



CONDÉNET

THE NEW YORKER

THE TALK OF THE TOWN

IN THE MAGAZINE

GOINGS ON ABOUT TOWN

THE TALK OF THE TOWN

FACT

FICTION

THE CRITICS

SHOUTS & MURMURS

CARTOONS

ONLINE ONLY

THE HARD DRIVE

THE FILM FILE

FROM THE ARCHIVE

SUBSCRIBE

CONTACT US

STORE

search:

THE FINANCIAL PAGE ELECTIVE ECONOMIES

Issue of 2006-11-20
Posted 2006-11-13

In the days leading up to the midterm elections, Republicans spread a simple message. "If the Democrats take control," Dick Cheney warned, "the economy would sustain a major hit." Wall Street pundits forecast a future of tax hikes and new regulations, and suggested that if Democrats took both the House and the Senate there would be a "major stock sell-off." But the day after the elections stock prices went up. If disaster is looming, investors can't see it.

Perhaps the market is just blithely ignorant. But it's more likely that investors understand what the pundits don't: while we hold politicians responsible for things like the rate of economic growth and unemployment, in the short run they generally have little influence on the economy as a whole. There are some interesting patterns in U.S. history—economic growth, for instance, tends to be stronger in the first years of Democratic administrations than in Republican ones—but the effects of such trends are small. And changing congressional majorities seem to have even less impact than changing administrations. Voters might expect that a dramatic power shift like the one we saw on Tuesday would have profound consequences for the economy. But it almost certainly won't.

In part, this is because Congress is limited in the tools it can use (especially if a President is likely to veto its initiatives). Monetary policy is controlled by the Federal Reserve Board, which is essentially independent of political pressure. It hasn't always been this way. In 1971, for instance, Fed chair Arthur Burns began to cut interest rates, which kept the economy growing briskly into the next year's election. Republicans in Congress could certainly have used a couple of interest-



this week's talk

- [COMMENT](#)
- [INNER OFFICE](#)
- [ELECTION NIGHT DIARY](#)
- [WIND ON CAPITOL HILL](#)
- [THE FINANCIAL PAGE](#)

SPECIAL HOLIDAY OFFER
 GIVE THE NEW YORKER & GET THE 2007 CARTOON CALENDAR FREE!
[ORDER NOW](#)

THE NEW YORKER
SUBSCRIBE FOR A CHANCE TO WIN A TRIP TO BARCELONA, SPAIN!
[CLICK HERE!](#)

THE NEW YORKER
Subscribe Today
Just \$1 an issue!

THE NEW YORKER MEDIA KIT

LET AN AGENT SET UP YOUR
WIRELESS NETWORK

1 800 GEEK SQUAD
24 HOUR COMPUTER SUPPORT TASK FORCE

THE COMPLETE NEW YORKER
The update is here
Order your updated DVD #1 today. Now includes issues from January, 1998 through April, 2006.

www.newyorkerstore.com

THE NEW YORKER
COLLEGE TOUR
UNIVERSITY OF CALIFORNIA BERKELEY
NOVEMBER
13-14-15

rate cuts this year, but there was never a possibility that the Fed would oblige. And while Congress does have the power to tax and spend, changes in spending and taxation typically have only a marginal impact on short-term economic performance, because they're too small to have much effect on what's now a thirteen-trillion-dollar economy. Nor is there any obvious connection between changes in policy and economic outcomes: Congress raised taxes in 1993, and the economy boomed. It cut taxes in 2001, and the economy grew briskly then, too.

Elections are also unlikely to bring major economic changes, because when it comes to macroeconomic questions Democrats and Republicans are simply not that far apart. The Democrats will block any attempt to extend tax cuts for the wealthy, but they've shown no interest in returning tax rates to where they were when, say, Ronald Reagan took office. Both parties seem to accept that the Fed's most important job is keeping inflation under control. Both pay lip service to balanced budgets (although the Democrats appear more committed to them in practice). There's no movement to restore the kind of elaborate regulations that governed much of the American economy until the nineteen-seventies. And although the new Congress will likely take a harder line on trade agreements than its predecessors, there's little talk of resurrecting the stringent tariffs or quotas that were once routine.

Republicans like to indict Democrats as anti-corporate zealots. But in 1994, when the Democrats lost control of the House and the Senate, the stock market reacted with indifference, not glee—prices scarcely budged. A study of Presidential elections since 1928, conducted by the finance professors Pedro Santa-Clara and Rossen Valkanov, found no systematic difference in the way the market has reacted to the election of Democratic and Republican candidates. A more recent study, which examined market reaction to unexpected outcomes in Presidential elections, suggests that investors do expect returns to be slightly greater under Republican administrations, but, again, the difference is small.

It's foolish, then, to expect elections to cure ailing economies or wreck healthy ones. But this doesn't mean that they're irrelevant. Fiscal policy may not make a big difference in the short run, but in the long run its effects can be dramatic. (The \$1.4 trillion in public debt we've accumulated during the past five years will eventually have to be dealt with.)

THE NEW YORKER
now on **audible.com**[®]

THE NEW YORKER **READERLINK**

rsvp *shop* **TNY**

www.thenewyorkerstore.com




Signed Books by New Yorker Writers



The New Yorker Store
books, prints, gifts & more

[click here to visit](#)

THE NEW YORKER
ADVANCEWORD

Sign up today to receive a monthly custom e-mail with the latest news on books that interest you.

And while the ascent of the Democrats may not change the overall performance of the economy, it will change who wins and loses within it. The new Congress intends to take action to mitigate the impact of increasing inequality: raising the minimum wage, increasing college-tuition tax credits, keeping the estate tax intact, and rejecting Social Security privatization. It may also target industries that are perceived as holding inordinate power over consumers, including the oil and the pharmaceutical industries. It would be very surprising, for instance, if the new Congress did not try to repeal the current law barring Medicare from bargaining for lower prices with drug companies.

As far as the economy as a whole is concerned, the impact of most of these initiatives (with the obvious exception of protecting Social Security) will be trivial. But their impact on the everyday lives of many Americans could be substantial, because they represent an attempt to deal with the most troubling economic fact of recent times—namely, that, even as the economy has flourished, most Americans have seen their real incomes stagnate or even fall. In the past twenty-four years, the U.S. has had only two recessions, both brief, so policymakers have done a good job of figuring out how to keep the economy running smoothly. But they've often done less well when it comes to making sure that the fruits of that economy are shared. This election won't change the size of the pie, but it may change how it gets sliced.

— James Surowiecki

[▲ top](#)



Sign up for a subscription to
The New Yorker magazine.
Just \$1 an issue.

[Click here for INTERNATIONAL ORDERS >>](#)

[Click here to GIVE A GIFT >>](#)

E-mail address

State

Name

Mailing address 1

Zip

Mailing address 2

City



[home](#) | [subscribe](#) | [store](#) | [events](#) | [contact us](#) | [forums](#) | [press releases](#)

visit our sister sites

[Concierge](#) | [Epicurious](#) | [Men.Style.com](#) | [Style.com](#) | [Wired.com](#) | [Lipstick.com](#) | [NutritionData](#) | [YM](#) | [Allure](#) |
[Architectural Digest](#) | [Brides](#) | [Cookie](#) | [Condé Nast Portfolio](#) | [Domino](#) | [Glamour](#) | [House & Garden](#) | [Jane](#) |
[Lucky](#) | [Men's Vogue](#) | [Self](#) | [Teen Vogue](#) | [The New Yorker](#) | [Vanity Fair](#)

CONDÉNET

Copyright © CondéNet 2006. All rights reserved.

Use of this Site constitutes acceptance of our [User Agreement](#) and [Privacy Policy](#).

This Site looks and works best when viewed using browsers enabled with JavaScript 1.2 and CSS, such as Netscape 7+ and Internet Explorer 6+.