



Special Study

Presidential Economics

(Written in 2004)

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Given the recent tributes to President Reagan and the impact the current state of the economy will have on the upcoming election, we thought it would be appropriate to review the numbers behind the policies during each administration.

Terms are assumed to run from the beginning of the January of the President's inauguration until the end of December prior to his successor taking office.

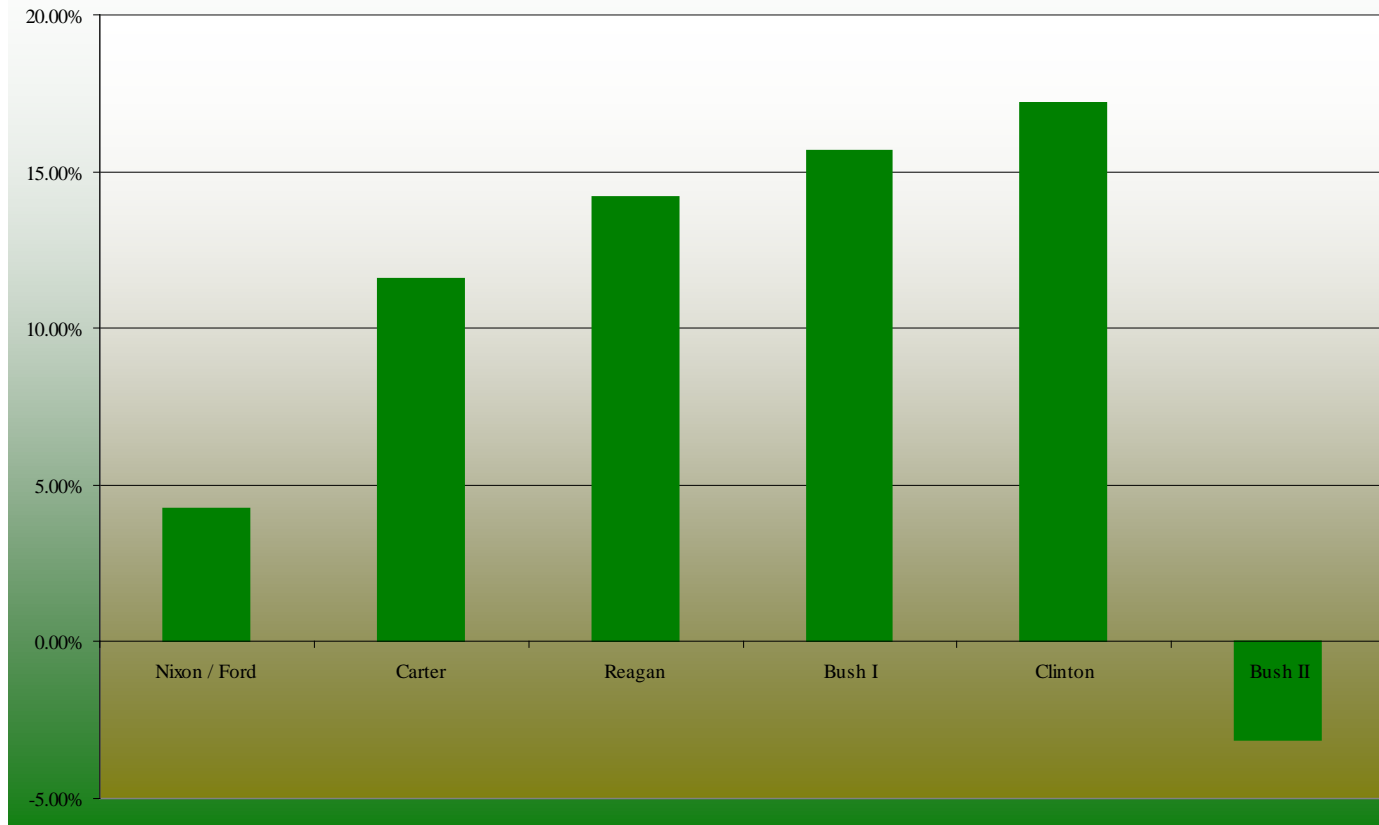
It is important to note that the effect of a policy change can and will have an impact beyond the defined tenure of a President, and this study does not attempt to measure the changes leading up to a change in administration.

As an effort towards full disclosure, the principals at Cornerstone are oriented towards a responsible application of supply-side economics believing that consumers and the marketplace make the best the allocation of funds among competing goods and services.

That said, here goes...

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Annualized Total Return for S & P 500

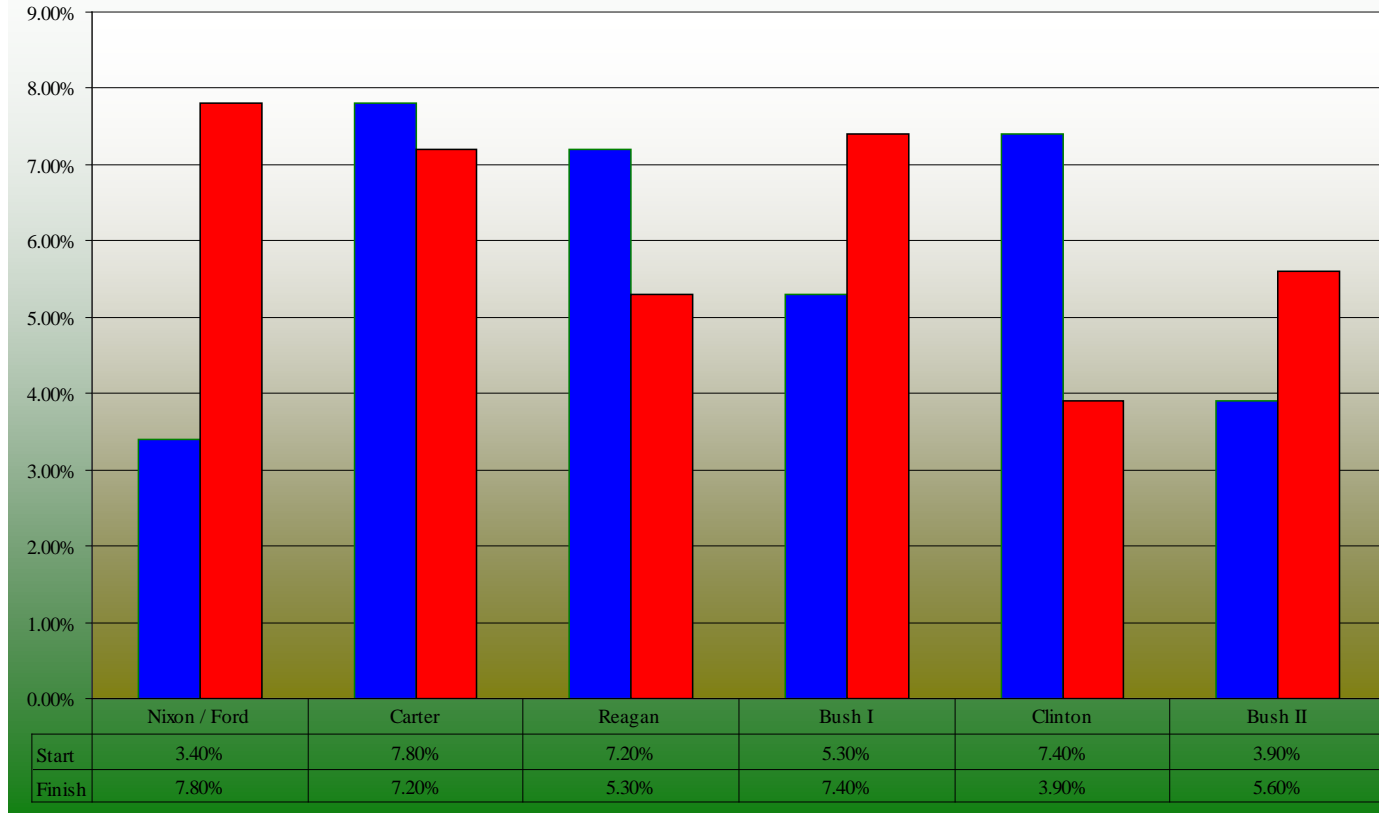


The challenge in the interpretation of this chart is that the decisions made by investors in the months prior to the administration change can have significant impact on these results.

For example, the market bubble was pricked at the beginning of Bush II's term and has been difficult for him to overcome in 3 + years in office.

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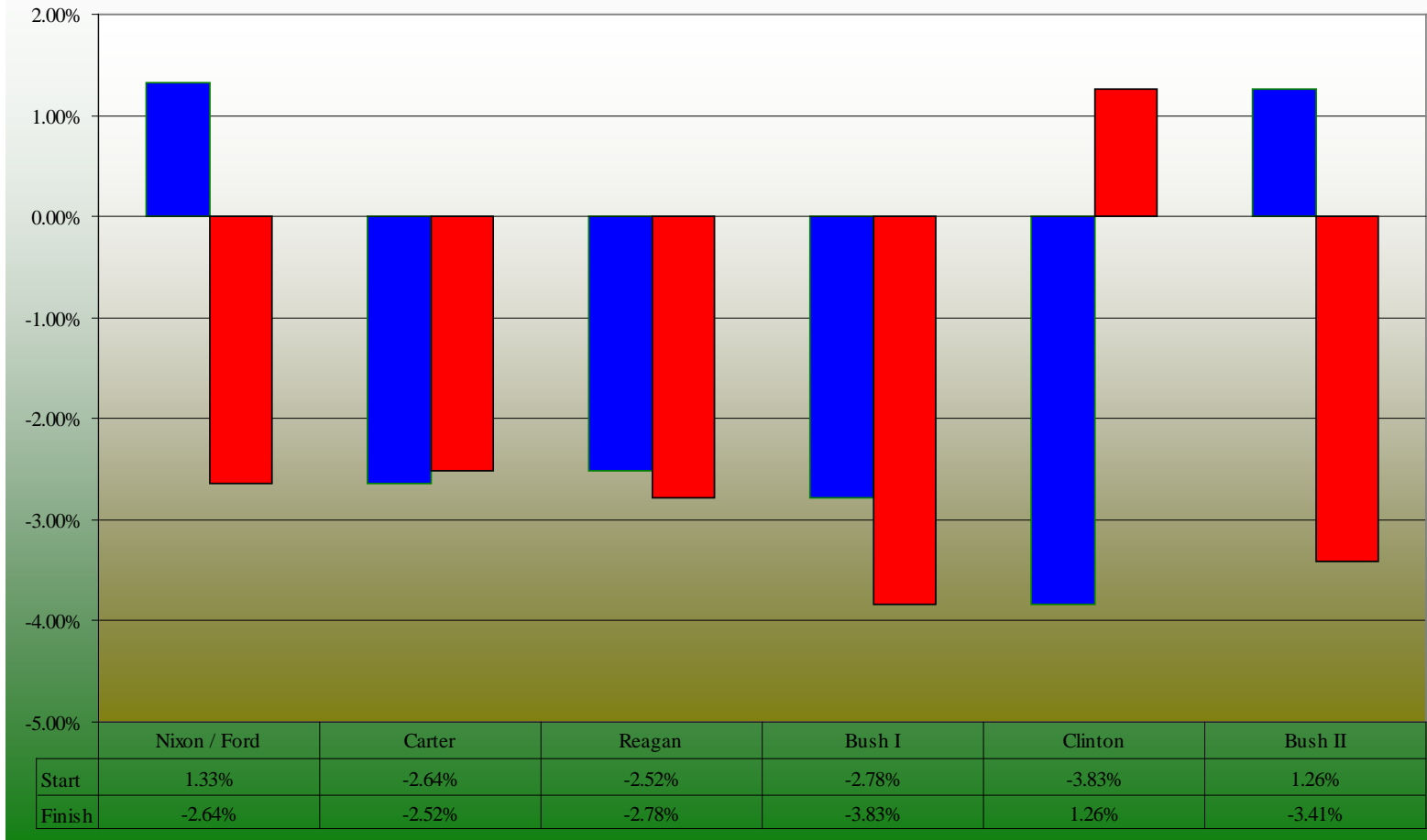
Unemployment Rate



The highest percent gain in unemployment occurred during the Nixon / Ford administration (129%), and the largest percent decrease happened while Clinton was President (-47%).

Although Carter experienced a decrease while in office, the overall level was still too high for the American public.

Deficit to Gross Domestic Product



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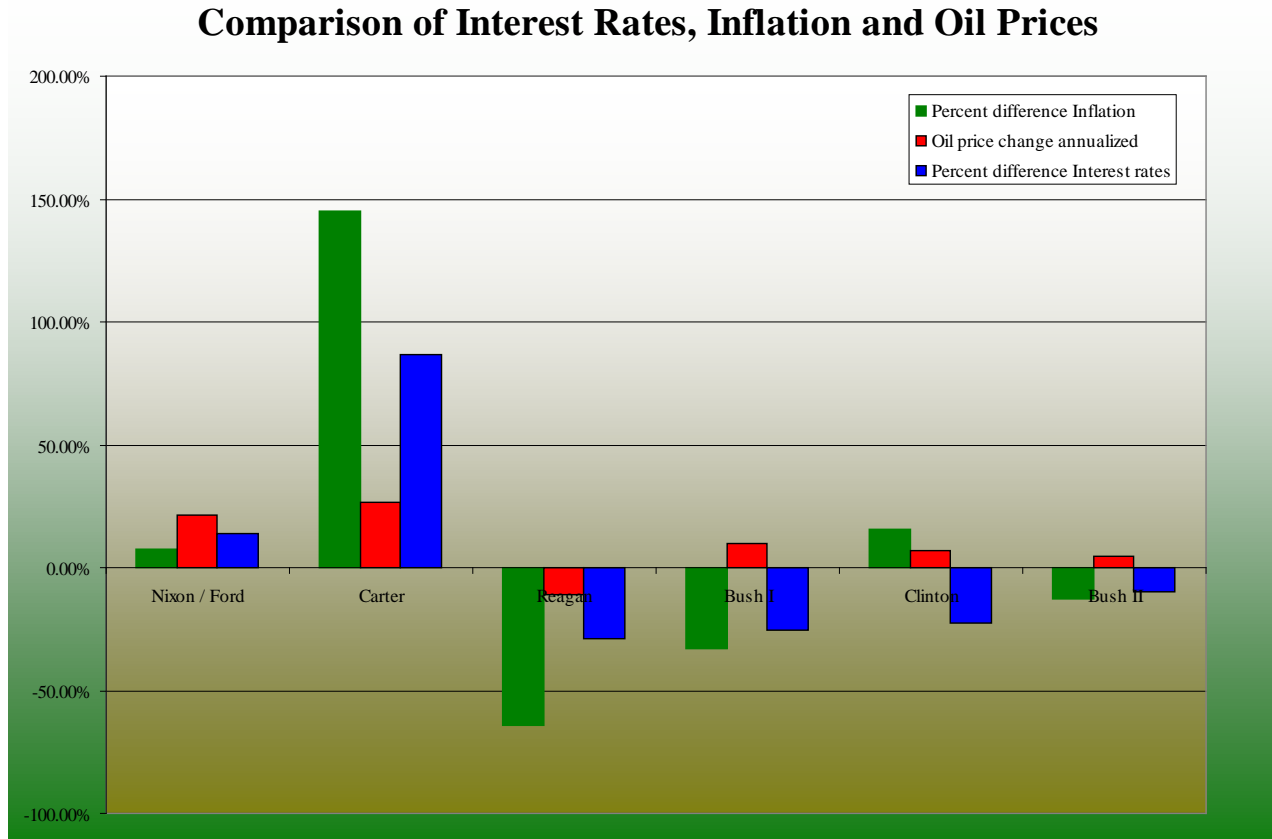
The government deficit cannot be viewed as an absolute number; it should be considered with respect to the country's Gross Domestic Product to assess the potential impact to the economy.

At the same time, the economic circumstances then prevailing should also be factored into any analysis:

- specifically, if an economy is in a recession, it may be appropriate for the government to “spend its way out” of lower growth rates in anticipation of higher tax revenue in coming years when the economy is on more solid footing
- in the same way, tax cuts should provide additional funds for consumer spending (in turn, creating more jobs); but the near-term result is deficit spending
- finally, there may be some unique situations for a specific time period; as an example, much of Bush I's deficit was related to the spending necessary to correct the savings and loan problems of the early 1990's

The most important discovery here is that the deficit when Reagan assumed office was only slightly lower than when he left office. During the middle of his term, this ratio was substantially higher than at the end (or any time since then). If deficit / GDP reaches its lowest point shortly after tax cuts, does this bode well for Bush if he were to win a second term?

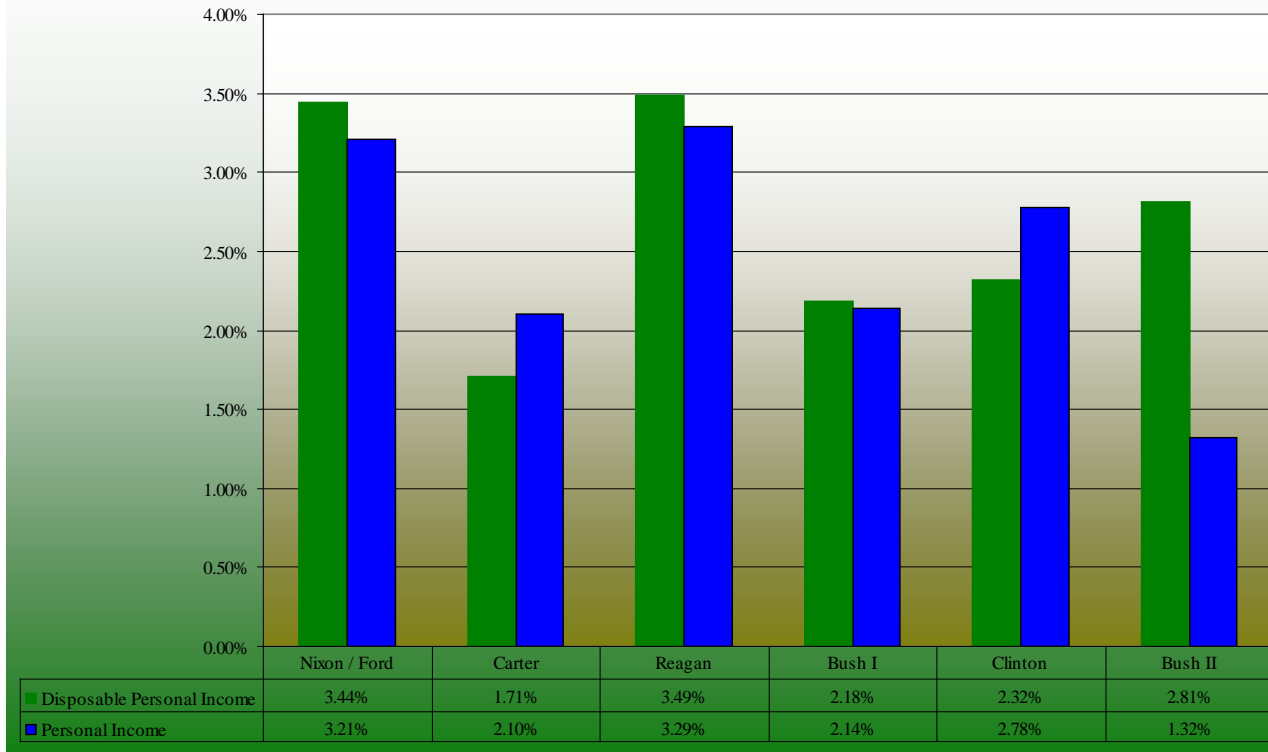
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The price of each of these factors affects the consumer's ability to spend money and their perceptions of spending ability going forward. The highest increase in inflation was 145% (from 5.04% yr/ yr to 12.35%) over Carter's term, much of which was reversed under Reagan (-64%). The interest rate used is the 10 year Treasury, which approximates changes in the 30 year mortgage (after adding 168 basis points).

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Change in Personal Income (Adjusted for Inflation)



This could be the most important indicator of on-going economic prosperity – increases in the consumer’s ability to spend. Also, note the difference between Personal Income and Disposable Personal Income (after taxes have been taken), especially in the case of Bush II.

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Inflation was absolutely what did Carter in, and interest rates rose accordingly. This was partially due to increases in oil prices (which rose almost 27% annually during his term).

Reagan and Bush I were in office during the taming of inflation, which resulted in lower interest rates that brought mortgage rates down as well.

Clinton and Reagan both saw fantastic job creation during their presidencies--14.5% and 15.3% of the beginning of term labor force, respectively (18.6 million jobs and 16.5 million jobs).

Disposable personal income is a critical measure because its growth signals potential increases in either savings or consumption...

- this holds favorably for Bush II (2.8%), while his father had a much lower rate of growth (2.18%).

- Clinton and Reagan presided over the periods with the most prosperity, but the disposable income growth under Reagan was about 50% higher than during Clinton's term.