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A Jobless, Sluggish Economic Recovery? The Facts Say Otherwise

Executive Summary

- For months, Democrats have tried to convince the public that the economy is in dire straits and have chosen to ignore a steady stream of positive economic news.

- The focal point of their attacks has been a flawed comparison between the Bush and Hoover Administrations' employment records. In fact, according to the Bureau of Labor Statistics' household survey, under the Bush Administration, the economy has created 1,085,000 net new jobs, between February 2001 and May of this year, while the economy during the Hoover Administration lost approximately 7.7 million jobs.

- 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 nine months, the economy created more than 1.4 million net new jobs, and the unemployment rate in May 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 – 138 million individuals.

  - Over the past four quarters, the economy has grown by an impressive 4.95 percent annual rate – the fastest growth in almost 20 years.

  - Business investment increased at a 5.8-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 order to avoid acknowledging the steady stream of positive economic news, they have tailored their tactics to focus almost exclusively on the state of the U.S. job market, hoping Americans will overlook the fact that job creation is historically a lagging economic indicator. These rhetorical attacks are typified by Senator Patrick Leahy's statement on April 6, 2004:

> "More people are out of work, underemployed, and struggling to keep roofs over their family's heads and food on the table than at any time since the administration of Herbert Hoover."[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 – again concentrating primarily on job creation.[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 (which some economists have pointed out began in the final months of the Clinton Administration),[3] 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.[4]

Democrat Rhetoric: The Worst Economy in Decades?

At the outset, the record must be clarified with respect to comparisons between the Bush and Hoover Administrations. Democrats claim that President Bush is "the first President to have lost private-sector jobs since Herbert Hoover."[5] Setting aside the fact that no president runs the economy, let alone loses or creates jobs, Democrats are basing their assertion on a selective use of employment data from the Current Employment Statistics Survey (i.e., payroll survey)

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[1] *Congressional Record*, April 6, 2004, p. S3765. Similarly, Senator Corzine declared, "The fact is, we have had the worst record in 70 years, and it still stands." *Congressional Record*, April 2, 2004, p. S3621.

[2] Following the release of the March employment figures, Senator Corzine stated: "So, yes, it is a good thing that we saw 308,000 [subsequently revised by the Bureau of Labor Statistics to 353,000] jobs created this month. It is a good thing that we are starting to see some pickup. But by my calculation – and by anyone's calculation – we still have the worst job performance record of any President since Herbert Hoover." *Congressional Record,* April 2, 2004, p. S3622.

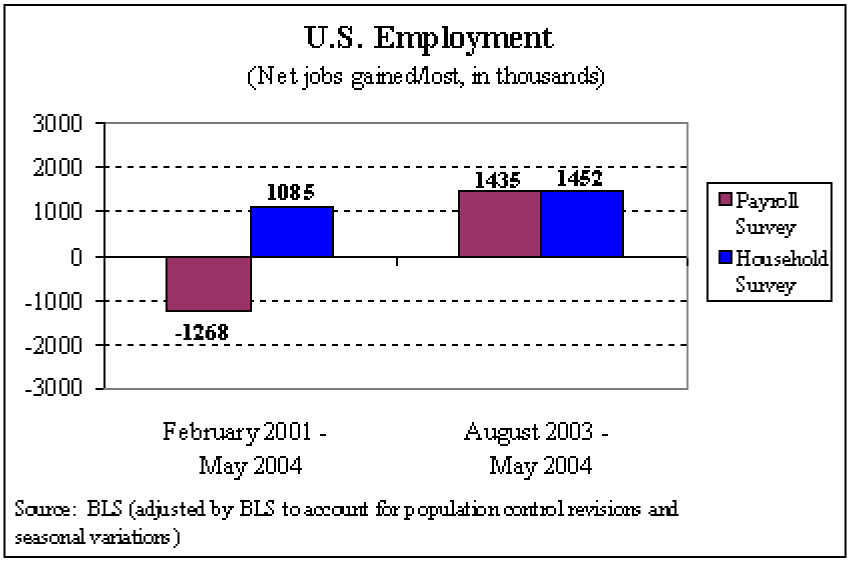
[3] See e.g., Wayne Angell, "The Rubin Recession," *Wall Street Journal*, March 25, 2004 (Mr. Angell is an economist and former member of the Federal Reserve Board of Governors).

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

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

conducted by the Bureau of Labor Statistics (BLS). In fact, as Figure 1 illustrates, according to the BLS' Current Population Survey (i.e., household survey), under the Bush Administration, the economy created 1,085,000 net new jobs through May of this year.[6] In contrast, available BLS data indicate that between 1929 and 1932, the Hoover years, the nation lost approximately 7.7 million jobs.[7]

Figure 1



The Democrats suggest that the household survey is not an accurate measure and that only the payroll survey should be used.[8] Yet that would overlook two important points. First, the household survey is a long-standing official government survey conducted by the BLS, and its validity 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,[9] nor does it adequately reflect jobs created by newly formed small businesses.[10] By ignoring this latter point, the Democrats' argument implies that only payroll jobs provided by large companies deserve to be

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[6]BLS, "Employment Situation: May 2004," USDL 04-996, June 4, 2004 – http://www.bls.gov/news.release/empsit.nr0.htm.

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

[8]See e.g., Statement by Senator Frank Lautenberg, *Congressional Record*, March 31, 2004, p. S3442 ("This notion that the U.S. economy is currently generating record numbers of jobs is thoroughly specious. It would be laughable if it were not so pathetic. The claim is based on data selectively culled from something called the household survey.").

[9]For example, as a recent *Wall Street Journal* commentary noted: "[T]he payroll survey estimates that there are 311,000 realtors in the United States. But the National Association of Realtors claims a million members. Moreover, 80 percent of all realtors are independent contractors. They do not pay unemployment insurance and therefore are not counted by the [payroll survey]." Brian Westbury, "Job Alert," *Wall Street Journal*, May 11, 2004.

[10]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.

counted. Nevertheless, the self-employed and their small businesses represent an estimated three-quarters of the net new jobs created – a fact that simply cannot be ignored.[11]

In the end, the Hoover analogy is simply illustrative of a broader problem: The Democrats are counting on the public's failure to distinguish the facts from their rhetoric. A look at those facts makes it clear that the U.S. economy is steadily growing. In addition, these economic indicators provide compelling anecdotal evidence that the 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.

Significant Growth in Employment

On the jobs front, after the strong showing in May, Democrats' false claim that the country is mired in a "jobless recovery" should be scuttled once and for all. Today, the BLS reported that the economy created 248,000 net new jobs in May, based on the payroll survey.[12] These new jobs represent the ninth consecutive month of expanding employment in the United States since August 2003. The BLS also significantly revised the figures for March and April of this year indicating that 74,000 more jobs were created in those months than was previously estimated.[13] As Figure 1 on page 3 illustrates, ***in the last nine months, the economy created 1,452,000 million net new jobs, according to the BLS' household survey, and 1,435,000 million net new jobs, according to the BLS' payroll survey***.[14]

Contributing to the steady growth in employment are the new jobs being created in the manufacturing sector. In May, American manufacturers created 32,000 net new jobs. Since January 2004, manufacturers have created 91,000 net new jobs, reversing the string of manufacturing job losses between August 2000 and January 2004.[15]

Moreover, the nation's unemployment rate remained steady at 5.6 percent in May, 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,[16] and economists forecast that the unemployment rate will average 5.5 percent in 2004 and fall to 5.3 percent in 2005.[17] Initial unemployment claims are down significantly, with the four-week average falling to 341,000 for the week ending May 29,

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[11] SBA Office of Advocacy, "Small Business by the Numbers," December 2003 – http://www.sba.gov/advo/stats/sbfaq.pdf.

[12] BLS, "Employment Situation: May 2004."

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

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

[15] BLS, "Employment Situation: May 2004."

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

[17] 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.

2004, a 19.6-percent drop from the same period in 2003.[18] Similarly, the total number of mass layoffs fell sharply in the first quarter of 2004 from the year-earlier levels, marking the lowest first-quarter layoffs since 2000.[19]

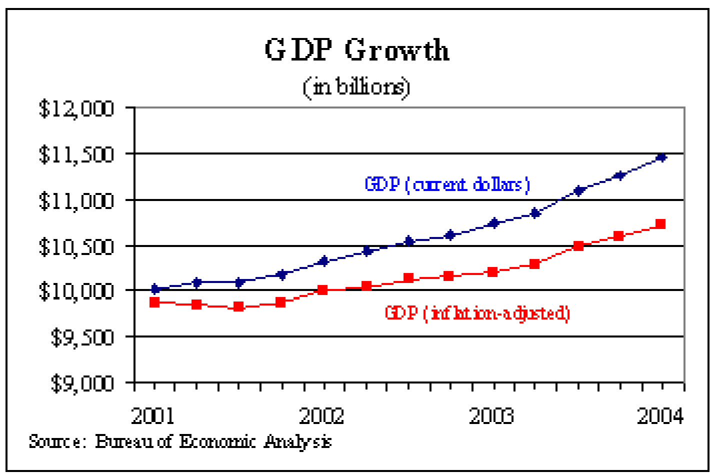
The dramatic improvement in the country's employment situation has given a rather hollow ring to the Democrats' attacks on Republican economic policies. ***Today, more Americans are working than at any time in this country's history – 138 million individuals***.[20] Nevertheless, Republicans recognize that work remains to be done in the employment sector. In the words of Treasury Secretary John Snow, "We're not going to be satisfied until everybody who wants a job gets a job."[21]

Broader Indicators Signal Steady Economic Growth

While the Democrats' myopic view of the economy focuses on employment, a complete assessment of the nation's economic recovery must include the broader economic indicators, nearly all of which signal a steadily expanding economy.

Gross Domestic Product

Figure 2



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 Bureau of Economic Analysis (BEA), the economy grew at an annual rate of 4.4 percent in the first quarter of

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[18]Employment and Training Administration, "Unemployment Insurance Weekly Claims Report," USDL 04-1003-NAT, June 3, 2004 – http://www.dol.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.

[19]BLS, "Extended Mass Layoffs in the First Quarter of 2004," USDL 04-895, May 18, 2004 – http://www.bls.gov/news.release/pdf/mslo.pdf.

[20]BLS, "The Employment Situation: May 2004."

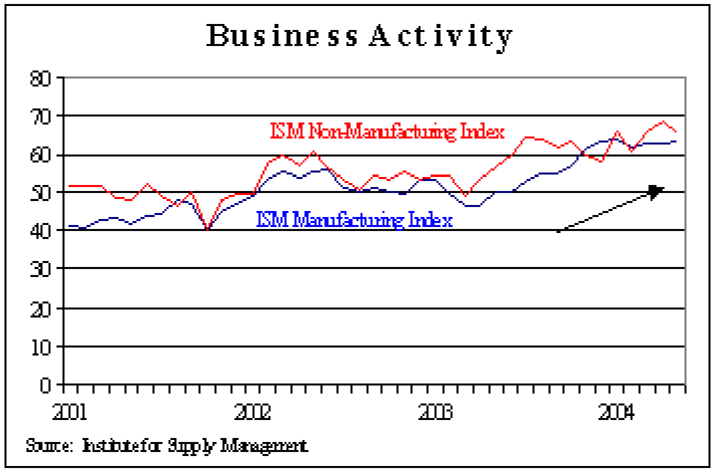
[21]Remarks by Treasury Secretary John Snow to the Credit Union National Association Government Affairs Conference, Washington, DC, February 23, 2004 (as reported by Federal News Service, Inc.).

2004.[22] ***Looking back over the past four quarters, the economy has grown by an impressive 4.95-percent annual rate – the fastest growth in almost 20 years.***[23] Moreover, economists forecast that the economy will continue expanding at a rate of 4.6 percent to 4.7 percent in 2004.[24] These are hardly the hallmarks of a sluggish economy.

Business Activity and Investment

Both manufacturing and non-manufacturing business activity have risen substantially in the past year. The Federal Reserve reported that industrial production increased in the first quarter of this year by a 6.3-percent annual rate, the largest quarterly increase in nearly four years.[25] Similarly, in May the Institute for Supply Management's (ISM) manufacturing index registered the twelfth successive monthly reading above 50 – the level at which the manufacturing economy is considered to be expanding.[26] Of the 20 manufacturing industries that make up the index, 19 reported growth in May. Similarly, the ISM non-manufacturing index continued to register strong growth, with business activity increasing for the 14th consecutive month in May.[27]

Figure 3



In light of the rise in consumer demand, businesses have significantly increased their inventories, reaching $1.2 trillion in March 2004, the seventh consecutive monthly increase in total business inventories.[28] Sales have followed a similar seven-month increase, with March sales figures increasing 9.7 percent from March 2003.[29] Additionally, exports of U.S. goods and

[22]BEA, "Gross Domestic Product: First Quarter 2004 (Preliminary)," BEA 04-22, May 27, 2004 – http://www.bea.gov/bea/newsrel/gdpnewsrelease.htm.

[23]BEA.

[24]*Blue Chip Economic Indicators*, Aspen Publishers, Inc., May 10, 2004; Federal Reserve Bank of Philadelphia; NABE.

[25]Federal Reserve Statistical Release, "Industrial Production and Capacity Utilization," G. 17 (419), May 14, 2004 – http://www.federalreserve.gov/releases/G17/Current/g17.pdf.

[26]ISM, "May Manufacturing ISM Report on Business," June 1, 2004 – http://www.ism.ws/ISMReport/ROB062004.cfm.

[27]ISM, "May Non-Manufacturing ISM Report on Business," June 3, 2004 – http://www.ism.ws/ISMReport/NMROB062004.htm.

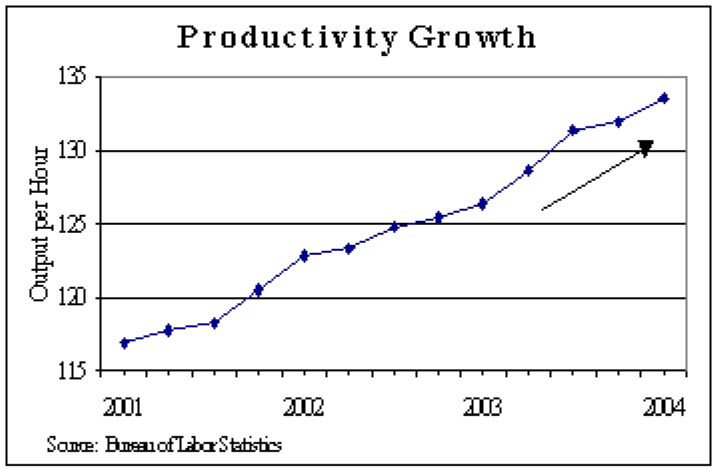
[28]Census Bureau, "Manufacturing and Trade Inventories and Sales, March 2004," CB-04-71, May 14, 2004 – http://www.census.gov/mtis/www/mtis.html.

[29]Census Bureau.

services have increased significantly – rising 8.6 percent in the last three quarters.[30] Economists forecast that exports will grow at an impressive 9.4-percent rate for 2004.[31]

Business investment also has improved significantly. In April, 66 percent of small businesses reported making capital expenditures in the preceding six months, concentrating heavily on purchases of new equipment and vehicles; looking forward, 34 percent of small business owners plan to make such investments in the next three to six months.[32] For the first quarter of this year, the BEA reported that overall business investment increased at a 5.8-percent annual rate, with businesses investing significantly in equipment and software.[33] ***The consensus among private-sector economists is that business investment will grow at a 9.9-percent rate this year, the best calendar-year increase in six years***.[34]

Figure 4



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 the trend of significant productivity gains since 2001.[35] These gains have helped improve corporate profits and resulted in higher real wages for workers. Moreover, improved productivity helps keep inflation in check by limiting the extent to which companies must pass increased wage costs on to customers through higher prices.[36]

Overall, business activity and investment have expanded at an impressive rate over the past year, despite the Democrats' efforts to convince the public that the economy is faltering because employment has only recently started to recover. 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.

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[30] BEA, "Gross Domestic Product: First Quarter 2004 (Preliminary)."

[31] NABE.

[32] National Federation of Independent Business, "Small Business Economic Trends, May 2004" – http://www.nfib.com/PDFs/sbet/sbet5_04.pdf.

[33] BEA, "Gross Domestic Product: First Quarter 2004 (Preliminary)."

[34] *Blue Chip Economic Indicators.*

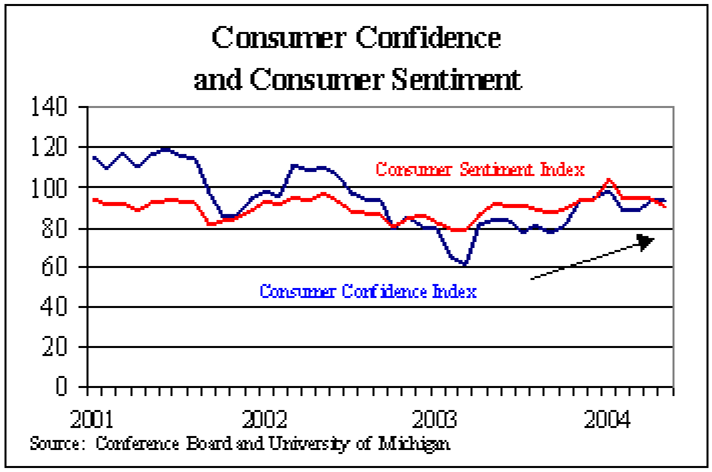
[35] BLS, "Productivity and Costs, First Quarter 2004," USDL 04-995, June 3, 2004 – http://www.bls.gov/news.release/prod2.nr0.htm.

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

Consumer Spending

A key component of GDP, and contributor to its recent increases, is consumer spending. As measured by real personal consumption expenditures, the BEA reports that consumer spending increased by a 3.9-percent annual rate in the first quarter of this year, continuing the strong growth registered in 2003.[37] These increases parallel the growth in retail sales, which in the first four months of 2004 increased by 8.8 percent over the same period in 2003.[38] The significant rise in disposable personal income – 4.9 percent in the first quarter of 2004[39] – which has fueled consumer spending, has largely been attributed to the 2003 tax cuts.[40] ***In fact, during the first 13 quarters of the Bush Administration, real disposable personal income has increased by more than 10 percent, as opposed to only 7 percent during the same period of the first Clinton Administration***.[41]

Figure 5



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.[42] The Index of Consumer Sentiment – an alternative gauge of consumers' opinions on the economy – remains above its average levels in 2001, 2002, and 2003.[43]

Inflation

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 by 1 percent for an annual 3.0-percent inflation rate, with the "core" inflation –

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[37] BEA, "Personal Income and Outlays: April 2004," BEA-04-23, May 28, 2004 – http://www.bea.gov/bea/newsrel/pinewsrelease.htm.

[38] Census Bureau, "Advance Monthly Sales for Retail and Food Services, April 2004," CB-04-70, May 13, 2004, Table 1 – http://www.census.gov/svsd/www/advtable.html.

[39] BEA, "Personal Income and Outlays: April 2004."

[40] *Blue Chip Economic Indicators.*

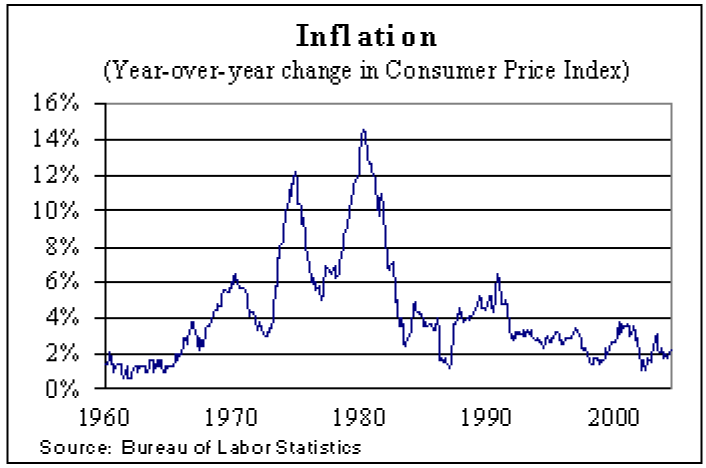
[41] BEA, Personal Income and Outlays: 1992 - 2004 – http://www.census.gov/svsd/www/advtable.html.

[42] The Conference Board, "Consumer Confidence Index, May 2004," May 25, 2004 – http://www.conference-board.org/ economics/consumerconfidence.cfm.

[43] University of Michigan, "Index of Consumer Sentiment, May 2004," May 28, 2004 – http://www.sca.isr.umich.edu/main.php.

excluding volatile energy and food prices – coming in at a 1.7-percent annual rate.[44] The Consumer Price Index, another measure of inflation, has shown similar movement, with core inflation registering a year-over-year increase of 1.8 percent.[45] Despite these increases, inflation remains low by historical standards, as Figure 6 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.[46] Accordingly, inflation is not expected to reduce economic growth significantly.

Figure 6



Index of Leading Indicators

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 4.0 percent for the U.S. economy.[47] "The pickup in the growth rate of the leading index last year signaled strong economic growth, and correspondingly, real GDP increased at a 5.5-percent annual rate over the last three quarters."[48] ***The index has risen in 12 out of the past 13 months,***

Figure 7

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

[45]BLS, "Consumer Price Index: April 2004," USDL-04-875, Friday, May 14, 2004 – http://www.bls.gov/news.release/cpi.nr0.htm.

[46]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.

[47]Conference Board, "The U.S. Leading Index Edges Up in April," May 20, 2004 – http://www.conference-board.org/economics/press.cfm?press_id=2398.

[48]Conference Board.

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 – an economy that has entered a period of strong, sustainable economic growth.[49] 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.[50] 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 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 1.4 million jobs – regardless of which BLS employment survey is used – in the nine months since August 2003 (see Figure 1). Growth in GDP increased significantly (see Figure 2) in the past year. For the year ending with the first quarter of 2004, GDP grew 4.9 percent – the best four-quarter advance since 1984.[52]

By reducing individual tax rates, the 2003 tax cuts left more earning 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 5). 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]

Such spending has also contributed to the marked increase in business activity in the last year (see Figure 3). 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 4) that leads to

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[49]NABE.

[50]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.

[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]*Blue Chip Economic Indicators.*

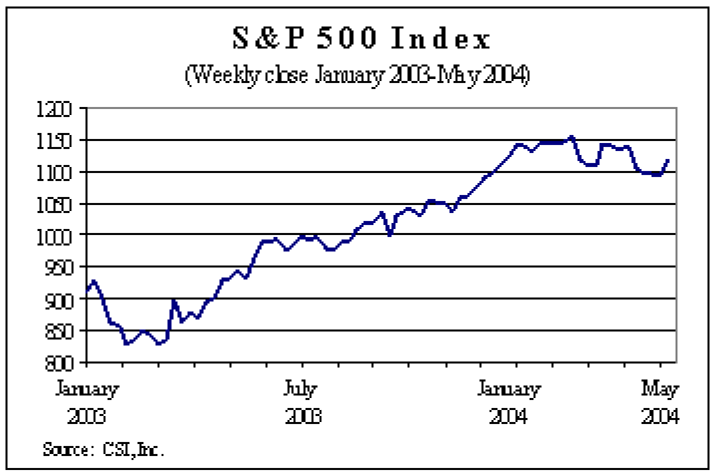
[53]Alan Greenspan, testimony before the Senate Committee on Banking, Housing, and Urban Affairs, S. Hrg. 108-281, July 16, 2003, p. 47.

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 nine 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] And, 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 $44.4 trillion at the end of 2003 – an 11.7-percent increase, more than half of which occurred in the last two quarters of the year 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 8 illustrates, the S&P 500 Index has increased more than 38 percent between its low on March 11, 2003 and May 28, 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 14 months. 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.

Figure 8



Moreover, larger corporate dividends lead to increased stock prices, since a stock's value is generally based on the discounted value of its future dividends.[57] According to a recent study, the reduction in the dividends tax rate increases the after-tax value of dividends – and correspondingly the value of stocks – by an estimated 6 percent.[58] With 51.9 percent of

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

[55]Federal Reserve, "Flow of Funds Accounts of the United States, Flows and Outstandings, Fourth Quarter 2003," March 4, 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]Eugene F. Brigham and Michael C. Ehrhardt, *Financial Management Practice and Theory*, 10th Edition, pp. 388-389.

[58]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 Strearns Global Commentary, April 23, 2004, p. 2.

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.[59] Moreover, since the price increases are expected to be factored in over several years, all of the benefits of the dividend-tax reduction have yet to be seen.[60]

Conclusion

Democrats' continuing efforts to talk down the economy based on employment 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 headed into 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 these tax cuts permanent.

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[59] 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.

[60] Poterba.