

Politics and the economy

by Robert_J_Caldwell

The American economy will be a rhetorical battleground for Democrats and Republicans right through the presidential election next November. Voters need a reality check to separate fact from fanciful fiction on this central issue, always a deciding factor in determining who wins the White House.

Democrats, of course, paint the economy in the direst possible terms. Their mantra of negatives: a falling dollar, rising oil prices, debt and deficits, slipping real estate values and now the subprime mortgage meltdown, unfair foreign trade, income inequality, stagnant wages, lingering resentment over "tax cuts for the rich," higher health care costs and middle-class anxieties.

It all adds up, say the Democrats, to an indictment of eight years of Republican governance of the economy.

Republicans scoff at the Democrats' case. Their rebuttal: year after year of solid economic growth, strong job creation, historically low unemployment, negligible inflation, high home ownership rates (despite the subprime mortgage mess), an export boom, declining budget and trade deficits, continued low interest rates, strong corporate profits and, until the recent correction, a bullish stock market.

All this, Republicans can argue, vindicates the Bush administration's core economic strategy of keeping taxes low and growth incentives high. The result has been a steadily expanding economy, the single best antidote to economic trouble and, historically, the best guarantor of expanding opportunity and rising living standards for most Americans.

So, who's right?

Both sides can make a statistical case for their take on the economy; which is not to say that these conflicting assessments are equally valid. They're not, as any careful examination of the relevant facts shows.

The truth is that the economy's fundamental indicators have been, in fact, mostly positive during the Bush years, even if Democrats rarely if ever acknowledge them.

Start with the economic growth numbers. Since the Bush tax cuts took full effect in 2003, the economy has averaged strong annual growth rates above 3 percent. For the third quarter of 2007, growth hit 4.9 percent, the strongest quarterly rise in four years.

Economic growth is a job creator. Republicans can cite more than 8.3 million new jobs created on their watch. Unemployment, at 4.7 percent, remains at 40-year lows. Core inflation is a tame 1.9 percent. Exports (the flip side of a weaker dollar) are up a record 12.8 percent this year, making them the fastest-growing sector of the American economy.

Are wages stagnant? No, they're up 3.6 percent during the Bush years. Per capita income is up 12 percent, an average, the White House notes, of \$3,600 per person since 2001.

On debt and deficits, it's true that the Republicans overspent during Bush's first term especially. That, plus the brief recession in 2001, pushed up budget deficits. But an expanding economy and the swelling tax revenues it generates - half a trillion dollars in new federal revenues from 2001 to 2006 - is dramatically shrinking the deficits. This year's deficit of \$160 billion equals just 1.2 percent of gross domestic product, well below average for federal budget deficits over the last 40 years.

Republicans can also make hash of the Democrats' "tax cuts for the rich" canard. It's pure populist hokum. The 2003 Bush tax cuts reduced rates across the board, for everyone. True, upper-income earners benefited the most, but that's because they already pay a disproportionate share of taxes. The wealthiest 1 percent of Americans pays a quarter of all federal income taxes. The top fifth of income earners pays two-thirds of all federal income taxes. Those on the bottom half of the income scale pay little or no federal income taxes.

The credible case Republicans can make for their economic record, however, doesn't mean there are not serious problems on the horizon. The 40 percent rise in global oil prices, a credit crunch caused by the subprime mortgage failures, declining home values and a weakening dollar are bound to ripple through the economy with unpleasant consequences.

Then, too, there's the fiscal tsunami looming as baby boomers begin retiring. That will entail potentially trillions of dollars in unfunded liabilities over the next several decades. Neither Democrats nor Republicans have done anything or, with rare exceptions, suggested doing anything to ameliorate this looming crisis.

The question that voters should be asking candidates of both parties is how best to fortify the economy for the rougher times that may lie ahead.

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