DEMOCRATIC POLICY COMMITTEE

Fact Sheet

DPC

BYRON L. DORGAN
CHAIRMAN

DPC Staff Contact: Erika Moritsugu and Jesse Comart (202) 224-3232
DPC Press Contact: Barry Piatt (202) 224-0577
Available Online: ***dpc.senate.gov***

September 16, 2009

Look at the Record: Can the American People Trust Republicans to Strengthen the Economy for the Middle Class?

Senate Democrats and President Obama are working to reverse an increasing squeeze on America's middle class, and to address an inherited financial crisis of a scope and scale unseen in generations. Republicans, however, continue to insist on the same failed economic policies that squeezed American families and caused the financial crisis in the first place: deregulation and a hands-off approach to markets, tax breaks for the wealthy and corporations at the expense of the middle class, health care policies that favored insurance companies at the expense of consumers, and little or no assistance for those in greatest need.

As history has shown, these ultra-conservative Republican policies helped cause America's worst economic crises over the last century: the Great Depression in the 1930s, the Savings and Loan Collapse of the 1980s, and the Financial Crisis of 2008. The fact is that the economy has performed significantly better under Democratic administrations than Republican administrations. Over the last half century, Democratic presidents have produced stronger economic growth, higher worker productivity, larger increases in median family income and lower unemployment, deficit spending and inflation.

Yet these failed ideological policies remain the cornerstone of the Republican economic agenda, and despite their dismal record, Republicans have not learned from the error of their ways. This report looks at how wrong Republicans have been on the economy. The question Americans should be asking is, "Given the clear historical record, can we really trust Republicans to strengthen the economy for the middle class??"

Republicans were wrong:
Democratic budget did not lead to a "job-killing recession" –
it created record job growth, prosperity, and fiscal restraint

What They Said Then: As Congress debated President Clinton's first proposed budget in 1993, Republicans predicted that the package would lead to a "job-killing recession." They predicted President Clinton's efforts to balance the budget would impede economic growth and increase federal deficits and the national debt.

- "I have come to the floor today to oppose the President's tax package… Let's quit trying to hoodwink the American people in thinking this package reforms the wasteful way

Congress spends taxpayers' dollars." [Senator Mitch McConnell, *Congressional Record*, 8/6/93]

- "I want to predict here tonight that if we adopt this bill the American economy is going to get weaker and not stronger, the deficit four years from today will be higher than it is today and not lower... When all is said and done, people will pay more taxes, the economy will create fewer jobs, Government will spend more money, and the American people will be worse off." [Senator Phil Gramm, *Congressional Record*, 8/5/93]

- "I am concerned about what this plan will do to our economy. I am concerned about what it will do to jobs. I am concerned about what it will do to our families, our communities, and to our children's future." [Senator William Roth, *Congressional Record*, 8/6/93]

- "The tax increase will kill jobs and lead to a recession, and the recession will force people off of work and onto unemployment and will actually increase the deficit." [Rep. Newt Gingrich, *Atlanta Journal Constitution*, 8/6/93]

- "I believe this will lead to a recession next year. This is the Democrat machine's recession, and each one of them will be held personally accountable." [Rep. Newt Gingrich, GOP Press Conference, House TV Gallery, 8/5/93]

- "It will not cut the deficit. It will not create jobs. And it will not cut spending." [Rep. Jim Bunning, *Congressional Record* 8/5/93]

- "These new taxes will stifle economic growth, destroy jobs, reduce revenues and increase the deficit." [Rep. Jim Ramstad, *Congressional Record*, 3/17/93]

- "This is really the Dr. Kevorkian plan for our economy. It will kill jobs, kill businesses, and yes, kill even the higher tax revenues that these suicidal tax increasers hope to gain." [Rep. Christopher Cox, *Congressional Record*, 5/27/93]

- "This plan is not a recipe for more jobs... It is a recipe for disaster... Taxes will go up. The economy will sputter along. Dreams will be put off, and all this for the hollow promise of deficit reduction and magical theories of lower interest rates." [Rep. Dick Armey, *1993 CQ Almanac*]

- "The budget proposal offered by the Democrats is a recipe for economic and fiscal disaster." [Rep. Phil Crane, *Congressional Record*, 3/18/93]

- "In summary, the plan has a fatal flaw -- it does not reduce the deficit." [Rep. Wayne Allard, *Congressional Record*, 8/5/93]

What Actually Happened: Contrary to these warnings of impending doom from Republicans, the Clinton Administration presided over historic job growth, unprecedented economic prosperity, and reported the first budget surplus since 1969.

- More than 22.5 million jobs were created, the most ever during a single administration, 92 percent of which were in the private sector. [White House Archives]

- Economic growth averaged four percent per year under President Clinton, compared to 2.8 percent during the Reagan-Bush years. [White House Archives]

- The economy grew for 116 consecutive months, the most in history. [White House Archives]

- Median family income increased by $6,000, from $42,612 in 1993 to $48,950 in 1999. [White House Archives]

- Overall unemployment dropped to the lowest level in more than 30 years, down from 6.9 percent in 1993 to just four percent in November 2000. [White House Archives]

- The surplus in Fiscal Year 2000 was $237 billion—the third consecutive surplus and the largest surplus ever. [White House Archives]

- After increasing under the previous two administrations, federal government spending as a share of the economy has been cut from 22.2 percent in 1992 to 18 percent in 2000—the lowest level since 1966. [White House Archives]

Despite Their Dismal Record, What Republicans Are Saying Now:

- "If most Republicans were convinced that [the *Recovery Act*] would work, there might be a greater willingness to support it. But all the historical evidence suggests it is highly unlikely to work. " [Senator Mitch McConnell, *Congressional Record*, 2/6/09]

- "[This bill] will actually weaken the economy, and the total gross domestic product over that period of time will be less than if we had no bill at all." [Senator Jeff Sessions, *Congressional Record*, 2/6/09]

- "The budget proposed by the Obama administration is unworkable, and I think everyone knows that." [Senator Jim Bunning, *Congressional Record*, 4/1/09]

- "We know that immediate and permanent tax breaks stimulate the economy. We know that spending does not." [Rep. Marsha Blackburn, *Congressional Record*, 2/24/09]

Republicans were wrong:
Bush Republican economic policy harmed, did not help, the economy

What They Said Then: Republicans heralded President Bush's budget, which included the largest tax breaks for the wealthiest one percent in U.S. history, as a plan of "fiscal restraint, debt reduction, and responsible tax relief."

- "I want to strongly commend the President for coming out with a well-conceived tax program that will provide broad-based tax relief for the American people; for every American taxpayer will experience relief from the onerous burden placed upon them by this Tax Code and tax burden we have." [Senator Kay Bailey Hutchinson, *Congressional Record*, 2/8/01]

- “First, in President Bush's budget, we will see the largest debt reduction in American history. Think of that: The largest debt reduction in American history.” [Senator Robert Smith, *Congressional Record*, 2/28/01]

- “President Reagan, whose birth we celebrate today, showed us the way to turn around this American economy, by cutting taxes for all taxpayers. In order for our country to recover economically, we must cut taxes big and cut taxes now.” [Rep. Michael Pence, *Congressional Record*, 2/6/01]

- “The Economic Growth and Tax Relief Act of 2001 will cut that deficit by $9.7 billion. As a former town supervisor, I know firsthand how reasonable tax relief can help families and local economies create thousands of new jobs, provide essential services, and still maintain a multimillion dollar annual surplus.” [Rep. Felix Grucci, *Congressional Record*, 3/8/01]

What Actually Happened: Republicans put in place enormous tax breaks during the Bush Administration that benefitted the nation’s wealthiest taxpayers; most of these tax breaks were paid for by exploding the deficit to historic highs.

- [T]hese ultra-conservative Republican policies have led to a decline in the economic fortunes of America’s middle class. Working families suffered from lower wages and fewer jobs, poverty rates increased, and income inequality expanded. Republican economic policies contributed to a growing gap between millionaires and middle-class workers. The average annual size of the 2001-2004 tax cut was $103,086 for millionaires and $684 for households earning less than $100,000. In 2007, the top 20 percent of taxpayers received almost 70 percent of the president’s tax cuts. [CBPP, 5/9/08]

- Republicans presided over one of the fastest accumulations of government debt in the history of the United States. During his time in office, federal debt held by the public increased by more than 50 percent. When President Bush took office in 2001, the public debt was $5.7 trillion. On the last day of President Bush’s presidency in 2009, the public debt stood at $10.6 trillion, approximately $35,000 for every man, woman and child in America.

- “The tax cuts were costly: While supporters of these tax cuts claim that their positive economic effects have lowered their cost, the non-partisan Congressional Research Service found in a September, 2006 report that ‘at the current time, as the stimulus effects have faded and the effect of added debt service has grown, the 2001-2004 tax cuts are probably costing more than their estimated revenue cost.” [CBPP, 5/9/08].

Despite Their Dismal Record, What Republicans Are Saying Now:

- “I believe one of the best ways we can stimulate our economy is to provide true tax relief to everybody who pays taxes. .” [Senator John Cornyn, *Congressional Record*, 2/4/09]

- “The best fiscal policy to stimulate the economy is a deficit-financed tax cut. ” [Senator Jon Kyl, *Congressional Record*, 2/7/09]

- "I believe we should have tax cuts that are targeted to making people spend their money." [Senator Kay Bailey Hutchinson, *Congressional Record*, 2/10/09]

Republicans were wrong:
Deregulation of financial markets put consumers and the economy at risk

What They Said Then:

- "So the threat and the fear of new taxes, new regulations, and new paperwork requirements are undermining the economic recovery that has been taking place." [Senator Thad Cochran, *Congressional Record*, 6/23/93]

- In an interview on CBS's *60 Minutes* "McCain was asked if he regretted supporting a 1999 law that removed barriers between investment banks and commercial banks that were erected in 1933, in response to the 1929 stock market crash. 'No,' McCain said. 'I think the deregulation was probably helpful to the growth of our economy.'" [Sen. John McCain, *Associated Press*, 9/22/08]

- "We in the Republican Party are committed to doing our utmost to bring accountability to the coercive, pervasive bureaucracy which is at fault for the suffocating overregulation of our country." [Rep. Tom DeLay, *Congressional Record*, 4/29/93]

- "Depression-era Federal securities laws imposed various user fees on investors and market participants so that the regulated community paid for the costs of their regulation… Providing immediate relief from these excessive fees will benefit all investors of all types at every income level, including individuals and small businesses, providing a much needed boost to our slowing national economy." [Rep. Eric Cantor, *Congressional Record*, 6/14/01]

What Actually Happened: The deregulation of our financial markets helped cause the current financial and economic crises.

- "The chairman of the Securities and Exchange Commission, a longtime proponent of deregulation, acknowledged on Friday that failures in a voluntary supervision program for Wall Street's largest investment banks had contributed to the global financial crisis." [*New York Times*, 9/26/2008]

- "There was a lack of regulatory oversight during the Bush Administration…that's one of the reasons we are in the mess that we are in… many bad mortgage loans and other loans were made in part because regulators were not empowered and were not playing their proper role." [Mark Zandi, NPR, 9/16/08]

- "It is no coincidence that the crisis of 2007 and 2008 had its origin in unregulated financial products traded in unregulated markets. Ever since the Great Depression, the government has tried to limit the leverage available to the public in the American stock market. But regulators, led by Alan Greenspan, the former chairman of the Federal Reserve, thought innovation would be hampered, and financial activity driven overseas, if there were any attempts to impose limits on leverage in the unregulated markets." [*New York Times*, 4/4/08]

- "As big a problem, according to the IMF, was that financial regulation was flawed, ineffective and too limited in scope. What it calls the "shadow banking system"—the loosely regulated but highly interconnected network of investment banks, hedge funds, mortgage originators, and the like—was not subject to the sorts of prudential regulation (capital-adequacy norms, for example) that applied to banks." [*Economist*, 3/6/09]

- "Which regulatory failure proved to be the largest systemic shock? And which market failure proved most damaging? The answers were obvious: poor regulation of the shadow banking system, mispricing of risk, the failure of models." [*Newsweek*, 1/29/09]

- "Bernard Madoff thought regulators had caught him in 2006 and was 'astonished' U.S. Securities and Exchange Commission investigators never followed up on information he gave them...The Ponzi scheme continued for 2 1/2 years." [*Bloomberg*, 9/3/09]

- On regulation, [Goldman Sachs CEO Lloyd Blankfein] said, "Regulators need to more regularly and proactively engage market participants. We should get more questions from regulators like, "Where are standards slipping or policies being stretched? Where are pressures building up? ... No one can predict the future. Regulators' predictive power isn't better than anyone else's. But it shouldn't be inferior either. One way to guard against that is through the robust sharing of information... Turf battles between regulators shouldn't be allowed to overwhelm a focus on what's in the system's best interest." [*Wall Street Journal*, 9/9/09]

Regulatory failure contributed to the collapse of the housing and financial markets. With no effective regulation over mortgage and financial companies, there was nothing protecting working families and individuals caught in a web of a credit crisis born out of a web of risks that the businesses were willing to take. In 2004, the SEC relaxed the net capital rule, allowing the investment banks and large financial institutions to substantially increase their level of debt and leverage, thus compounding the losses from their mortgage-backed securities.

Despite Their Dismal Record, What Republicans Are Saying Now:

- "Frankly, it doesn't make me feel any better to know that this government is intervening in the private sector and every place it touches, it is going to bring new rules and regulations and make our economy less likely to operate as it should." [Senator Jim DeMint *Congressional Record*, 1/15/09]

- "The Government cannot create economic growth. In fact, when the Government gets involved, there is more potential to do harm than good. We can tax them, we can regulate them. Usually, it does not do them any good." [Senator Jon Kyl, *Congressional Record*, 1/8/09]

- "The private market has an adequate way to deal with this; it is called the private sector, private companies. They are highly regulated. The proposal from the administration is to impose additional regulations, but why do we need a new government company?" [Senator Jon Kyl, *Congressional Record*, 8/7/09]

- "I think any of us can speak from experience on that point; that whenever we create any sort of a new Federal program, we have agencies that have to interpret it, regulations have to be promulgated, in many cases we are setting up new bureaucracies and people have to be hired and it makes no sense to me whatsoever for us to, in the context of an economic stimulus bill, start talking about new programs." [Senator John Thune, *Congressional Record*, 2/4/09]

- "With consumer spending just about frozen and unemployment near double-digit levels, the last thing we need are new layers of bureaucracy and burdensome regulations that restrict access to financial products and discourage economic growth." [Rep. John Boehner, Statement, 9/14/09]