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Economy Made Few Gains in Bush Years

Eight-Year Period Is Weakest in Decades

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President Bush has presided over the weakest eight-year span for the U.S. economy in decades, according to an analysis of key data, and economists across the ideological spectrum increasingly view his two terms as a time of little progress on the nation's thorniest fiscal challenges.

The number of jobs in the nation increased by about 2 percent during Bush's tenure, the most tepid growth over any eight-year span since data collection began seven decades ago. Gross domestic product, a broad measure of economic output, grew at the slowest pace for a period of that length since the Truman administration. And Americans' incomes grew more slowly than in any presidency since the 1960s, other than that of Bush's father.

Bush and his aides are quick to point out that they oversaw 52 straight months of job growth in the middle of this decade, and that the economy expanded at a steady clip from 2003 to 2007. But economists, including some former advisers to Bush, say it increasingly looks as if the nation's economic expansion was driven to a large degree by the interrelated booms in the housing market, consumer spending and financial markets. Those booms, which the Bush administration encouraged with the idea of an "ownership society," have proved unsustainable.

"The expansion was a continuation of the way the U.S. has grown for too long, which was a consumer-led expansion that was heavily concentrated in housing," said Douglas Holtz-Eakin, a onetime Bush White House staffer and one of Sen. John McCain's top economic advisers for his presidential campaign. "There was very little of the kind of saving and export-led growth that would be more sustainable."

"For a group that claims it wants to be judged by history, there is no evidence on the economic policy front that that was the view," Holtz-Eakin said. "It was all Band-Aids."

From 2002 to 2006, the housing boom generated about 600,000 to 800,000 jobs that otherwise would not have been created -- about 10 percent of total job growth in that span, according to the consulting firm IHS Global Insight. Such data, expert say, suggest the economy was not as fundamentally strong as it seemed.

"Some of the recovery, some of the expansion, was based on very shaky foundations," said Nariman Behravesh, chief economist at Global Insight.

"It's sad to say, but we really went nowhere for almost ten years, after you extract the boost provided by the housing and mortgage boom," said Mark Zandi, chief economist of Moody's Economy.com, and an informal adviser to McCain's campaign. "It's almost a lost economic decade."

The president's current aides say they are proud of their economic record. They note, for instance, that they attempted to rein in the growth of Fannie Mae and Freddie Mac, the housing finance companies whose vast expansion they see as a central cause of the financial crisis. Independent analysts generally view them only as contributors to the crisis.

"It does look like a great eight years, aside from the last quarter, unfortunately," Edward P. Lazear, chairman of Bush's Council of Economic Advisers, said in a recent interview. "In the long term, things look good. The reason things look good is this economy will rebound, and it will rebound strongly. . . . We expect things to turn around, and I would say early in President Obama's administration."

Even excluding the 2008 recession, however, Bush presided over a weak period for the U.S. economy. For example, for the first seven years of the Bush administration, gross domestic product grew at a paltry 2.1 percent annual rate.

The administration also failed to gain traction on some of the fundamental economic and fiscal issues facing the nation -- including solidifying the finances of Medicare and Social Security, simplifying the tax code, or making health care more affordable. Resolution of those issues might have left the government more flexibility to respond to the current crisis by lowering the nation's future budget deficits.

The federal government had a modest budget surplus when Bush took office in 2001, but ran a deficit -- funding itself to a significant degree with borrowed money -- of 4.9 percent of gross domestic product in 2004 and 4 percent in 2005, even as the economy was growing at a healthy pace.

Bush did not steer the country toward a more sound long-term fiscal position. After winning reelection, he made a failed push both to tweak Social Security to stabilize its long-term finances and create private accounts for Americans to invest in the stock market. Democrats aggressively fought the plan, but indicated they were willing to work on a compromise to ensure the program's long-term financial stability if Bush would take private accounts off the table, which he declined to do.

Keith B. Hennessey, Bush's chief economic adviser, said the administration "tried everything" it could to broker a deal on Social Security, including sending subtle signals to Democrats that it would negotiate on private accounts.

Changes to Medicare were also elusive for the administration. When Bush entered the White House, the program faced a long-term funding deficit. It still does, and its cost is expected to balloon in the years ahead. In fact, the administration's addition of a prescription drug benefit enlarges Medicare's long-term funding imbalance.

The administration had planned to try to deal with the problem after a successful overhaul of Social Security. That day never came, though, and officials figured that if they couldn't reach a deal on the relatively simple problem of fixing Social Security, they would have no shot at fixing the vastly larger and more complex problems facing Medicare.

Bush made a more concerted effort in 2007 to overhaul the health-care system, with a plan that many independent experts thought could make care more affordable for poor and middle-income families.

But by the time the president made the push, he was already highly unpopular. The proposal went nowhere.

"The retirement of the baby boom is not a distant thing, and the rapid rise in medical care costs goes on year after year," said Alice Rivlin, a scholar at the Brookings Institution and senior economic official in the Clinton administration. "It's easiest to fix those things when the economy is doing well, and we didn't fix them when we had the chance."

A Bush-created commission proposed a detailed overhaul of the tax code in 2005 that aimed to make taxes more fair and less complex, also winning plaudits from tax experts. But passing such a plan wasn't a high priority for the White House, and the effort stalled.

"On tax reform, I think they themselves were not very interested in it," said Kevin A. Hassett, a senior fellow at the American Enterprise Institute and an adviser on Bush's reelection campaign.

As achievements, Bush and his advisers point to the tax cuts of 2001 and 2003, which many analysts credit for keeping the last recession mild, even as the cuts contributed to the large deficits that followed. Bush and other administration officials play down the role of the tax cuts in feeding the deficits, arguing instead that increased spending on counterterrorism, national security and the military after the Sept. 11 attacks was the primary, and unavoidable, cause.

Bush also boasts about his record on trade, including the signing of 11 free-trade agreements with countries in Asia, Africa and Central and South America. But he also failed in bids to land several other prominent trade pacts and saw the collapse of negotiations to curb global agricultural subsidies, known as the Doha Round.

One constant for Bush has been an optimistic, even rosy, economic outlook. Throughout much of past year, even as the Treasury Department and Federal Reserve began preparing for the worst behind closed doors, Bush and his aides trumpeted the fundamental strength of the U.S. economy and dismissed Democratic proposals for a second stimulus package. A White House fact sheet released on Sept. 5 was titled: "American Economy Is Resilient in the Face of Challenges."

Two days later, the administration announced the federal takeover of Fannie and Freddie, setting in motion the most sweeping government intervention in the economy since the Great Depression.

That takeover, experts widely agree, was necessary. But even those sympathetic to the president's ideas are skeptical of his overall legacy.

The highest praise Hassett offers for Bush's economic legacy is that "the economy was caught up in a storm while he was president, but it wasn't his fault."

"In the end, to the extent there ends up being a defense of the Bush presidency" on economic issues, "that's about the best you can get."

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