

DAILY GLOBAL
COMMENTARY

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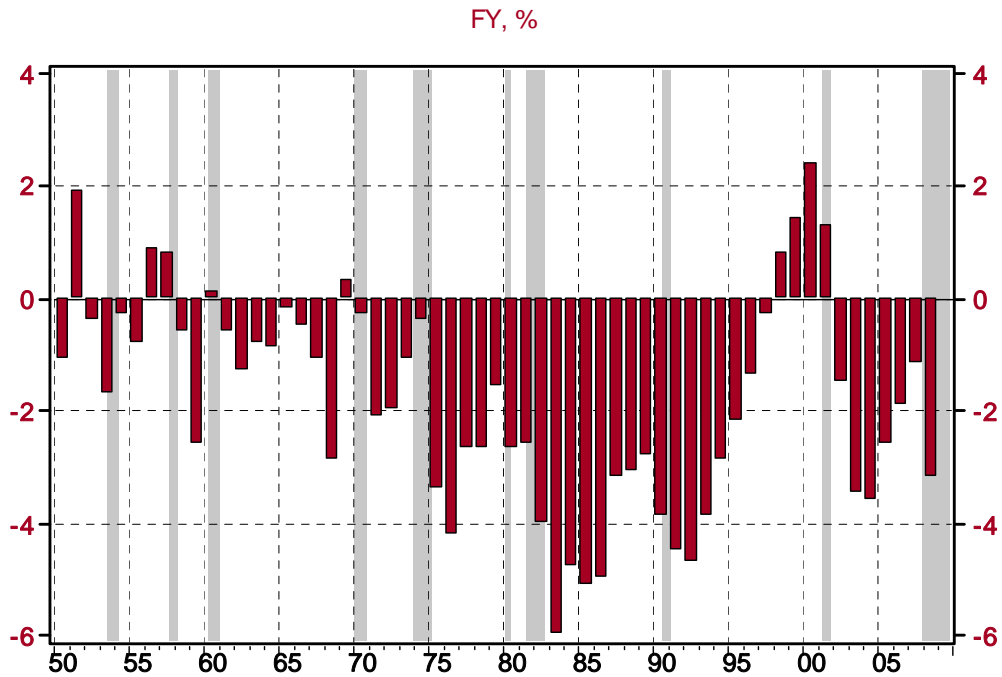
Partisan Bickering is not the Solution for Fostering Economic Growth

November 20, 2009

The main theme of the opinion piece by Representatives Hensarling and Ryan from Texas and Wisconsin, respectively, in today's Wall Street Journal ([Jeb Hensarling and Paul Ryan: Why No One Expects a Strong Recovery - WSJ.com](#)) is poor economic policy choices of the current administration. To make their case they focus on the Reagan administration's successful economic policies. The success/failure of economic policy choices can be measured by various metrics. It is well known that the federal budget deficit as a percentage of GDP during the Reagan years has been the largest in the entire post-war period ending 2008 (see chart 1). Therefore, from a fiscal perspective, the perceived success of economic policies of the 1981-1988 period is not a resounding success.

Chart 1

U.S.: Federal Budget Surplus{+}/Deficit{-} as % of GDP

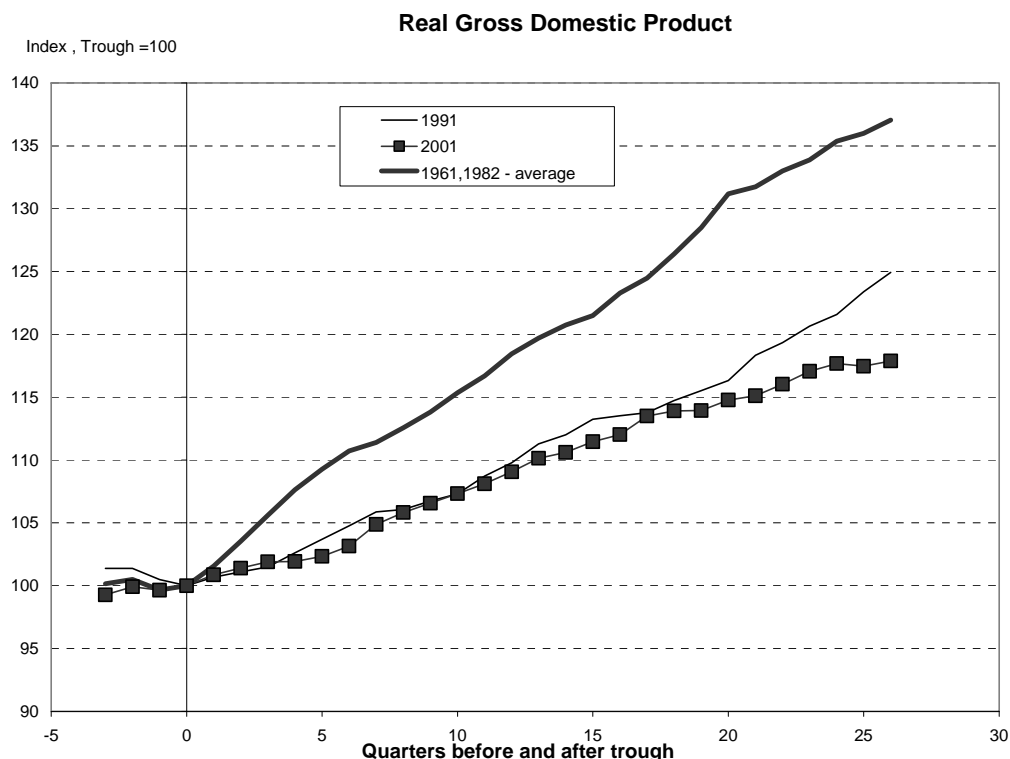


“Exhibit B” of the article notes that “[i]t is a near certainty that Democratic-controlled Congress will allow most of the tax cuts of 2001-2003 to expire on December 31, 2010.” The underlying reason for tax cuts is to promote economic growth. The Bush administration implemented a series of tax cuts ranging from lower income tax rates, lower taxes for capital gains and dividends, lower estate taxes, and raised the amount of write-offs on equipment purchases of businesses, to name a few important aspects of tax legislation. However, the economic expansion

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that stretched from November 2001 to December 2007 has the distinction of recording the smallest pace of economic growth in post-war economic expansions (see chart 2). Chart 2 is an index chart where the level of real GDP is set to 100 in the trough quarter of each business cycle and subsequent growth of real GDP during expansions is computed accordingly to ease comparisons. Here is another episode when the extent of the projected benefits of tax cuts has failed to materialize.

Chart 2

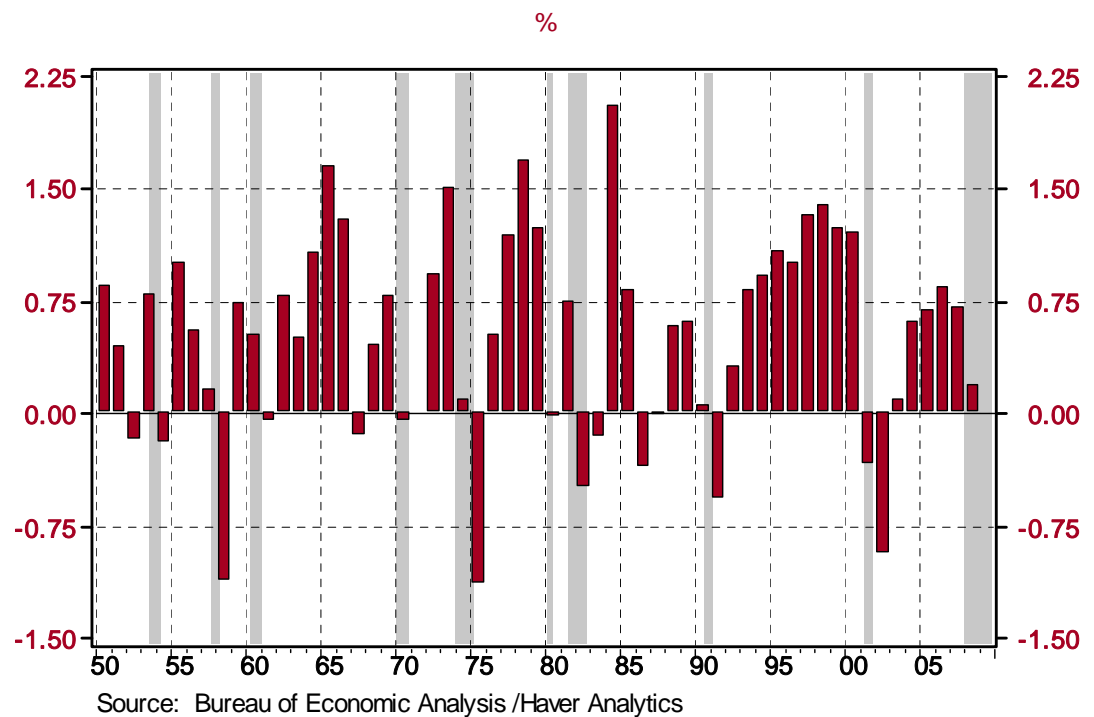


Moreover, the contribution of business investment to economic growth in the March 1991-March 2001 period surpasses the 1982-1990 and 2001-2007 economic expansions (see chart 3).

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Chart 3

Real Nonresidential Fixed Investmnt: Contrib to Real GDP Change



Therefore, economic history paints a very different picture from the opinion piece of representatives Hensarling and Ryan. Should political leaders be engaged in partisan rhetoric or in a serious discussion of how to make policy choices that will foster sustained economic growth?

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