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A report from the Labor Department yesterday showed that inflation has dropped again, falling back to 2.4%, the same rate as it was just before the coronavirus pandemic. Today the Dow Jones Industrial Average jumped 400 points to a record high, while the S&P 500 closed above 5,800 for the first time.

Washington Post economics columnist Heather Long noted that "[b]y just about every measure, the U.S. economy is in good shape." Inflation is back down, growth remains strong at 3%, unemployment is low at 4.1% with the U.S. having created almost 7 million more jobs than it had before the pandemic. The stock market is hitting all-time highs. Long adds that "many Americans are getting sizable pay raises, and middle-class wealth has surged to record levels." The Federal Reserve has begun to cut interest rates, and foreign leaders are talking about the U.S. economy with envy.

Democratic presidential nominee and sitting vice president Kamala Harris has promised to continue the economic policies of the Biden-Harris administration and focus on cutting costs for families. She has called for a federal law against price gouging on groceries during times of crisis, cutting taxes for families, and enabling Medicare to pay for home health aides. She has proposed $25,000 in down payment assistance for first-time homebuyers and promised to work with the private sector to build 3 million new housing units by the end of her first term.

The Committee for a Responsible Federal Budget, which focuses on the direct effect of policies on the federal debt, estimated that Harris's plans would add $3.5 trillion to the debt.

Republican presidential nominee Donald Trump has promised to extend his 2017 tax cuts for the wealthy and corporations and to impose a 10% to 20% tariff across the board on imported goods and a 60% tariff on goods from China. Tariffs are taxes paid by American consumers, and economists predict such tariffs would cost an average family more than $2,600 a year. Overall, the effect of these policies would be to shift the weight of taxation even further toward middle-class and lower-class Americans and away from the wealthy.

The Committee for a Responsible Federal Budget estimates that these plans would add $7.5 trillion to the debt.

But there is more: Trump has also made deporting undocumented immigrants central to his promises, and his running mate, J.D. Vance, has claimed the right to determine which government policies he considers legal, threatening to expand deportation to include legal migrants, as well.

Michael Hiltzik of the *Los Angeles Times* noted on October 8 that in March, the Peterson Institute for International Economics pointed out that the immigrants Trump is targeting are vital to a number of U.S. businesses. Their loss will cause dramatic cutbacks in those sectors. Taken together, the study concluded, Trump's deportations, tariffs, and vow to take control of the Federal Reserve could make the country's gross domestic product as much as 9.7% lower than it would be without those policies, employment could fall by as much as 9%, and inflation would climb by as much as 7.4%.

And yet, in a New York Times/Siena Poll of likely voters released on October 8, 75% of respondents said the economy was fair or poor. Further, although a study by *The Guardian* showed that Harris's specific economic policies were more popular than Trump's in a blind test, 54% of respondents to a Gallup poll released on October 9, thought that Trump would manage the economy better than Harris would.

Part of Americans' sour mood about the economy stems from the poor coverage all the good economic news has received. Part of it is that rising prices are more immediately obvious than the wage gains that have outpaced them. But a large part of it is the historic habit of thinking that Republicans manage the economy better than Democrats do.

That myth began immediately after the Civil War when Democrats demanded the government renege on the generous terms under which it had floated bonds during the war. When the Treasury put those bonds on the market, they were a risky proposition, but with the United States secure after the war, calculations changed, and Democrats charged that investors had gotten too good a deal.

Republicans were horrified at the idea of changing the terms of a debt already incurred. They added to the Fourteenth Amendment the clause saying, "The validity of the public debt of the United States, authorized by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned." When that amendment was added to the Constitution in 1868, the Democrats' fiscal rebellion seemed to be quelled.

But as Republicans increasingly insisted that protecting big business with a high tariff wall was crucial to the American economy, Democrats called for lowering tariffs to give the consumers who paid them a break. In response, Republicans said that those suffering in industrial America were lazy or spendthrifts and warned that Democrats were socialists. When Democrats took control of both chambers of Congress and put Grover Cleveland in the White House in 1892 with a promise to lower tariffs, Republicans insisted that the economy would collapse. But, the *Chicago Tribune* wrote, "The working classes of the country need such a lesson…. The Republicans will be passive spectators… It will not be their funeral."

Their warnings of an impending collapse prompted investors to take their money home. On February 17, 1893, fifteen days before Cleveland would be sworn into office, the Reading Railroad Company went under, after which, as one reporter wrote, "the bottom seemed to be falling out of everything." By the time Cleveland took office, a financial panic was in full swing.

Republican lawmakers and newspapers blamed Democrats for the collapse because everyone knew they would destroy the economy. Republicans urged voters to put them back in charge of Congress, and in 1894, in a landslide, they did. "American manufacturers and merchants and business-men generally will draw a long breath of relief," the *Chicago Tribune* commented just days after the Republican victory. Republicans had successfully associated their opponents with economic disaster.

That association continued in the twentieth century. In 1913, for the first time since Cleveland's second term, the Democrats captured both Congress and the White House.

Immediately, President Woodrow Wilson called for lowered tariff rates and, to make up for lost revenue, an income tax. Massachusetts senator Henry Cabot Lodge called the tariff measure “very radical” and warned that it would destroy all the industries in Massachusetts. As for the income tax, big-business Republicans claimed it was socialism and that it discriminated against the wealthy.

For the rest of the century, Republicans would center taxes, especially income taxes, as proof Democrats were bad for the economy. As soon as World War I ended, Republicans set out to get rid of the high progressive taxes that had paid for the war. Andrew Mellon, who served as treasury secretary under presidents Warren Harding, Calvin Coolidge, and Herbert Hoover, took office in 1921 and set out to increase productivity by increasing investment in industry. To free up capital, he said, the government must slash its budget and cut taxes. From 1921 to 1929, Mellon returned $3.5 billion to wealthy Americans through refunds, credits, and tax abatements.

The booming economy of the 1920s made it seem that the Republicans had finally figured out how to create a perpetually prosperous economy. When he accepted the 1928 Republican nomination for president, Herbert Hoover said: “We in America are nearer to the final triumph over poverty than ever before in the history of any land. The poorhouse is vanishing from among us.... [G]iven a chance to go forward with the policies of the last eight years, we shall soon, with the help of God, be in sight of the day when poverty will be banished from this nation.”

The Great Depression, sparked by the stock market crash of October 1929, revealed the central weakness of an economic vision based in concentrating wealth. While worker productivity had increased by about 43% in the 1920s, wages did not rise. By 1929, 5% of the population received one third of the nation’s income. When the stock market crash wiped out the purchasing power of this group, the rest of the population did not have enough capital to fuel the economy.

Mellon predicted that the crisis would “purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live a more moral life. Values will be adjusted, and enterprising people will pick up the wrecks from less competent people.” The Hoover administration preached thrift, morality, and individualism and blamed the depression on a wasteful government that had overstaffed public offices. To restore business confidence, Republicans declared, the nation must slash government spending and lay off public workers.

But most Americans had had enough of Republican economics, especially as the crash revealed deep corruption in the nation's financial system. In 1932, voters overcame their deep suspicion of Democratic economic policies to embrace what Democratic presidential candidate Franklin Delano Roosevelt called a "New Deal" for the American people, combating the depression by regulating business, providing a basic social safety net, and investing in infrastructure. Hoover denounced Roosevelt's plans as dangerous radicalism that would "enslave" taxpayers and destroy the United States.

Voters elected FDR with about 58% of the vote. Over the next forty years, Americans of both parties embraced the government's active approach to promoting economic growth and individual prosperity by protecting all Americans.

But when President Ronald Reagan took office in 1981, he promised that returning to a system like that of the 1920s would make the country boom. He called his system "supply-side" economics, for it invested in the supply side—investors—rather than the consumers who made up the demand side. "The whole thing is premised on faith," Reagan's budget director David Stockman told a reporter. "On a belief about how the world works."

Under Reagan, deficit spending that tripled the national debt from $995 billion to $2.9 trillion—more federal debt than in the entire previous history of the country—along with lower interest rates and deregulated savings and loan banks, made the economy boom. Americans watching the economic growth such deficit spending produced believed supply-side economics worked. Tax cuts and spending cuts became the Holy Grail of American politics, and the Democrats who opposed them seemed unable to run an economy.

But that belief was not based in reality. In April the nonpartisan Economic Policy Institute found that since 1949 the nation's annual real growth has been 1.2 percentage points higher under Democratic administrations than under Republican administrations (3.79% versus 2.60%), total job growth averages 2.5% annually under Democrats compared to barely over 1% under Republicans, business investment is more than double the pace under Democrats than under Republicans, average rates of inflation are slightly lower under Democrats, and families in the bottom 20% of the economy experience income growth 188% faster under

Democrats than under Republicans.

A recent analysis by former Goldman Sachs managing director H. John Gilbertson expands on those numbers, showing that Democratic administrations reduce the U.S. budget deficit and that stock market returns are 60% higher under Democrats than under Republicans.

Democratic President Joe Biden returned the country to the proven system that worked before 1981, and the economy has boomed. While Trump has vowed to return to the tax cuts and deregulation of supply-side economics, Vice President Harris has promised to retain and fine-tune Biden's policies.

But Harris has to overcome more than a century of American mythmaking.

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Notes:

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