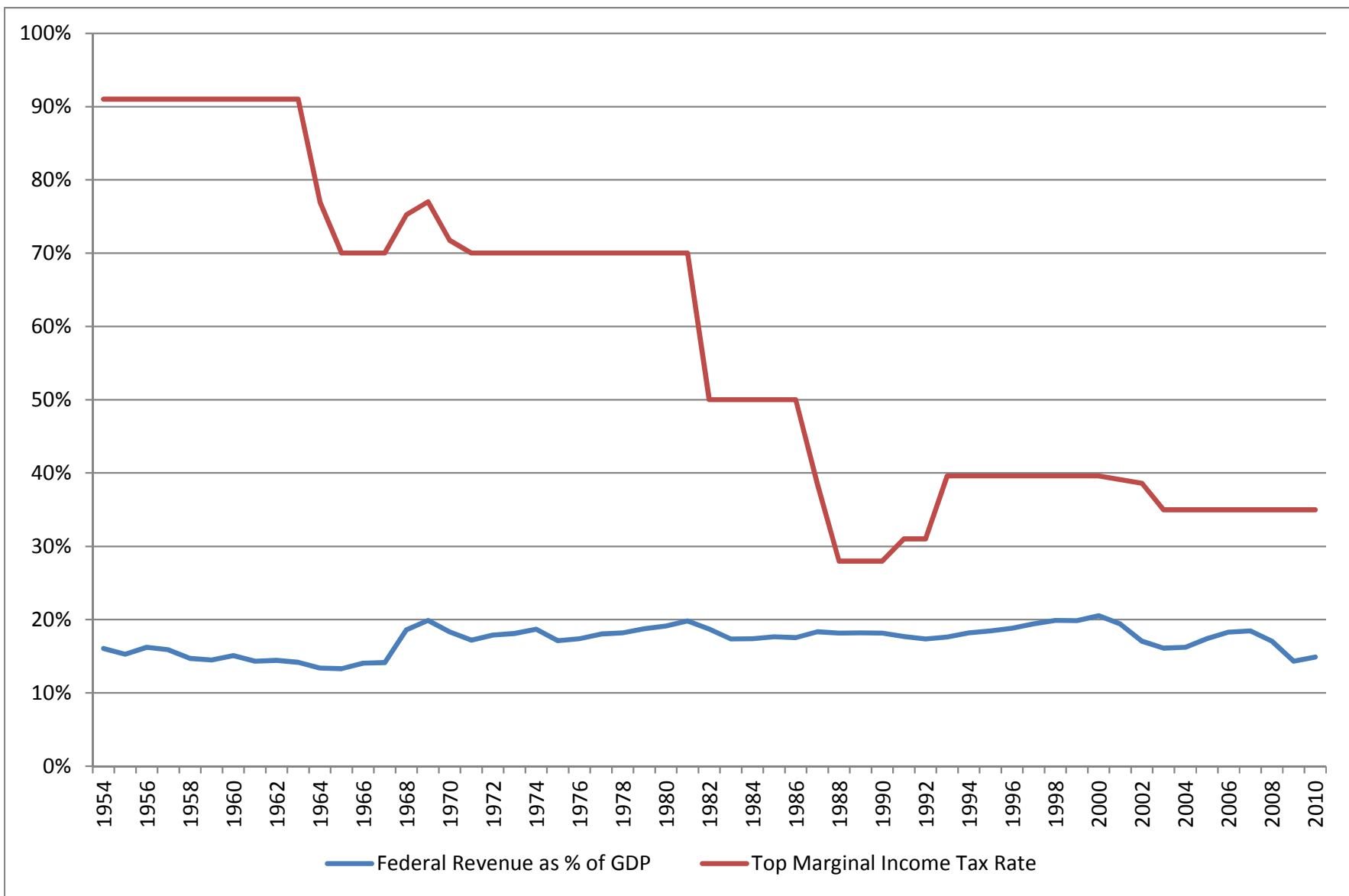
It needs to rise more.

We need to raise taxes!

Tax the rich!

Conventional Wisdom #4a

Raising tax rates on the rich raises revenue.



Data sources: IRS, Bureau of the Census

Conventional Wisdom #4a

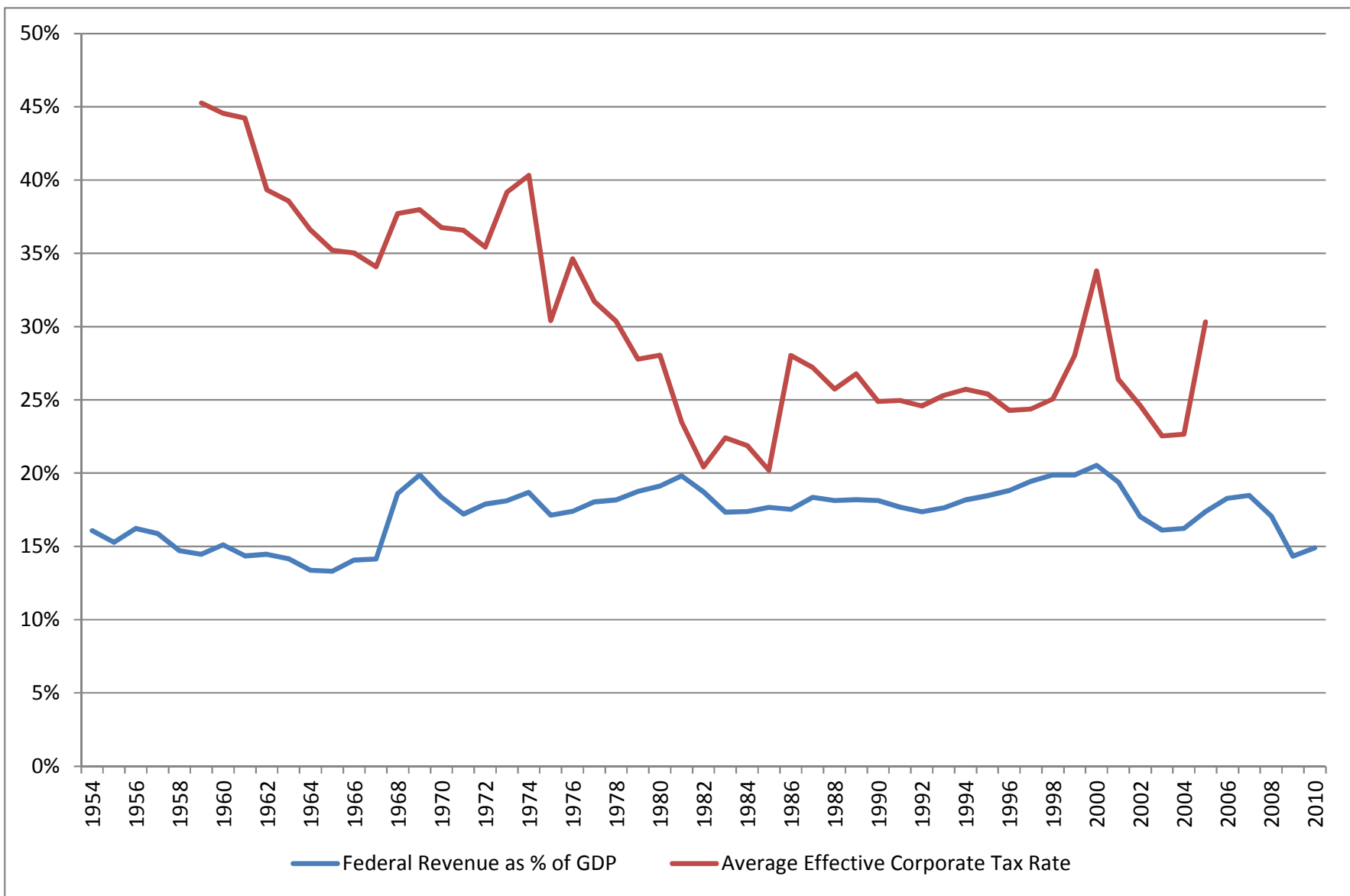
Raising tax rates on the rich raises revenue.

Data: Regardless of the top marginal income tax rate, the government collects 18% of GDP in taxes.

Tax corporations!

Conventional Wisdom #4b

Raising corporate tax rates raises revenue.



Data sources: IRS, Bureau of the Census

Conventional Wisdom #4b

Raising corporate tax rates raises revenue.

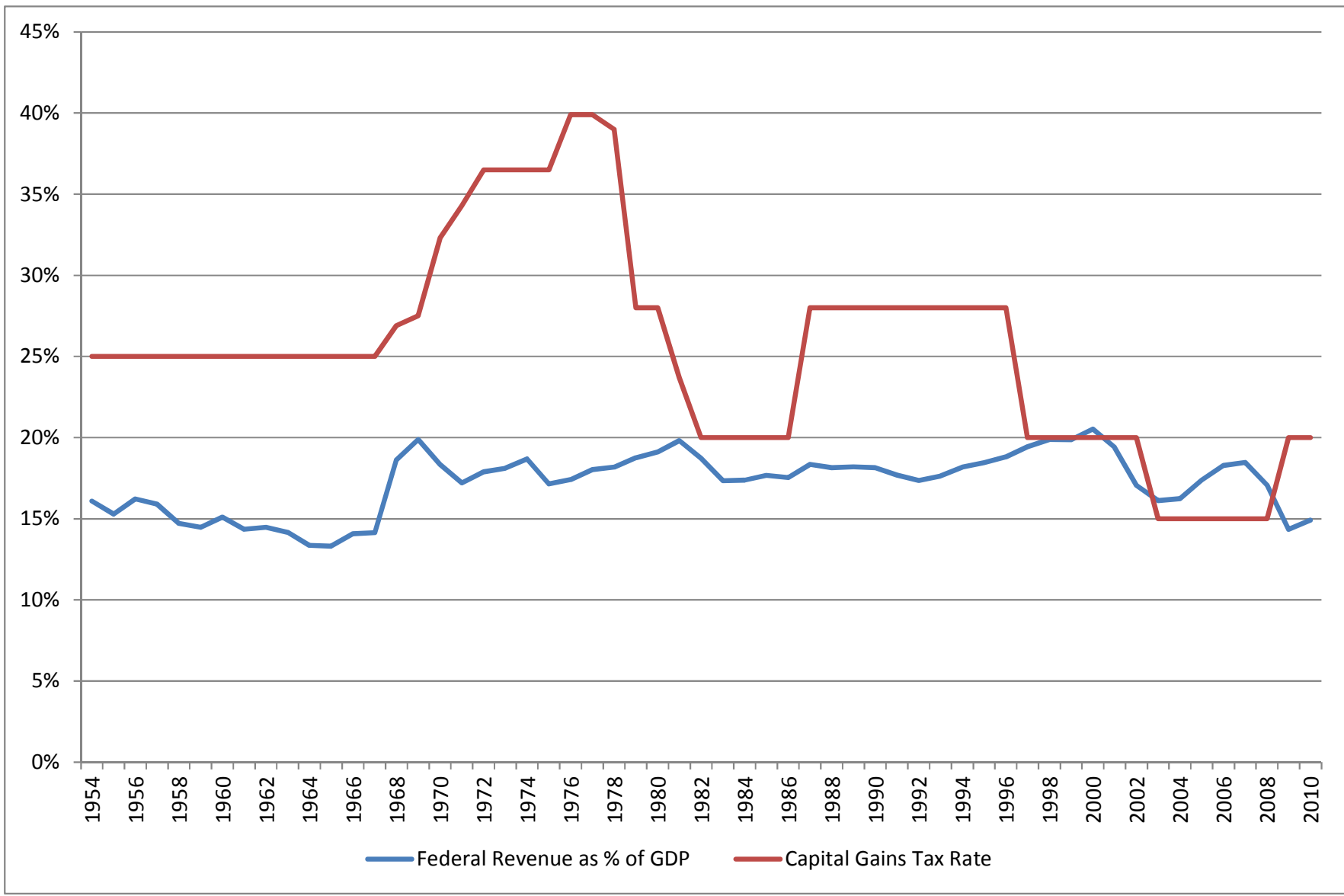
Data: **Regardless of corporate tax rates, the government collects 18% of GDP in taxes.**

Conventional Wisdom #4c

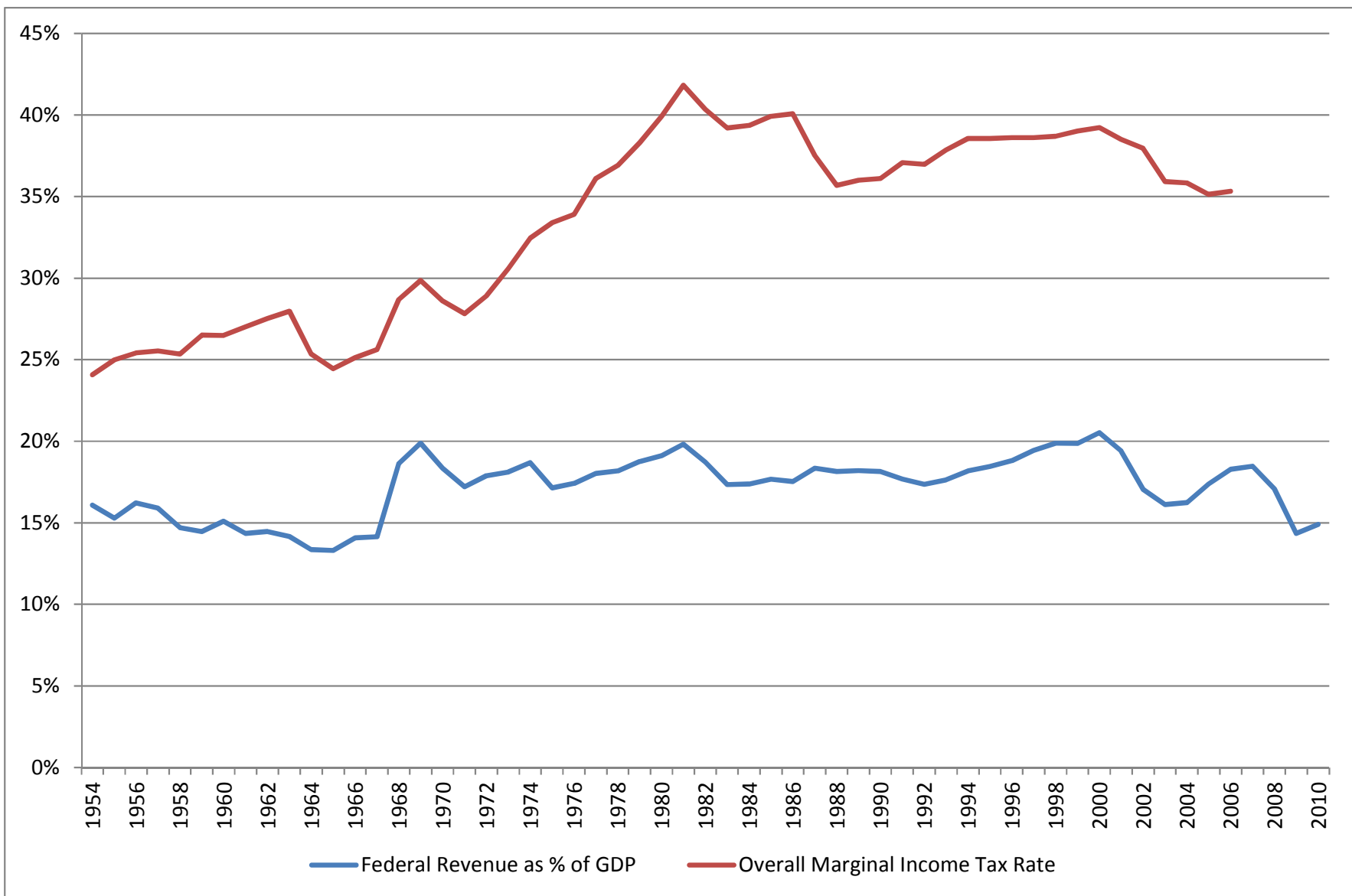
Raising capital gains tax rates raises revenue.

Conventional Wisdom #4d

Raising tax rates on the general population raises revenue.



Data sources: IRS, Bureau of the Census



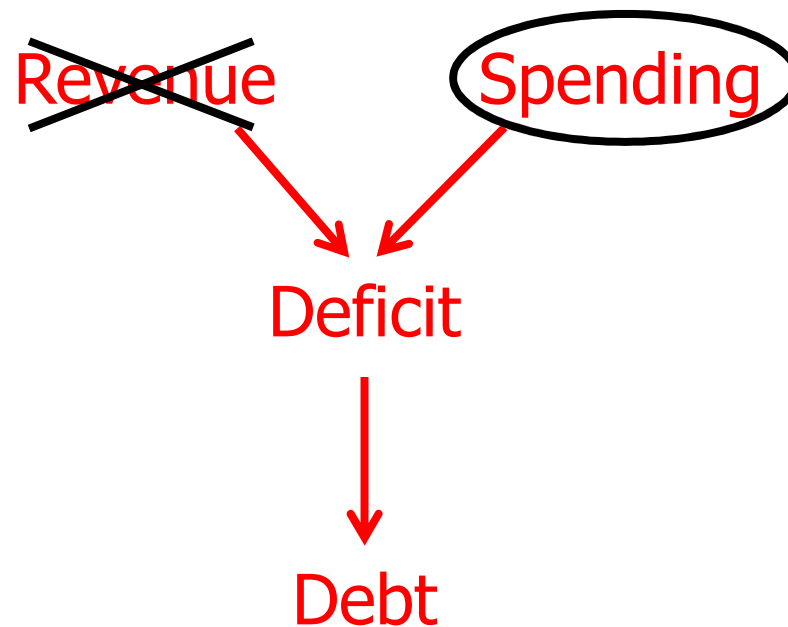
Data sources: IRS, Bureau of the Census, Barro and Redlick (2009)

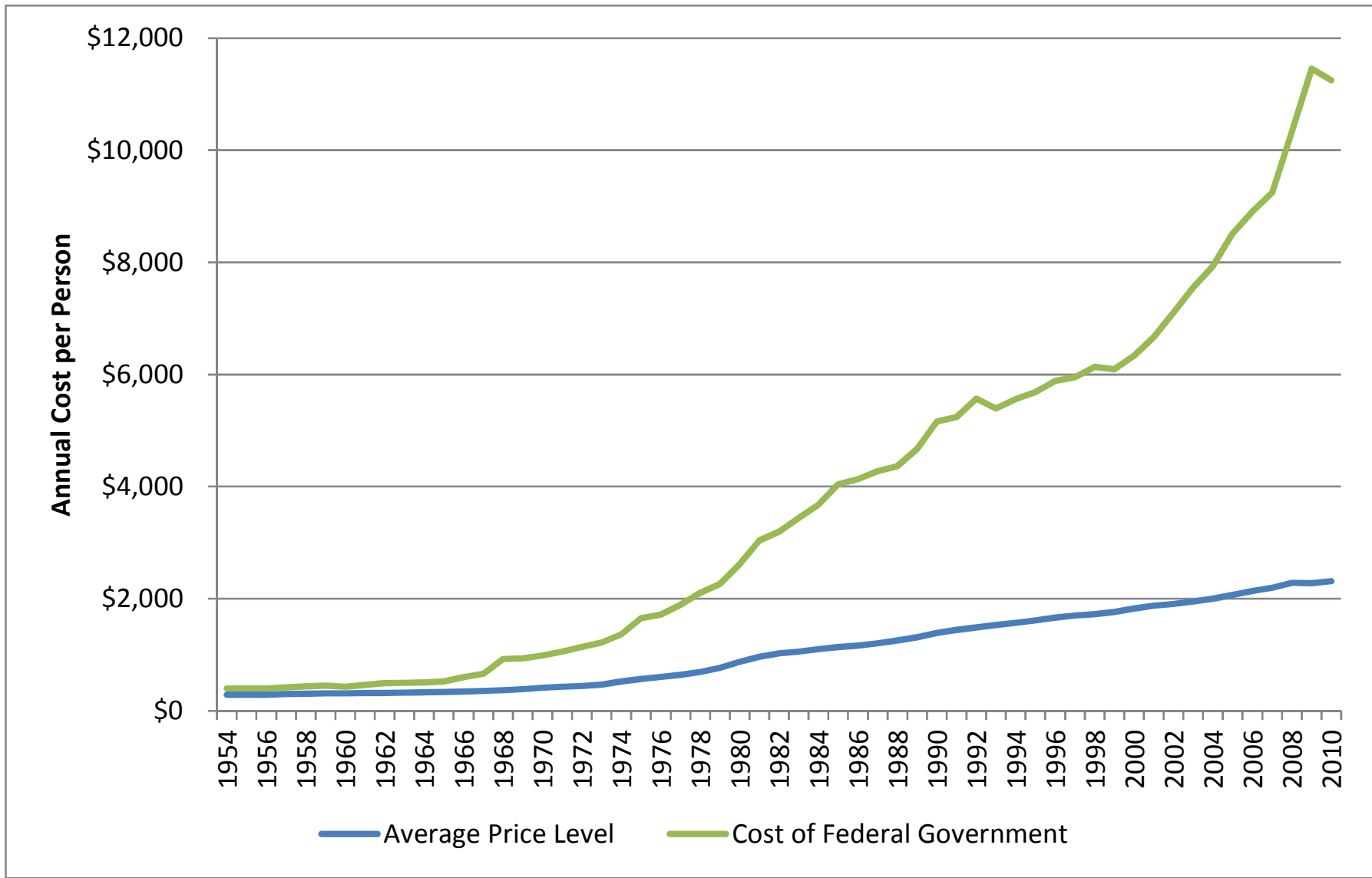
Conventional Wisdom #4

Raising tax rates raises revenue.

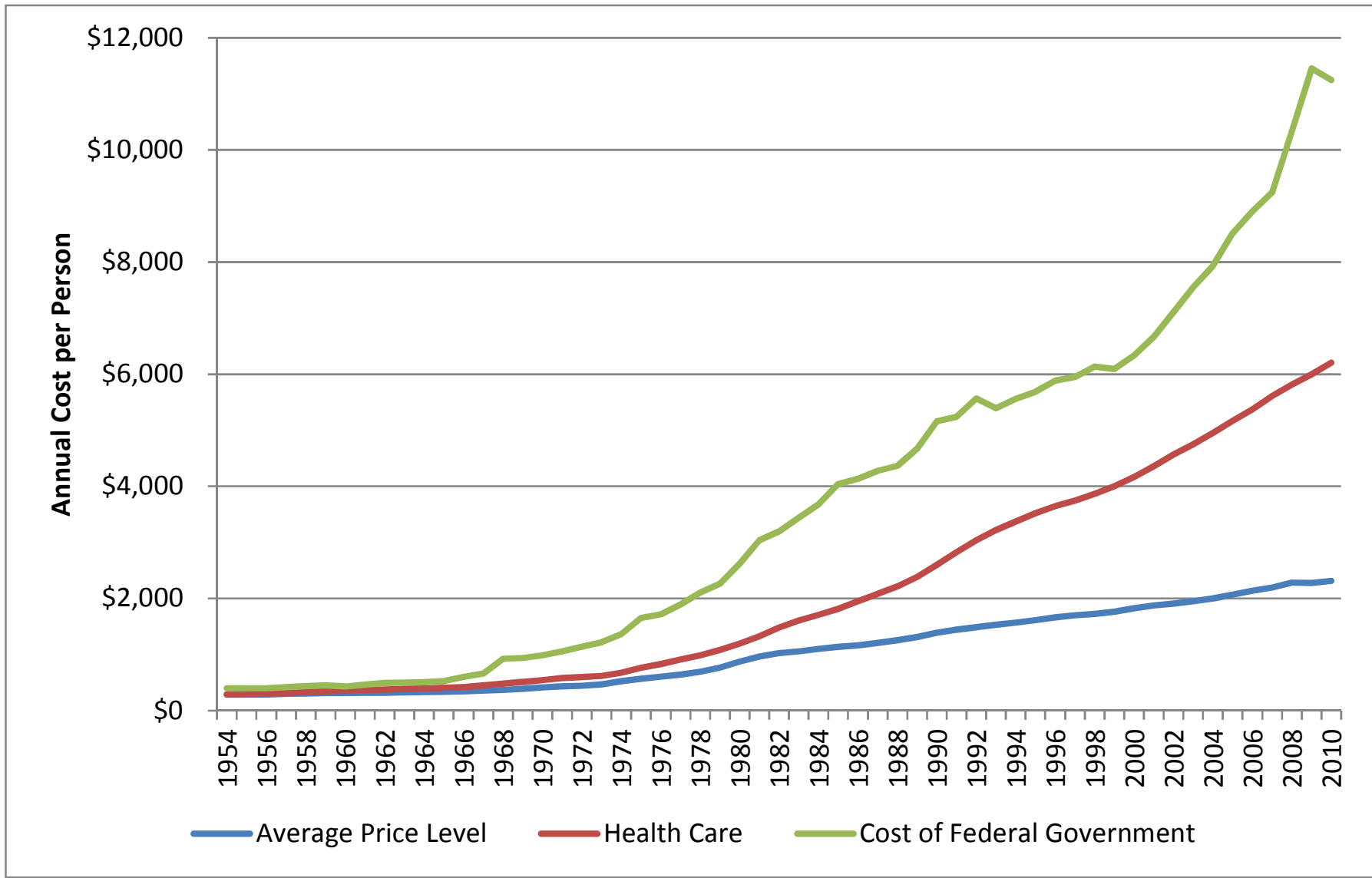
Data: Regardless of tax policy, the government collects 18% of GDP in taxes.

What we really have is a spending problem.





Data sources: Bureau of Labor Statistics, Bureau of Economic Analysis



Data sources: Bureau of Labor Statistics, Bureau of Economic Analysis

But we have to spend to create jobs!

Conventional Wisdom #5

Government spending stimulates the economy.



TARP = \$356 b.

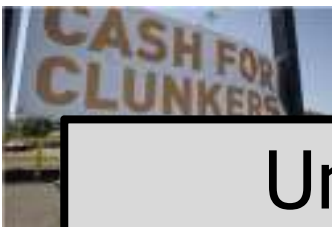


Federal Reserve = \$1,500 b.



Total (net) stimulus = \$3 trillion

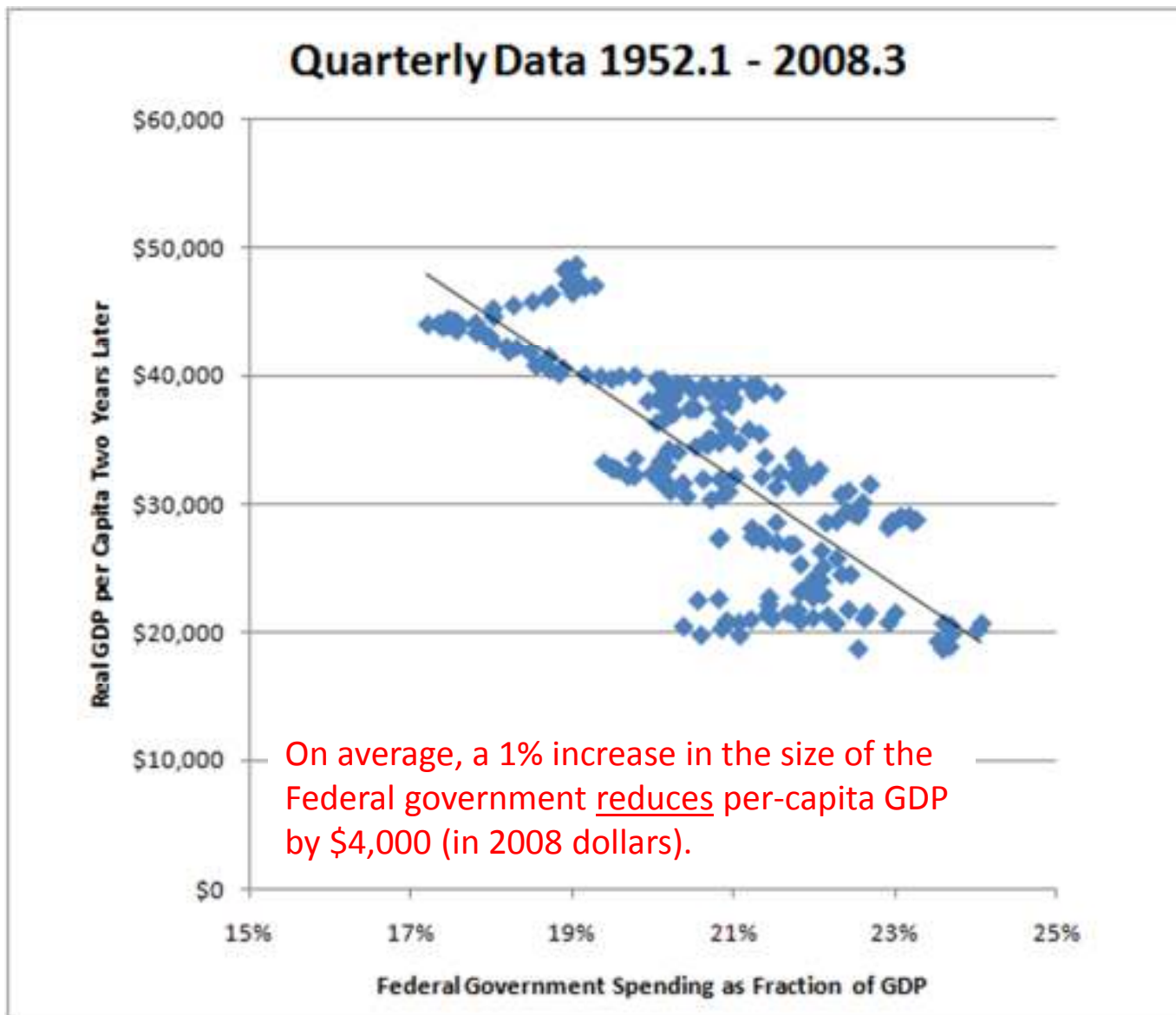
Financial Initiatives = \$366 b.



Unemployment pre-stimulus = 6%
Unemployment post-stimulus = 10%



Data source: money.cnn.com/news/storysupplement/economy/bailouttracker/



Data source: U.S. Census Bureau

Conventional Wisdom #5

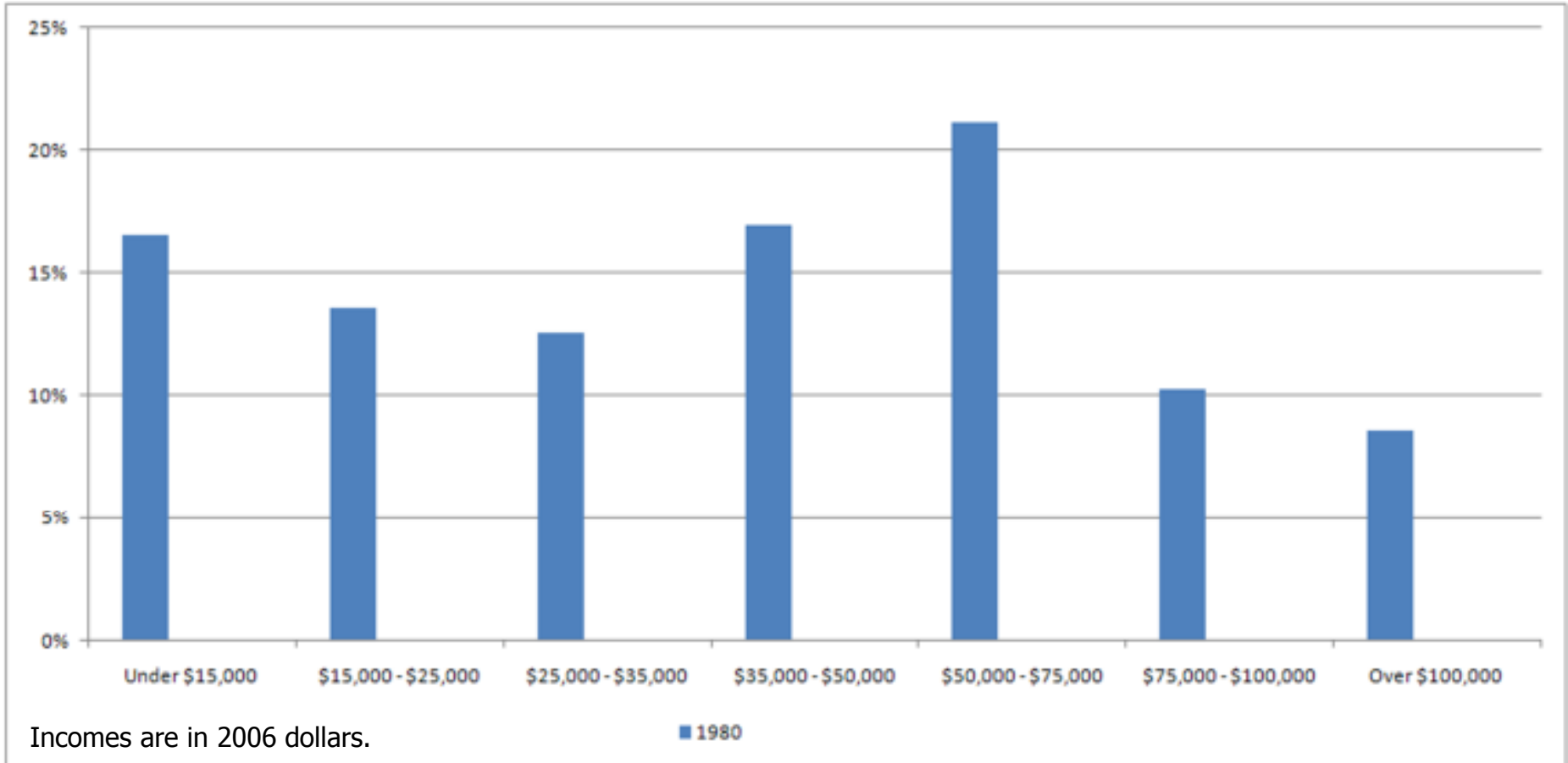
Government spending stimulates the economy.

Data: On average, government spending suppresses the economy.

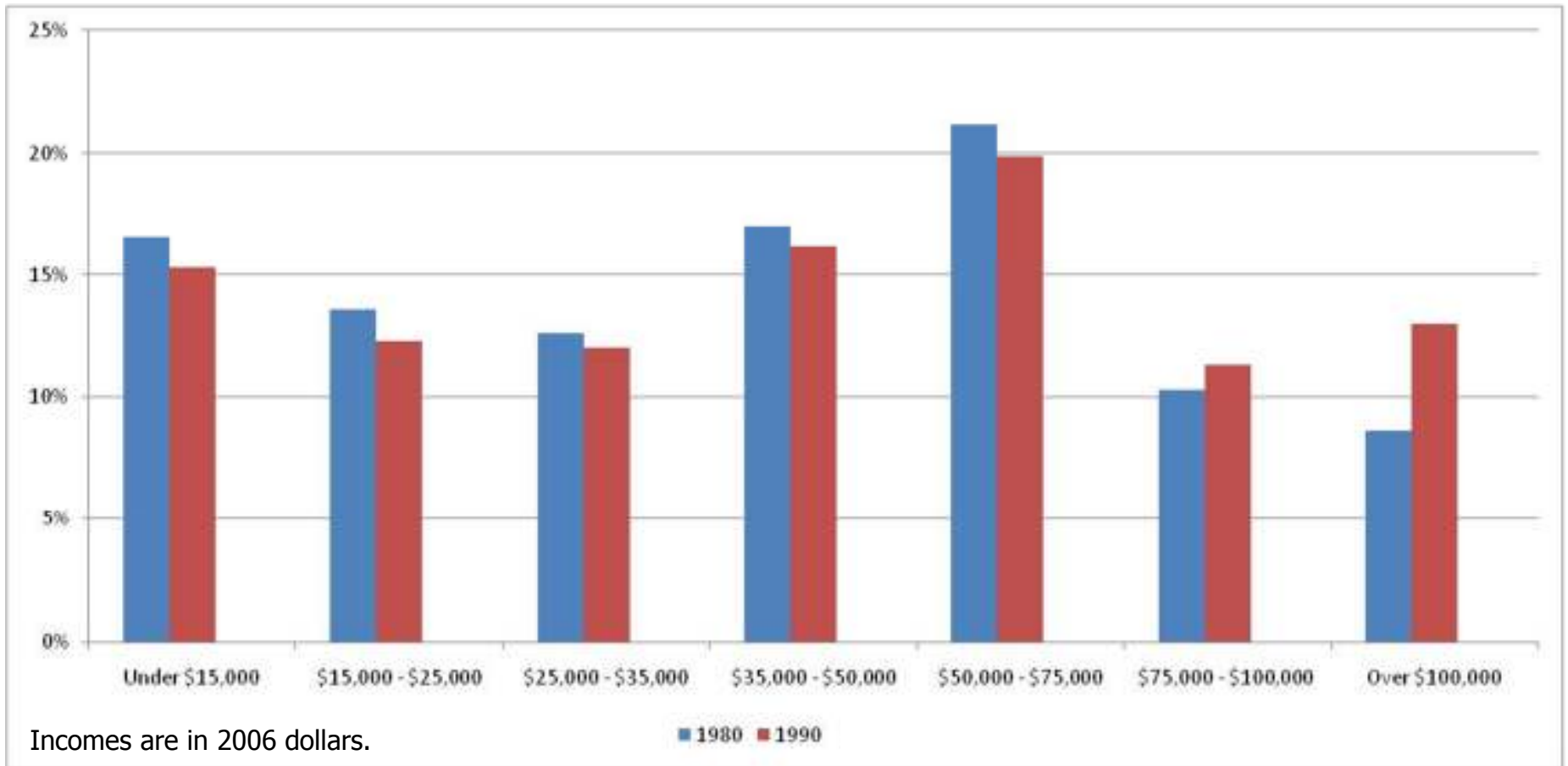
We have to do something! The rich are getting richer and the poor are getting poorer!

Conventional Wisdom #6

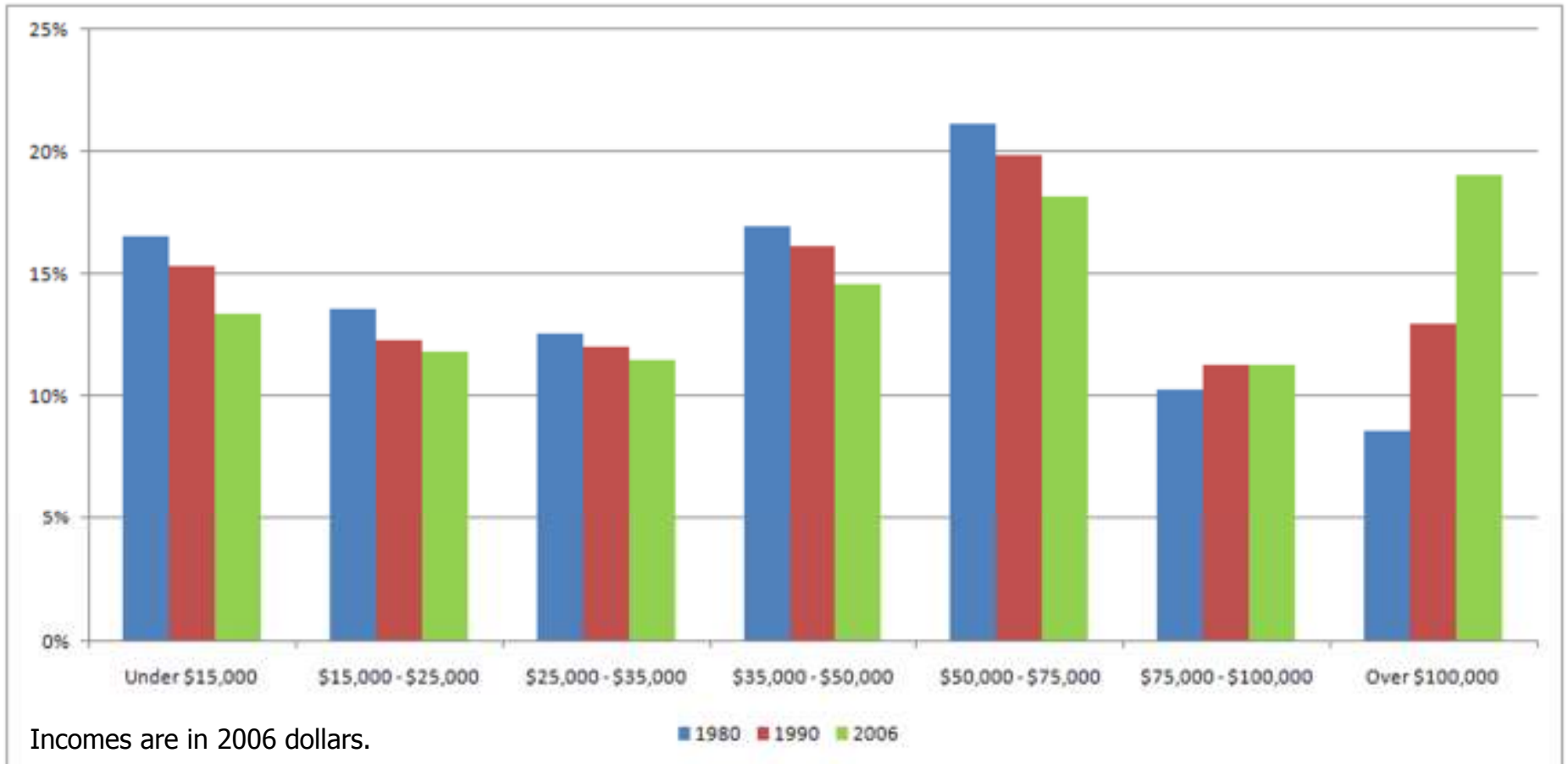
The rich get richer while the poor get poorer.



Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 2009, Table 668.

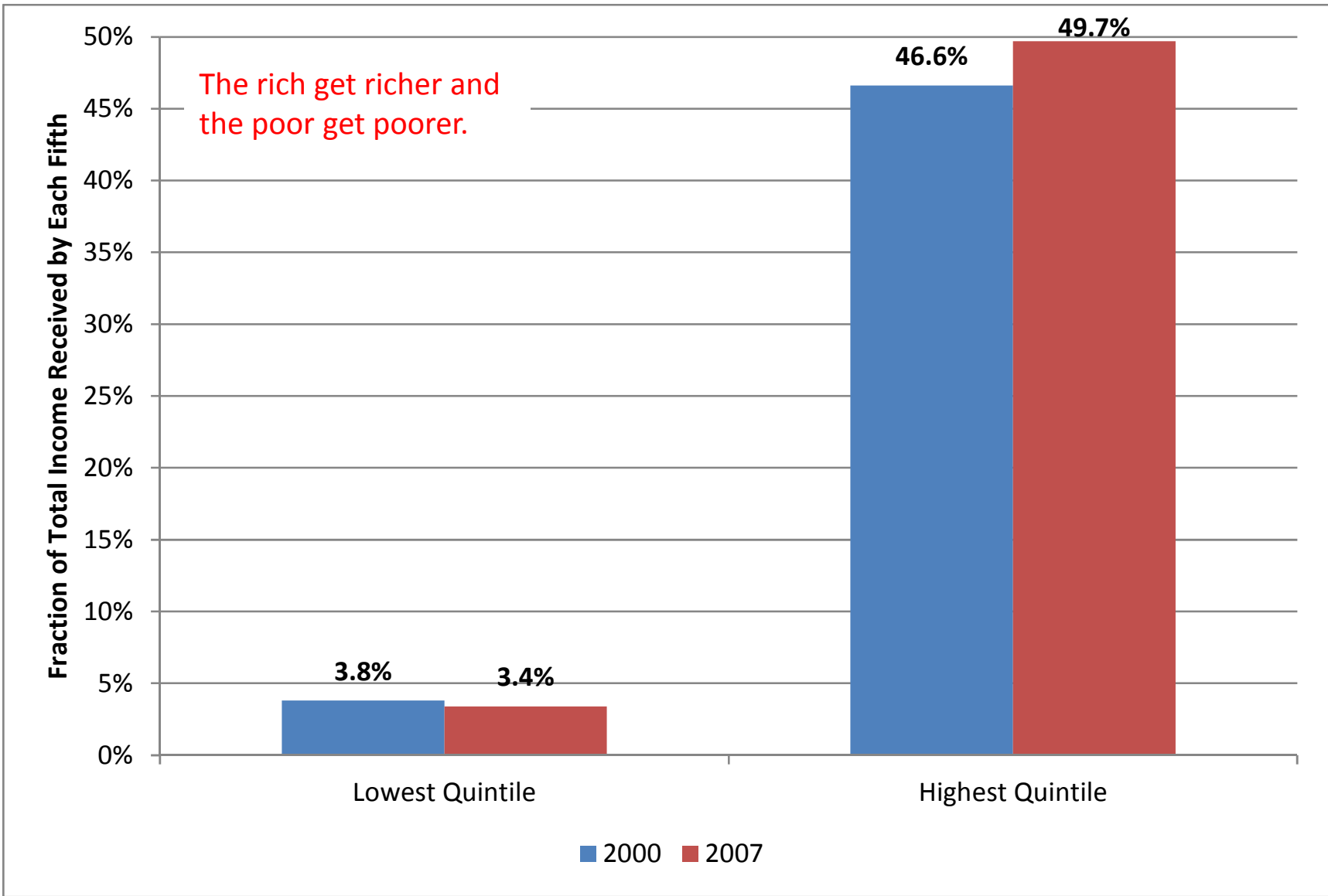


Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 2009, Table 668.

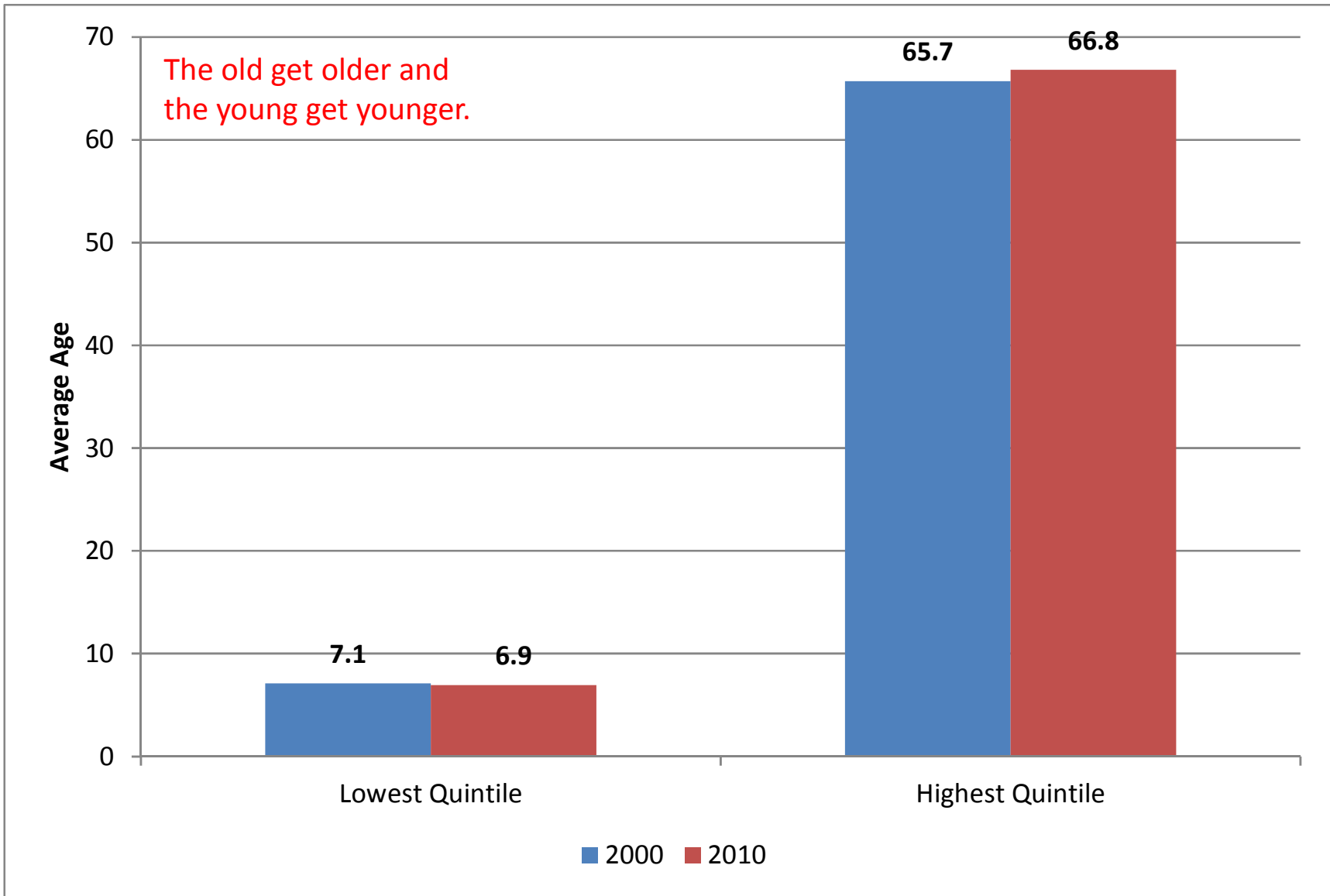


Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 2009, Table 668.

wtf?



Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 2010, Table 678.

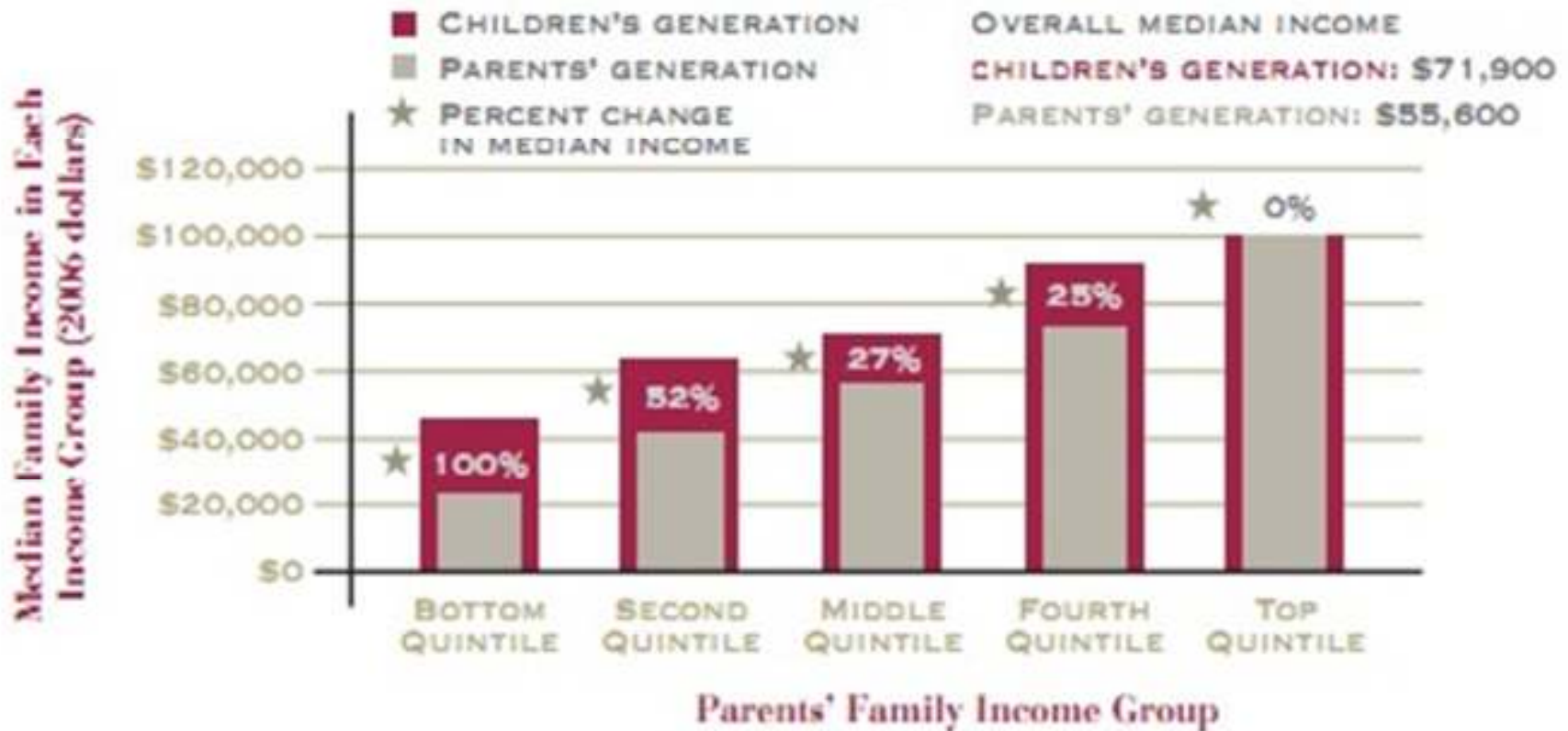


Data source: Statistical Abstract of the United States, U.S. Bureau of the Census, 2010, Tables 8, 9.

FIGURE 3

Change in Median Family Income from Parents' to Children's Generation

(matched-pairs, sorted by parental income group)



Source: Brookings tabulations of PSID data on family income averaged over several years.

Source: Pew Economic Mobility Project

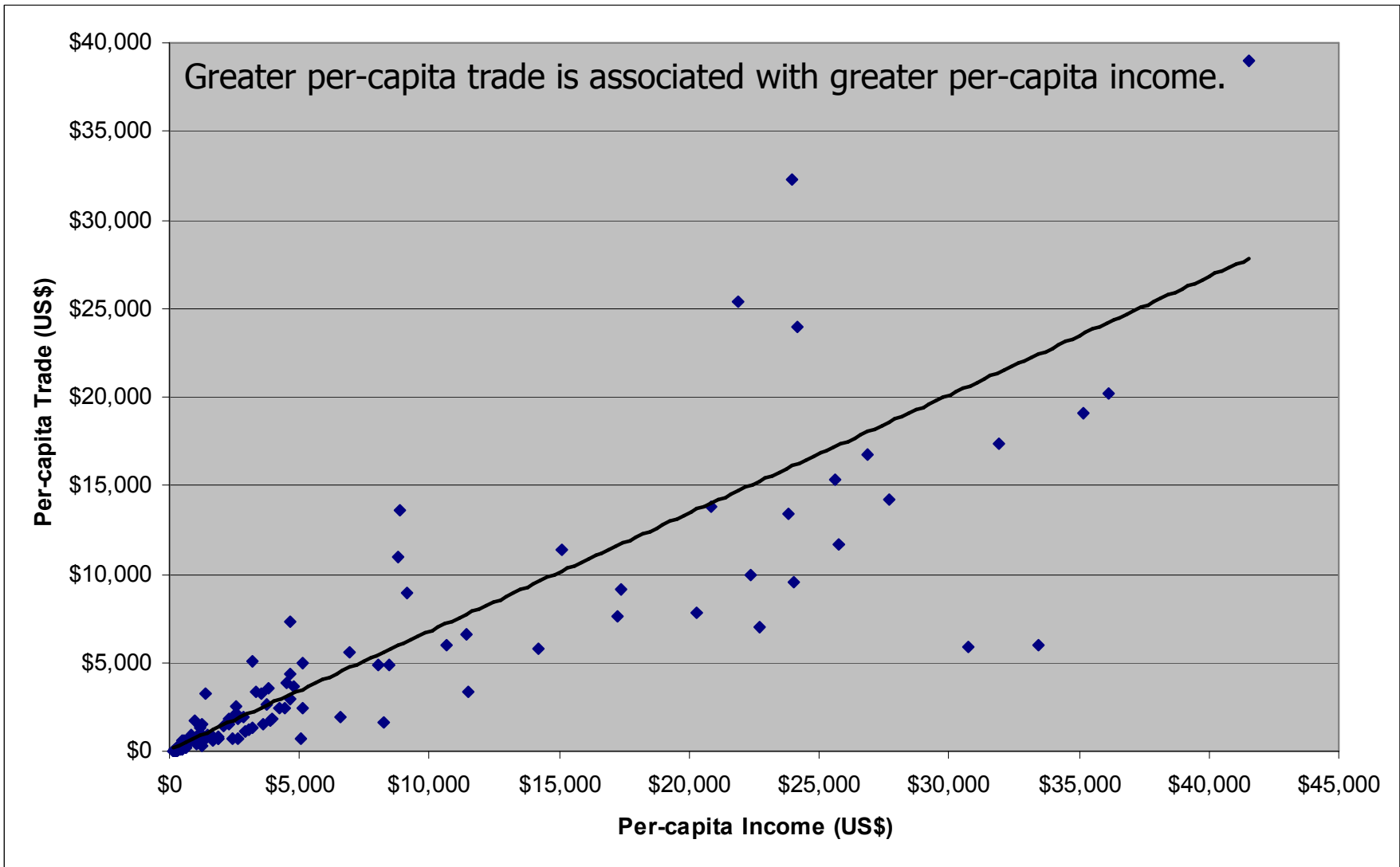
Conventional Wisdom #6

The rich get richer while the poor get poorer.

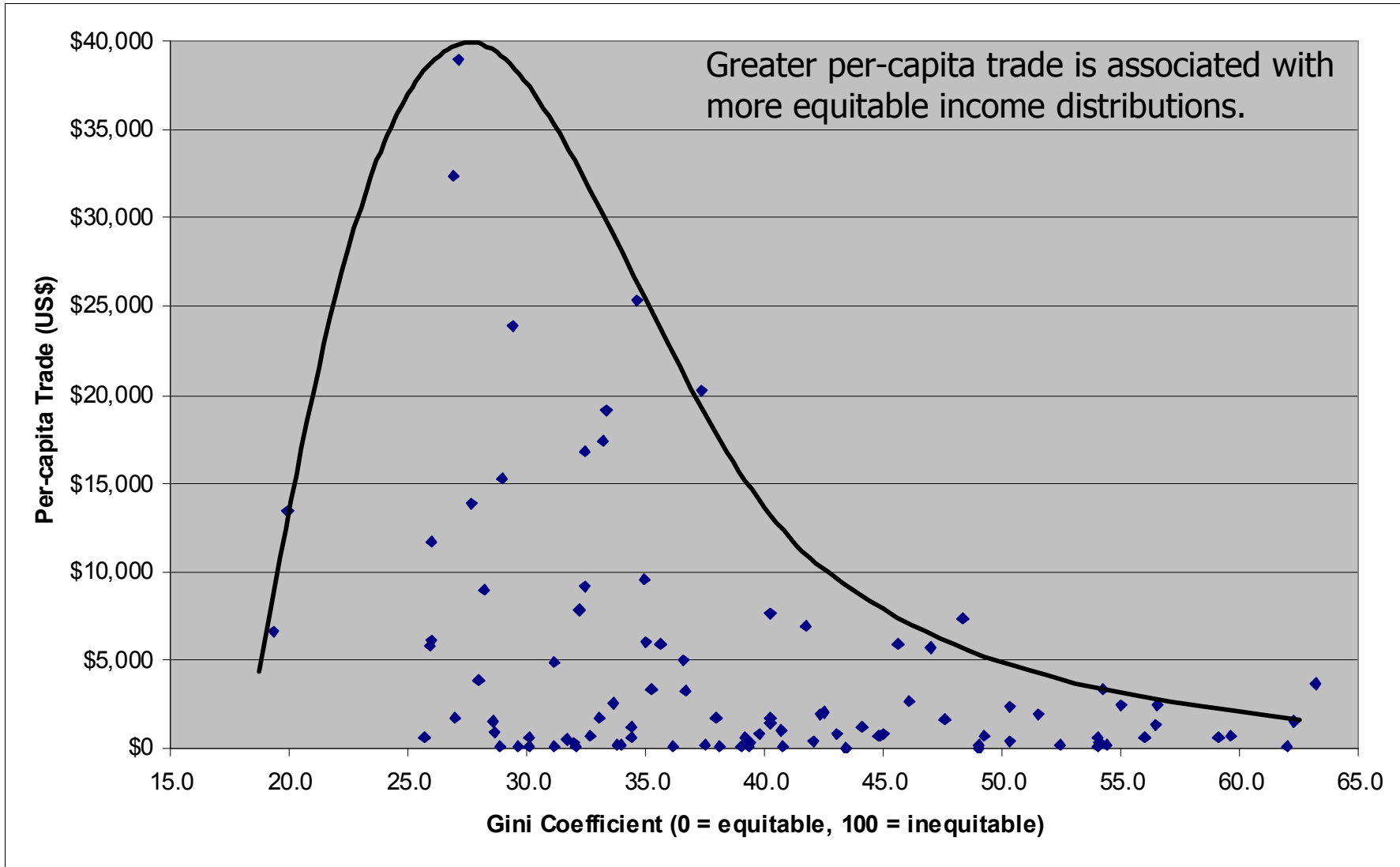
Data: The rich get richer and the poor get richer
(and the poor get richer faster than the rich
get richer).

Conventional Wisdom #7

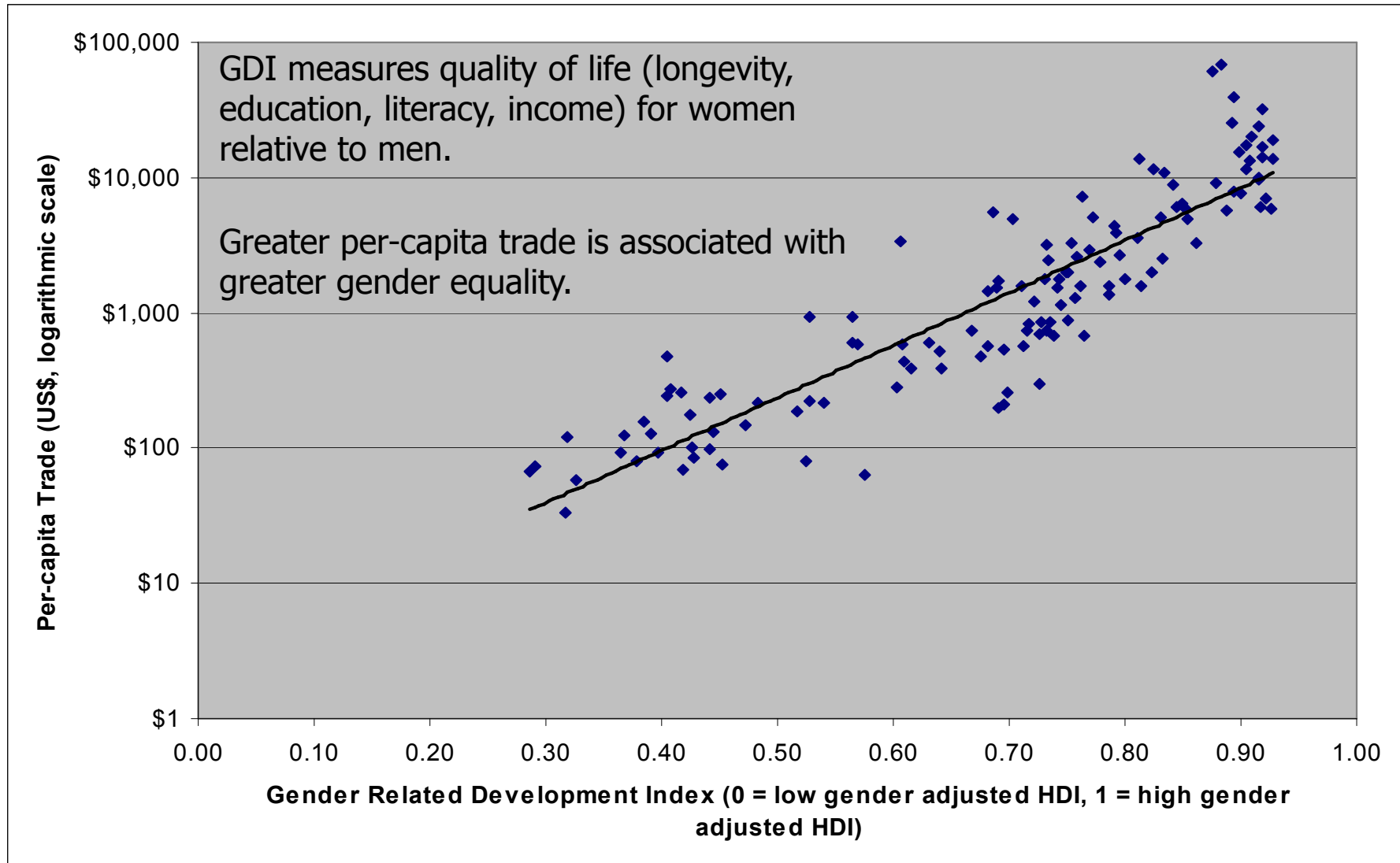
Trade exploits and impoverishes the poor for the benefit of the rich.



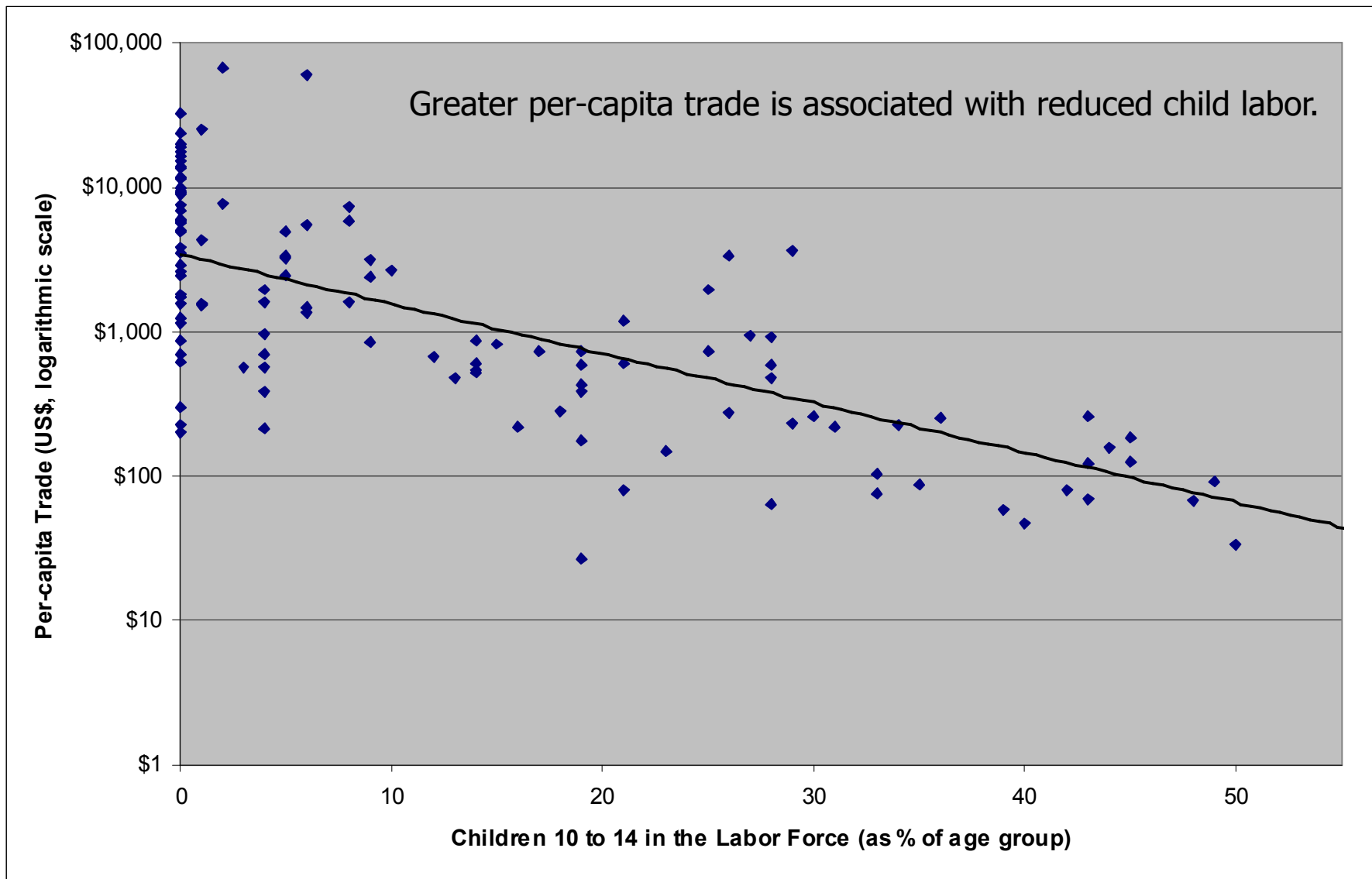
Data source: International Monetary Fund



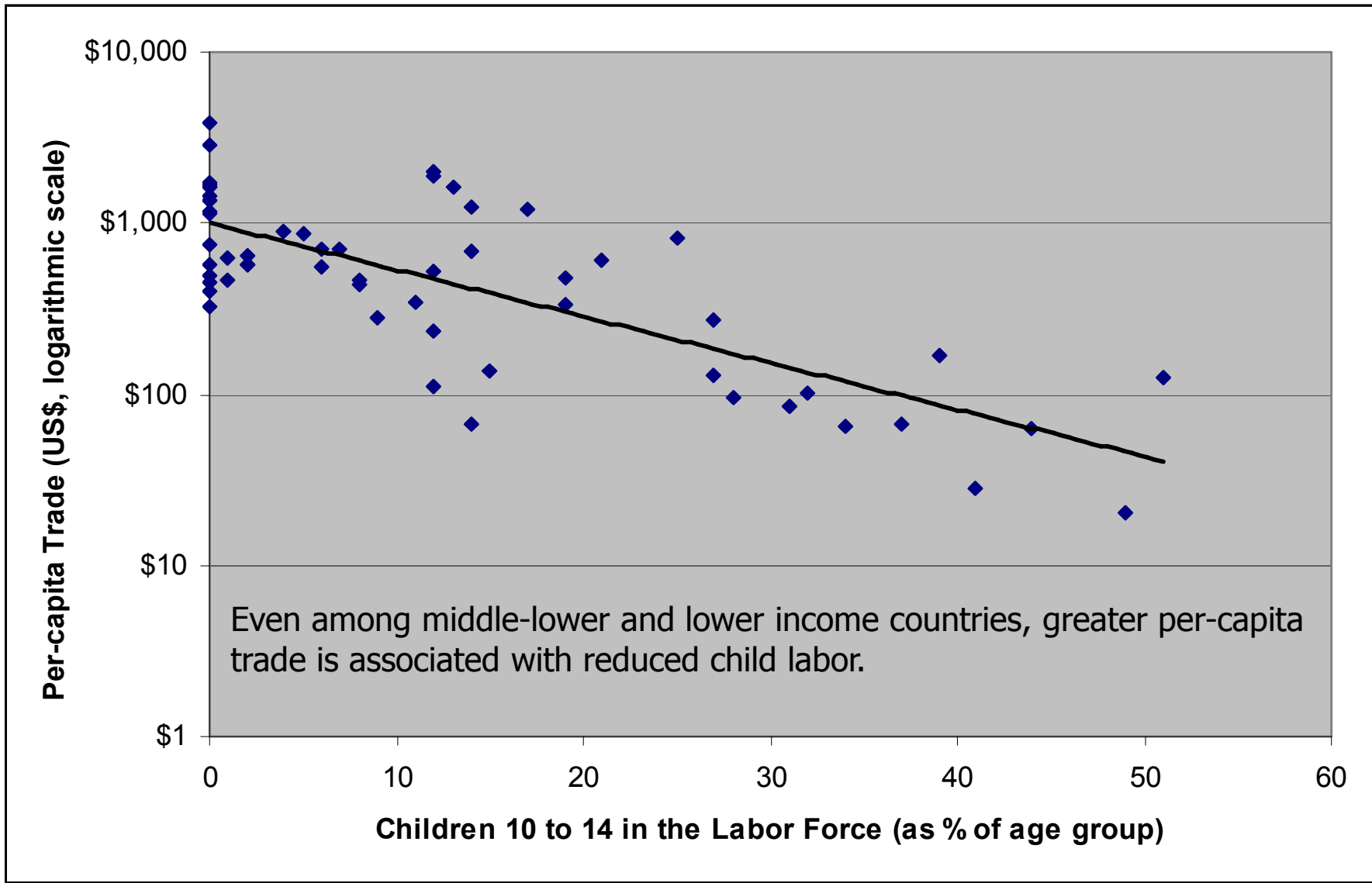
Data sources: International Monetary Fund and World Bank



Data sources: International Monetary Fund and United Nations Development Programme



Data sources: International Monetary Fund and World Bank



Data sources: International Monetary Fund and World Bank

Conventional Wisdom #7

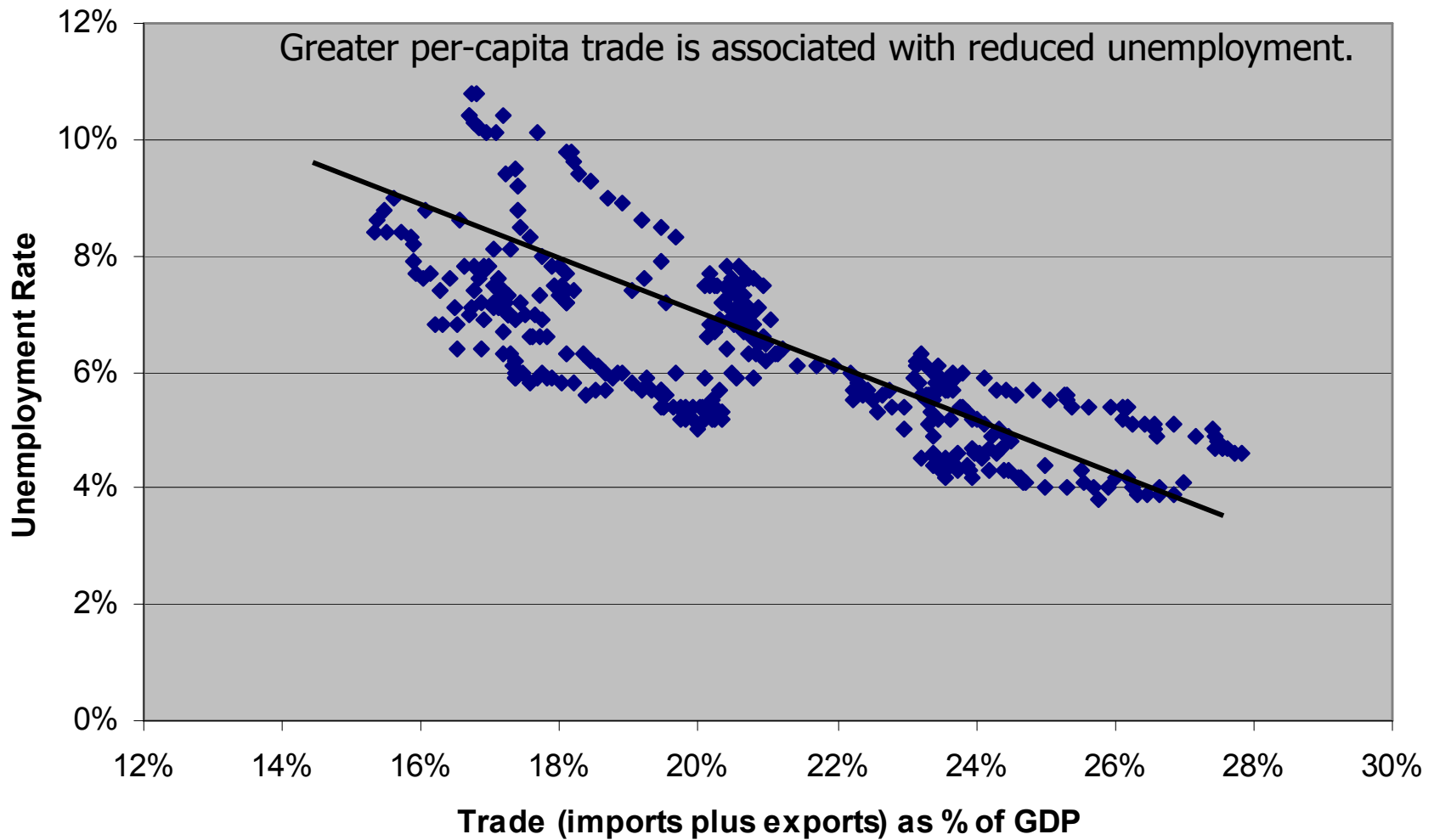
Trade exploits and impoverishes the poor for the benefit of the rich.

Data: Trade is associated with less exploitation and greater wealth.

Conventional Wisdom #8

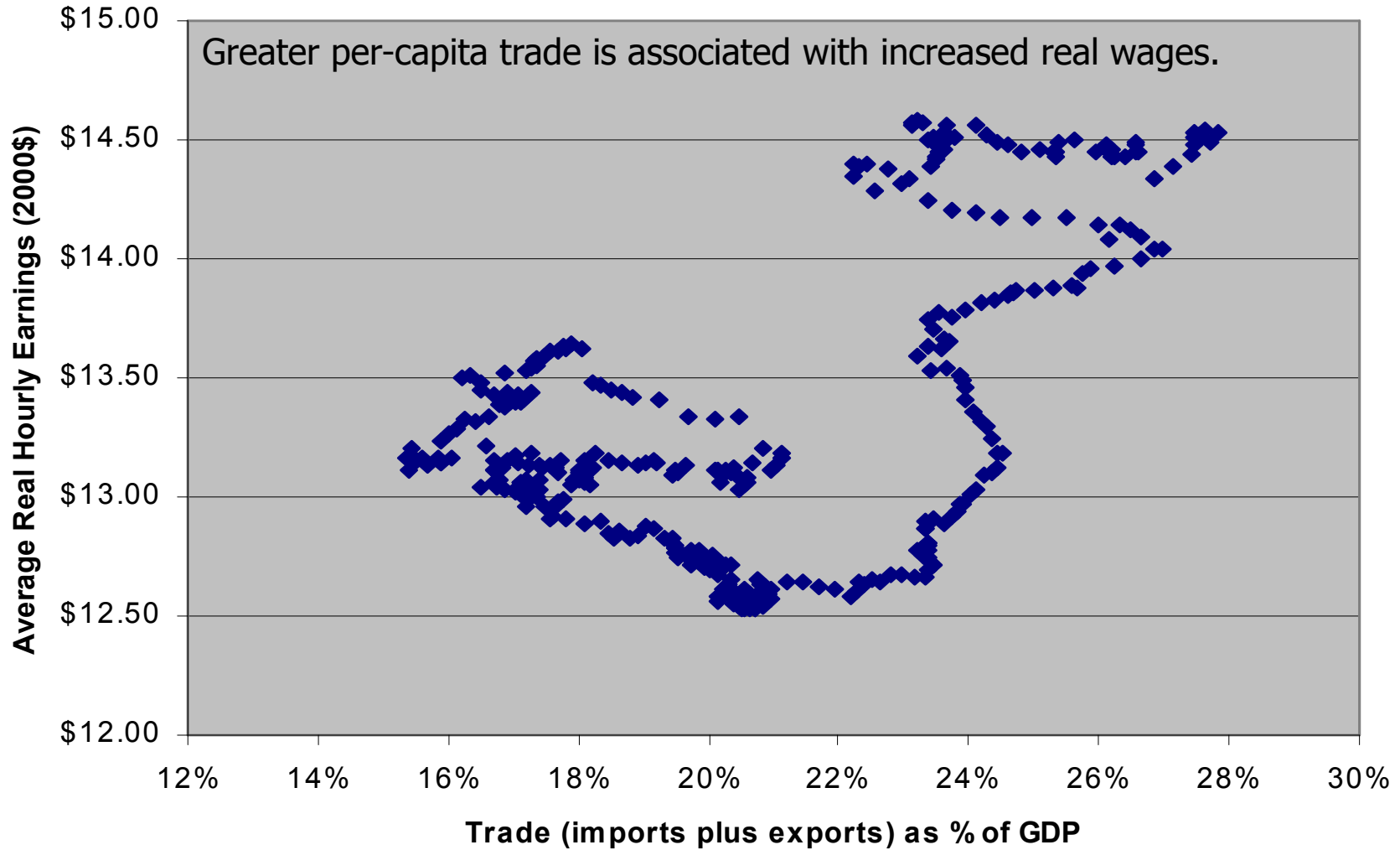
Trade costs American jobs.

January 1975 to June 2006



Data sources: Bureau of Labor Statistics and Bureau of Economic Analysis

January 1975 to June 2006



Data sources: Bureau of Labor Statistics and Bureau of Economic Analysis

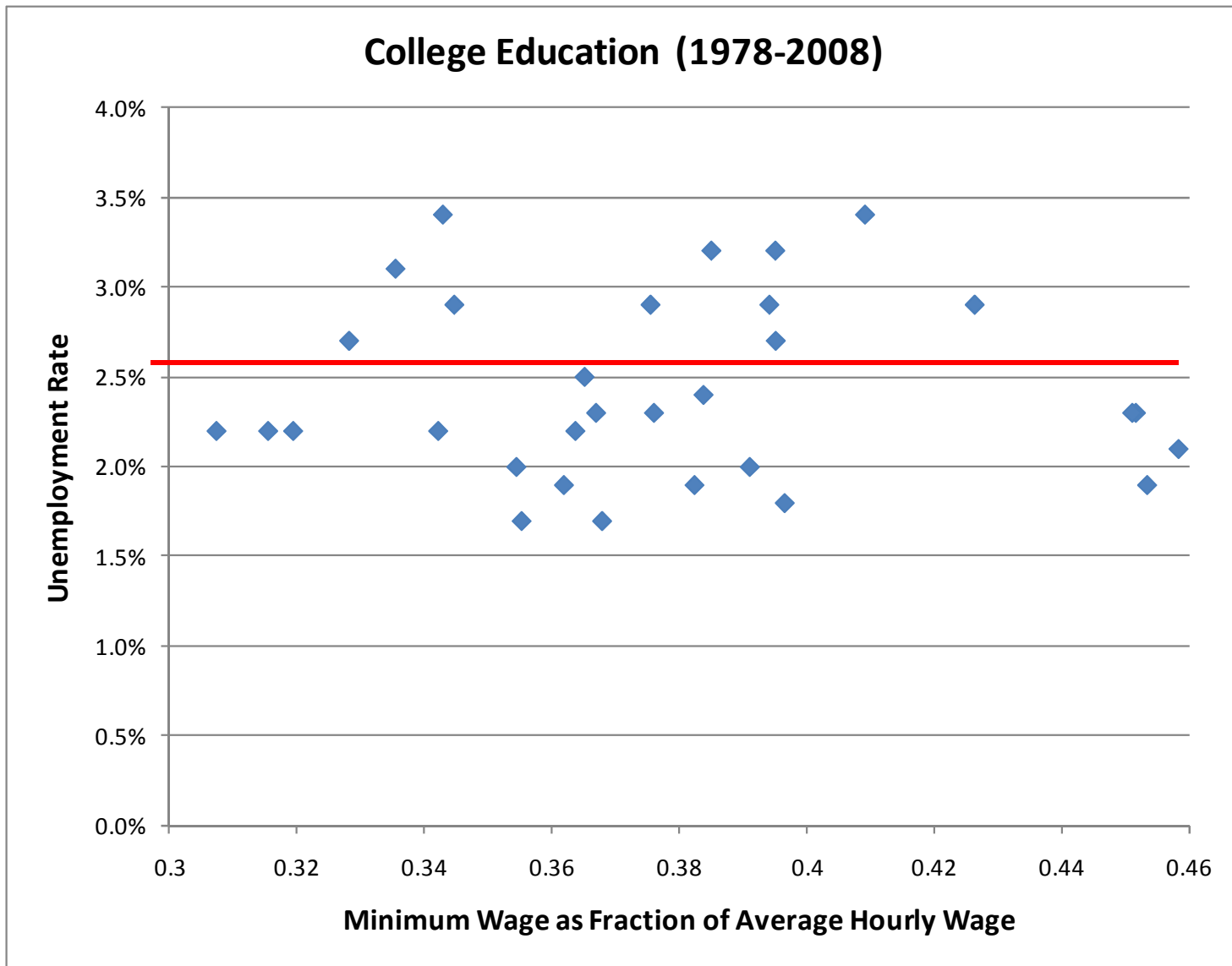
Conventional Wisdom #8

Trade costs American jobs.

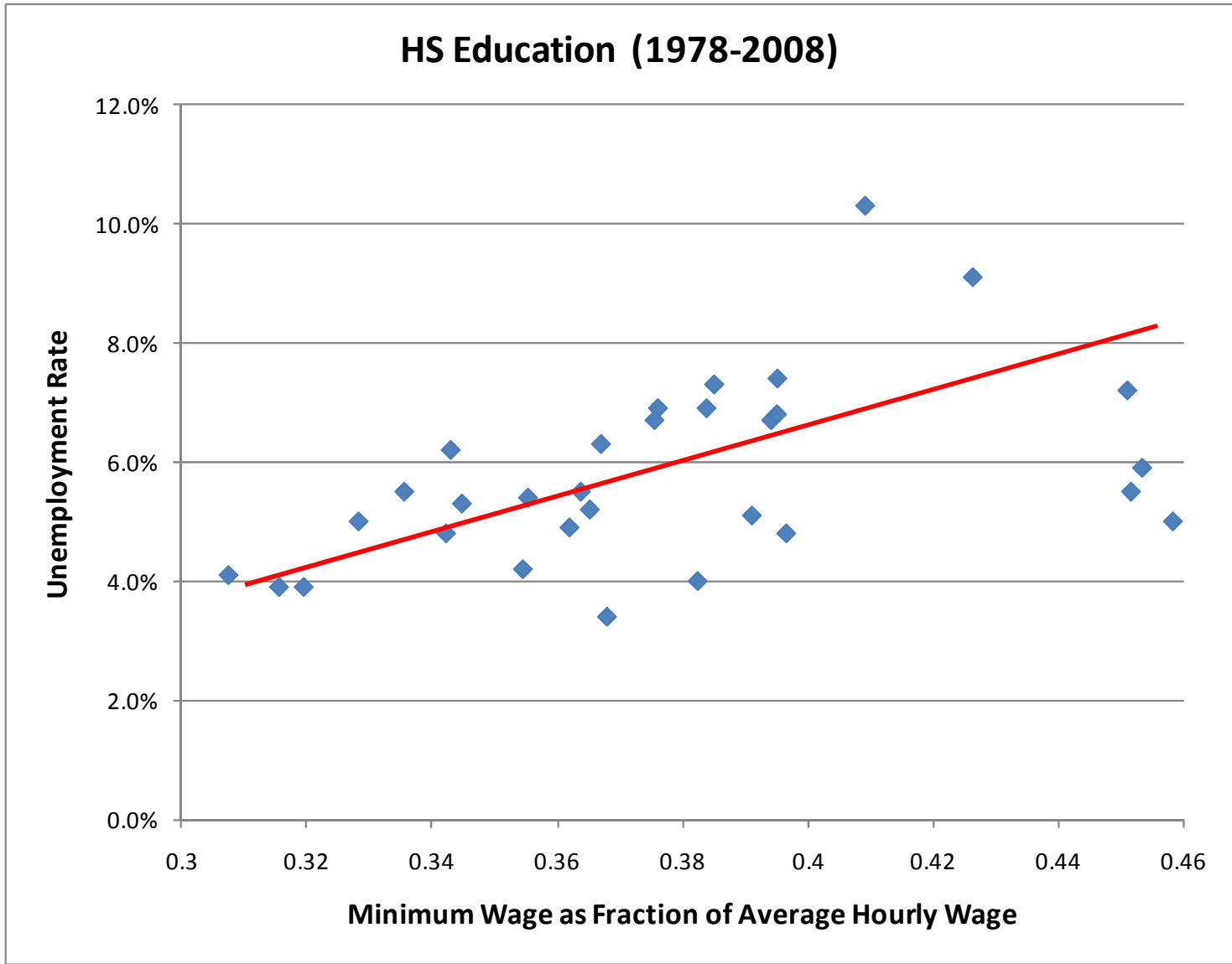
Data: Trade is associated with less unemployment and improved wages.

Conventional Wisdom #9

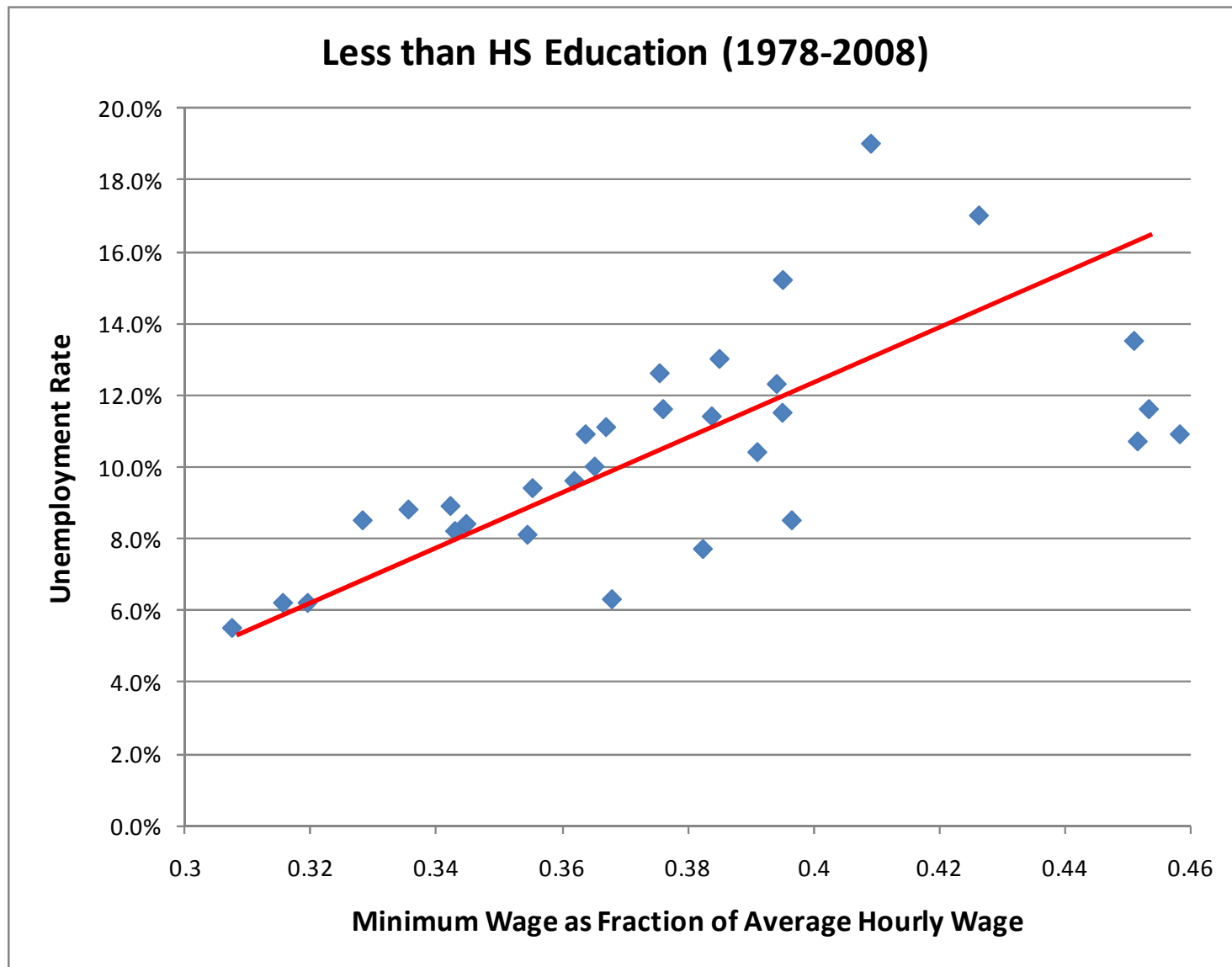
The minimum wage helps minimum wage workers.



Data sources: Statistical Abstract of the United States and Bureau of Labor Statistics



Data sources: Statistical Abstract of the United States and Bureau of Labor Statistics



Data sources: Statistical Abstract of the United States and Bureau of Labor Statistics

Conventional Wisdom #9

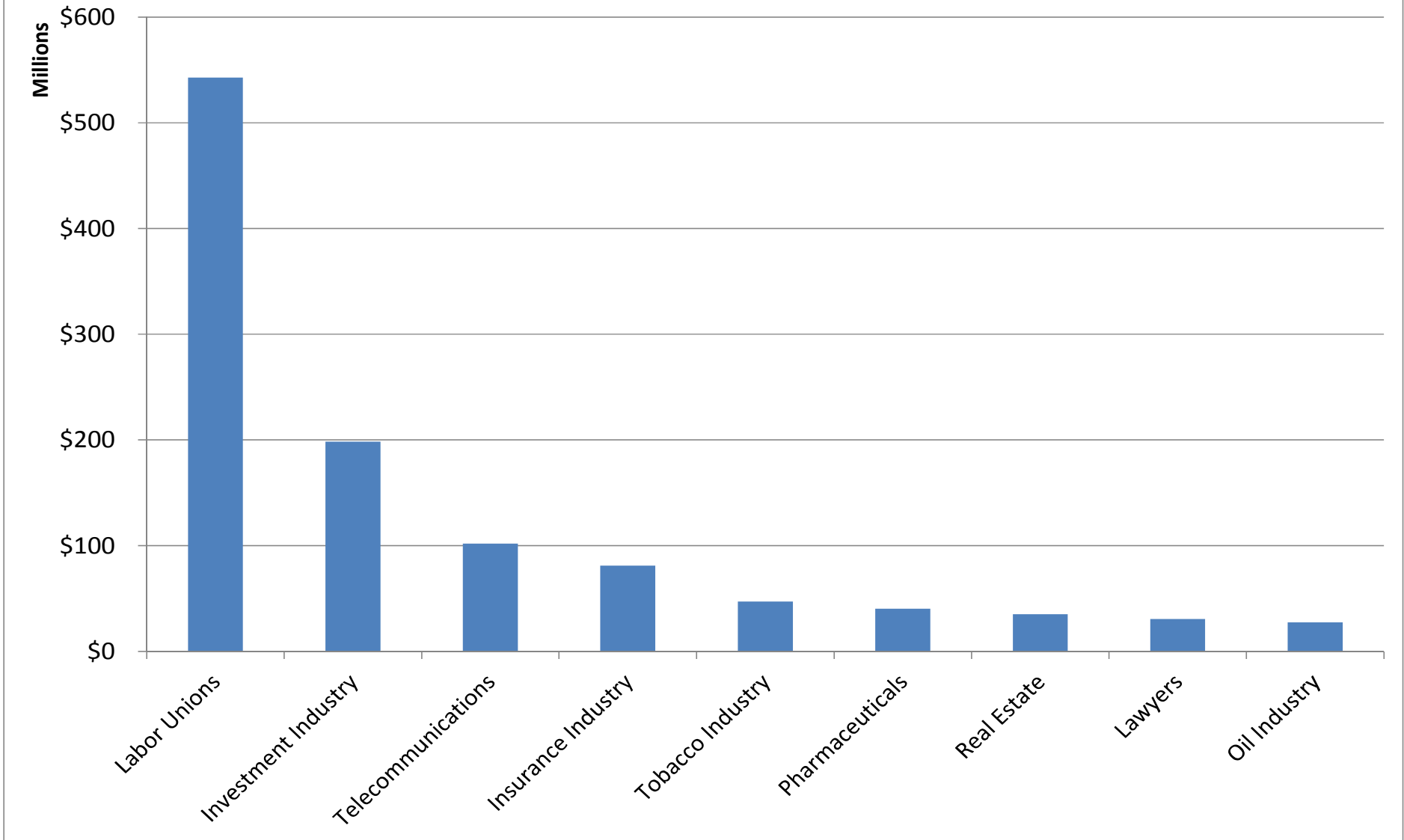
The minimum wage helps minimum wage workers.

Data: The minimum wage takes from the poor to give to the poor.

Conventional Wisdom #10

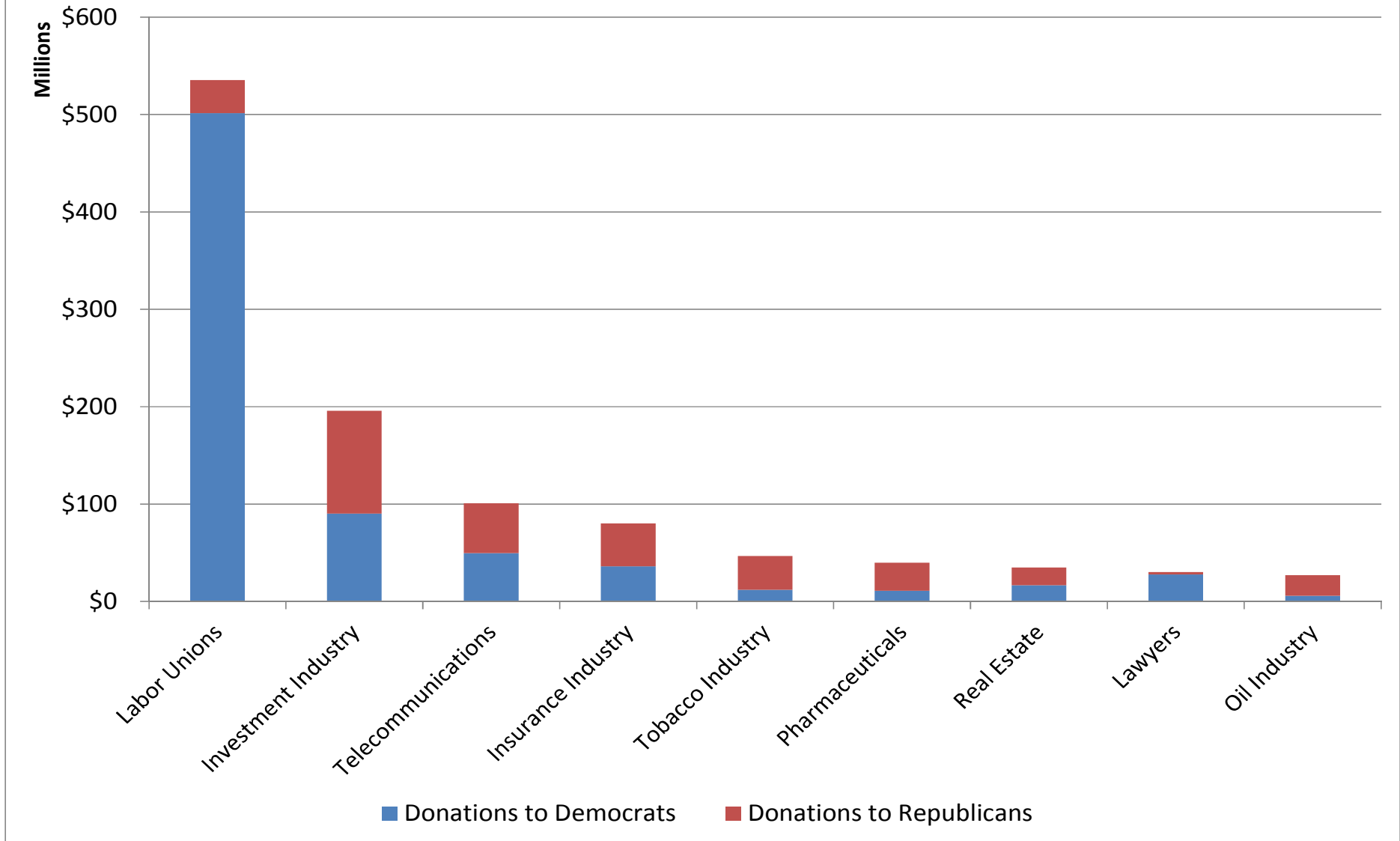
Congress is in the pocket of corporate America.

Top Donors to Political Candidates and Parties (1989-2009)



Data source: www.opensecrets.org

Top Donors to Political Candidates and Parties (1989-2009)



Data source: www.opensecrets.org

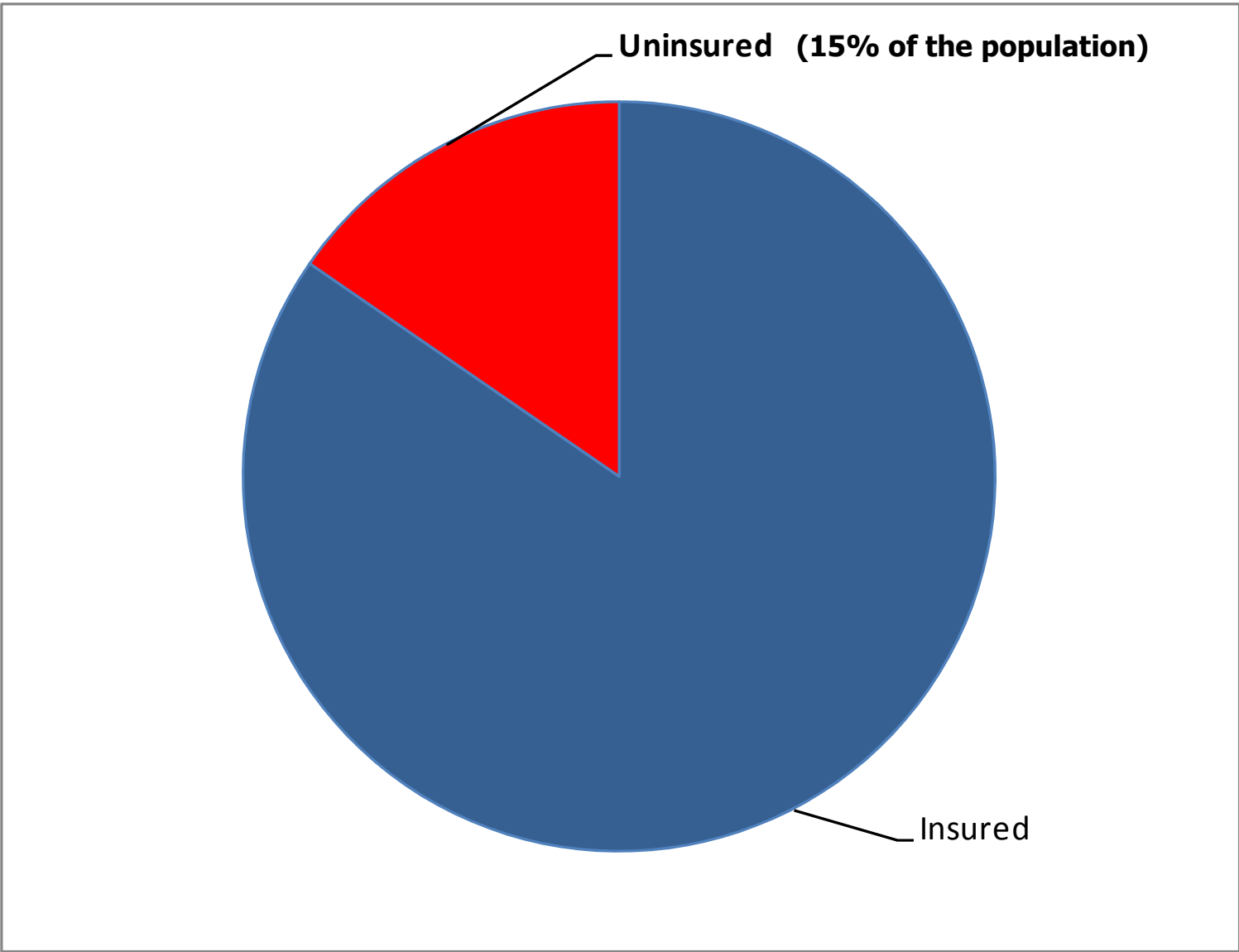
Conventional Wisdom #10

Congress is in the pocket of corporate America.

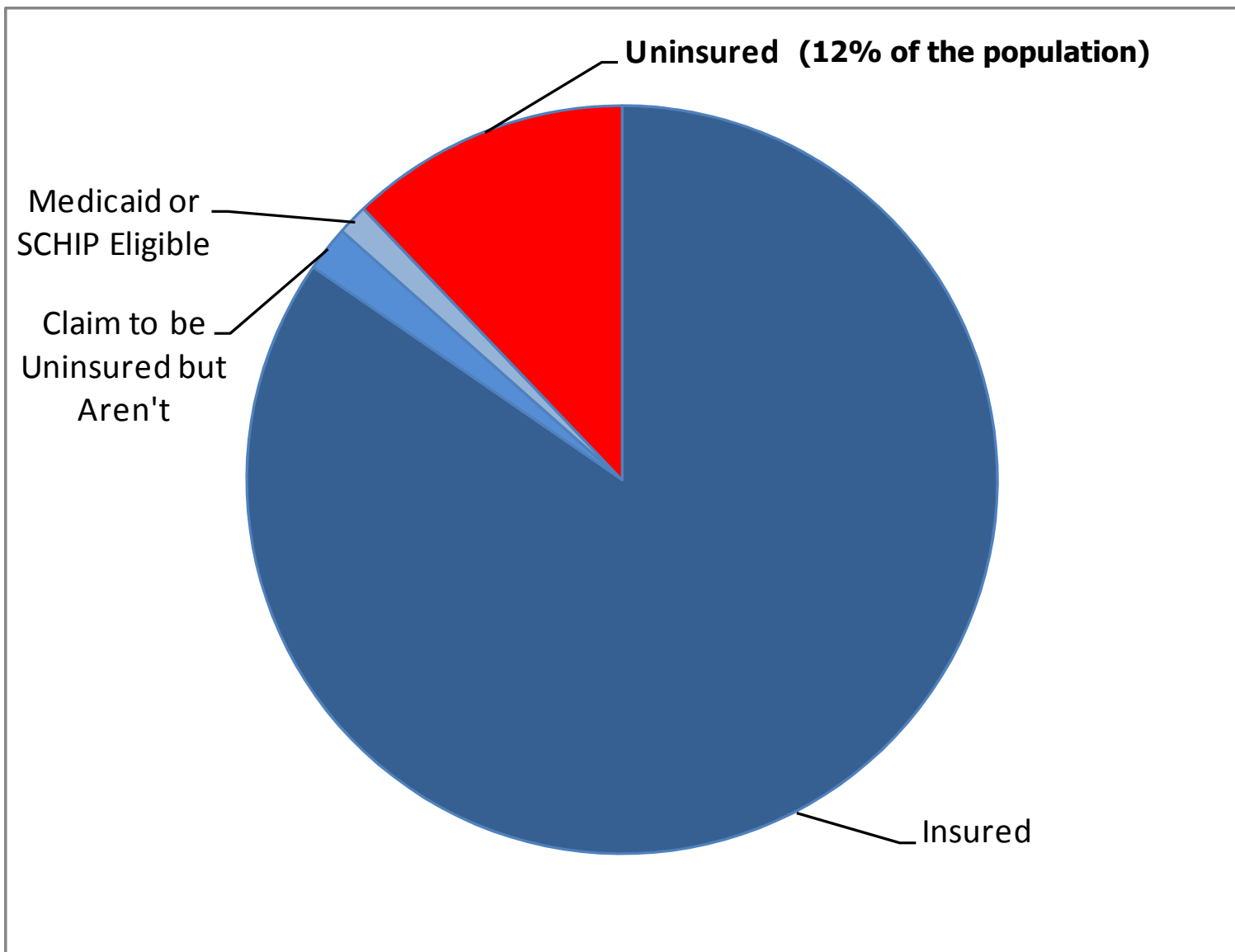
Data: Congress is more in the pocket of labor unions than of corporations.

Conventional Wisdom #11

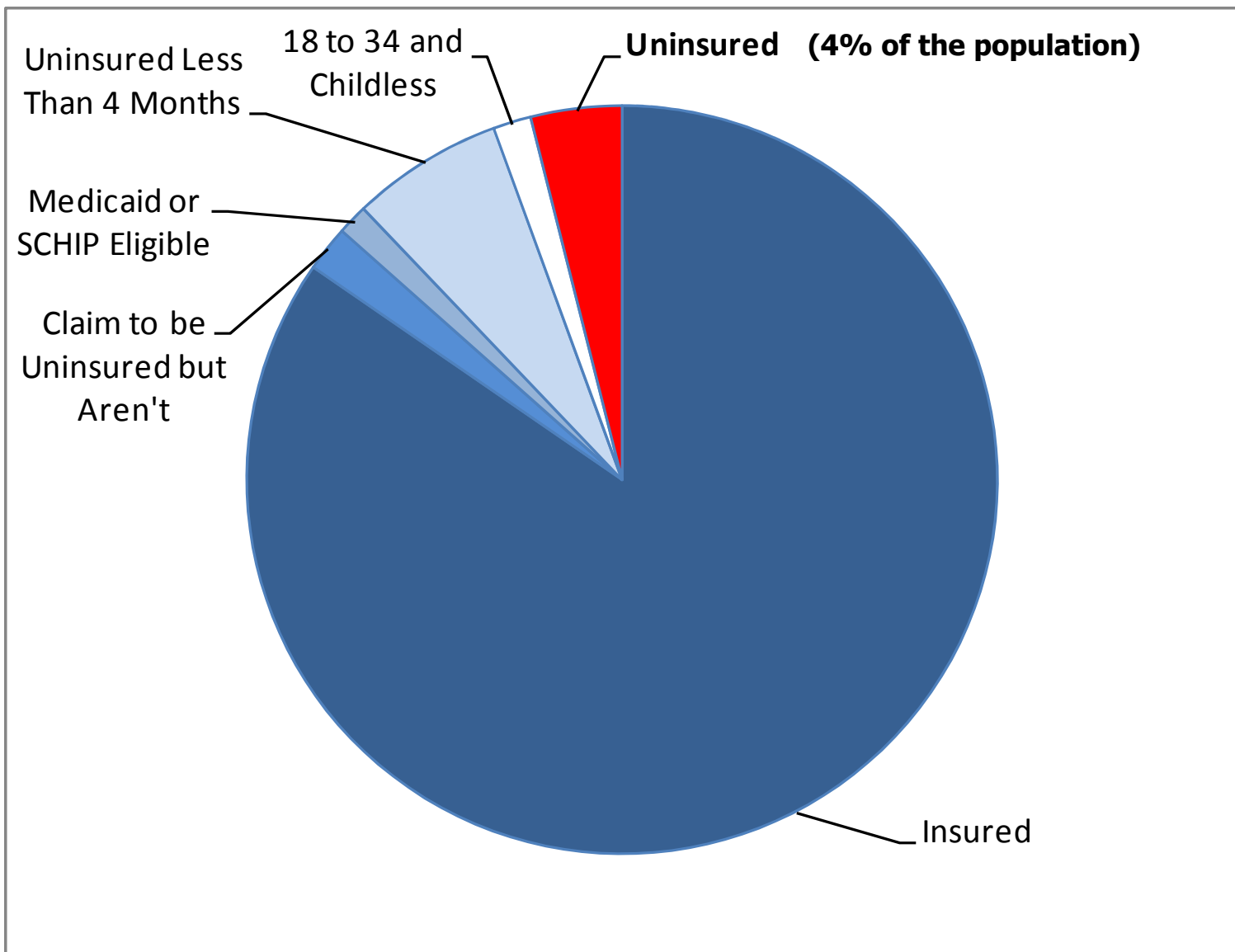
47 million Americans are uninsured.



Data source: Bureau of Labor Statistics



Data source: Bureau of Labor Statistics



Data source: Bureau of Labor Statistics

Conventional Wisdom #11

47 million Americans are uninsured.

Data: The number of uninsured
Americans is closer to 12 million.

How to avoid pride and prejudice in favor of civil discourse?

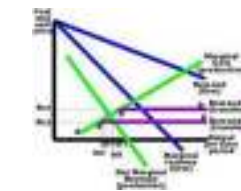


Humans are humans no matter who signs their paychecks.



If you think that economic theory doesn't apply, you probably don't have all the facts.

There is no such thing as a free lunch.



$$D_i = \frac{I(n-1)}{p_i} \frac{dM}{dD} \Big|_{D^*} = 0$$



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April 27, 2011

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