

Red versus Blue Economy

By Michael Coblenz

It is an article of faith among conservatives and many business people that Republicans are better stewards of the economy than Democrats. It's a key feature of nearly every Republican campaign and the soul of every talking point. Even today, when Republicans talk about Obama Administration programs or proposals they refer to them as "job killers" or "bad for the economy." This perception accounts, to no small degree, for why the Chamber of Commerce supports Republicans to a far greater degree than Democrats. So widespread is this belief, in fact, that it has become conventional wisdom, and even many "conservative" Democrats accept it.

But what if this belief is not supported by fact? What if the economy actually does as well as, and perhaps even better, under Democrats than under Republicans? What does this do to conventional wisdom, not to mention Republican talking points and core beliefs?

I have attempted to measure the performance of the economy since the Second World War to try to determine whether there is a difference between the performance of the economy under Democratic and Republican administrations. Determining the actual performance of the "economy" is difficult since it is made up of many different components, and a wide variety of external factors can influence the nation's economic performance. I've tried to be as broad based as possible, and so have looked at five different economic measurements: change in GDP, change in the Dow Jones Industrial Average (DJIA), increase in average income, increase in non-farm payroll employment, and (since inflation is always a concern) the inflation rate.

Obviously a President's influence on the economy does not begin on the day he takes office or end the day he leaves office. There is some lag time. Some economists suggest that the influence of the President's policies do not take effect until sometime into their first year in office, and the real effects are not felt until the second year in office. It is difficult to precisely quantify this, so I have looked at two sets of numbers. First I analyze from the end of the first year in office to the end of the first year out of office,

and then to take account of any potential lag, I analyze from the end of the second year in office to the end of the second year out of office. One could argue that this potential lag effect might not apply to the performance of the stock market, where traders are trying to predict future performance of companies within the overall economy. So it is arguable that the lag effect does not apply to the stock market and the performance of the Dow Jones Industrial Average (DJIA).

The full details are set out below, but for the sake of quick analysis I set out two tables for each president. The first number covers the actual years that the President is in office, and the second covers starting from the second year in office. It is interesting to note that most of the numbers do not change significantly between the year to year measure and the plus one measure. The one noticeable exception is the change in the DJIA. Frequently some of the biggest changes in the stock market occurred in the first year of a new president's administration. This could be caused by traders trying to anticipate coming changes in policy. Perhaps the most curious point to note in this regard is that the Dow dropped – i.e. lost money – in the first year of every Republican President, and went up in the first year of every new Democratic President except Jimmy Carter.

I have included the inflation numbers because Conservatives often claim that Democrats are willing to allow a higher degree of inflation in an effort to juice the job market and improve employment numbers. As a result, according to some conservative economists, inflation is usually higher under Democrats than under Republicans. The numbers, however, do not bear this out. Inflation was unusually high during the Carter years, but it was also high at the end of the Ford Administration and the beginning of the Reagan administration. In most of the rest of the post-war period inflation was around a manageable 2 - 4%.

The net result, as shown in the two tables below, is that the economy does better under Democrats than Republicans. GDP growth is higher, job growth is more robust, and increases in income are greater. This is true whether you take the numbers from the years the president was in office, or from the adjusted years. I would love to say that the economy did significantly better during Democratic administrations

than under Republicans, but that it simply not the case. The economy does, however, do measurably better under Democrats than under Republicans.

I will discuss specifics in a moment, but before that, here are the two charts:

Economic Results – Years in Office

President	GDP (Adjusted for Inflation)	Increase in DJIA	Increase in Income	Increase in employment	Increase in Inflation
Truman (‘45-’52)	1.4	8.98		1.95	5.37
Eisenhower (‘53-’60)	3.0	11.44	3.83	1.35	1.39
Kennedy/ Johnson (‘61-’68)	4.85	6.36	4.22	2.89	2.05
Nixon/ Ford (‘69-’76)	2.85	2.79	6.52	1.99	6.36
Carter (‘77-‘80)	3.25	-0.33	7.92	3.33	9.72
Reagan (‘81-’88)	3.40	11.41	5.61	1.93	4.65
Bush 41 (‘89-’92)	2.17	11.78	4.36	0.80	4.35
Clinton (‘93-2000)	3.88	16.64	4.33	2.44	2.61
Bush 43 (‘01-’08)	2.16	-0.89	3.20	0.49	2.82

Economic Results – Plus one (years of effect)

President	GDP (Adjusted for Inflation)	Increase in DJIA	Increase in Income	Increase in employment	Increase in Inflation
Truman (‘45-’52)	2.1	5.19		2.76	5.19
Eisenhower (‘53-’60)	2.7	14.25	3.37	0.94	1.41
Kennedy/ Johnson	4.95	2.12	4.69	3.4	2.61

('61-'68)					
Nixon/ Ford ('69-'76)	2.99	2.53	6.54	2.01	6.49
Carter ('77-'80)	2.75	1.68	8.94	2.55	10.67
Reagan ('81-'88)	3.54	15.93	4.84	2.14	3.96
Bush 41 ('89-'92)	2.00	8.47	3.59	0.68	3.90
Clinton ('93-2000)	3.65	14.04	4.52	2.19	2.59
Bush 43 ('01-'08)	1.73	2.41		-0.05	2.42

Looking at these numbers, there are a couple of noticeable trends. First, by every measure, the economy has slowed in the last twenty years or so. This is much more obvious in the detailed charts below, but there were far more years of 4 and 5 percent GDP growth from the 1950's to the 1980's than since.

Other economic conditions worth noting include the fact that the immediate post war years were unstable. If you look at the individual years the economic statistics were all over the place. Some years were great, others dismal. The average for the Truman years was pretty weak and things improved during the Eisenhower administration. Things began to stabilize in the 1960's, and the Kennedy and Johnson years were far and away the best in the post war period. In fact, if we were to pick winners and losers, the Kennedy/Johnson years stand head and shoulders above the rest. The Nixon/Ford years are not great, but it is hard to know where to place these years. Nixon & Ford were Republicans, but there were a number of policies enacted during this period that are considered highly liberal. The Earned Income Tax Credit, for example, was enacted in 1975, and both Nixon and Ford advocated for universal health insurance. You may recall that Ronald Reagan challenged Ford for the Presidency in 1976, because he (and many other Conservatives) did not consider Ford to be conservative enough. So while Nixon and Ford were Republicans, their economic policies were decidedly liberal.

Carter is often ridiculed as an ineffective President largely because of his handling of the economy. He takes the prize for inflation, but the era of high inflation actually started in 1974, the year Jerry Ford took office after Nixon resigned, and ran through 1981, Ronald Reagan's first year in office. So four of the eight worst inflation years were during Republican administrations, and four were during a Democratic administration.

Reagan introduced us to "supply-side" or "trickle-down" economics, which was the idea that if you cut taxes for the richest Americans they will use that money to make more money. The theory is that they will do this by opening businesses or factories, or by investing in stocks and bonds in productive industries, and this will create jobs and strengthen the economy. A quick look at the numbers in the charts (both above and below) should raise questions about this theory. GDP was higher during the Reagan administration than the Carter Administration, but job growth and increases in income were weaker. So business may have benefited, as indicated by GDP, but employees did not, as indicated by growth in jobs and income.

Many Conservatives argue that the strong economy during the Clinton years was the product of economic policies put in place by the Reagan Administration. This might be plausible except that the anemic Bush 41 Presidency came between Reagan and Clinton. And, to a certain extent, it puts the lie to one of Reagan's main campaign themes, which was that the President guides the economy like the helmsman of a ship. Conservatives also deride the good economy under Clinton as the product of the dot.com bubble. The rise of the internet undoubtedly helped the stock market, but the Clinton years also showed strong gains in employment and income, all with low inflation.

Finally we have the George W. Bush years, which were some of the worst since the end of the war. GDP was dismal, and there was virtually no increase in employment. The Bush economic policies were almost the perfect embodiment of long desired Republican policies (see trickle down above). There were massive tax cuts geared mostly towards the wealthy, and a concerted effort among Republican politicians and administrative appointees to gut business regulation. And the net result was dismal. It is interesting to compare the Clinton economy with the Bush 43 economy. When Clinton was elected,

Conservatives swore that he would destroy the economy. The numbers tell a starkly different story. And when Bush 43 was elected, Conservatives hailed him as the savior of the American economy. They could not have been more wrong on both accounts.

Overall it appears that the economy does better under Democrats than under Republicans. The Kennedy and Johnson years were significantly better than both the Eisenhower years and the Nixon/Ford years. And the Clinton years were significantly better than the Reagan years and both Bush years. The one exception was the Carter years. They are similar to the Ford years, but significantly worse than the Reagan years.

So why does the economy grow more under Democratic administrations than under Republican administrations? Is it the product of external events—like technological innovation or wars—or does it have something to do with the policies and programs enacted by the different Presidents? In other words, do the policies enacted by the two parties have an impact on the overall economy?

Democratic policies tend to be pro-labor and favor the poor and working families. Specific programs favored by Democrats since Truman include increases in the minimum wage, support for labor organizations, progressive tax rates (that is geared towards the poor by taxing higher incomes more than lower), and since the mid-1970's support for the Earned Income Tax Credit. They also support regulations that attempt to minimize the most egregious behavior of companies, like work-place safety regulations and environmental regulations.

Republican policies tend to be seen as “pro-business.” They tend to favor less regulation of business, cuts in the capital gains taxes and upper income tax rates, and they are generally hostile towards labor unions. The curious effect of these “pro-business” policies is that the overall economy does not do as well. And since the national economy is made up of the cumulative sum of all of the business enterprises within the economy, the reality is that businesses do better during Democratic administrations than during Republican administrations.

There is an old Democratic theory that the economy will do better when more money is in the pockets of average Americans. The idea is that when workers have a few more dollars in their pockets

they are much more likely to spend that money, and this contributes directly to continued economic activity. President Kennedy said precisely that when he pushed for his tax cuts in 1963. Republicans have long tried to discredit that theory, and to a certain extent their views prevailed with the election of Ronald Reagan. But the economy did not experience a new birth of freedom.

So are Republicans “pro-business” and Democrats not? From the numbers it’s difficult to make that argument. Perhaps Democrats enact legislation that many business people dislike. Examples abound, but certainly include increases in minimum wage, which is a cost to business, and environmental regulations, which are a burden (and cost) to business. But which is more pro-business: enacting policies that individual businessmen like, or enacting policies that help the overall economy. I would argue that the later is far more “pro-business.”

Unfortunately the concept that Republicans are more pro-business is so ingrained in our collective psyches that even many Democrats seem to accept it. When Republican (reliably) charges that a Democratic policy or program is “anti-business,” Democrats don’t respond by saying “prove it.” More often than not they respond by arguing that the country should perhaps accept a slightly weaker economy in exchange for a slightly fairer society. This implies that the Republican argument is right. But what if that is not really the trade-off? What if the economy is actually stronger when society is fairer?

The numbers indicate that, overall, the economy does somewhat better when a Democrat is in the White House than when a Republican is President. As a result, it appears that overall the economy does better when society is fairer.

Supporting Data:

For reference I have included the tables from which I gathered this information. While the particular tables or charts come from different sources, the underlying data comes from the Census Department, the Bureau of Economic Analysis and the Bureau of Labor Statistics. Most were acquired through the web site www.forecast-charts.com.

(1) GDP

Year	GDP percent change based on current dollars		GDP percent change based on chained 2005 dollars		Average for President
1945	1.5		-1.1		
1946	-0.4		-10.9		
1947	9.8		-0.9		
1948	10.3		4.4		
1949	-0.7		-0.5		
1950	9.9		8.7		
1951	15.5		7.7		Truman
1952	5.6	6.44	3.8	1.4	In Office
1953	5.9	6.99	4.6	2.1	Plus one
1954	0.3		-0.6		
1955	9.0		7.2		
1956	5.5		2.0		
1957	5.4		2.0		
1958	1.3		-0.9		
1959	8.4		7.2		Eisenhower Average
1960	3.9	4.96	2.5	3.00	In Office
1961	3.5	4.66	2.3	2.71	Plus one
1962	7.5		6.1		
1963	5.5		4.4		
1964	7.4		5.8		
1965	8.4		6.4		
1966	9.5		6.5		
1967	5.7		2.5		Kennedy/Johnson
1968	9.3	7.1	4.8	4.85	In Office
1969	8.2	7.69	3.1	4.95	Plus one
1970	5.5		0.2		
1971	8.5		3.4		
1972	9.9		5.3		
1973	11.7		5.8		
1974	8.5		-0.6		
1975	9.2		-0.2		Nixon/Ford Average
1976	11.4	9.11	5.4	2.80	In Office

1977	11.3	9.50	4.6	2.99	Plus 1
1978	13.0		5.6		
1979	11.7		3.1		Carter Average
1980	8.8	11.2	-0.3	3.25	In Office
1981	12.1	11.4	2.5	2.75	Plus one
1982	4.0		-1.9		
1983	8.7		4.5		
1984	11.2		7.2		
1985	7.3		4.1		
1986	5.8		3.5		
1987	6.2		3.2		Reagan Average
1988	7.7	7.87	4.1	3.40	In Office
1989	7.5	7.30	3.6	3.54	Plus one
1990	5.8		1.9		
1991	3.3		-0.2		Bush I Average
1992	5.8	5.60	3.4	2.17	In Office
1993	5.1	5.00	2.9	2.00	Plus one
1994	6.3		4.1		
1995	4.7		2.5		
1996	5.7		3.7		
1997	6.3		4.5		
1998	5.5		4.4		
1999	6.4		4.8		Clinton Average
2000	6.4	5.80	4.1	3.88	In Office
2001	3.4	5.59	1.1	3.65	Plus one
2002	3.5		1.8		
2003	4.7		2.5		
2004	6.5		3.6		
2005	6.5		3.1		
2006	6.0		2.7		
2007	5.1		2.1		Bush II Average
2008	2.6	4.78	0.4	2.16	In Office
2009	-1.3	4.20	-2.4	1.73	Plus one

(2) Dow Jones Industrial Average

Year	Gain or Loss	Average
1945	26.648	
1946	-8.144	
1947	2.235	
1948	-2.131	
1949	12.876	
1950	17.629	
1951	14.366	Truman
1952	8.420	In office 8.98

1953	-3.768	Plus one 5.19
1954	43.962	
1955	20.775	
1956	2.267	
1957	-12.770	
1958	33.960	
1959	16.399	Eisenhower
1960	-9.343	In office 11.44
1961	18.713	Plus one 14.25
1962	-10.811	
1963	16.999	
1964	14.572	
1965	10.883	
1966	-18.939	
1967	15.199	Kennedy/Johnson
1968	4.269	In office 6.36
1969	-15.194	Plus one 2.12
1970	4.818	
1971	6.113	
1972	14.583	
1973	-16.584	
1974	-27.574	
1975	38.324	Nixon/Ford
1976	17.860	In office 2.79
1977	-17.268	Plus one 2.53
1978	-3.147	
1979	4.190	Carter
1980	14.933	In office -0.33
1981	-9.231	Plus one 1.68
1982	19.605	
1983	20.267	
1984	-3.740	
1985	27.658	
1986	22.583	
1987	2.262	Reagan
1988	11.849	In office 11.41
1989	26.959	Plus one 15.93
1990	-4.342	
1991	20.320	Bush I
1992	4.174	In office 11.78
1993	13.722	Plus one 8.47
1994	2.140	
1995	33.452	
1996	26.014	
1997	22.641	
1998	16.099	
1999	25.221	Clinton
2000	-6.168	In office 16.64
2001	-7.104	Plus one 14.04

2002	-16.763	
2003	25.322	
2004	3.148	
2005	-0.608	
2006	16.288	
2007	6.432	Bush II
2008	-33.837	In office -0.89
2009	19.314	Plus one 2.41

(From: EconStats.com at http://www.econstats.com/eqty/eqea_mi_3.htm Dow_Jones_Industrial_Average_-)

(3) Increase in Income

National Average Wage Index from Social Security Administration:

Year	Index	Percent Change	Average
1951	2,799.16		
1952	2,973.32	6.21	
1953	3,139.44	5.65	
1954	3,155.64	0.51	
1955	3,301.44	4.59	
1956	3,532.36	6.99	
1957	3,641.72	3.08	
1958	3,673.80	0.88	
1959	3,855.80	4.99	Eisenhower
1960	4,007.12	3.94	In office 3.83
1961	4,086.76	1.99	Plus one 3.37
1962	4,291.40	4.99	
1963	4,396.64	2.45	
1964	4,576.32	4.09	
1965	4,658.72	1.79	
1966	4,938.36	6.01	
1967	5,213.44	5.57	Kennedy/Johnson
1968	5,571.76	6.87	In office 4.22
1969	5,893.76	5.78	Plus one 4.69
1970	6,186.24	4.97	
1971	6,497.08	5.03	
1972	7,133.80	9.79	
1973	\$7,580.16	6.26%	
1974	8,030.76	5.94%	
1975	8,630.92	7.47%	Nixon/Ford
1976	9,226.48	6.90%	In office 6.52
1977	9,779.44	5.99%	Plus one 6.54
1978	10,556.03	7.94%	
1979	11,479.46	8.75%	Carter
1980	12,513.46	9.01%	In office 7.92

1981	13,773.10	10.07%	Plus one 8.94
1982	14,531.34	5.51%	
1983	15,239.24	4.87%	
1984	16,135.07	5.88%	
1985	16,822.51	4.26%	
1986	17,321.82	2.97%	
1987	18,426.51	6.38%	Reagan
1988	19,334.04	4.93%	In office 5.61
1989	20,099.55	3.96%	Plus one 4.84
1990	21,027.98	4.62%	
1991	21,811.60	3.73%	Bush 1
1992	22,935.42	5.15%	In office 4.36
1993	23,132.67	0.86%	Plus one 3.59
1994	23,753.53	2.68%	
1995	24,705.66	4.01%	
1996	25,913.90	4.89%	
1997	27,426.00	5.84%	
1998	28,861.44	5.23%	
1999	30,469.84	5.57%	Clinton
2000	32,154.82	5.53%	In office 4.33
2001	32,921.92	2.39%	Plus one 4.52
2002	33,252.09	1.00%	
2003	34,064.95	2.44%	
2004	35,648.55	4.65%	
2005	36,952.94	3.66%	
2006	38,651.41	4.60%	
2007	40,405.48	4.54%	Bush 2
2008	41,334.97	2.30%	In office 3.20

(From Bureau of Economic Analysis: available at: <http://www.bea.gov/national/index.htm#gdp>)

(4) Increase in Employment

Annual Change in Non-Farm Payroll

1945	-3.6%	
1946	3.0%	
1947	5.2%	
1948	2.3%	
1949	-2.4%	
1950	3.3%	
1951	5.8%	Truman
1952	2.0%	In office 1.95
1953	2.9%	Plus one 2.76
1954	-2.4%	
1955	3.4%	

1956	3.4%	
1957	0.9%	
1958	-2.9%	
1959	3.8%	Eisenhower
1960	1.7%	In office 1.35
1961	-0.4%	Plus one 0.94
1962	2.9%	
1963	2.0%	
1964	2.9%	
1965	4.3%	
1966	5.2%	
1967	3.0%	Kennedy/Johnson
1968	3.2%	In office 2.89
1969	3.7%	Plus one 3.40
1970	0.7%	
1971	0.5%	
1972	3.4%	
1973	4.2%	
1974	1.9%	
1975	-1.7%	Nixon/Ford
1976	3.2%	In office 1.99
1977	3.9%	Plus one 2.01
1978	5.1%	
1979	3.6%	Carter
1980	0.7%	In office 3.33
1981	0.8%	Plus one 2.55
1982	-1.8%	
1983	0.7%	
1984	4.7%	
1985	3.2%	
1986	2.0%	
1987	2.6%	Reagan
1988	3.2%	In office 1.93
1989	2.5%	Plus one 2.14
1990	1.4%	
1991	-1.0%	Bush 41
1992	0.3%	In office 0.80
1993	2.0%	Plus one 0.68
1994	3.1%	
1995	2.6%	
1996	2.0%	
1997	2.6%	
1998	2.6%	
1999	2.4%	Clinton
2000	2.2%	In office 2.44

2001	0.0%	Plus one 2.19
2002	-1.1%	
2003	-0.3%	
2004	1.1%	
2005	1.7%	
2006	1.8%	
2007	1.1%	Bush
2008	-0.4%	In office 0.49
2009	-4.3%	Plus one -0.05

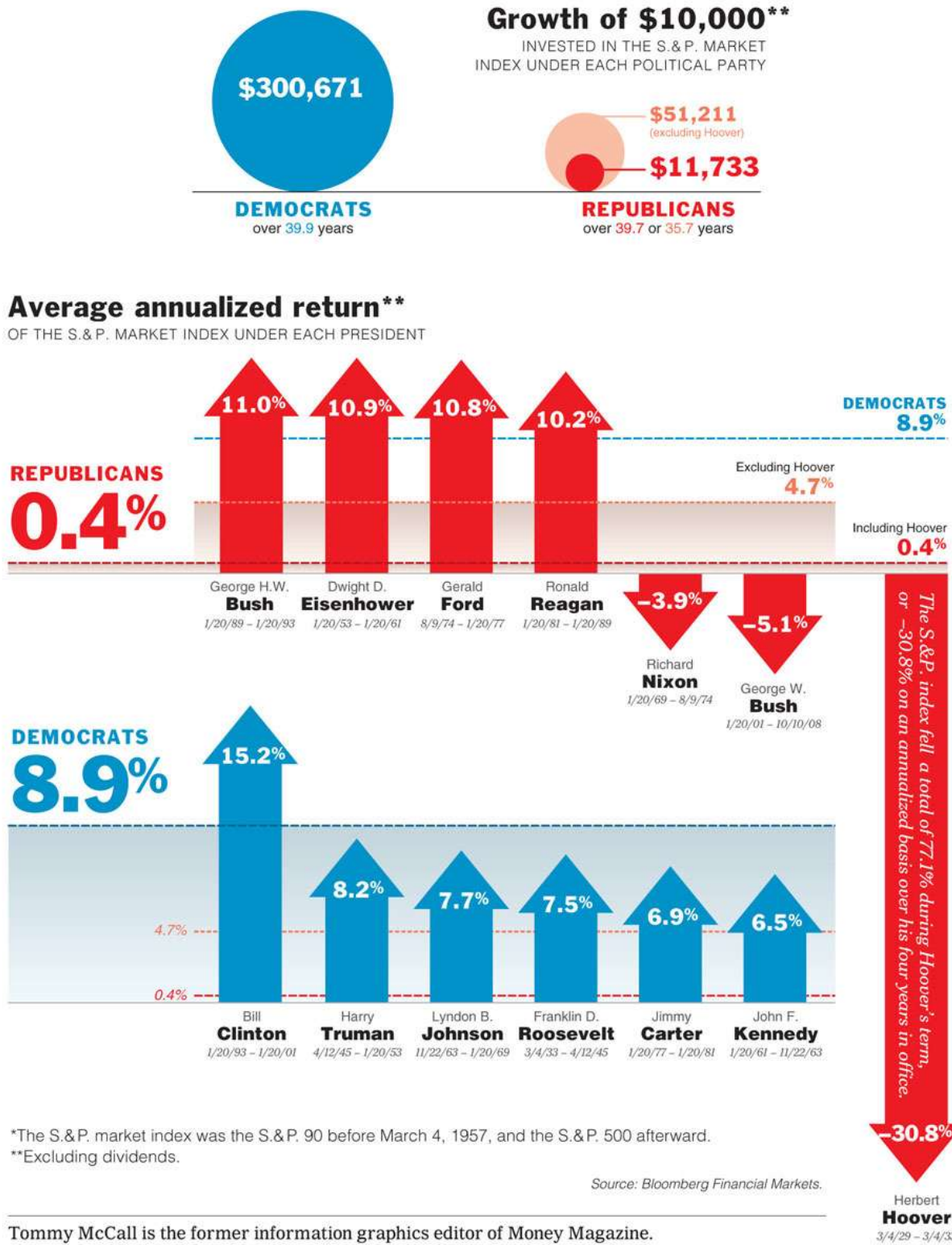
(Data from Bureau of Labor Statistics, found at: <ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>)

(5) Increase in Inflation (As measured by Consumer Price Index)

Year	CPI Increase	Average
1945	2.3	
1946	8.3	
1947	14.4	
1948	8.1	
1949	-1.2	
1950	1.3	
1951	7.9	Truman
1952	1.9	In office 5.37
1953	0.8	Plus one 5.19
1954	0.7	
1955	-0.4	
1956	1.5	
1957	3.3	
1958	2.8	
1959	0.7	Eisenhower
1960	1.7	In office 1.39
1961	1.0	Plus one 1.41
1962	1.0	
1963	1.3	
1964	1.3	
1965	1.6	
1966	2.9	
1967	3.1	Kennedy/Johnson
1968	4.2	In office 2.05
1969	5.5	Plus one 2.61
1970	5.7	
1971	4.4	
1972	3.2	
1973	6.2	
1974	11.0	
1975	9.1	Nixon/Ford
1976	5.8	In office 6.36
1977	6.5	Plus one 6.49
1978	7.6	

1979	11.3	Carter
1980	13.5	In office 9.72
1981	10.3	Plus one 10.67
1982	6.2	
1983	3.2	
1984	4.3	
1985	3.6	
1986	1.9	
1987	3.6	Reagan
1988	4.1	In office 4.65
1989	4.8	Plus one 3.96
1990	5.4	
1991	4.2	Bush 41
1992	3.0	In office 4.35
1993	3.0	Plus one 3.90
1994	2.6	
1995	2.8	
1996	3.0	
1997	2.3	
1998	1.6	
1999	2.2	Clinton
2000	3.4	In office 2.61
2001	2.8	Plus one 2.59
2002	1.6	
2003	2.3	
2004	2.7	
2005	3.4	
2006	3.2	
2007	2.8	Bush 43
2008	3.8	In office 2.82
2009	-0.4	Plus one 2.42

Here's the Stock market Chart from the NY Times:



From NY Times OP/Chart: Bulls, Bears, Donkeys and Elephants, October 14, 2008

http://www.nytimes.com/interactive/2008/10/14/opinion/20081014_OPCHART.html