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OTHER

DEMOCRATS v. REPUBLICANS on the issue of the U.S. ECONOMY

Last Update 10/24/04

INTRODUCTION

In this section, I feature statistics on commonly used metrics used to measure U.S. economic growth and strength, and the relative impact that Democratic Presidents have had with respect to Republican Presidents. For the moment, I am largely featuring links to already published data on the web, but I hope to review and analyze the data myself sometime in the future. The data is in the table below and my own comments are [below the table](#).

As we approach Election Day 2004, a common refrain from Republicans and Independents who have doubts about John Kerry is that he would raise taxes and cause economic trouble. In this page I show that this concern is unfounded because it has no basis in reality. I show this in two ways.

1. First the data compiled in the table below shows that there is no proof that Republican Presidents are better for the U.S. economy than Democratic Presidents. Indeed, the data indicates the opposite is likely true.
2. There are multiple other facts in addition to this data that show that the superficial argument about taxes is just that: superficial. For those arguments, click [here](#) (or scroll down below the table).

NOTE: If you have challenges to the data below or further independent confirmation of the data, do let us know by emailing us at feedback -at-eriposte-dot-com. If you feedback is data-driven (as opposed to mere assertions or beliefs), we will be willing to provide links to it, as appropriate. [Critiques and responses to critiques are here](#).

MAILING LIST: If you want to get on my mailing list for notifications on updates to this page, let me know by emailing me at feedback -at-eriposte-dot-com

DATA TABLE.

Acronyms: BLS = U.S. Bureau of Labor Statistics; BEA = U.S. Bureau of Economic Analysis

Metric	Source of data/analysis	Average under Democratic Presidents/ Administrations	Average under Republican Presidents/ Administrations	Who measured better on this metric? (See critiques page)
Average Ranking (lower the number the better) for highest GDP growth, real disposable personal income, employment/unemployment, deficit reduction 1953-2001	Average rank calculated from ranking data from Dan Ackman, Forbes.com	Overall rank: 4.58 (top 3 are Democrats) GDP rank: 3.8 Real Disposable Personal Income rank: 5.0 Employment rank: 4.6 Deficit Reduction rank: 4.2	Overall rank: 6.44 (Reagan is #4) GDP rank: 7.2 Real Disposable Personal Income rank: 6.0 Employment rank: 6.4 Deficit reduction rank: 6.38	Democratic Presidents [Also see this data comparison from Michael Kinsley in the Washington Post]
Real Disposable Personal Income Growth per year 1953-2001	Dan Ackman, Forbes.com	3.65%	3.08%	Democratic Presidents

Employment gains per year 1953-2001	Dan Ackman, Forbes.com	1.684 million/year	1.279 million/year	Democratic Presidents
Unemployment: 1962-2001	P.L.A., using data from the BLS	5.1 %	6.75 %	Democratic Presidents
Unemployment: 1947-2001 Assuming that each President's policies took effect 1 year after his inauguration	Larry Bartels, Los Angeles Times	4.8 %	6.3 %	Democratic Presidents (trend similar if 2 year shift assumed)
Unemployment: 1948-2001 Assuming Presidents are also responsible for economic performance 3-5 years after they leave office	CalPundit, using data from the BLS	3-yr lag: 5.06 % 4-yr lag: 5.04 % 5-yr lag: 5.01%	3-yr lag: 6.16 % 4-yr lag: 6.18 % 5-yr lag: 6.21 %	Democratic Presidents
Average After-Tax Return on Tangible Capital: Jan 1952 - June 2004	Roger Altman, Wall Street Journal (data from Federal Reserve)	4.3%	3.2%	Democratic Presidents [For a Bush I + Bush II vs. Clinton comparison, see here]
GDP growth: 1962-2001	P.L.A., using data from the BEA	3.9 %	2.9 %	Democratic Presidents
GDP growth: 1948 - 2001 Assuming Presidents are also responsible for economic performance 3-5 years after they leave office	CalPundit, using data from the BEA	3-yr lag: 3.56 % 4-yr lag: 3.78 % 5-yr lag: 3.71 %	3-yr lag: 3.35 % 4-yr lag: 3.16 % 5-yr lag: 3.21 %	Democratic Presidents
GDP growth: 1930-2000	Carol Vinzant in Slate	5.4%	1.6 %	Democratic Presidents
Inflation: 1962-2001	P.L.A., using data from the BLS	4.26 %	4.96 %	Democratic Presidents
Inflation: 1948-2001 Assuming Presidents are also responsible for economic performance 3-5 years after they leave office	CalPundit, using CPI data from Economagic	3-yr lag: 3.33 % 4-yr lag: 3.07 % 5-yr lag: 3.20 %	3-yr lag: 4.36 % 4-yr lag: 4.60 % 5-yr lag: 4.48 %	Democratic Presidents
Percentage growth in Total Federal Spending: 1962-2001	P.L.A., using data from the U.S. Govt. Budget 2003	6.96 %	7.57 %	Democratic Presidents <i>if lower Govt. spending is better</i> ; Republican Presidents <i>if higher spending is better</i> NEW Note, however, that total spending other than for Medicare and Social Security has been dropping since 1983 (CalPundit using U.S. Govt. Budget data). The decrease was more significant in the 90s under Clinton.
Percentage growth in Non-Defense Federal Spending: 1962-2001	P.L.A., using data from the U.S. Govt. Budget 2003	8.34 %	10.08 %	Democratic Presidents <i>if lower Govt. spending is better</i> ; Republican Presidents <i>if higher spending is better</i> NEW Note, however, that total spending other than for Medicare and Social Security has been dropping since 1983 (CalPundit using U.S. Govt. Budget data). The decrease was more significant in the 90s under Clinton.
Non-defense Federal Government Employees:	P.L.A., using data from the U.S. Govt.	Rose by 59,000 (16 % of total rise)	Rose by 310,000 (84% of total rise)	Democratic Presidents

1962-2001	Budget 2003	over 40 years)	over 40 years)	(assuming smaller Govt. is better)
Yearly budget deficit: 1962-2001	P.L.A., using data from the U.S. Govt. Budget 2003	\$36 billion	\$190 billion	Democratic Presidents
Increase in National Debt: 1962-2001	P.L.A., using data from the U.S. Govt. Budget 2003 See follow-up by P.L.A. solidifying the conclusions	Total debt increased by \$0.72 trillion (20 years)	Total debt increased by \$3.8 trillion (20 years)	Democratic Presidents
Annual stock market return: 1927 (through) 1998	Pedro Santa-Clara and Rossen Valkanov Research Paper, UCLA (via Atrios .) Results are "statistically significant" Also reported by CNN Money	~ 11% (value weighted CRSP index minus 3 month Treasury Bill)	~ 2% (value weighted CRSP index minus 3 month Treasury Bill)	Democratic Presidents (Delta increases to 16% for equal-weighted case) The study says: "The difference comes from higher real stock returns and lower real interest rates, is statistically significant , and is robust in subsamples. The difference in returns is not explained by business-cycle variables related to expected returns, and is not concentrated around election dates. There is no difference in the riskiness of the stock market across presidencies that could justify a risk premium."
Annual stock market return: (1900) 1927 - 2000	Carol Vinzant in Slate	12.3 % (S&P 500)	8.0 % (S&P 500)	Democratic Presidents
Annual stock market return: (1900) 1927 - 2000	Carol Vinzant in Slate	Democratic Senate 10.5 % (S&P 500) Democratic House 10.9 % (S&P 500)	Republican Senate 9.4 % (S&P 500) Republican House 8.1 % (S&P 500)	Democratic Senate or House (but see article for qualifications)
Annual stock market return: (1900) 1927 - 2000	Stock Traders' Almanac as reported by Carol Vinzant in Slate	13.4 % (Dow)	8.1 % (Dow)	Democratic Presidents
Rankings for highest GDP growth, biggest increase in jobs, biggest increase in personal disposable income after taxes, biggest rise in hourly wages, lowest Misery Index (inflation plus unemployment), etc. (until 2001)	Arthur Blaustein, Mother Jones	N/A. But all these best case metrics were under Democratic Presidents	N/A	Democratic Presidents
District spending by Congress: 1995 - 2001	Associated Press report: 1 , 2	Democratic districts: \$3.9 billion in 1995 to \$5.2 billion in 2001 (34% increase)	Republican districts: \$3.9 billion in 1995 to \$5.8 billion in 2001 (52% increase)	Hard to say who is better but certainly not Republicans, who shifted spending to RICHER districts from poorer.

APPENDIX: TAX MYTHS

As a companion to the above table, I would like to present my review of myths v. reality on tax policy and issues in the U.S.

[eRiposte Review of Myths v. Realities on Personal and Corporate Taxes](#)

[PERSONAL TAXES](#) [CORPORATE TAXES](#)

[TAX and SPEND - LIBERALS OR GOP?](#)

DETAILED COMMENTS

The data in the above table clearly shows that there is no real evidence that Republican Presidents are better for the economy or your wallet than Democratic Presidents. The data strongly indicates that the opposite is likely true. So why do intelligent people keep complaining about Democratic tax policies or regulations, saying they are anti-business, while believing Republicans are by default better for business. I suspect the reason for this thinking commonly breaks down along the following lines (not necessarily exclusively).

1. Some people believe wealth creates wealth and that the tax cutting agenda of the Republican Party therefore must be better for the economy and that tax increases are not. This is a superficial argument that overlooks various other facts.

- ⚡ **Post-tax income is just one indicator of wealth. Pre-tax income is arguably as important, if not more, to create wealth for a declining real income can only be offset meagerly by tax cuts for the majority of people.** Declining pre-tax return on investments (whether it be on financial or capital investments) can more than offset any gains from tax cuts. Indeed, investments that lose money are going to gain nothing from tax cuts - if anything a lower marginal tax rate would reduce your tax refund from losses. Democratic policies are usually focused more on enabling people to get more value from work - and thus help in boosting pre-tax incomes. The marginal reduction of these incomes from progressive tax increases is something that intelligent people should worry less about than they do today.
- ⚡ **If tax increases are so bad then why is it that tax increaser President Bill Clinton had the largest economic expansion in American history on his watch? Why is it that Conservatives applaud Ronald Reagan for his tax cuts and economic growth under his watch and conveniently forget that Reagan was also associated with the largest peacetime tax increase in American history at the time? As Conservative economist [Bruce Bartlett wrote in 2003 in the conservative National Review](#):**

Peter Wallison, who was White House counsel to President Reagan, responded to my analysis in the *New York Times* on October 26. He pointed to Ronald Reagan's resistance to tax increases in 1982, citing passages from Reagan's diary that were published in his autobiography, *An American Life*. The gist of Wallison's article is that Ronald Reagan successfully resisted efforts by his staff and many in Congress to raise taxes, thereby ensuring the victory of Reaganomics.

The only problem with this analysis is that it is historically inaccurate. Reagan may have resisted calls for tax increases, but he ultimately supported them. In 1982 alone, he signed into law not one but two major tax increases. The Tax Equity and Fiscal Responsibility Act (TEFRA) raised taxes by \$37.5 billion per year and the Highway Revenue Act raised the gasoline tax by another \$3.3 billion.

According to a recent Treasury Department study, TEFRA alone raised taxes by almost 1 percent of the gross domestic product, making it the largest peacetime tax increase in American history. An increase of similar magnitude today would raise more than \$100 billion per year.

In 1983, Reagan signed legislation raising the Social Security tax rate. This is a tax increase that lives with us still, since it initiated automatic increases in the taxable wage base. As a consequence, those with moderately high earnings see their payroll taxes rise every single year.

In 1984, Reagan signed another big tax increase in the Deficit Reduction Act. This raised taxes by \$18 billion per year or 0.4 percent of GDP. A similar-sized tax increase today would be about \$44 billion.

The Consolidated Omnibus Budget Reconciliation Act of 1985 raised taxes yet again. Even the Tax Reform Act of 1986, which was designed to be revenue-neutral, contained a net tax increase in its first 2 years. And the Omnibus Budget Reconciliation Act of 1987 raised taxes still more.

The year 1988 appears to be the only year of the Reagan presidency, other than the first, in which taxes were not raised legislatively. Of course, previous tax increases remained in effect. According to a table in the 1990 budget, the net effect of all these tax increases was to raise taxes by \$164 billion in 1992, or 2.6 percent of GDP. This is equivalent to almost \$300 billion in today's economy.

- ⚡ **Moreover, if you believe the wealthy know best which party can create wealth, then perhaps you can let me know why is it that billionaires such as [John Sperling](#), [George Soros](#), [Warren Buffett](#), [Herb and Marion Sandler](#), and Peter B. Lewis support the Democratic Party and believe that the Democrats are better trusted to manage the American economy.**
- ⚡ **Moreover, the offsetting impact of local/property and state tax increases to balance state-level budgets is often ignored by proponents of federal income tax cuts - not to mention that the notion of "tax cuts" is a myth unless accompanied by spending controls.** As [this Washington Post article pointed out](#):

... As the Democrats converge on Boston this week to nominate their presidential candidate, the rhetoric around the economic policies of the past 42 months will doubtless be shrill. At first blush, the Democrats' case may seem like a hard sell. Economic growth has returned. Job growth, while slow, has perked up over the past 12 months [**eRiposte note: [Click here to see the real facts behind the Bush jobs record](#)**]. Most of all, Republicans may expect some gratitude for cutting taxes by more than \$1.7 trillion over the next 10 years.

But many Americans feel they have lost ground since 2001, and a solid 71 percent are convinced they have received no tax cuts at all. A poll by CBS News and the New York Times in March found that only 22 percent believe the policies of the Bush administration made their taxes go down; 25 percent said their taxes actually went up.

Taxpayers in the Washington area at the highest income levels appear to have profited handsomely from the tax cut, as one Cleveland Park businessman's tax returns show. Further down the income scale, some people barely broke even, as Alverta Munlin and Donald Belton can attest, after local taxes and rising costs of living were factored in. And some struggling middle-income families, such as that of Serkalem Nessibu, lost their entire tax cut to things like the rise in their property tax because of the increased value of their home. Presumably, the numbers would have been worse for many people had they not had their federal taxes cut; but these other demands on their money help explain why some taxpayers may dismiss the tax cut and instead focus on their reduced bottom line...

2. People commonly associate the Republican party with being better for the economy because they are a pro-business party. What they fail to recognize is that deregulation and massive tax cuts for companies may be good for (some) companies in the short term but that does not mean it is good for the economy as a whole [or for other (smaller) companies in particular].

- ◀ The "Red" states which have been most subject to Republican tax-cutting, "supply side" experimentation for a long time have historically trailed the "Blue" states in economic performance. Thus, turning a state into a Wal-Mart for businesses by gutting labor laws and pressuring workers wages and benefits downward and increasing tax cuts for the super rich has produced much weaker economic performance than in states which did the opposite. Indeed, the [Blue states are not only economically stronger overall, but they tend to subsidize the Red states with their Federal tax dollars](#). What an irony! Indeed, as Matthew Yglesias pointed out in [The American Prospect](#) (most of the bold text is my emphasis):

ALABAMAS EVERYWHERE! I've long wondered why anyone would take seriously the notion that the country as a whole ought to adopt the low-tax, low-wage, no-union, no-regulation formula that's brought such a lack of economic success to the Deep South, but if I were to say that I'd be castigated as some kind of northeastern elitist, so I'll just [quote](#) son-of-the-south **Ed Kilgore** instead:

If you had to identify one simple reason for [the South's] grinding poverty, it was the perpetual delusion of southern political and business leaders that the region had to stay poor and dumb in order to attract the capital necessary to eventually climb out of the ditch. **Like some of today's third world countries, the South, right up to the 1970s, was paralyzed by the idea that decent wages, unionization, protection of natural resources, business regulation, progressive taxes, and quality education were all impossible because they would "price" the region out of opportunities for economic development. All of the South's social and economic weaknesses were perceived as essential to maintaining a "good business climate." And that benighted belief also helped perpetuate Jim Crow, since the ability to keep roughly a third of the region's population in semi-serfdom gave the South a cost advantage no other part of the country could ever meet.**

Gradually, by the 1970s and 1980s, southern political leaders, and even many business leaders, woke up to the fact that deliberately maintaining a low standard of living wasn't worth the paltry payoff in low-wage textile jobs. And slowly but surely, a consensus developed that decent education and adequate public services were positive, not negative, factors in long-term economic development. The states that pursued this "high road" strategy—especially North Carolina and Georgia—tended to prosper. The states that stayed on the low road—especially Mississippi and Alabama—didn't.

That's why it is so profoundly depressing to see the theory of economic development that my home region finally began to abandon over the last few decades now being embraced by the national government as [the way for America to successfully compete](#) in a global economy .

Quite so. This is also the theme of **Michael Lind's** fascinating book, *Made in Texas* (at least when he isn't casting aspersions on all people of Scotch-Irish descent). The most recent iteration of Bush's [stump speech](#) says "I believe in the energy, innovation, and spirit of America's workers and small business owners, and farmers, and ranchers. And that is why we unleashed that spirit with the largest tax cut in a generation." Leave aside the question of whether the tax cut was really aimed at "small business owners, and farmers, and ranchers" (and the president's odd refusal to note the absolutely vital role played by giant corporations – think Boeing, Microsoft, Disney – in the American success story) and ask yourself: Exactly which terrible things were going on in the economy before this spirit was unleashed?

Well, there weren't any. The entrepreneurial spirit of the country was hardly in shackles during the 1990s. **The economy can grow just fine under the old, higher tax rates. What it can't do is finance the costs of running the federal government under the new, lower rates.**

- ◀ Consider this --- the states of California and New York, amongst the more liberal (left leaning) states in the United States had the [#1 and #2 largest gross state products \(GSP\) in the country](#) (also see [census.gov](#) and [BFA](#)). CA in particular, was the [world's 6th](#) (or 5th along with France, depending on how many decimal places you look at) largest economy if it is considered as a country by itself! Overall, there is [pretty good evidence that Democratic Presidents are indeed better for the economy than Republican Presidents](#).
- ◀ Moreover, adding to the profit growth of already heavily profitable (but slow growth) companies is one way to address economic issues - but **economic growth historically has largely occurred through innovation**. Innovation is far more common in new or small companies that have to fight established competitors - than in large companies. If Government did not act to restrict monopoly power (which Republicans have been more loathe to do in recent years), innovation and new/small companies will have a very tough time. Moreover, a startup has little use for tax cuts when it has no income. A small business has only marginal use of a tax break if their customer base is drying up because their own jobs and incomes are under siege. As [this Washington Post article pointed out](#):

...Jerry Bailey is precisely the kind of taxpayer President Bush had hoped to bestow his tax cuts on: an entrepreneur brew-pub owner, a job provider, not overly rich by Washington area standards but well off enough to pay a hefty sum to the federal government each year.

But after three tax cuts in three years, the part-owner of Loudoun County's Old Dominion Brewing Co. is not exactly celebrating his gains. Sure, his federal tax bill was trimmed, by a healthy \$5,600, according to a rough calculation by Clint Stretch, director of tax policy at the accounting firm Deloitte & Touche LLP.

But other factors having nothing to do with federal taxes have clouded Bailey's situation. This year, the property tax bill on his Bethesda home will reach \$6,725, a \$950 increase over his payment four years ago. The annual cost of his 56-mile-a-day commute has jumped more than \$300 since 2001, and the long, slow decline of business profits these past four years has left Bailey far behind, no matter what his federal tax payment may be.

"I'm not paying any taxes at all because we're not making any money," Bailey said with a sigh. "I loved paying taxes. It meant we were doing all right." ...

3. Other people like to think that they got great wealth with little help from Government - and therefore believe massive deregulation favored by the Republican party creates wealth. This is very simplistic thinking that is often in contradiction with reality.

- ⚡ The fact of the matter is that regulations (which we will separate qualitatively from "controls"), if imposed judiciously can significantly help the economy overall and produce *net* financial benefits - [this is proven by this Bush Administration OMB Report](#). Not enforcing reasonable regulations, by weakening bodies like the FERC, SEC, EPA, etc., hurts consumers and small businesses more in the long run than it helps.
- ⚡ Sure, a few people may have succeeded beyond their wildest dreams without *much* help from the Government, but most people owe their success in part to what the Government does and has done for them - not to mention environmental factors (such as location) which in turn are a function of the effectiveness of local Governments. See for example [this report titled "Responsible Wealth"](#).

The rags-to-riches story fits elegantly with our national self-identity, forged in opposition to hereditary aristocracies of Europe. Unlike rigid caste societies of the *ancien regimes*, America aspired to be a country of individual initiative, freedom and opportunity. To Wyllie, however, there was a "fatal weakness" in this "success cult...that explained everything in terms of inner qualities and nothing in terms of the environment."⁶

This individual success myth overlooked a number of key social and environmental factors. One was location. No matter what personal qualities someone had, if they didn't live in a booming commercial center like New York City, Boston or Philadelphia, or an ascendant industrial town like Lawrence, Lowell or Rochester, they didn't become rich.

Another unique external factor was the opportunity that existed then thanks to expanding frontiers and seemingly unlimited natural resources. The US was conquering and expropriating land from native people, and distributing it to railroads, white homesteaders and land barons. Most of the major Gilded Age fortunes were tied to cornering a market and exploiting natural resources such as minerals, oil and timber. Even P.T. Barnum, the celebrated purveyor of individual success aphorisms, had to admit in *The Art of Money-Getting* that "in a new country, where we have more land than people, it is not at all difficult for persons in good health to make money."⁷ He might have added that it also helped to be male, to be free rather than a slave, and to be white. People of color were explicitly excluded from federal largesse. Alien land laws, for example, prohibited most non-whites from owning land.

Then there was the luck of timing. Those born in the first half of the 19th century who survived the Civil War caught the wave of resource exploitation and industrial expansion. This was a time akin to the 1990s technology boom. Wyllie notes that from a statistical point of view, being born in 1835 was "the most propitious birth year for a poor boy who hoped to rise into the business elite."⁸ Andrew Carnegie hit this lottery perfectly. He was born in 1835, held a desk job during the Civil War and reached business maturity after the fighting ceased.

[...much later in the report...]

In 1962, [Ross] Perot founded Electronic Data Systems, a one-man data processing company that went on to employ more than 70,000 people. But in its early days, EDS owned no computers and rented office space from Texas Blue Cross. The company struggled to make a profit in its early years. In 1964 it had earnings of \$400,000, but made only \$4,100 in profit. But EDS was a company that was in the right place at the right time.

In July of 1965, the US Congress passed legislation establishing the Medicare and Medicaid programs. A cornerstone of Lyndon Johnson's Great Society initiative, these insurance programs would entitle 30 million US citizens to health benefits. This would in turn create an enormous volume of paperwork and an acute need for data processing systems.

EDS moved into this enormous market, using its inside connection with Texas Blue Cross, the agency that would administer the federal program in Texas. Texas Blue Cross gave EDS its computer data business without any competitive bid. In their 1968 contract with Texas Blue Cross, EDS was paid \$250,000 to develop a computer program to process Medicare claims. While government funds paid for research and development of the system, EDS retained ownership of the program. Essentially, the research and development costs for EDS's main product were paid for with tax dollars.

Gerald Posner, in his biography of Perot, called him the "Welfare Billionaire":

The EDS program, developed with the help of Texas Blue Cross and paid for by federal funds, was the same one that Perot kept reselling at a significant profit to other states...The issue was of no small consequence, because between 1966 and 1971...the federal government paid EDS \$36 million. Its closest competitor during the same time, Applied Systems Development Corporation, received just \$275,000. 54

The EDS Medicare contract was a windfall. There is no question that the early relationship with Texas Blue Cross helped build the company and enabled it to catch a veritable wave of opportunities.

Go read [the full report](#). It has numerous other examples of millionaires who became millionaires in large part due to Government spending (and some, who later claimed to be against big Government while continuing to increase spending to benefit their contacts).

The bottomline is this: Using pre-conceived notions or ideology or sound bites from ignorant millionaire talking heads on TV or op-ed writers in the media is not the best way to judge which party does better on the economy. **Reality is a better judge of reality.**

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