Is History Siding With Obama's Economic Plan?

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CLEARLY, there are major differences between the economic policies of Senators Barack Obama and John McCain. Mr. McCain wants more tax cuts for the rich; Mr. Obama wants tax cuts for the poor and middle class. The two men also disagree on health care, energy and many other topics.

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Family Income Growth

Annual average for 1948-2005, by income level. *Adjusted for inflation.*

Percentile	Under Democratic presidents *26 years*	Under Republican presidents *32 years*
20th	+2.64%	+0.43%
40th	+2.46	+0.80
60th	+2.47	+1.13
80th	+2.38	+1.39
95th	+2.12	+1.90

Sources: Census Bureau; Larry M. Bartels

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Such differences are hardly surprising. Democrats and Republicans have followed different approaches to the economy for as long as there have been Democrats and Republicans. Longer, actually. Remember Hamilton versus Jefferson?

Many Americans know that there are characteristic policy differences between the two parties. But few are aware of two important facts about the post-World War II era, both of which are brilliantly delineated in a new book, "Unequal Democracy," by Larry M. Bartels, a professor of political science at Princeton. Understanding them might help voters see what could be at stake, economically speaking, in November.

I call the first fact the Great Partisan Growth Divide. Simply put, the United States economy has grown faster, on average, under Democratic presidents than under Republicans.

The stark contrast between the whiz-bang Clinton years and the dreary Bush years is familiar because it is so recent. But while it is extreme, it is not atypical. Data for the whole period from 1948 to 2007, during which Republicans occupied the White House for 34 years and Democrats for 26, show average annual growth of real gross national product of 1.64 percent per capita under Republican presidents versus 2.78 percent under Democrats.

That 1.14-point difference, if maintained for eight years, would yield 9.33 percent more income per person, which is a lot more than almost anyone can expect from a tax cut.

Such a large historical gap in economic performance between the two parties is rather surprising, because presidents have limited leverage over the nation's economy. Most economists will tell you that Federal Reserve policy and oil prices, to name just two influences, are far more powerful than fiscal policy. Furthermore, as those mutual fund prospectuses constantly warn us, past results are no guarantee of future performance. But statistical regularities, like facts, are stubborn things. You bet against them at your peril.

The second big historical fact, which might be called the Great Partisan Inequality Divide, is the focus of Professor Bartels's work.

It is well known that income inequality in the United States has been on the rise for about 30 years now — an unsettling development that has finally touched the public consciousness. But Professor Bartels unearths a stunning statistical regularity: Over the entire 60-year period, income inequality trended substantially upward under Republican presidents but slightly downward under Democrats, thus accounting for the widening income gaps over all. And the bad news for America's poor is that Republicans have won five of the seven elections going back to 1980.

The Great Partisan Inequality Divide is not limited to the poor. To get a more granular look, Professor Bartels studied the postwar history of income gains at five different places in the income distribution.

The 20th percentile is the income level at which 20 percent of all families have less income and 80 percent have more. It is thus a plausible dividing line between the poor and the nonpoor. Similarly, the 40th percentile is the income level at which 40 percent of the families are poorer and 60 percent are richer. And similarly for the 60th, 80th, and 95th percentiles. The 95th percentile is the best dividing line between the rich and the nonrich that the data permitted Professor Bartels to study. (That dividing line, by the way, is well below the $5 million threshold John McCain has jokingly used for defining the rich. It's closer to $180,000.)

The accompanying table, which is adapted from the book, tells a remarkably consistent story. It shows that when Democrats were in the White House, lower-income families experienced slightly faster income growth than higher-income families — which means that incomes were equalizing. In stark contrast, it also shows much faster income growth for the better-off when Republicans were in the White House — thus widening the gap in income.

The table also shows that families at the 95th percentile fared almost as well under Republican presidents as under Democrats (1.90 percent growth per year, versus 2.12 percent), giving them little stake, economically, in election outcomes. But the stakes were enormous for the less well-to-do. Families at the 20th percentile fared much worse under Republicans than under Democrats (0.43 percent versus 2.64 percent). Eight years of growth at an annual rate of 0.43 percent increases a family's income by just 3.5 percent, while eight years of growth at 2.64 percent raises it by 23.2 percent.

The sources of such large differences make for a slightly complicated story. In the early part of the period — say, the pre-Reagan years — the Great Partisan Growth Divide accounted for most of the Great Partisan Inequality divide, because the poor do relatively better in a high-growth economy.

Beginning with the Reagan presidency, however, growth differences are smaller and tax and transfer policies have played a larger role. We know, for example, that Republicans have typically favored large tax cuts for upper-income groups while Democrats have opposed them. In addition, Democrats have been more willing to raise the minimum wage, and Republicans have been more hostile toward unions.

The two Great Partisan Divides combine to suggest that, if history is a guide, an Obama victory in November would lead to faster economic growth with less inequality, while a McCain victory would lead to slower economic growth with more inequality. Which part of the Obama menu don't you like?

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