

# Does the Party in Power Affect Economic Performance?

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# Introduction

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- ❖ There are a number of Republican myths that many American voters appear to accept without question.
- ❖ Democrats have often allowed these myths to remain unchallenged.
- ❖ In particular, many voters believe that Republicans generally do a better job of managing the economy.
  
- ❖ Using government statistics, I consider the following questions:
  - 1) Does the economy perform better under Republican administrations?
  - 2) Does the size of the government really keep expanding?
  - 3) Does the government grow faster under Democrats?
  - 4) Does bigger government lead to slower growth?
  - 5) Are Democrats the “tax and spend” party?

# Does the economy perform better under Republican administrations?

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## Comparative Economic Performance since 1929

| <u>Annual Averages:</u>    | <u>Democrats</u> | <u>Republicans</u> |
|----------------------------|------------------|--------------------|
| Real GDP Growth Rate       | 5.1%             | 1.9%               |
| Real GDP Growth Per Capita | 3.8%             | 0.7%               |

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But we should probably exclude the Great Depression and WWII from the comparison, since comparing the economy under Hoover and Roosevelt is a little unfair.

# Postwar Economic Performance: The differences are not new.

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## Economic Performance, 1992-2005

| <u>Annual Averages</u>      | <u>Clinton</u> | <u>Bush</u> |
|-----------------------------|----------------|-------------|
| Real GDP Growth Rate        | 3.7%           | 2.6%        |
| Change in Unemployment Rate | -0.4%          | +0.1%       |

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## Economic Performance, 1949-1992

| <u>Annual Averages</u>      | <u>Democrats</u> | <u>Republicans</u> |
|-----------------------------|------------------|--------------------|
| Real GDP Growth Rate        | 4.5%             | 2.9%               |
| Change in Unemployment Rate | -0.3%            | +0.3%              |

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# The differences are consistent and often statistically significant.

| <u>Annual Averages</u>             | <u>Democrats</u> | <u>Republicans</u> | <u>t-Statistic</u> |
|------------------------------------|------------------|--------------------|--------------------|
| Real GDP Growth Rate               | 4.2%             | 2.9%               | <b>-2.90</b>       |
| Real GDP Growth Per Capita         | 2.9%             | 1.7%               | <b>-2.72</b>       |
| Unemployment Rate                  | 5.2%             | 6.0%               | <b>+7.79</b>       |
| Change in Unemployment Rate        | -0.4%            | 0.3%               | <b>+4.19</b>       |
| Growth of Multifactor Productivity | 1.7%             | 0.9%               | -1.59              |
| Corporate Profits (share of GDP)   | 10.2%            | 8.8%               | <b>-6.96</b>       |
| Real Value of Dow Jones Index      | 5.4%             | 4.3%               | -0.81              |
| (in logarithmic growth rates)      | 4.4%             | 2.8%               | -1.28              |
| Real Weekly Earnings               | 1.0%             | 0.3%               | -1.01              |
| CPI Inflation Rate                 | 3.8%             | 3.8%               | 1.37               |

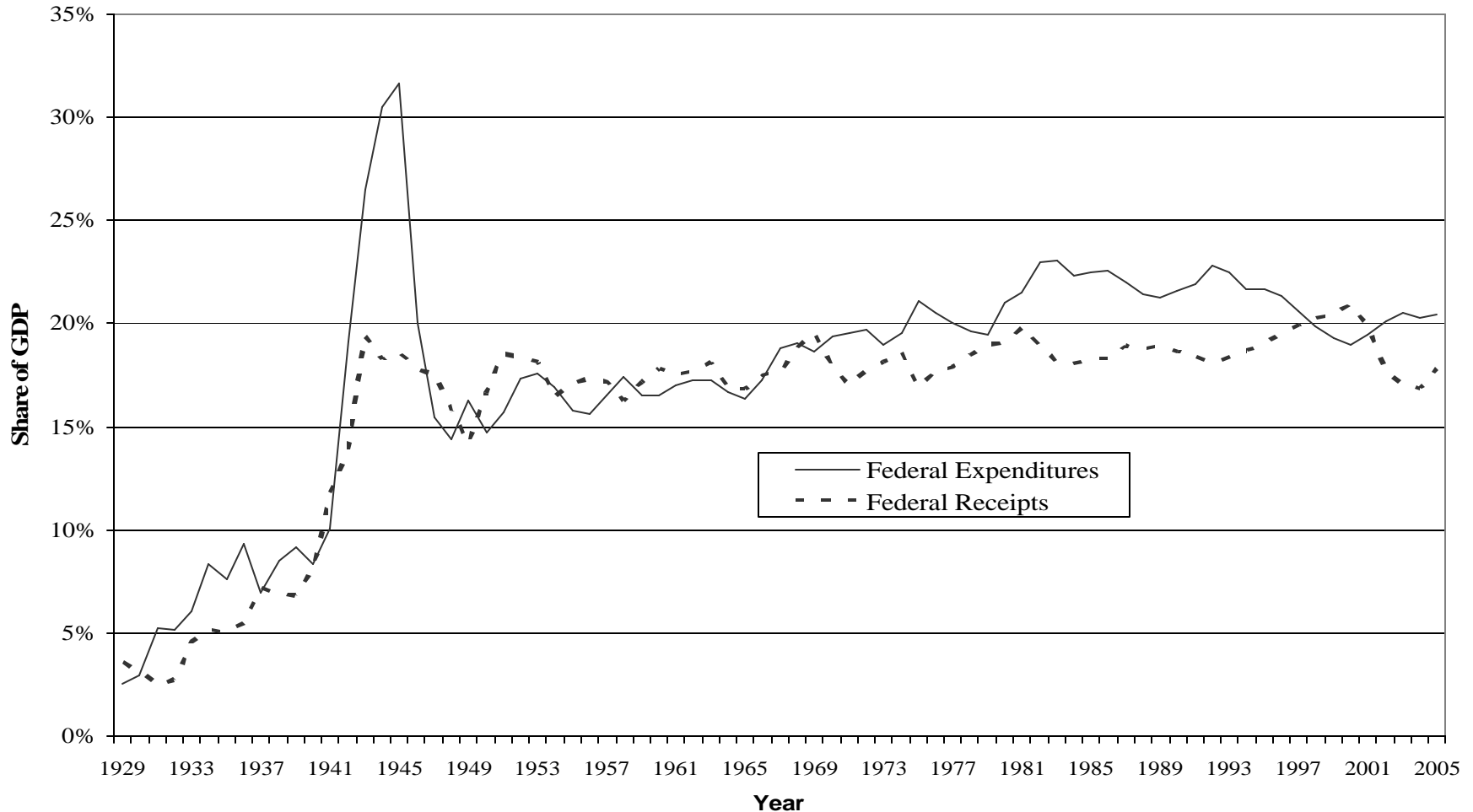
# But maybe there is a lagged effect?

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- ❖ Within the first year, the effect of Republican administrations on real GDP growth is significant and *negative*.
- ❖ Between 1 ½ and 2 ½ years the effect is positive but *never* significant. Then it reverses again.
- ❖ No reasonable lag leads to the conclusion that the economy does better under Republicans.

# Next, does the federal government really just keep growing?

**Figure 1: Federal Government's Share of the Economy**



# In the 1990s, the *relative* size of the federal government declined.

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There are several ways to measure the relative size of the federal government:

## **Purchases (share of GDP):**

- National Defense: 1% in 1929, 5% in 1990s
- Nondefense: 1% in 1929, 2.3% in 1990s

## **Total Spending (share of GDP):**

- 2.5% in 1929, 21% in 1975, 23% in 1983, 1992, 19% in 2000

## **Size of Workforce (share of Labor Force):**

- 4.3% in 1955, 3.6% in 1975, 2.8% in 1990, 2.1% in 2000



# Has government grown more under Democrats or Republicans?

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## Federal Expenditures

### (average share of GDP):

- Democrats = 18.7%
- Pre-Bush Republicans = 19.9%
- Bush Administration = 20.1%

### Four-year Change:

- Democrats = +0.3%
- Pre-Bush Republicans = +0.3%
- Bush's First Term = +0.8%

Since 1948, government share of spending has grown about as fast under both, but faster under Bush.

## Federal Receipts

### (average share of GDP):

- Democrats = 18.3%
- Pre-Bush Republicans = 18.0%
- Bush Administration = 17.9%

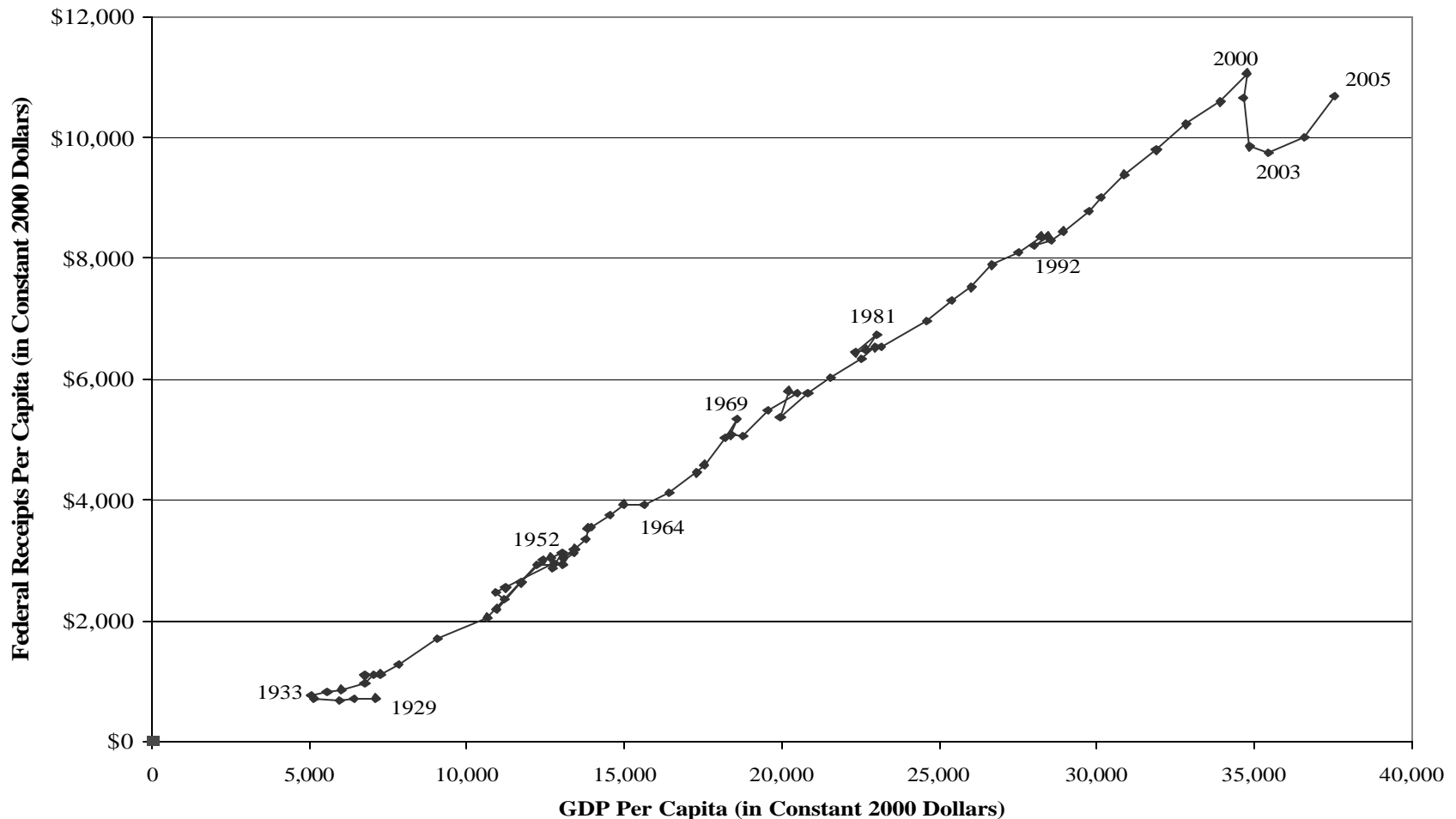
### Four-year Change:

- Democrats = +1.5%
- Pre-Bush Republicans = -0.6%
- Bush's First Term = -3.1%

Taxes have grown under Democrats, and fallen under Bush.

# Why did taxes go up more under Democrats? Fiscal responsibility and economic growth.

**Figure 2: The Relationship between Income and Taxes**



# Did the growth of government lead to slower economic growth?

If you adjust for population growth, growth was *faster* after WWII – when government was bigger – and growth was also much more stable.

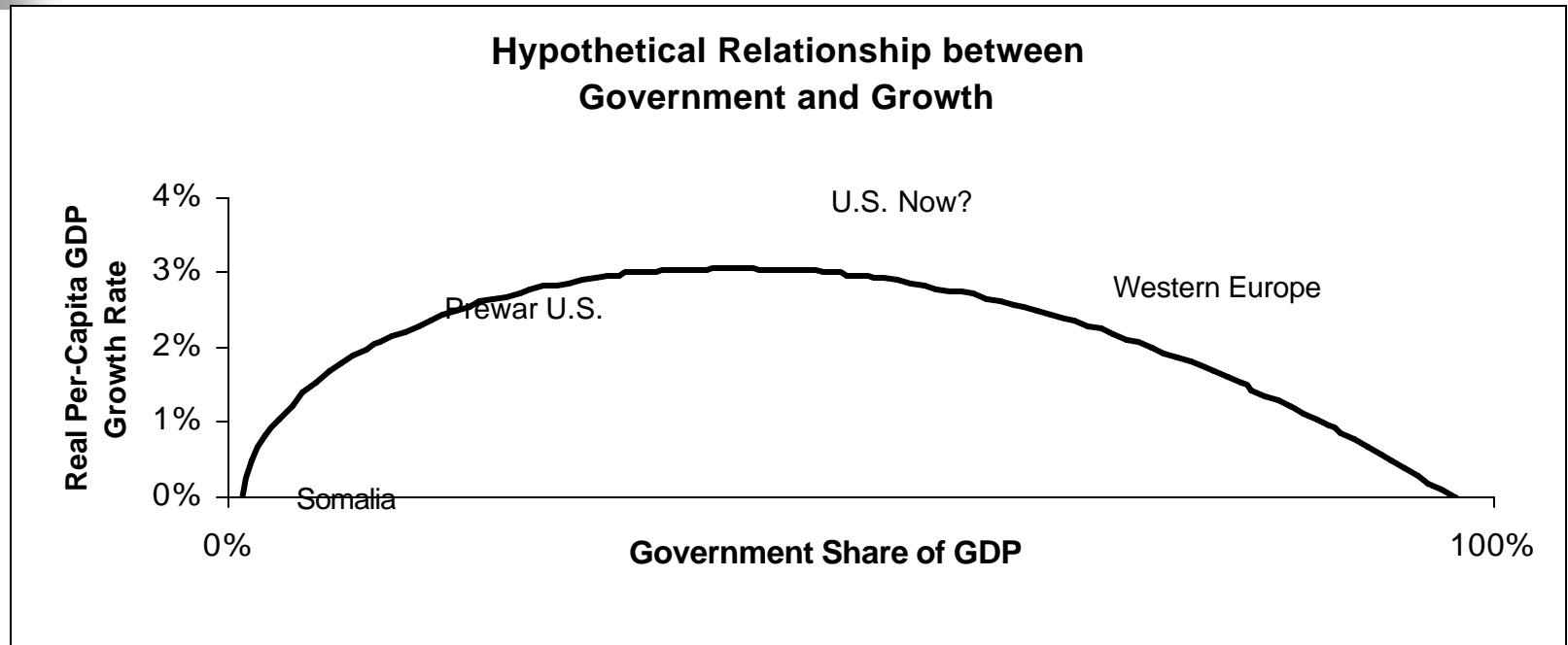
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## Average Growth in the United States, 1820-2000

|             | <u>Growth of<br/>Real GDP</u> | <u>Standard<br/>Deviation</u> | <u>Real GDP<br/>Per Capita</u> |
|-------------|-------------------------------|-------------------------------|--------------------------------|
| 1820 – 1870 | 4.0%                          | 5.3%                          | 1.3%                           |
| 1870 – 1910 | 3.8%                          | 4.5%                          | 1.8%                           |
| 1910 – 1950 | 3.4%                          | 7.7%                          | 1.7%                           |
| 1950 – 2000 | 3.5%                          | 2.3%                          | 2.2%                           |

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# What is the relationship between government and growth?



The relationship between government and growth is probably shaped like an inverted U. Too much or too little government is bad for growth. It is not clear that the U.S. is on the downward-sloping portion.

# Are the Democrats are a “tax and spend” party? Two last postwar comparisons

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## **Average Federal Government Deficits** (as share of GDP):

- Democrats = 0.4%
- Pre-Bush Republicans = 1.8%
- Bush Administration = 2.3%

## **Average Trade Deficits** (as a share of GDP):

- Democrats = 0.4%
- Pre-Bush Republicans = 0.6%
- Bush Administration = 4.7%

As a government and as a country, we are borrowing from future generations. If Democrats are the “tax and spend” party, then Republicans have become the “borrow and spend more” party.



# Thank you

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I have written a paper with more detail on this topic.

This paper and this presentation will be available on my website:

<http://unr.edu/homepage/elliottp>