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An Economy Sputtering Along? Hardly!

Executive Summary

- For months, Democrats have chosen to ignore a steady stream of positive economic news in their attempts to convince the public that the economy is in dire straits.
- Their attacks first focused on a flawed comparison between the Bush and Hoover Administrations' employment records. In fact, according to the Bureau of Labor Statistics' household survey, the economy under the Bush Administration has created 1,344,000 net new jobs between February 2001 and June of this year, while the economy during the Hoover Administration lost approximately 7.7 million jobs.
- Democrats then shifted their criticism to contend that the new jobs simply are not good jobs. Here again, the facts undercut their contention – nearly 80 percent of the new jobs created in June were in industry categories that pay an average hourly rate in excess of the overall average hourly rate in the private sector.
- Thanks in large part to Republican economic policies – in particular the 2003 tax cuts – the economy has entered a period of strong, sustainable economic growth:
  - ➢ In the last 10 months, the economy created more than 1.5 million net new payroll jobs, and the unemployment rate in June remained steady at 5.6 percent, well below its peak of 6.3 percent in June 2003. Today, more Americans are working than at any time in this country's history – 139 million individuals.
  - ➢ Over the past four quarters, the economy has grown by an impressive 4.8-percent annual rate – the fastest growth in almost 20 years.
  - ➢ Business investment increased at a 5.3-percent annual rate in the first quarter of 2004, allowing more businesses to create new jobs.
  - ➢ Since President Bush took office, real disposable personal income rose by more than 10 percent, as opposed to only 7 percent during the same period of the first Clinton Administration.
  - ➢ While inflation has increased modestly, economists continue to project that its effects will be mild – averaging 2.7 percent in 2004 and 2.2 percent in 2005.

Introduction

For months, Democrats have struggled to convince the public that the economy is in dire straits. In the face of a steady stream of strong economic news, Senator Edward Kennedy recently described the economy as merely "sputtering."[1] Even as new readings from economic indicators demonstrate dramatic growth in the economy, Democrats continue to describe the economy as if it were mired in a recession.[2]

Since the start of the Bush Administration, the American economy has weathered a series of economic shocks – the terrorist attacks of September 11, 2001, the 2001 recession, corporate-management scandals, and the continuing war on terror, with major commitments in Afghanistan and Iraq. While any one of these events would present an economic challenge, together they held the potential for a severe economic crisis. Nevertheless, the American economy responded with amazing resilience, largely due to Republican economic policies – and the 2003 tax cuts in particular.[3]

Democrat Rhetoric: An Evolving Case of Pessimism

As the nation's economic conditions have improved dramatically over the past year, the Democrats' attacks on the economy have shifted. As each target of their criticism has improved, they have seized on new economic data to perpetuate their pessimistic views of the nation's economy.

At the outset, Democrats claimed that President Bush is "the first President to have lost private-sector jobs since Herbert Hoover."[4] Setting aside the fact that no president runs the economy, let alone loses or creates jobs, Democrats based their assertion on a selective use of employment data from the Current Employment Statistics Survey (i.e., payroll survey) conducted by the Bureau of Labor Statistics (BLS). In fact, according to the BLS' Current Population Survey (i.e., household survey), under the Bush Administration, the economy created 1,344,000

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[1]Senator Edward Kennedy, in remarks before the Senate Committee on the Judiciary, June 22, 2004.

[2]See Senator Tom Harkin, *Congressional Record*, June 16, 2004, p. S6826 ("Now, again, there have been a few jobs in the last couple months. Of course, when the glass is dry, a drop of water seems like an ocean. That is what we have had. We have had a couple drops of water.")

[3]Jobs and Growth Tax Relief Reconciliation Act of 2003, H.R. 2, 108th Congress, 2d Session, Public Law 108-27, May 28, 2003.

[4]Senator Kent Conrad, *Congressional Record*, March 9, 2004, p. S2379.

net new jobs through June of this year.[5] In contrast, available BLS data indicate that between 1929 and 1932, the Hoover years, the nation lost approximately 7.7 million jobs.[6]

Having lost their argument that the economy is failing to produce enough jobs, Democrats then shifted their criticism to assert that the new jobs simply are not good ones. Here, again, the facts undercut their contention. Nearly 80 percent of the new jobs created in June were in industry categories that pay an average hourly rate in excess of the overall average hourly rate in the private sector.[7] Inflation-adjusted average hourly earnings have increased 2.24 percent during the first three and a half years of the Bush Administration, compared with only a 0.13-percent increase during the same period of the first Clinton Administration.[8] In addition, per capita after-tax disposable income, adjusted for inflation, has increased 7.1 percent since President Bush took office – well above the 5.2-percent increase during the same period of the first Clinton Administration.[9]

Moreover, since the start of the Bush Administration, full-time employment has averaged 82.56 percent, nearly a full percentage point higher than full-time employment during the same period of the first Clinton Administration.[10] More than 81 percent of part-time workers in June indicate that they have chosen part-time employment for non-economic reasons.[11] Temporary jobs in June were only 2.25 percent of all payroll jobs in the private sector.[12]

Broader Indicators Signal Steady Economic Growth

While the Democrats' myopic view of the economy has focused predominantly on employment, a complete assessment of the nation's economic recovery must include not only job creation, but also the broader economic indicators, nearly all of which signal a steadily expanding economy. In addition, these economic indicators provide compelling anecdotal evidence that the

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[5]BLS, "Employment Situation: June 2004," USDL 04-1170, July 2, 2004 – http://www.bls.gov/news.release/empsit.nr0.htm. While Democrats suggest that the household survey is not an accurate measure and that only the payroll survey should be used, that contention overlooks two important points. First, the validity of the household survey is underscored by the fact that it – not the payroll survey – serves as the basis for the widely cited unemployment rate. Second, the payroll survey does not include agricultural workers or the millions of self-employed individuals in this country, nor does it adequately reflect jobs created by newly formed small businesses. BLS, "The Employment Situation: May 2004," Explanatory Note – http://www.bls.gov/news.release/ empsit.tn.htm; BLS, Employment from the BLS household and payroll surveys: summary of recent trends, June 4, 2004, pp. 8-9 – http://www.bls.gov/cps/ces_cps_trends.pdf.

[6]BLS, National Employment, Hours, and Earnings historical data (based on the Standard Industrial Classification System).

[7]BLS, "The Employment Situation: June 2004," Tables B-1 and B-4. For a detailed discussion of the quality of new jobs being created, see RPC Policy Paper, "A Dose of Reality for the Pessimists' "McJobs" Outlook," June 24, 2004 – http://rpc.senate.gov/_files/June2404GoodJobsMW2.pdf.

[8]BLS, average hourly earnings historical data.

[9]Bureau of Economic Analysis (BEA), National Income and Product Accounts Tables, June 30, 2004 – http://www.bea.gov/bea/dn/nipaweb/index.asp.

[10]BEA, National Income and Product Accounts Tables.

[11]BLS, "The Employment Situation: June 2004," Table A-6.

[12]BLS, "The Employment Situation: June 2004," Table A-6.

2003 tax cuts, which President Bush signed into law on May 28, 2003, are achieving their goal of helping the economy enter a period of sustained economic growth.

Employment Situation

On the jobs front, the economy added another 112,000 net new payroll jobs in June according to the latest data from the BLS[13] – the tenth consecutive month of expanding employment in the United States since August 2003. In fact, ***in the last 10 months, the economy created 1,711,000 million net new jobs, according to the BLS' household survey, and 1,512,000 million net new jobs, according to the BLS' payroll survey***.[14]

Moreover, the nation's unemployment rate remained steady at 5.6 percent in June, well below its peak of 6.3 percent in June 2003. That rate is below the average unemployment rates in each of the past three decades,[15] and economists forecast that the unemployment rate will average 5.5 percent in 2004 and fall to 5.3 percent in 2005.[16] Initial unemployment claims are down significantly, with the four-week average falling to 339,000 for the week ending July 10, 2004, a drop of 18.8 percent from the same period in 2003.[17] Similarly, the total number of mass layoffs fell sharply in May from the year-earlier levels – nearly 42 percent.[18]

The dramatic improvement in the country's employment situation has given a rather hollow ring to the Democrats' attacks on Republican economic policies. ***Today, more Americans are working than at any time in this country's history – 139 million individuals***.[19] Nevertheless, Republicans recognize that work remains to be done in the employment sector. In the words of President Bush, "We won't rest until everybody who wants to work can find a job."[20]

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[13] BLS, "Employment Situation: June 2004."

[14] BLS, "Employment Situation: June 2004."

[15] BLS, Labor Force Statistics from the Current Population Survey, Unemployment Rate, SA, 1970-2004.

[16] Federal Reserve Bank of Philadelphia, "Survey of Professional Forecasters, Second Quarter 2004," May 24, 2004; National Association for Business Economics (NABE), "NABE Outlook, May 2004," May 24, 2004.

[17] Employment and Training Administration, "Unemployment Insurance Weekly Claims Report," USDL 04-1294-NAT, July 15, 2004 – http://www.labor.gov/opa/media/press/eta/ui/current.htm. "As a rule of thumb, economists often use initial claims of 400,000 per week as a threshold: Initial claims above 400,000 signal declines in employment and below 400,000 signal stabilizing or increasing employment." Joint Economic Committee, "What Do Initial Jobless Claims Tell Us?" January 27, 2004 – http://jec.senate.gov/_files/JoblessClaims.pdf. Some economist view a four-week average between 350,000-360,000 as the point at which employment is growing as fast as the labor force and the population. Accordingly, a four-week average below that level signifies a more rapid expansion of employment. See Brad DeLong, "Semi-Daily Journal of Economist Brad DeLong," December 24, 2003 – http://www.j-bradford-delong.net.

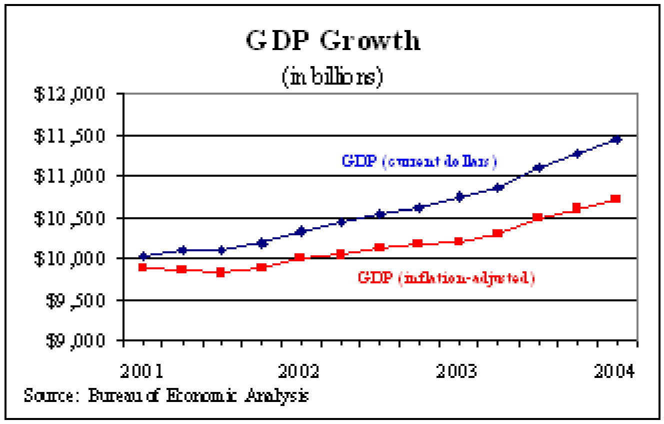
[18] BLS, "Mass Layoffs in May 2004," USDL 04-1104, June 23, 2004, Table 1 – http://www.bls.gov/news.release/pdf/mmls.pdf.

[19] BLS, "The Employment Situation: June 2004."

[20] President George W. Bush in remarks made in Winston-Salem, North Carolina on November 7, 2003, as reported in the *Charlotte Observer*, November 8, 2003.

Gross Domestic Product

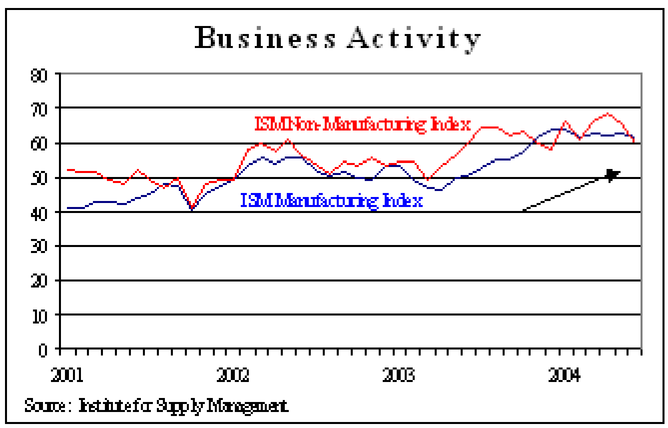
Figure 1



Looking beyond the employment situation, the economy has grown at a remarkable rate in recent months. Gross Domestic Product (GDP) is the broadest measure of the U.S. economy. It reflects, among other things, the effects of consumer, business, and government spending and U.S. exports of goods and services. According to the estimates of the Real (or inflation-adjusted) GDP published by the Bureau of Economic Analysis (BEA), the economy grew at an annual rate of 3.9 percent in the first quarter of 2004.[21] ***Looking back over the past four quarters, the economy has grown by an impressive 4.8-percent annual rate – the fastest growth in almost 20 years.***[22] Moreover, economists forecast that the economy will continue expanding at a rate of 4.5 percent to 4.7 percent in 2004.[23] These are hardly the hallmarks of a "sputtering" economy.

Business Activity and Investment

Figure 2



Business activity in the manufacturing and non-manufacturing sectors has risen substantially in the past year. The Federal Reserve reported that industrial production increased in the second quarter of this year by a 6.0-percent annual rate, following 6.6-percent growth in the first quarter – the two largest quarterly increases in nearly four years.[24] Similarly, in June the Institute for Supply Management's (ISM) manufacturing index registered the thirteenth successive monthly reading above 50 – the level at which the manufacturing economy is considered to be

[21] BEA, "Gross Domestic Product: First Quarter 2004 (Final)," BEA 04-31, June 25, 2004 – http://www.bea.gov/bea/newsrel/gdpnewsrelease.htm.

[22] BEA.

[23] *Blue Chip Economic Indicators*, Aspen Publishers, Inc., July 10, 2004; Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters, Second Quarter 2004, May 24, 2004; National Association for Business Economics (NABE), May 2004 NABE Outlook Survey.

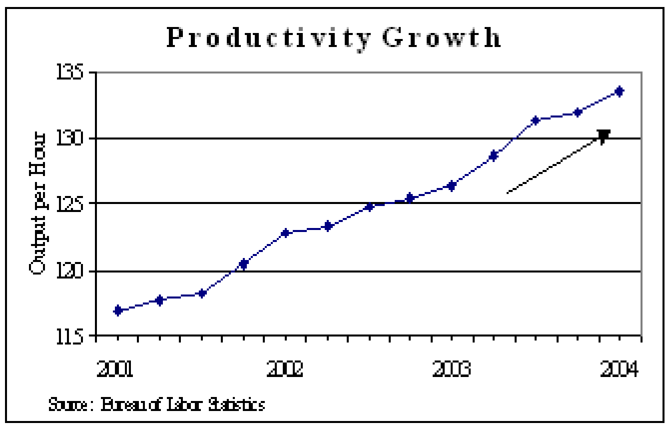
[24] Federal Reserve Statistical Release, "Industrial Production and Capacity Utilization," G. 17 (419), July 15, 2004, Table 12 – http://www.federalreserve.gov/releases/G17/Current/g17.pdf.

expanding.[25] Of the 20 manufacturing industries that make up the index, 17 reported growth in June. Similarly, the ISM non-manufacturing index continued to register expansion in the service sector, with business activity increasing for the fifteenth consecutive month in June.[26]

In light of the rise in consumer demand, businesses have significantly increased their inventories, reaching $1.2 trillion in May 2004, the ninth consecutive monthly increase in total business inventories.[27] Sales have followed a similar nine-month increase, with May sales figures increasing 12.3 percent from May 2003.[28] Additionally, exports of U.S. goods and services have increased significantly – rising 9.2 percent in the last three quarters.[29] Economists forecast that exports will grow at an impressive 9.4-percent rate for 2004.[30]

Business investment also has improved significantly. In June, 59 percent of small businesses reported making capital expenditures in the preceding six months, concentrating heavily on purchases of new equipment and vehicles.[31] For the first quarter of this year, the BEA reported that overall business investment increased at a 5.3-percent annual rate, with businesses investing significantly in equipment and software.[32] ***The consensus among economists is that business investment will grow at a 9.6-percent rate this year, with a gain of 12.3 percent in software and business-equipment investment.***[33]

Figure 3



Productivity in the business sector has continued to make impressive gains, in large measure due to investments in new equipment and technology. According to the BLS, productivity grew at a 4.6-percent annual rate in the first quarter of 2004, continuing a three-year trend of significant productivity gains.[34] These gains have helped improve corporate profits and resulted in higher real wages for workers. Moreover, improved productivity helps

[25] ISM, "May Manufacturing ISM Report on Business," July 1, 2004 – http://www.ism.ws/ISMReport/ROB072004.htm.

[26] ISM, "May Non-Manufacturing ISM Report on Business," July 6, 2004 – http://www.ism.ws/ISMReport/NMROB072004.cfm.

[27] Census Bureau, "Manufacturing and Trade Inventories and Sales, May 2004," CB-04110, July 15, 2004 – http://www.census.gov/mtis/www/data/pdf/mtis0405.pdf.

[28] Census Bureau.

[29] BEA, "Gross Domestic Product: First Quarter 2004 (Final), Table 3."

[30] NABE.

[31] National Federation of Independent Business, "Small Business Economic Trends, June 2004" – http://www.nfib.com/page/researchFoundation.

[32] BEA, "Gross Domestic Product: First Quarter 2004 (Final), Table 1."

[33] *Blue Chip Economic Indicators.*

[34] BLS, "Productivity and Costs, First Quarter 2004," USDL 04-995, June 3, 2004 – http://www.bls.gov/news.release/prod2.nr0.htm.

keep inflation in check by limiting the extent to which companies must pass increased wage costs on to customers through higher prices.[35]

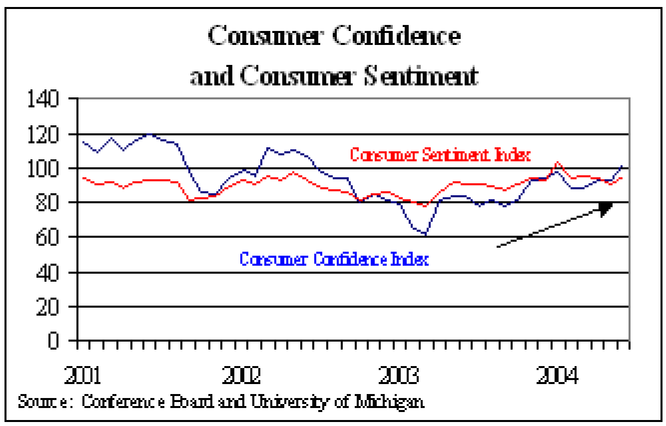
Overall, business activity and investment have expanded at a remarkable rate over the past year, despite the Democrats' efforts to convince the public that the economy is faltering because employment has recovered at a slower pace. With economists forecasting continued strong growth in the manufacturing and non-manufacturing sectors for the balance of 2004 and into next year, the prospects for the overall economy appear to be very favorable.

Consumer Spending

A key component of GDP, and a contributor to its recent increases, is consumer spending. As measured by real personal consumption expenditures, the BEA reports that consumer spending increased by a 7.1-percent annual rate in the first quarter of this year, continuing the strong growth registered in 2003.[36] These increases parallel the growth in retail sales, which in the first six months of 2004 increased by 8.1 percent over the same period in 2003.[37] The significant rise in real (i.e., inflation-adjusted) disposable personal income – 4.9 percent in the first quarter of 2004[38] – which has fueled consumer spending, has largely been attributed to the 2003 tax cuts.[39] ***In fact, through the first quarter of this year, Americans' real disposable personal income under the Bush Administration has increased by more than 10 percent, as opposed to only 7 percent during the same period of the first Clinton Administration***.[40]

Looking forward, consumer spending is expected to remain strong, which bodes well for continued growth in the economy. The Consumer Confidence Index, which estimates consumers' assessment of current business and labor market conditions, reflects increased optimism for the next six months – registering a rise of more than eight points in June.[41] The Index of Consumer Sentiment – an alternative gauge of

Figure 4



[35] *U.S. Economics Analyst*, Goldman Sachs, May 21, 2004, p. 4.

[36] BEA, "Personal Income and Outlays: May 2004," BEA-04-32, June 28, 2004, Table 6 – http://www.bea.gov/bea/newsrel/pinewsrelease.htm.

[37] Census Bureau, "Advance Monthly Sales for Retail and Food Services, June 2004," CB-04-109, July 14, 2004, Table 1 – http://www.census.gov/svsd/www/fullpub.pdf.

[38] BEA, "Personal Income and Outlays: May 2004, Table 6."

[39] *Blue Chip Economic Indicators.*

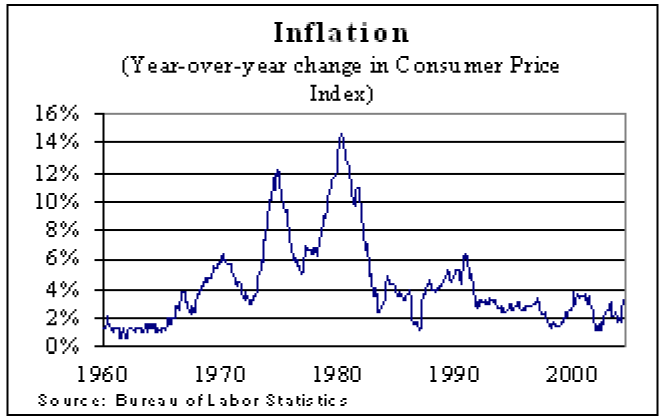
[40] BEA, Personal Income and Outlays: 1992 - 2004 – http://www.bea.gov/bea/dn/home/personalincome.htm.

[41] The Conference Board, "Consumer Confidence Index, June 2004," June 29, 2004 – http://www.conference-board.org/economics/consumerconfidence.cfm.

consumers' opinions on the economy also increased significantly in June and remains well above its average levels in 2001, 2002, and 2003.[42]

Inflation

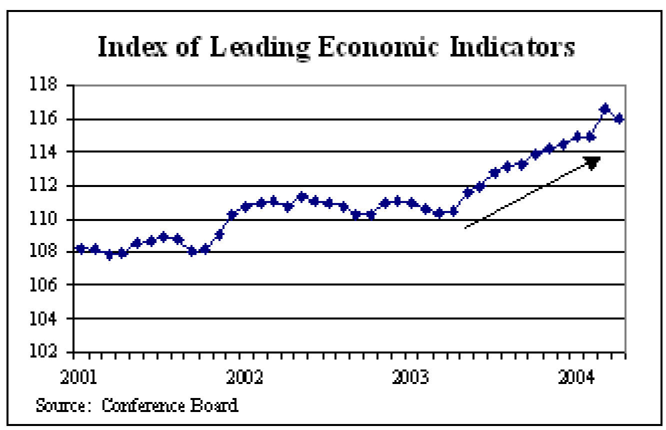
Figure 5



With increasing business activity and consumer spending, signs of inflationary pressures on the economy have started to rise in recent months. For the first quarter of this year, the Personal Consumption Expenditures Price Index – the Federal Reserve's preferred measure of inflation – rose to an annual inflation rate of 3.2 percent, with the "core" inflation – excluding volatile energy and food prices – coming in at a 2.0-percent annual rate.[43] The Consumer Price Index, another measure of inflation, has shown similar movement, with core inflation registering a year-over-year increase of 1.9 percent.[44] Despite these increases, inflation remains low by historical standards, as Figure 5 illustrates. Looking ahead, ***economists continue to project that the effects of inflation on the economy will be mild – averaging 2.7 percent in 2004 and 2.2 percent in 2005,*** according to the Federal Reserve Bank of Philadelphia's quarterly survey of professional forecasters.[45] As a result, inflation is not expected to reduce economic growth significantly.

Index of Leading Indicators

Figure 6



While most economic indicators provide a historic view, the index of leading indicators is widely viewed as a prospective measure of the economy's direction in the following six months. The latest reading from the leading index reflected a growth rate of between 3.5 percent and 4.5 percent for the U.S.

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[42]University of Michigan, "Index of Consumer Sentiment, June 2004," June 25, 2004 – http://www.sca.isr.umich.edu/main.php.

[43]BEA, "Gross Domestic Product: First Quarter 2004 (Final)," Appendix Table A.

[44]BLS, "Consumer Price Index: April 2004," USDL-04-1308, July 16, 2004 – http://www.bls.gov/news.release/cpi.nr0.htm.

[45]Federal Reserve Bank of Philadelphia; David Malpass and Sandy Batten, "Mild but Persistent Inflation – A Look at Leading Indicators," Bear Stearns Global Commentary, May 20, 2004. Over the long term, the economists surveyed by the Federal Reserve Bank of Philadelphia forecast that inflation will average 2.5 percent over the next 10 years.

economy.[46] "The pickup in the growth rate of the leading index last year signaled strong economic growth, and correspondingly, real GDP increased at a 5.0- to 5.5-percent annual rate since the middle of last year."[47] ***The index has risen in 12 out of the past 14 months, strongly suggesting that the country will continue to see solid economic growth through at least the third quarter of this year.***

A Major Contributor: The 2003 Bush Tax Cuts

Despite Democrats' efforts to talk down the economy, the facts paint a clear picture – the economy has entered a period of strong, sustainable economic growth.[48] A chief contributor to that recovery has been Republican economic policy, particularly the 2003 tax legislation. Initial analysis suggests that the 2003 tax cuts provided a critical boost of economic output.[49] In fact, one study has concluded that because they were effective immediately, the 2003 tax cuts were far more stimulative than the 2001 tax cuts[50] and caused "employment, output, and investment to all rise sharply."[51]

The contributions of the 2003 tax cuts can be seen in the foregoing economic indicators, which turned up significantly after President Bush signed the legislation into law on May 28, 2003. Job creation expanded rapidly, adding more than 1.5 million payroll jobs in the 10 months since August 2003. Growth in GDP increased significantly (see Figure 1) in the past year, and economists forecast that GDP will grow by 4.5 percent to 4.7 percent in 2004.[52]

By reducing individual tax rates, the 2003 tax cuts left more earnings in the hands of American consumers, which has fueled the growth in consumer spending and confidence in the economy since the summer of 2003 (see Figure 4). These results have also borne out the July 2003 forecast of Federal Reserve Chairman Alan Greenspan that the 2003 tax relief "will provide a considerable lift to disposable income of households in the second half of the year . . . [and] produce a prompt and appreciable pickup in consumer spending."[53]

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[46]Conference Board, "The U.S. Leading Index Increases Again," June 17, 2004 – http://www.conference-board.org/economics/press.cfm?press_id=2415.

[47]Conference Board.

[48]NABE.

[49]Martin Eichenbaum and Jonas Fisher, "Fiscal Policy in the Aftermath of 9/11," National Bureau of Economic Research (NBER), Working Paper 10430, April 2004, p. 21 – http://papers.nber.org/papers/w10430.pdf; see also, John H. Makin, "As Good as It Gets," American Enterprise Institute for Public Policy Research, January 2004 – http://www.aei.org/publications/pubID.19659,filter.all/pub_detail.asp.

[50]Economic Growth and Tax Relief Reconciliation Act of 2001, H.R. 1836, 107th Congress, 1st Session, Public Law 107-16, June 7, 2001.

[51]Christopher L. House and Matthew D. Shapiro, "Phased-in Tax Cuts and Economic Activity," NBER, Working Paper 10415, April 2004, p. 20 – http://papers.nber.org/papers/w10415.pdf. "While there are, of course, many other factors that influenced employment and production decisions, it is likely that the phase-in features of the 2001 law contributed to the tepid economic performance of the [2001 to mid-2003] period." pp. 20-21.

[52]See note 24 above.

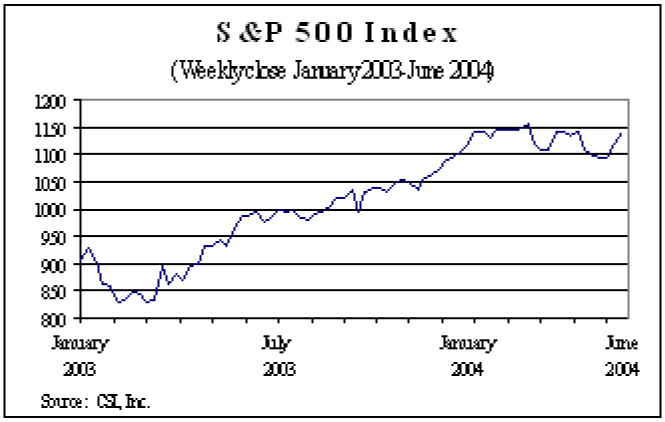
[53]Alan Greenspan, testimony before the Senate Committee on Banking, Housing, and Urban Affairs, S. Hrg. 108-281, July 16, 2003, p. 47.

Such spending has also contributed to the marked increase in business activity in the last year (see Figure 2). Coupled with the stimulative effects of the bonus-depreciation and small business equipment-expensing incentives, which were also included in the 2003 tax legislation, improving economic conditions have led businesses to accelerate their investment in new equipment, which in turn spurred continued growth in productivity (see Figure 3) that leads to increased wages and a higher standard of living for American workers. Most importantly, the increase in business activity is resulting in the impressive number of net new jobs created over the past ten months.

The sizeable increase in disposable personal income since the enactment of the 2003 tax cuts has encouraged consumer spending and helped a record number of Americans to realize the dream of home ownership. According to Census Bureau figures, a record 68.6 percent of Americans owned their own homes in the first quarter of this year.[54] Similarly, home-ownership rates continue to rise among minorities. The increase in home ownership also has contributed to the impressive growth in household net worth, which rose to $45.2 trillion at the end of the first quarter of 2004 – a 9.22-percent increase in the three quarters following the 2003 tax cuts.[55]

The increase in household net worth also can be attributed to equity investment gains. While the markets are off their 2003 high levels, they are still substantially above their lows in March of 2003. For example, as Figure 7 illustrates, the S&P 500 Index has increased more than 42 percent between its low on March 11, 2003 and June 30, 2004.[56] The reduced 15-percent capital-gains and dividend-tax rates included in the 2003 tax can be credited for much of the markets' improvement over the past 15 months.

Figure 7



By equalizing the rates for capital gains and dividends, the legislation was intended to provide an incentive for corporations to increase their dividend payouts, which adds to Americans' disposable personal income. In fact, a recent study found that after the enactment of the 2003 tax cuts, 113 publicly traded corporations initiated dividend payments for the first time, compared to an average of 22 companies in prior years.[57] These new dividends added more than

[54]Census Bureau, "Residential Vacancies and Homeownership," CB04-58, April 22, 2004, Table 4 – http://www.census.gov/hhes/www/housing/hvs/q104prss.pdf.

[55]Federal Reserve, "Flow of Funds Accounts of the United States, Flows and Outstandings, First Quarter 2004," June 10, 2004, Table B. 100 – http://www.federalreserve.gov/releases/Z1/.

[56]See "Historical Prices" for S&P 500 Index (^GSPC) at http://finance.yahoo.com/.

[57]Raj Chetty and Emmanuel Saez, "Do Dividend Payments Respond to Taxes? Preliminary Evidence from the 2003 Dividend Tax Cut," NBER Working Paper 10572, June 2004, p. 3 – http://papers.nber.org/papers/w10572.pdf.

$1.7 billion to quarterly dividend payments. The study concluded that "the large increase in regular dividend payments following the 2003 tax reform is unprecedented in the recent history of the U.S. corporate sector."[58]

Moreover, larger corporate dividends lead to increased stock prices, since a stock's value is generally based on the discounted value of its future cash flows, such as dividends.[59] According to a recent study, the reduction in the dividend-tax rate increases the after-tax value of dividends – and correspondingly the value of stocks – by an estimated 6 percent.[60] With 51.9 percent of American families owning stock in 2001, either directly or through a tax-deferred account, increased stock prices benefit all individual equity investors, whether they hold stock in a taxable account or through a pension plan or an IRA.[61] Moreover, since the price increases are expected to be factored in by the markets over several years, all of the benefits of the dividend-tax reduction have yet to be seen.[62]

Conclusion

Democrats' continuing efforts to talk down the economy based on the quantity and quality of new jobs are frustrated by the facts – the economy, including the job market, has improved dramatically in the past several months – and much of the credit belongs to Republican economic policies, and the 2003 tax cuts in particular. Nevertheless, if a sufficient portion of the public came to believe that economic conditions were declining, it could well be a self-fulfilling prophecy, adversely influencing investment, employment, and other business decisions, which could slow economic growth.

To prevent that result, Republicans must expose the fallacy of Democrats' rhetoric and make clear that economic indicators portray an economy in a sustained period of growth. However, Republicans would not want to imply that the ongoing positive economic news is sufficient. Congress must continue to ensure America's long-term economic stability by exercising restraint in federal spending, reducing the deficit, and enacting legislation to make the tax cuts permanent.

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[58] Chetty and Saez, p. 4.

[59] Eugene F. Brigham and Michael C. Ehrhardt, *Financial Management Practice and Theory*, 10th Edition, pp. 388-389.

[60] James Poterba, "Taxation and Corporate Payout Policy," NBER, Working Paper 10321, February 2004, pp. 6-7 – http://papers.nber.org/papers/w10321.pdf; see also, David Malpass, "Strengthening Outlook, Key Variable," Bear Stearns Global Commentary, April 23, 2004, p. 2.

[61] Ana M. Aizcorbe, Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances," *Federal Reserve Bulletin*, vol. 89, January 2003, p. 16 – http://www.federalreserve.gov/pubs/oss/oss2/2001/bull0103.pdf.

[62] Poterba.