DEMOCRATIC POLICY COMMITTEE

Special Report

DPC

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The Failure is in the Philosophy: Despite Dismal Record, Republicans Offer More of the Same

Throughout its history, the central organizing principles of the Republican Party have been support for laissez-faire capitalism, deregulation, and the interests of private enterprise. In the past, the Republican governing philosophy, conservatism, tempered support for free markets with a skepticism about all ideologies, including laissez-faire capitalism, and a realization that government had a responsibility to act to correct intolerable situations and to adjust to changing conditions.

In response to the New Deal, however, a more virulent strain of conservatism was born. This "movement conservatism," which was funded by wealthy business executives who resented government "interference" in the market and was inspired by the economic theories of Friedrich von Hayek, Ludwig von Mises and later Milton Friedman, rejected skepticism about the dangers of ideology and the need for government action to adapt to new conditions.

Movement conservatism, which has now dominated the Republican Party for nearly fifty years, adopted this free market ideology as its creed and a return to a pre-New Deal *ancien regime* as its goal. In the words of Hayek, there should be a "sweeping away of the obstacles to free growth" (i.e., government action) and a confidence that "self-regulating forces of the market will somehow bring about the required adjustments to new conditions."

In adopting this governing philosophy, the modern Republican Party has taken a small number of truths, like the dynamic nature of markets to create wealth and the inalienable right to liberty, and ignored other truths, like pragmatism, equality, fairness, responsibility, community and the interdependence of all society's citizens. In contrast, Democrats believe in free markets, but also know that reasonable regulation, consumer and workplace protections, and a strong social safety net are essential to making capitalism work.

Not surprisingly, despite more than eighty years of determined effort by conservatives, it turns out that laissez-faire capitalism does not work. Republican laissez-faire policies in the 1920s and early 1930s contributed to – and then exacerbated – the Great Depression. The supply-side economics and deregulation implemented by Republican administrations decades later resulted in continued, record-breaking budget deficits, the financial and savings and loan crises, and, by 2007, the highest share of national income to the top one-tenth of one percent since 1913.

The fact is that the economy has performed significantly better under Democratic administrations than Republican administrations. Between 1960 and 2008, Democratic presidents produced stronger economic growth and larger increases in median family income <u>and</u> lower unemployment, federal spending, federal deficits, and inflation. In the eighty years between the start of the Hoover Administration and the end of the George W. Bush Administration, job growth was higher under all six Democratic Presidents than under any of the seven Republican Presidents. The statistical probability of that happening through random chance is more than 1,700 to 1.

In a striking example of "be careful what you wish for," Wall Street speculators and financiers may be surprised to learn that since 1929 an investment of $10,000 in the S&P stock market index during only Republican administrations would have yielded a return of just $11,733. By contrast, that same $10,000 invested during Democratic administrations would have grown to $300,671. (*New York Times*, October 14, 2008)

Based on this record, one would expect 2009 to be a time for soul searching for Republicans – re-thinking their principles and making fundamental changes to their policy agenda. To the contrary, as we have seen over the first nine months of the Obama Administration, Republicans in Congress continue to profess the same faith in unregulated markets and, in some cases, the same dream of turning the clock back to 1932.

If Republicans regain power but fail to learn the lessons of why their governing philosophy has failed in practice, the United States will be doomed to repeat the financial crises, deep economic downturns, and dismal economic results that have resulted from Republican economic policies over the last 80 years.

Growing Insecurity for American Families

The economic policies of the Bush Administration ushered in the worst economic crisis since the Great Depression. Economic growth in the fourth quarter of 2008 contracted at a rate of over six percent. Hundreds of thousands of Americans lost their jobs, with the national unemployment rate hitting a 25-year high of 8.1 percent in February 2009. Median household income, adjusted for inflation *declined* by $2,197 between 2000 and 2008. Home foreclosures increased by more than 80 percent in 2008. The number of

Americans living in poverty reached 39.8 million by 2008, an increase of 8.2 million since 2000.

The Philosophy Behind the Failure

The Bush Administration led the country into the economic crisis with a set of policies that combined a laissez-faire approach to markets with supply-side economics, a largely-discredited theory that asserts economic growth and balanced budgets are best achieved by providing tax breaks to corporations and very wealthy individuals. Supply-side economists believe that reducing tax rates on income and capital gains frees up money for investment, which in turn, will spur economic growth. Many supply-siders argue that this growth is so great that tax cuts for the wealthy inevitably lead to more federal revenue and lower budget deficits.

The problem is that, in practice, supply-side theory has not worked. The real effect of these Republican tax breaks for the wealthy has been record deficits and a declining standard of living for millions of Americans. The tax breaks neither encouraged the capital investments needed to spur long-term economic growth, nor did they provide economic relief to families facing lower wages and increased job insecurity. As a result, over the course of the Bush Administration, poverty rates increased, income inequality worsened, and the budget deficit exploded.

The majority of the tax breaks the Bush Administration pushed through primarily benefited the wealthiest Americans. The average annual size of the 2001-2004 tax cut was $103,086 for millionaires and $684 for households earning less than $100,000. In 2007, the top 20 percent of taxpayers received almost 70 percent of the President's tax cuts. Ultimately, the Republican tax cuts for the wealthy came at a significant cost to middle-class Americans and the U.S. economy.

President Bush inherited a unified budget surplus of $236 billion from President Clinton, the largest surplus in American history. Surpluses were expected to continue for at least another ten years when President Bush took office in January 2001. However, by 2002 the unified federal budget had returned to a deficit of $160 billion, and by the end of President Bush's time in office the deficit had reached an historic high of $1.3 trillion.

Republicans also presided over the fastest accumulations of government debt in the history of the United States. During the Bush Administration, federal debt nearly doubled. When President Bush took office in 2001, the debt was $5.7 trillion. When he left office in 2009, President Bush had pushed the debt to $10.6 trillion, approximately $35,000 for every man, woman and child in America.

The costs of these economic policies have been enormous. While supporters of GOP tax breaks claim that their positive economic effects have lowered their cost, the non-partisan Congressional Research Service found in a September 2006 report that "at the current time, as the stimulus effects have faded and the effect of added debt service has grown, the 2001-2004 tax cuts are probably costing more than their estimated revenue cost." The Republican tax cuts for the wealthiest, and the ideology upon which they are based, ignore the fact that, eventually, someone will have to pay for them.

More of the Same

The Republican solution to the greatest economic and financial crisis since the Great Depression has been a "doubling down" on the same economic policies that helped get us into this recession in the first place: more tax breaks for the wealthy and corporations at the expense of the middle class, and more opposition to badly-needed regulation of markets.

In February of this year, a number of Republican Senators went to the floor to once again tout the conservative fiscal mantra. Senator Kyl summed up their message when he claimed, "The best fiscal policy to stimulate the economy is a deficit-financed tax cut."

House Republicans promoted a budget alternative this year that would have maintained tax breaks for the wealthiest Americans, repealed the investments made through the *American Recovery and Reinvestment Act*, and rolled back critical domestic programs during a time when hardworking middle-class families are struggling more than they have in generations. Such economic policies would discourage economic growth in the midst of a deep recession and further increase the economic insecurity of American families.

The Financial and Housing Crisis

At a time when American families were already facing financial insecurity, Republican deregulation and lax oversight opened the door to widespread abuses in the housing and financial sectors and culminated in the worst financial crisis since the Great Depression.

In 2008, more than 2.3 million U.S. properties faced foreclosure, an 81 percent increase from the previous year. This was added to the 1.3 million properties that were foreclosed on in 2007, a 75 percent increase from 2006. And while Democrats believe we can lower this number through aggressive homeowner assistance programs, measures enacted to promote job creation and economic growth, and health care reform, early forecasts project that overall foreclosures *could* rise by 2.4 million in 2009 and by nine million over the next three years.

The cost to our national economy has been great. The Center for Responsible Lending reports that in 2009 alone, foreclosures could lead to nearly 70 million neighboring homes losing $500 billion in property value. This number does not take into account the cost of an undermined tax base, businesses closings, increased crime and costs associated with widespread home abandonment, nor does it reflect the economic impact on the national and international economy that we have seen since the crash of the housing market.

Part of the collateral damage from this economic crisis has been the retirement security of millions of Americans caused by both the downturn in the housing market and the steep decline of the stock market. The latter sent the values of 401(k) plans into a tailspin. By March 2009, the Dow had fallen over 50 percent, which is worse than any other bear market since the Great Depression of 1929. After the failure of Bear Stearns in March 2008, the Dow dropped from a high of 14,164 points to 11,000. This 20 percent drop was not the end of the crisis. In September 2008, Lehman Brothers went bankrupt, triggering an additional 13 percent drop in the stock market in October. By the last full day of President Bush's term on January 20, 2009, the stock market had fallen to 7,949, a total decline of nearly 44 percent.

The Philosophy Behind the Failure

These crises were driven by Republican opposition to meaningful regulation and oversight, both core principles of their free-market ideology. Conservatives view the market as an efficient allocator of resources and argue that regulation of the market is somehow "unnatural" and leads to inefficiencies and increased costs for business. Republicans believe that the best regulation is no government regulation of the market or at most voluntary, self-regulation by companies. In practice, Republicans combine this philosophical approach with policies that often game markets to benefit the wealthy and business interests.

In the case of the housing and financial market crises, Congressional Republicans and the Bush Administration took advantage of legitimate efforts to expand homeownership and encourage sound economic growth. They pushed an agenda that reversed New Deal-era protections – which eliminated the recurrent financial crises that had regularly struck the United States since the late 18th Century – while willfully failing to develop new financial regulatory measures to keep pace with new and more complex financial products. As noted in the recent GAO report, "Financial Regulation: Recent Crisis Reaffirms the Need to Overhaul the U.S. Regulatory System," Bush Administration regulators ushered in a new era of non-regulation and failed "to identify the systemic risks posed by large and interconnected financial conglomerates, as well as new and complex products, and to adequately manage these risks."

The scandals that arose at Enron near the beginning of this decade, including puffed up corporate balance sheets and electricity market manipulation, provided perhaps the first clear example that the Bush Administration would put little energy into preventing abuses at institutions central to the nation's financial and economic strength. But it was in the ensuing crises in the housing and financial markets that the Administration took this recklessness to an extreme.

The Failures of Deregulation. During the late 1990s and into this decade, subprime mortgages were increasingly used as an alternative to prime mortgages to help Americans with limited or blemished credit achieve the dream of homeownership. These loans also helped millions more homeowners, many of whom were older Americans with good credit, but on fixed incomes, refinance their homes. Unfortunately, while many lenders and brokers offered these mortgages fairly and responsibly, many others took advantage of the Bush Administration's unwillingness to regulate and supervise markets, and engaged in predatory or irresponsible lending practices and used aggressive and manipulative tactics to steer vulnerable borrowers into "exploding" adjustable-rate mortgages (ARMs) they could never afford, trapping them in high-interest loans with costly pre-payment penalties, and then immediately selling-off the loans to investors.

Although it was clear by 2003 that these subprime ARMs were defaulting at disproportionate rates, investors, attracted by the potential for higher returns and bolstered by questionably high ratings by credit rating agencies, began purchasing these mortgage-backed securities from lenders and created a perverse incentive structure in which lenders were paid more for selling risky, then even riskier loan products to unsophisticated borrowers. Moreover, where credit agencies did not give triple- and double-A ratings, investors repackaged higher-risk mortgages into collateralized debt obligations (CDOs) – essentially an insurance policy on the value of the bond, which could then also be sold as AAA or AA securities.

At the height of the housing bubble, this market "worked" because most homeowners were able to prevent defaults by refinancing their home at a lower rate or selling their home for a profit. Unfortunately, when the housing bubble burst, refinancing became more difficult, selling became impossible for some, and defaults increased as the interest rates on ARMs adjusted higher and higher. Combined with an already weakened economy, home foreclosures accelerated, leading to the collapse of the mortgage-backed securities market, and then to the collapse of related markets, which in turn impacted nearly every segment of the economy. According to the "Special Report on Regulatory Reform," released by the Congressional Oversight Panel (COP) in January 2009: "Only when the housing market turned down and delinquencies and foreclosures started to rise, beginning in 2006–07, did the issuers, investors, and rating agencies finally recognize how severely they had underestimated the key risks involved."

As all of this was happening, the Bush Administration's laissez-faire regulatory approach to markets contributed to regulators turning a blind eye to abuses in the housing market. The Bush Administration ignored warning signs about risky mortgages, failed to regulate credit default swaps, mortgage-backed securities and other new financial products, and encouraged practices that were major contributors to the subprime mortgage and financial crises. Moreover, leaning again on their erroneous belief that the market would self-correct, even once it was clear that the housing market had crashed and was threatening the entire U.S. economy, Republican leaders refused to take immediate and aggressive action to prevent a total collapse.

Take for example former Federal Reserve Board Chairman Alan Greenspan, who ignored warnings about the instability of the subprime mortgage market and the potential for predatory lending until it was too late. Despite his regulatory and supervisory responsibilities, Mr. Greenspan's policies and priorities reflected only his enthusiasm for free markets and less regulation. Thus, it is unsurprising that he declined to heed the warnings of fellow Federal Reserve Board member Edward Gramlich, who informed Greenspan of the evident risks associated with subprime mortgages and predatory lending, and their implications for the broader economy.

Mr. Gramlich, who chaired the Fed's Committee on Consumer and Community Affairs, had been watching the growth of the subprime mortgage market with concern. According to the *Wall Street Journal*, Gramlich advised Mr. Greenspan "in or around 2000, when predatory lending was a growing concern, that the Fed use its discretionary authority to send examiners to the offices of consumer-finance lenders that were units of Fed-regulated bank holding companies." Gramlich said that he "would have liked the Fed to be a leader in cracking down on predatory lending... Knowing it would be controversial with Mr. Greenspan, whose deregulatory philosophy is well known...[Gramlich] broached it to him personally rather than take it to the full board." But Greenspan "was opposed to it, so [Gramlich] didn't really pursue it." According to the *Washington Post*, in 2003, Gramlich was briefed by Bruce Gottschall, a respected Chicago housing expert, who "pull[ed] out a map of Chicago, showing the Fed governor which communities had been exposed to large numbers of subprime loans. Homes were going into foreclosure. Gottschall said [Gramlich] already 'seemed to know some of the underlying problems.'"

Asked in 2007 why he did not follow Mr. Gramlich's advice, Mr. Greenspan justified his failure to investigate predatory lending in the mortgage market with the explanation that it would not have been worth the effort and represented the part of his job that was anathema to him. He noted that, while he does not recall the specific conversation, "[f]or us to go in and audit how they act on their mortgage applications would have been a huge effort, and it's not clear to me we would have found anything that would have been worthwhile without undermining the desired availability of subprime credits." Further, according to the *Washington Post*, "Mr. Greenspan said he didn't get heavily involved in regulatory matters in part because his laissez-faire philosophy was often at odds with the goals of the laws Congress had tasked the Fed with enforcing."

Instead, he *encouraged* the use of subprime mortgages. In 2004 – well after early reports of high foreclosures in the subprime market – Mr. Greenspan declared: "American consumers might benefit if lenders provided greater mortgage product alternatives to the traditional fixed rate mortgage...the traditional fixed-rate mortgage may be an expensive method of financing a home." In 2005 speech, he congratulated the financial services industry for creating them: "A brief look back at the evolution of the consumer finance market reveals that the financial services industry has long been competitive, innovative, and resilient...Innovation has brought about a multitude of new products, such as subprime loans and niche credit programs for immigrants...[I]ndeed, today subprime mortgages account for roughly 10 percent of the number of all mortgages outstanding, up from just 1 or 2 percent in the early 1990s."

It was not until 2006 that Mr. Greenspan began showing some reservations. According to the *Washington Post*, "Greenspan puzzled over one piece of data a Fed employee showed him in his final weeks. A trade publication reported that subprime mortgages had ballooned to 20 percent of all loans, triple the level of a few years earlier. 'I looked at the numbers...and said, "Where did they get these numbers from?"'...He was skeptical that such loans had grown in a short period 'to such gargantuan proportions.'" Even then though, "Greenspan said he did not recall whether he mentioned the dramatic growth in subprime loans to his successor, Ben S. Bernanke."

Later, in the wake of the subprime and financial sector market crisis, Mr. Greenspan admitted that "while I was aware a lot of these practices were going on, I had no notion of how significant they had become until very late...I really didn't get it until very late in 2005 and 2006." Moreover, he admits the flaws in free-market ideology. In his exchange with Representative Waxman at Congressional hearings on the matter, Greenspan noted that, "he had been 'partially' wrong in not having tried to regulate the market for credit default swaps." As reported by the *New York Times*:

> Pressed by Waxman, Greenspan conceded a more serious flaw in his own philosophy that unfettered free markets sit at the root of a superior economy. "I made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such as that they were best capable of protecting their own shareholders and their equity in the firms," Greenspan said. Waxman pushed the former Fed chief, who left office in 2006, to clarify his explanation. "In other words, you found that your view of the world, your ideology, was not right, it was not working," Waxman said. "Absolutely, precisely," Greenspan replied.

Like Mr. Greenspan, the former Republican Chairman of the House Financial Services Committee, Congressman Mike Oxley, has acknowledged the role that free-market ideology played in causing the housing and financial crises. Commenting on the failure to enact a 2005 bill to reform Fannie Mae and Freddie Mac, Mr. Oxley stated last year, "We missed a golden opportunity that would have avoided a lot of the problems we're facing now if we hadn't had such a firm ideological position at the White House and the Treasury and the Fed."

The Failures of Non-Regulation and Non-Enforcement. The anti-regulatory attitude at the Securities and Exchange Commission (SEC) during the Bush Administration also created a tilted playing field in favor of businesses at the expense of the consumer and stability of the economy. This was more than simply a laissez-faire approach to enforcement. The SEC put their thumb on the scale to actively benefit business interests, in violation of its tripartite mandate to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation.

After his appointment as Chairman of the SEC in 2005, former Republican Congressman Christopher Cox instituted new policies that subjected SEC investigators who wanted to subpoena documents or compel interviews to an increasingly cumbersome process to win the Commission's approval to pursue each case. Two years into his term, Chairman Cox began requiring enforcement attorneys to seek approval from commissioners before negotiating corporate penalties. Commissioners increasingly barred enforcement-unit personnel from meetings during which legal action and financial sanctions were considered. SEC staff was also cut, with the number of investigative attorneys falling 11.5 percent between 2004 and 2008.

These new policies incentivized corporations *not* to cooperate with SEC investigations, generated a backlog of cases, and led to fewer and smaller corporate fines. Between 2005 and 2008, penalties imposed on companies fell 84 percent. An attorney speaking on condition of anonymity said it was "widely felt" that commissioners prevented the division from "doing its job." But Chairman Cox received accolades from Congressional Republicans for his work. Congressman David Dreier commented, "It is fitting that [Cox] is now the country's top cop for the securities markets because he has long been committed to improving and supporting the free market."

One of the most egregious cases of SEC enforcement negligence was its failure to uncover the $50 billion financial fraud of Bernard Madoff, a prominent Wall Street money manager and former NASDAQ chairman. An investigation by the SEC's Inspector General recently concluded that "the SEC never conducted a competent and thorough examination or investigation of Madoff for operating a Ponzi scheme and that, had such a proper examination or investigation been conducted, the SEC would have been able to uncover the fraud." Madoff himself expressed astonishment that the SEC did not verify the trades he claimed to be making. It took just a single phone call to Depository Trust Company, an important financial intermediary, after the Ponzi scheme was exposed in December 2008, to find out that Madoff in fact had not placed any of these trades.

The SEC also failed to follow up on credible tips. Money manager Harry Markopolos sought several times to persuade the SEC to investigate Bernard Madoff. "I gift-wrapped and delivered the largest Ponzi scheme in history to them and somehow they couldn't be bothered to conduct a thorough and proper investigation because they were too busy on matters of higher priority," Markopolos said. "If a $50 billion Ponzi scheme doesn't make the SEC's priority list, then I want to know who sets their priorities." In the end, it wasn't until federal authorities were tipped off by Madoff's own sons, to whom Madoff had confessed the true nature of his investment scheme, that federal charges were finally brought against Madoff.

The Bush SEC's record was equally dismal with respect to Bear Stearns. Three days before the 85-year old investment bank collapsed in March 2008, Chairman Cox reassured investors on the health of Bear Stearns. Yet reports by the SEC's Inspector General following the bank's collapse documented a series of missteps by the SEC, including a decision by the Commission's Miami office to drop an inquiry into securities sold by Bear Stearns. The IG also concluded that the SEC had failed to maintain adequate oversight of the firm in the months leading up to its collapse.

Private firms that should have, in the view of Republican policy-makers, played a role in safeguarding markets also failed. Investors depend on credit-rating agencies, such as Moody's and Standard and Poor's, for independent, objective analysis. Yet these agencies continually underestimated risks and assigned high ratings on security issues. One of the problems was that credit agencies were being paid for their work by the bankers issuing the securities that were being rated. The House Oversight and Government Reform Committee, for instance, uncovered a presentation for Moody's directors in October 2007 that acknowledged that credit agencies were "continually 'pitched' by bankers, issuers, investors," and admitted that, at times, "we drink the Kool-Aid."

More of the Same

The massive numbers of home foreclosures, the sharp decline in home values, and the retirement insecurity of millions are due largely to the regulatory and enforcement failures of the Bush Administration. Yet Republicans continue to cling to the same laissez-faire approach that led to the current crisis. They claim that government interference is costly for businesses, taxpayers and consumers. And despite their willingness to agree to individual pieces of legislation to deal with aspects of the housing and financial crisis, there appears to be no taste among Republicans in Congress for the sort of systemic restructuring of the financial regulatory system that is needed to prevent a return to the pre-New Deal era of recurrent financial crises.

As the worst financial crisis since the Great Depression emerged over the past 18 months, and as studies from a variety of sources spelled out the role that lax oversight played in creating the conditions for and deepening the crisis, conservative think tanks like the American Enterprise Institute (AEI) issued report after report questioning the value of financial regulatory measures. A report issued by AEI in October 2008 argued that "the financial crisis provides no warrant either for a systemic risk regulator or for the supervision of other participants in the financial markets that have not previously been regulated." The following month, the organization issued a report that blamed the housing crisis solely on the "ill-considered government intervention in the private economy."

A report released in January of this year by AEI fellow Peter Wallison asks: "Why should regulation be extended to most of the major players in the financial system when it has been a consistent failure for banks?" The premise of the analysis is, of course, inaccurate and betrays a continuing conservative bias against regulation. In a July 2009 report, "Unfree to Choose" – a twist on Milton Friedman's classic text of market fundamentalism – Mr. Wallison called the *Consumer Financial Protection Agency Act of 2009* "one of the most far-reaching and intrusive federal laws ever proposed by an administration."

In an April 2009 Heritage Foundation report on credit derivatives, David Mason argues that policymakers should encourage "market reforms" for market problems. He writes that "markets themselves will often correct deficiencies far more rapidly than regulators...regulators can often act more effectively by encouraging private parties to devise market solutions to market problems whenever possible..."

Republicans continue to pursue policies that minimize the need for government regulation because of their belief that markets are self-adjusting. In January of this year, Senator Kyl stated on the floor of the Senate that "The government cannot create economic growth. In fact, when the government gets involved, there is more potential to do harm than good. We can tax them, we can regulate them. Usually, it does not do them any good." Senator DeMint followed up a week later lamenting "[f]rankly, it doesn't make me feel any better to know that this government is intervening in the private sector and every place it touches, it is going to bring new rules and regulations and make our economy less likely to operate as it should." Senator Kyl returned to the floor in August, arguing that "The private market has an adequate way to deal with this; it is called the private sector, private companies. They are highly regulated. The proposal from the administration is to impose additional regulations, but why do we need a new government company?"

As the House Financial Services Committee began marking up a bill last July to overhaul the rules governing the financial sector and to create the Consumer Financial Protection Agency, Republican Representatives Royce and Hensarling announced their intentions to oppose the bill – based on what *Roll Call* called their "common philosophy on limiting the role of government." Representative Hensarling, the former Chairman of the House Republican Study Committee, called the proposed consumer protection agency in the bill "one of the greatest assaults on economic liberty in my lifetime...It says to the American people, 'You are simply too ignorant or too dumb to be trusted with economic freedom.'"

Moreover, the two Republican Commissioners on the Securities and Exchange Commission continue to support the same corporate-friendly policies that were the hallmark of Chairman Cox's tenure. In May 2009, the SEC proposed giving shareholders greater power to nominate corporate directors, which had been tightly controlled by company management. This would effectively overturn a 2007 SEC decision that allows companies to exclude shareholder proposals for director nominations from corporate ballots. The new SEC Chairman Mary Schapiro and two Democratic Commissioners supported the proposal to overturn Mr. Cox's policy saying the time had come to give shareholders a real say in determining who will oversee their company. The two Republican SEC Commissioners, on the other hand, objected.

Health Care

President Bush had eight years to improve our nation's health care system. But the President and his Republican allies in Congress – who valued tax cuts for the wealthy, pursued ideological policies, and rewarded special interests – produced dismal results. Skyrocketing health care costs are straining family budgets as well as state budgets, forcing employers to drop or scale back health insurance coverage for their workers, increasing the number of uninsured Americans, and impeding access to needed health care services.

By the final year of the Bush Administration, the average annual premium cost for family health coverage had reached $12,608, compared with $6,438 in 2000. Over the course of the Administration, an additional 6.9 million Americans lost their health insurance coverage, leaving 45.7 million Americans currently uninsured. During just the past two years, approximately 87 million people were uninsured at some point. And having a job does not guarantee access to health insurance, as more than 80 percent of the uninsured are in working families.

Even for those Americans fortunate to have health insurance, our health care system does not provide the consistent, quality care they need and deserve, nor does it accurately reflect the $2.2 trillion annual investment we make. A 2003 RAND Corporation study concluded that adults receive just 55 percent of recommended care, and adults with diabetes received just 45 percent of the care they require.

The Philosophy Behind the Failure

While insurance premiums were doubling for the typical American family, Republicans continued to advocate a transformation of our health care system with the expansion of High Deductible Health Plans (HDHPs) and the creation of Health Savings Accounts (HSAs), where most Americans would shop for health insurance on their own in a highly deregulated market, and consumers would be charged greater deductibles and co-payments to encourage them to use less care. While that might be fine for the healthy and wealthy, HDHPs and HSAs are not a reasonable solution for the health care needs of all Americans.

The theory is that the marketplace is all that is needed to keep health insurers in check, even though the reality is that this approach would reduce costs for insurers at the expense of people, shifting more costs to older and sicker patients – the very people who are struggling the most to afford health care. Even in the current market, insurance companies deny or price-out of coverage nearly nine out of every ten Americans who apply for insurance in the individual market. Despite this evidence, Republicans still maintain that the government has no role in limiting health insurers' ability to deny coverage to sick people, drastically increase premiums at renewal, or rescind coverage after a policyholder generates substantial medical costs.

The Bush Administration and the Republican-controlled Congress also pushed a series of changes to Medicare that benefited the special interests. While seeking drastic cuts in reimbursement for traditional Medicare, Republicans fought to protect Medicare's current practice of paying private insurance companies 14 percent more, on average, than it costs to treat the same beneficiaries under traditional Medicare – overpayments that will cost taxpayers more than $150 billion over ten years according to the Congressional Budget Office.

President Bush vetoed legislation that would have reversed the scheduled 10.6 percent cut in payments to physicians who care for the 44 million American seniors in the Medicare program, and saved billions of taxpayer dollars by reducing overpayments to some private Medicare plans. And the Republican Medicare prescription drug benefit plan, with the support of the drug companies, prohibited using Medicare's purchasing power to allow the Health and Human Services Secretary to negotiate lower-priced drugs with pharmaceutical companies.

President Bush's health care agenda also had devastating results for America's children. He twice vetoed bills to renew and improve the Children's Health Insurance Program (CHIP), and he directed state health officials to severely limit states' ability to cover uninsured children though CHIP.

More of the Same

Despite overwhelming evidence that the U.S. health care system is broken and in desperate need of a bold, new approach, conservatives in Congress continue to push the same "market-based" ideas that ignore millions of uninsured working people, leaving them unprotected in an unregulated market in which insurance companies write the rules and health care costs skyrocket. Republicans in Congress have yet to come up with any comprehensive health care plan in 2009, but the GOP party platform adopted last year continues to support the same free-market approach that does little to reduce health care costs for American families or to help them get coverage when the insurance industry deems them 'uninsurable.'

Republicans continue to draw inspiration for Health Savings Accounts (HSAs) from conservative think tanks. A 2009 Cato Institute *Handbook for Policymakers* argues that "Consumers should make choices about whether, where, and how much health insurance and medical care to purchase based on their values." The Heritage Foundation also pushes this policy as a way to "level the playing field for robust competition among insurers and create a level of consumer choice that is routine in every other sector of the American economy."

Under this “free market” health care system, citizens, including seniors, would have to “shop around” for insurance, pushing families Americans to make health choices based solely on cost, without consideration for coverage or care quality. Republicans say the policy would encourage working people to stop “overusing” their doctors, but the policy, in fact, hinges on the notion that most people can afford to pay *more* for health care. A 2006 policy paper by the Cato Institute even goes as far as saying Health Savings Accounts will work because “many older people use very little medical care.”

But these private insurance plans by definition would carry high deductibles, so families would have to shell out thousands of dollars before insurance payments would kick in. Only the wealthy and the healthy could afford the care they need. For working people – especially sick people who have to visit the doctor often – it would be nearly impossible to set aside enough money for to cover those deductibles. The plan essentially discourages struggling families from going to the doctor at all.

The 2008 Republican platform also does little to address the underlying problems in the health system: insurance companies could still deny care at will, even after individuals are forced to pay thousands out of pocket. And HDHPs/HSAs would do nothing to lower the cost of health care or provide care to the uninsured.

One new health care idea has emerged, however, from conservative Republicans in Congress this year. They now say they want to phase out Medicare by 2021 in favor of privatizing health care for the nation’s seniors. (*Wall Street Journal*, April 1, 2009) This effort echoes the failed policy Republicans followed in 2005, when they proposed privatizing Social Security by allowing people to invest their social safety net funds in the stock market. Democrats – then in the minority – fought this plan tooth and nail. The stock market fell sharply a few years later – and our Social Security system averted disaster.

The GOP Medicare reform plan, released in April 2009 as part of their alternative budget, would make Americans under 54 ineligible for Medicare once they turn 65 and leave them in the hands of private insurers. These Americans would have to choose a new private insurance plan that provides a standard Medicare benefits package or some other managed care option while freeing insurance companies from current Medicare rules designed to contain health care costs for seniors.

While Republican Congressional leaders claim they would subsidize the costs of the new private senior health system based on family income – so those earning less would receive more government help – the Congressional Budget Office analysis of a similar plan from the 1990s estimated that turning Medicare over to the private sector would increase out-of-pocket costs for all seniors currently on Medicare. Subsidies would never be enough to cover the true costs of health care for seniors. Also, members of the Bipartisan Commission on the Future of Medicare who examined similar proposals “expressed concerns that this approach would undermine the basic protections offered by Medicare as a social insurance program, by relegating lower-income beneficiaries to lower-cost, and possibly lower-quality, plans."

It is also unlikely these subsidies would be able to keep up with skyrocketing health care costs. FamiliesUSA estimates that between 2000 and 2007, health care premiums increased 78.3 percent while median worker earnings went up only 14.5 percent. The Republican plan just doesn't add up.

Energy and the Environment

The Republican record on energy and the environment is the story of one Party's crusade to maintain the status quo. Toward this end, Republicans have stood against innovation by opposing renewable energy sources and any significant efforts to improve energy efficiency, done little to curtail our dependence on foreign oil, and have been largely silent on how to address global warming pollution. The impact of this record is one that threatens our national security, the public's health, and the nation's ability to compete in the 21st century global economy.

The Philosophy Behind the Failure

In their drive to protect entrenched interests, Republicans have resisted innovation and disregarded the need to address climate change. They have relied on laissez-faire principles to argue that incentivizing innovative technologies would – regardless of the seriousness of global warming – distort markets and impose unnecessary costs on the economy and consumers. The evidence they marshal to support their hands-off approach typically includes a set of hypothetical economic arguments about cause and effect that in fact rarely bear any relation to empirical reality.

The Republican Party's long history of protecting the petroleum industry culminated in the release of the Bush Administration's National Energy Policy in May 2001. Developed with the extensive involvement of the oil and gas industry in a series of secret energy task force meetings convened by Vice President Cheney, the policy focused on increasing energy supplies, but included next to nothing on efficiency and renewable energy and rejected measures to reduce emissions of greenhouse gases. True to form, the Bush Administration asked corporate polluters to voluntarily cut emissions and suggested "market-based" alternatives to environmental protections.

So it should not be surprising that in 2008 the United States imported more than two billion barrels of oil from OPEC. Between 2001 and 2008, the amount that the United States sent to foreign countries to pay for its addiction to oil increased more than four times, from approximately $101 billion to $439 billion. Meanwhile, since 2001, the profits of the major oil companies skyrocketed to record levels while crude oil prices were similarly increasing. The cumulative profits of the major oil companies from 2001 to 2008 totaled $666 billion.

More of the Same

As the oil industry rung up record profits, Congress debated the *Energy Independence and Security Act of 2007*. In yet another bid to protect the industry interests, Republicans stripped language from the bill to set a renewable electricity standard and enact renewable energy tax credits, which would have been paid for by eliminating tax breaks for major oil companies, after President Bush threatened to veto the legislation. The Administration also passed up opportunities to promote economic growth through investments in green jobs and renewable energy – inaction which, together with other failed Bush Republican economic policies, contributed to the loss of hundreds of thousands of construction and manufacturing jobs over the course of the Bush Administration.

One constant in Republican energy policy has been a willingness to ignore the scientific consensus on both climate change and the role that humans have played in that change. In this, Republicans continue to draw support from an army of pundits and conservative think tank analysts who pedal the same principles that prevented significant action to address climate change throughout the Bush Administration.

Frank Luntz, the Republican message guru, urged congressional Republicans in 2004 to argue that "global warming is not a fact." In 2005, Philip Cooney, a Bush Administration official, former lobbyist, and "climate team leader" at the American Petroleum Institute, "repeatedly edited government climate reports in ways that play down links between such emissions and global warming." And in 2006, a 24-year old NASA government affairs official attempted to censor remarks on climate change by senior NASA official James Hansen.

Earlier this year, House Republican Minority Leader Boehner mocked concerns over global warming and conservative pundit George Will called global warming a "hypothetical calamity." Energy analysts at the American Enterprise Institute (AEI) and the Heritage Foundation continue to reject the human role in climate change or dramatically downplay its significance. One analyst at the Heritage Foundation continued the strategy of sowing doubt by claiming falsely that "more and more people are questioning the so-called hype on global warming."

The most recent organized effort to question the science of climate change is CO2 is Green, an advocacy group spearheaded by two veteran oil industry executives. Pushing the rhetoric one step further, the group not only denies the scientific evidence for climate change, it argues that "higher CO2 levels than we have today would help the Earth's ecosystems" and that efforts to address climate change would be harmful to humans and the environment. The group also joins other industry associations, including the U.S. Chamber of Commerce, in decrying what they erroneously claim are the economic costs of addressing climate change.

Education

Republicans have repeatedly put special interests ahead of the needs of middle-class college students struggling to pay for a four-year degree. As the costs of higher education skyrocketed over the past eight years, conservatives fought increases for Pell Grants – a program that has proven to be indispensable for millions of students who might not otherwise have had the financial resources to pursue a college degree. This left students increasingly dependent on student loans, the majority of which were controlled by a private student lending market that presided over ever-rising interest rates. The combination of fewer grants and higher loan balances at higher interest rates has prevented qualified students from obtaining college degrees and left many graduates burdened with large student debt.

Since the 2001-2002 academic year, college costs have risen dramatically. Average tuition, fees, room and board costs at four-year private universities have increased by $10,276, or 43 percent, from $23,856 to $34,132 in the 2008-2009 academic year. Tuition, fees, room and board charges at four-year public colleges jumped from $9,032 to $14,333 for the 2008-2009 academic year – an increase of $5,301, or 58 percent.

The rising cost of a college education means that average student loan debt has soared, to more than $19,000. Without adequate federal grants funding, students and their parents must rely more on student loans to finance their college educations. According to the Institute for College Access and Success, more than 60 percent of college seniors graduate with debt, with an average debt of $19,200 per graduate. Yet at a time when more students and families rely on student loans, the nation's credit crunch has caused banks to tighten their lending standards, making it more and more difficult for students to take out student loans. Students and their families understandably remain concerned about continued access to student loans.

While students struggle to pay off their loans, the lenders that offer loans to students have been making record profits. The federal government has paid large subsidies to lenders that participate in the federal student loan program – a relic from the program's inception more than forty years ago when it was believed that incentives were needed to encourage lenders to take part in the program. Recent investigations have shown that lenders have been exploiting the student loan system for profits, to the detriment of the very students they are supposed to be helping.

The Philosophy Behind the Failure

The current student loan system is a perfect illustration of the Republican love of the free market combined with an almost equally ardent love of government subsidies for corporations. Under the current system, the most popular way for a student to get a loan to pay for college is to apply for money from a private lender that is subsidized by the government. Banks and other private companies lend money to students, and the federal government pays part or all of the interest. The government also guarantees the loans. In this system, all of the risk is borne by the government in case of default while the lenders also receive federal subsidies to originate these loans.

This "free market" solution to the problem of rising college costs leaves students who have little or no credit with less access to student loans and makes it more difficult for low-income students to pay for college. It also leaves students vulnerable during a crisis in the financial markets when credit seizes up, as happened in late 2008. The continuing credit crisis is affecting the ability of students and families to afford rising tuition costs. Lenders are increasing their lending standards and not serving certain colleges or populations considered too risky.

This free-market approach to funding higher education no doubt inspired President Bush to ignore his 2000 campaign promise to increase the maximum Pell Grant to $5,100. In 2005, Congress had an opportunity to address the rising cost of attending college by reducing excessive subsidies for student loan lenders and using those savings to substantially increase need-based aid to all students eligible for Pell Grants. But Republicans had other priorities: cutting $12 billion from the student loan program and using it to pay for tax breaks that primarily benefited the wealthy.

As if it was not enough that students were increasingly forced to rely on loans to finance their education, Republicans made a tough situation worse by failing to address rising student loan interest rates. According to the Congressional Research Service, Stafford loan interest rates increased from 3.4 percent to 5.3 percent in 2005, and as of July of 2006, they were up to 6.8 percent on new loans and 7.1 percent for outstanding loans. Again, during the first six years of the Bush Administration, while Democrats supported efforts to make student loans affordable, including lowering interest rates and expanding options to payments to a specified percentage of a borrower's income, the Republican-controlled Congress did not support efforts to reduce student loan interest rates. In fact, the Republicans' budget 2006 reconciliation bill actually increased interest rates for PLUS loans to parents, from the previously scheduled fixed rate of 7.9 percent to 8.5 percent.

More of the Same

Despite the obvious flaws in the current student loan system, Congressional Republicans have continued to stand in the way of Democratic policies that would boost student access to college. Republicans opposed President Obama's budget, which would boost Pell Grants to a maximum of $5,550 in the 2010-2011 school year. They nearly unanimously opposed and attempted to obstruct the *Recovery Act* and Omnibus bills, which direct more than $36 billion to Pell Grants and other federal student aid programs that help millions of families pay for college. Providing grist for this opposition, the *2009 Cato Institute Handbook for Policymakers* argues Congress should phase out all federal student aid and leave loans to the private market. Cato would also phase out federal aid to all higher education institutions and eliminate all grant programs and research unrelated to national security.

Congressional Republicans also oppose President Obama's plan to end government subsidies for new loans made through the private lender market and redirect the $1 billion in saved subsidies to students in the form of more Pell Grants. Senator Enzi, the ranking Republican on the Senate Health, Education, Labor and Pensions Committee, reiterated the free market "contempt for government" mantra in deriding Obama's proposal, arguing that government doesn't have enough workers with the right skills or the right attitude for meeting the needs of customers.

The Workplace

Each year, nearly 6,000 American workers are killed on the job and another 13 million, or nearly one-tenth of the American workforce, are injured. Under these circumstances, one would expect that the primary federal agency responsible for workplace safety would be given the highest priority. Perhaps not surprisingly, however, the Bush Administration treated the Occupational Safety and Health Administration (OSHA) as a haven for former officials of the industries they were charged with overseeing. Bush appointees ordered the withdrawal of dozens of workplace health regulations designed to protect workers from hazardous conditions. They delayed proposed new regulations and bent rules when industry representatives complained safety standards were too strict and too expensive. As David Michaels, an occupational health expert at George Washington University and former Energy Department official noted in 2007, "The people at OSHA have no interest in running a regulatory agency. If they ever knew how to issue regulations, they've forgotten. The concern about protecting workers has gone out the window."

The Philosophy Behind the Failure

The Bush Administration's record at OSHA represented more of the same ideological commitment to deregulation and non-enforcement – and more of the same inclination to favor the business interests that brought us the financial and housing crises. Driven by this commitment, OSHA pulled 22 items off the agency's regulatory agenda in the first two years of the Bush Administration alone. The result is what the *Washington Post* called "a legacy of un-regulation." From 2001 to the end of 2007, the *Post* reports that OSHA officials issued 86 percent fewer significant rules or regulations than their counterparts did during a similar period in President Clinton's tenure.

The Bush Administration began to weaken OSHA right out of the gate. In one of his first acts in office, President Bush signed legislation repealing a key Clinton regulation meant to improve ergonomic standards and reduce worker injuries in factories, construction sites and offices. The reason? The new regulations would be costly to business. The Center for Public Integrity's 2008 "Broken Government" report lists the Bush OSHA record among the "worst systematic failures" and states the Bush Administration's decision to overturn the ergonomics standard was indicative of the Administration's "movement away from enforcement."

Even a highly-touted Bush Administration initiative that called for OSHA to devote special attention to companies with a troubled history of job-related fatalities was a failure. An April 2009 Labor Department audit that looked at the program's effectiveness during the Bush Administration found that OSHA officials failed to gather needed data and conducted uneven inspections and enforcement. Officials also failed to identify companies with repeat worker fatalities because OSHA's own records misspelled the companies' names or did not indicate when two subsidiaries with the same owner company were involved in worker deaths.

The agency even refused to adopt new standards on hazards that OSHA itself acknowledged were dangerous. Among the regulations proposed by OSHA's staff but scuttled by Bush appointees was one meant to protect health workers from tuberculosis. Although OSHA concluded in 1997 that the regulation could avert as many as 32,700 infections and 190 deaths annually and save $115 million, it was blocked by opposition from large hospitals.

And, instead of enforcing the regulations that they had not already overturned, the Bush Administration and Republicans in Congress pursued the favored strategy of business interests, namely, a "voluntary compliance strategy," which required the industry to police itself. Peg Seminario, director of occupational safety and health at the AFL-CIO noted in 2007, "OSHA has been focusing on the best companies in their voluntary protection program while doing nothing in the area of standard setting. They've simply gotten out of the standard-setting business in favor of industry partnerships that have no teeth.'"

Bush Administration officials claimed that their regulatory philosophy at OSHA reduced the number of worker fatalities, but public health groups and unions have challenged those claims, concluding that companies underreported injuries on the job and that OSHA simply re-categorized reports of accidents to make it appear the agency had a solid record of protecting workers. Meanwhile, the Center for American Progress reported that in 2007, the median OSHA final penalty for violations that caused a fatality was a mere $3,675.

In March 2009, the GAO released a report on a Bush-era investigation into Labor Department's Wage and Hour Division, the federal agency charged with enforcing minimum wage, overtime and other laws designed to prevent worker abuse. The GAO created 10 fictitious workers with complaints and recorded how the Labor Department handled those complaints, which ranged from workers angry that they had not been paid to reports of underage children working during school hours. The GAO found that the Bush Labor Department mishandled nine of the 10 complaints. Five out of the 10 complaints were not even recorded in the Department's database.

In one case, a GAO investigator posing as a dishwasher called four times to complain about not being paid overtime. The Labor Department did not return his calls for four months and when it did, the worker was told an investigation would not be started for eight to 10 months. In another particularly shocking example, a GAO investigator posed as a janitor who had a hot-tempered boss who refused to pay him minimum wage. The Labor Department official answering the call suggested the worker should either confront the boss himself about the problem or "have another job lined up" before filing an official complaint "because I can't guarantee that he's not going to fire you."

More of the Same

The Republican fight against regulation continued during a 2008 debate over *The Protect America's Workers Act*, legislation that would have boosted OSHA's overall regulatory role. The bill, backed by Senate Democrats, was designed to expand the coverage of safety laws to 8.6 million more workers and require OSHA to investigate every case where a worker was killed or seriously injured. Democrats said the measure would help shine a light on problems at OSHA, but Republicans defended OSHA's record under President Bush.

Senator Isakson, the ranking member of the HELP Employment and Workplace Safety Subcommittee, said the proposed bill went too far to set new safety standards for companies. He tried to protect the prerogatives of Bush-appointed OSHA officials to adopt weaker standards. "You have to be careful when you adopt standards," he told Congressional Quarterly at the time. "That's why we have these agencies." With no sense of irony, Senator Isakson, along with Republican Senators Enzi and Hatch, issued a statement calling these deregulatory OSHA officials "experts" in safety.

In its new 2009 Handbook for Policymakers, the conservative Cato Institute continues to push for the dismantling of worker safety standards. It argues that "the existence of a health risk (in the workplace) does not necessarily imply the need for regulatory action," as long as workers are paid enough to compensate for the risks they are taking on in accepting the job.