Insight

Three Strikes…

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Web-content provider Matthew Yglesias recently decided to take a stroll down memory lane to the Bush years, and surprise surprise, is none too pleased. Yglesias dusts off the tired trope that the Bush Administration is essentially to blame for the continued sorrowful economy through, "Tax cuts, deregulation, and bailouts, too." He further asserts that the Bush Administration was a "historically great administration for Wall Street."

This charge has been repeated in some form or another by the current administration and their surrogates emphatically and often. Unfortunately, nobody has been willing to hold them accountable on the substance of this claim.

So, which collection of policies was such a boon to Wall Street? After a reading of Yglesias's recent recapitulation of this charge, the issue comes down to tax cuts and "deregulation" of "Wall Street."

Yglesias first asserts that the tax policies of the Bush administration were basically a handout to the rich. First, it should be mentioned that no credible assessment of the financial crisis has suggested that reduced income and capital gains tax rates contributed to the recession. Presumably, if these rate reductions were so calamitous, the current president would not have extended them, and certainly not amid the chorus of support from his economic team, who warned of a double-dip recession if they were *not* extended. As for "fairness," the 2001 and 2003 cuts were sufficiently progressive that President Obama essentially claimed that in dollar terms, the vast majority of the cuts went to the "middle class." Moreover, the bulk of Bush's tax policies were enacted during a time of projected surpluses. President Obama proposed making these cuts permanent during a time of huge deficits. Moreover, Obama's budget baseline has in the past reflected permanence of all of the 2001 and 2003 tax policies, so he did not have to pay for his proposed extensions.

The second policy contribution to the financial crisis, according to Yglesias, was a gift to Wall Street and reduced regulation, particularly for the financial sector.

There is a legitimate debate about what elements of federal policy may or may not have contributed to the financial crisis, but to assert that the previous administration reduced financial regulations is just wrong.

In fact, from 2001 to 2009 the Code of Federal Regulations increased by 2,051 pages, 26 percent, in the three titles related to the financial sector. The Securities and Exchange Commission (SEC) promulgated 15 "major" regulations with an impact of $100 million or more on the economy from 2001 to 2005. During this supposedly "deregulatory" period, SEC paperwork went from 136 million hours in 2002 to more than 230 million in 2008, an increase of 69 percent. Likewise, regulatory burdens at the Treasury Department went from 6.7 billion hours to 7.7 hours during this time. To some extent, that should be obvious, as perhaps the single largest financial reform during the Bush tenure, Sarbanes-Oxley, had nothing to do with loosening rules; you have go back to the Clinton administration's repeal of Glass-Steagall to see any major financial reforms that loosened rules. Nothing says "thank you" to Wall Street like throwing a billion hours of extra paperwork their way and hundreds of millions of dollars in higher costs.

Lastly, Yglesias lays the bailout moniker at Bush's feet and largely gives Obama a pass. But a close look at how the Troubled Asset Relief Program (TARP) – the ever-evolving vehicle for the "bailouts" – fared under each president reveals that it was Obama who cherry-picked favored constituencies for bailouts and ultimately squandered taxpayer dollars. To be sure, President Bush opened the storehouse during the crisis – but the support for financial institutions ultimately made money for the taxpayer. Obama expanded the "bailouts" to include the automotive and mortgage sectors, which have lost money. Moreover, the expansion of TARP to housing modifications is the only element of it that still anticipates further expenditures.

Yglysias's major assertion that the Bush Administration's tenure was simply an era of tax cuts, financial deregulation, and bailouts, whereas Obama's was a valiant rebuke to Wall Street is simply at odds with the facts.