American electoral politics suffers from wildly unrealistic expectations about the power of elected officials—especially the president—to determine the nation’s economic performance. The American economy is not managed in any real sense: It is, by and large, a free-market system operating within a complex global marketplace. Of the forces that affect our economy, far more are outside the president’s control than are within it. And to the extent a president can shape the economy, the effects of his decisions will often become apparent only after he leaves office.

Still, there is no getting around the importance of economic issues to voters, and to any president’s political prospects. For good or ill, competing candidates and parties have no choice but to try to convince voters that their approach to economic management is far superior to the approach of the opposing party.

On this score, it is clear from both the 2008 and 2012 elections that the Republican Party has much work to do to repair its image. This problem stems in part from the party’s struggles to explain how its policies will improve the economy in the future, but it also results from the party’s failure to explain the relationship between its policies and the economic troubles of the recent past. The deep recession that began in late 2007 and ended in mid-2009 erased 40% of the average American household’s wealth—a staggering portion equivalent to nearly $50,000, or 18 years’ worth of savings for that average family. The aggregate loss was roughly $16 trillion. This is the kind of traumatic national event that inevitably has lasting political effects.

Americans overwhelmingly assign the political blame for the recession and its aftermath to former president George W. Bush and, with...
some help from the Democratic Party and the media, to “Republican economic policies.” The danger for the GOP is that this perception will harden into a conventional wisdom that will be nearly impossible to reverse for many years. It is not hard to imagine a Democratic presidential nominee in 2024 or 2028 staking his candidacy in large part on the proposition that “my opponent wants to turn back the clock to the policies of George W. Bush — policies that crippled our economy.” If the popular understanding of what transpired from 2007 to 2009 continues to align with liberal talking points, such an argument could well prove effective.

It was certainly effective in 2012. To be sure, there were several reasons why Republican candidates fared poorly last year: The campaign of former governor Mitt Romney was unusually passive about promoting a positive agenda in the summer months leading up to the election. The Obama team ran a relentlessly negative campaign that defined Romney during those same months in ways that could not be undone later. And the Democratic turnout effort was remarkable. But in the battle of messages and themes, Democrats gained an enormous advantage by blaming the financial collapse of five years earlier on Republicans. It is not a stretch to say that President Obama owes the success of both of his presidential campaigns to the national economic trauma that began just as he launched the first.

It did not have to be this way, especially in 2012. Normally, political candidates and parties are far better off looking forward, not backward. But the two cannot really be separated, and Republicans need to improve their economic message by looking forward and backward at once. The prevailing understanding of what caused the economic collapse of 2007-2009 — and of how best to respond to such events — is so distorted and so damaging to the advancement of conservative economic principles that it can no longer be ignored. It has not only saddled Republicans with the blame for a terrible economic crisis, but has also made it difficult for them to explain the elements of their economic agenda in the aftermath of the crisis.

Before they can regain their footing in presidential politics, therefore, Republicans will need to recast and revitalize their basic economic message — helping voters see what conservative economics has and has not involved in the past, and what it can offer them in the future.
During his first campaign for president, Barack Obama was in a tight contest with his Republican opponent, John McCain, during much of 2008. Polls taken near the end of the summer and right after the national party conventions showed the race to be a dead heat. Then, in mid-September, Lehman Brothers declared bankruptcy, and the American economy—which had been slowing for the better part of a year—went into a tailspin. The public and the leaders of both political parties suddenly understood that this was no ordinary economic downturn. It was a financial collapse of a kind not seen in many years, with the potential to cause significant damage throughout the economy.

In the midst of the turmoil of late 2008, there was neither the time nor the needed perspective to fully understand what was taking place and why. But that didn’t stop the parties from offering explanations to the public. The Obama-Biden campaign pounced on the daily barrage of bad economic news and used it as the basis for a broad indictment of the economic policies of the incumbent Bush administration. In particular, the Democratic ticket suggested repeatedly that the financial-sector crash was the direct result of a too-cozy relationship between greedy Wall Street bankers and a Republican administration all too willing to cater to the demands of its fat-cat supporters. The public, scared and confused, readily accepted this argument, especially given the weakness of the alternative explanation offered by the McCain-Palin campaign. If anything, McCain echoed Obama’s criticism of Wall Street—at one point in September 2008 calling on President Bush to fire Christopher Cox, the chairman of the Securities and Exchange Commission, for negligent oversight of the financial sector. McCain never offered a coherent explanation of what was occurring that wasn’t just a toned-down version of the Democratic indictment of “Republican economic policies.”

The damage inflicted on the McCain campaign by the economic collapse and the Obama attacks was impossible to overcome. Indeed, under those circumstances, it would be hard to imagine any Republican candidate winning the 2008 election. What had been a relatively close race in early September—the Gallup tracking poll showed McCain with a 47% to 45% lead on September 14—turned into a Democratic rout by November. Obama defeated McCain handily, 52.9% to 45.7%, and Democrats picked up 29 seats in the House and Senate.
By the time of the 2012 campaign, the political circumstances should have been quite different. The recession caused by the financial crisis had ended three years earlier, in mid-2009, but its effects still lingered. After nearly four years of Obama’s policies, in mid-2012, unemployment remained stuck above 8%—having never fallen below that level after January 2009. The rate would have been higher still had not millions of discouraged Americans stopped looking for work. The anemic recovery ensured that, in 2012, the health of the national economy was again the number-one issue in the presidential race. And, unlike John McCain, former Massachusetts governor Mitt Romney seemed poised to prosecute the economic case against Obama effectively, drawing on his own successful business career turning around failing enterprises and on his impressive economic record in Massachusetts.

But the campaign did not turn out that way. To be sure, the Obama economic record did create a drag on the Democratic ticket. The energy of the “hope and change” campaign of 2008 was long gone by 2012. Two million fewer votes were cast in 2012 than in 2008. And though Obama won handily, a CBS/New York Times poll taken shortly before the election showed likely voters favoring Romney over the incumbent, 51 points to 45, on the question of who would be better at managing the economy.

But this kind of polling was deceptive, because the Obama campaign had successfully shifted the terms of the debate away from a referendum on the president’s economic record. The Obama campaign never really mounted an aggressive attempt to sell the public on an “improving economy.” Instead, they chose to fight again on the same old turf of 2008: Who was to blame for the crisis in the first place? Over and over, the message was hammered home: The Obama administration inherited the “worst economic crisis” in generations; that crisis was caused by the misguided and reckless policies of the previous Republican administration; and Romney would take us back to those destructive policies if elected president.

This argument was most effectively delivered not by President Obama—although he did make it repeatedly, including during the three nationally televised debates with Romney—but by former president Bill Clinton. At the Democratic National Convention in Charlotte, North Carolina, Clinton said the Republican ticket’s campaign message could be summed up this way: “We left [President Obama] a total mess. He hasn’t cleaned it up fast enough. So fire him.” Clinton went on to
argue that no one could fix the problems left behind by President Bush in just four years, but, if voters were patient, better days were ahead.

It was a shrewd argument. According to an analysis of the election results by David Winston, a pollster advising many Republican candidates for office, the second iteration of the “blame Bush” strategy worked exceedingly well. In exit polls, voters continued to assign more blame for the nation’s economic troubles to President Bush than to President Obama, 53% to 38%. Moreover, in large numbers, voters said their 2012 decisions were based on comparisons of the Obama and Romney economic plans, and not just on their assessments of Obama’s economic stewardship. On that basis, Obama won by chaining Romney to the reviled policies of the Bush era.

It wasn’t surprising that the Obama team would adopt this approach. The president had shown throughout his first term that “blame Bush” was his rhetorical calling card. But what was surprising was the passivity of Republicans in general and of the Romney campaign in particular in the face of these attacks. Indeed, throughout the entirety of the 2012 campaign, there was never an attempt by Romney or any other Republican leader to refute or counter the simplistic and distorted narrative that the financial collapse was caused by misguided “Republican economic policies.”

THE PERFECT STORM

Puncturing the argument that Republicans caused the economic crash is not difficult, because the case itself is exceedingly weak. One revealing example of the emptiness of the Democratic argument comes from the debate between Vice President Joe Biden and Republican vice-presidential candidate Paul Ryan in early October. During that debate, unprompted, Biden said:

And by the way, they talk about this Great Recession [as] if it fell out of the sky, like, oh my goodness, where did it come from? It came from [Ryan] voting to put two wars in [sic] a credit card, to at the same time put a prescription drug benefit on the credit card, a trillion-dollar tax cut for a — very wealthy. I was there. I voted against him. I said, no, we can’t afford that. And now all of a sudden these guys are so seized with a concern about the debt that they created....
The implication was unmistakable. In Biden’s world, what caused the financial crash was reckless Bush-era fiscal and tax policy. But this claim is baseless and ridiculous: There is not a shred of evidence that the Bush tax cuts, the Bush-era Medicare drug benefit, or the costs associated with fighting the wars in Iraq and Afghanistan (which Biden voted for) had anything to do with triggering the financial turmoil that began in 2007. Indeed, in fiscal year 2007, before the recession hit with full force, the government ran a budget deficit of just 1.2% of GDP—an extremely narrow deficit by historical standards. (By comparison, last year’s deficit was 8.5% of GDP.) And this very narrow deficit was achieved even with the full cost of the Bush tax cuts, the Medicare drug benefit, and defense spending on the overseas wars.

So what did cause the crash? And how should conservatives explain what happened? It would certainly be convenient if the explanation could be distilled to a single talking point that effectively placed the blame on misguided “liberal economic policies”—thus turning the tables on those who have falsely indicted conservative economic management since the crisis occurred. But the real story is more complex than either party would like it to be.

It is certainly the case that the role of government-sponsored housing-finance enterprises—namely Fannie Mae and Freddie Mac—has been vastly undersold in the mainstream press’s explanations of the crash. Because of their quasi-governmental status, these agencies were able to borrow in the global market on nearly the same preferential basis as the U.S. Treasury, on the presumption that these government-sponsored enterprises had a federal guarantee of their debts (a guarantee that, in fact, had no basis in law). And it was this preferential borrowing rate that allowed the GSEs to reap billions upon billions in profits, as the Congressional Budget Office pointed out as far back as 1996. The business model could not have been simpler: Borrow at lower rates than commercial banks can by leveraging the implicit federal guarantee; use the advantage conferred by this borrowing “discount” to dominate the housing-finance marketplace; and then extend the firm’s reach by allowing investors to purchase these apparently ultra-safe securities at a premium. Over several decades, this is exactly what happened, as both Fannie and Freddie grew enormously and effectively set the terms for the entire mortgage-loan industry.

It did not help that the management of both GSE corporations was heavily politicized. Both recognized that their businesses were utterly
dependent on maintaining a cozy relationship with the federal government, and they acted accordingly. They invested heavily in lobbying campaigns to instill fear in any lawmaker or official with the temerity to question the wisdom of their business model, and they hired CEOs who were better known for their political connections than for their business acumen. In short, these firms are the embodiment of a corrupt crony-capitalist culture.

But the financial collapse of 2007-2009 cannot be fully explained by the financial malpractice inflicted on the U.S. economy by the GSEs. A massive commercial real-estate bubble also burst in 2007, and it is hard to trace that decline entirely to the residential market dominated by Fannie and Freddie. Moreover, not all of the contaminated mortgage-backed securities were tied to loans insured or originated by the GSEs. Plenty of commercial banks were in on the act, too. Identifying the source of the crisis is thus necessarily more complicated than simply laying all the blame on Fannie and Freddie.

The larger set of causes was compellingly laid out in a 2011 report written by three members of the congressionally mandated Financial Crisis Inquiry Commission—former CBO director Douglas Holtz-Eakin, former White House economic advisor Keith Hennessey, and former congressman Bill Thomas. As the authors noted, while the Fannie- and Freddie-induced housing bubble was a primary factor in the crash, the bursting of that bubble alone could not have caused such worldwide damage. Other bubbles (including the dot-com bubble of the late 1990s) have been larger in size relative to the economy, and yet they produced far less economic ruin when the inevitable burst occurred.

Fully explaining the depth of the crash, as well as its global spread, requires a broader perspective that accounts for numerous failures of both the public and private sectors. For one thing, the housing bubble—and the GSEs’ role in it—was fueled in part by excessively loose monetary policy. The role of monetary policy was especially pronounced between 2003 and 2006, as the Federal Reserve held interest rates well below what would have been expected from the pattern of previous Fed policy. In 2003, for instance, the key lending rate determined by Federal Reserve policy—the federal funds rate—was lowered to 1%, even as the economy picked up steam in the aftermath of the post-9/11 downturn.

At the same time, increasingly prevalent—and highly risky—subprime mortgages (including those issued by the GSEs) were allowed to
infect the global financial system. This contagion was able to spread because of ineffectual ratings systems and poor supervision of the financial sector by regulators—failures that can be blamed on both parties in the United States, and on many politicians and political parties in other countries with advanced economies.

When it became clear in late 2007 and early 2008 that the financial sector was far too exposed and vulnerable to the collapse of the housing market, panic ensued, which quickly dried up available capital throughout the American economy. With capital restricted and lending practically frozen in the financial sector, the effects extended into the mainstream economy, and conditions worsened still more.

This history does not constitute an exoneration of President Bush’s record. Some of the blame for the crash rests with the regulatory agencies that operated under his leadership. But the suggestion that President Bush’s economic policies, or conservative economic policies in general, caused the financial crisis is in no way supported by the facts. As Holtz-Eakin, Hennessey, and Thomas noted, the crash was a global phenomenon. Housing bubbles emerged in numerous countries, like Ireland, with very different regulatory regimes and political cultures than ours. Financial firms collapsed all over the world. There is no way to explain all of this by citing U.S. economic policies implemented during the Bush years. And it is beyond ludicrous to suggest that the cause was the Bush-era tax cuts, or the costs of the overseas wars, or the Medicare prescription-drug benefit.

And yet none of this explanation was ever offered by the Republican candidates, or their surrogates, in the 2008 and 2012 campaigns. Granted, the events and policies that led up to the financial crisis are too complex to lend themselves to simplistic talking points. There was never an obvious snappy sound bite to refute the Obama-campaign narrative. But surely some articulation of what really happened would have been far better than implicitly accepting—that through collective Republican silence—the argument that it was all “Bush’s fault.”

Sugar-High Economics

The financial crisis paved the way for the Obama presidency, but it also pushed to the surface a long-simmering feud over what the government should do in response to economic downturns. In particular, the deep recession of 2007-2009 renewed the debate over the wisdom and
effectiveness of Keynesian economic-stimulus measures. As this debate played out in the period following the collapse, conservatives acquitted themselves well, to the point of convincing a majority of voters that the stimulus measures pushed by the Obama administration were ineffective and counterproductive.

Keynesian economic theory—named for early-20th century English economist John Maynard Keynes—calls on governments to step in with an active program of expansionary fiscal policy when the private economy is contracting. The theory is that economies struggle to recover from downturns in large part because reduced consumer demand produces a dangerous negative loop. As an economy slows, consumers see their incomes and savings fall. This was of course especially true in the 2007-2009 crash, during which, as noted, the average American household lost about 40% of its previously accumulated wealth. In response to such downturns, consumers pull back on their spending and try to replenish their lost wealth with new and higher levels of saving. As consumers restrain their spending in order to save more, they suppress the incomes of people selling goods and services in the marketplace, thus forcing these sellers to cut back on their spending when they in turn act as consumers. The cycle of depressed incomes and depressed spending thus feeds on itself.

Keynesians argue that, to break the pattern, government should jump into the breach, borrow substantial sums, and use the resources to increase public spending on all manner of “stimulative” activity. The most popular targets for such spending are new infrastructure projects and increased hiring of teachers and other public-sector workers. The theory is that the additional government consumption will compensate for the decline in private consumption, thus boosting the combined spending total of the private and public sectors of the economy—what economists call “aggregate demand.” With higher government spending, the thinking goes, the incomes of some consumers will rise (especially the incomes of those directly benefiting from the new government contracting and hiring); those consumers, in turn, can be expected to increase their consumption of other goods and services. In this way, the negative loop of a recessionary economy can be broken more quickly, allowing the economy to recover more quickly, too. As private incomes return to normal levels, the government can (at least in theory) pull back on the added spending commitments of the temporary stimulus plan.
When he entered office in January 2009, President Obama fully embraced the Keynesian approach to economic management. He immediately set about writing and passing through Congress the largest stimulus measure of the post-war economy: an $830 billion bill that combined spending on a laundry list of Democratic priorities with targeted tax credits for favored Democratic industries (like “green energy”) and selected breaks for lower-income taxpayers. On its own, none of these measures could have been expected to produce much in terms of added economic activity; taken together, the administration argued, the cumulative effect would restore the economy to health. The president’s economic team estimated that the stimulus would bring the nation’s unemployment rate down to 6% by 2012.

Republicans in Congress did not hesitate to oppose the entire effort. Their case against the 2009 stimulus, and stimulus efforts more broadly, is based both on practical realities and flaws in the Keynesian theory. On a practical level, conservatives note that stimulus efforts usually come far too late in the business cycle to make a difference. By the time elected leaders are able to pass stimulus legislation, the economy has almost always already begun to heal itself. That was certainly the case in 2009: The massive monetary intervention by the Federal Reserve, the bank-rescue funding provided during the final months of 2008, and automatic government “stabilizers” to boost consumer income (such as unemployment insurance and food stamps) had already pumped trillions into the national economy and halted the financial-sector contagion. By the time the president’s stimulus plan became law in February 2009, the economic decline had nearly bottomed out. The recession officially ended in June — well before the stimulus spending began to really kick in (of the $830 billion appropriated in the bill, only $108 billion had been pushed into the economy by September 2009).

Conservatives also note that stimulus bills are often used to pass spending or tax provisions that serve special interests, not the cause of economic recovery. In the 2009 legislation, Congress appropriated funding to build museums that few people will ever use; to install new windows in park facilities that no longer allow visitors; and to invest in several “green” technology start-up companies that never really had any prospect of profitability. Instead of promoting genuine and stable job creation, such dubious expenditures of taxpayer dollars divert scarce resources away from legitimate opportunities for economic growth.
Moreover, conservatives note that there is no reason to expect any legislative effort at stimulus to ever produce “clean” legislation. It is simply not the nature of the legislative process, and it never will be. Members of Congress always have strong incentives to pass narrow, special-interest provisions that help favored local industries or campaign supporters, and a “must pass” stimulus bill provides a ready opportunity to enact into law provisions that otherwise would not stand up to scrutiny.

Beyond these practical problems with stimulus spending, there are the theoretical drawbacks that stimulus advocates never mention. To begin, temporary stimulus spending bills always entail both a boost to the economy as the stimulus kicks in and a suppression of growth as the stimulus is withdrawn. That’s exactly what happened with the 2009 effort: CBO and others give the law credit for boosting GDP in late 2009, when overall growth reached 4% for the final quarter of the year. But by 2011 and 2012, the stimulus spending was tapering off from its earlier peak, and growth in each of those years fell below the preceding year’s. Congressman Paul Ryan has correctly criticized stimulus efforts as being akin to an afternoon sugar high: There’s more energy and vitality at the outset, but the crash eventually feels worse than the initial fatigue. (And in the case of a stimulus, the “high” also leaves behind an enormous amount of debt.)

But the most serious and consequential objection to stimulus efforts is that, whatever might be said about their short-term effects, over the long run, they depress economic growth more than doing nothing does. Indeed, estimates produced by CBO and every other mainstream economic-forecasting effort confirm the effect. Why is this the case? Because at some point, additional government borrowing comes at the expense of private-sector investment—and lower private-sector investment produces lower economic growth.

**The Fallacy of the Inverse Stimulus**

Employing these arguments, conservatives were largely able to convince the American public of the folly of the Obama stimulus plan. Indeed, their arguments proved to be so effective that the president and his aides stopped mentioning the stimulus plan altogether in 2010 as it became clear that unemployment would not fall below 8% as the administration had promised.

But having discredited the Obama stimulus effort, conservative politicians were asked what they would do to bring back the American
economy. Their collective answer was not surprising: Limit government, restrain spending, hold the line on taxes, and move toward balanced budgets. This is the kind of economic policy that provides fiscal stability and allows the private sector to invest and grow. It rewards entrepreneurs who risk their capital with fair returns, and thus promotes innovation and job growth. In short, it is the supply-side approach to economic policy.

And it is the right approach for the long term: CBO projections show this policy mix producing GDP levels far above what they would be with higher levels of taxation and more government borrowing. But as often happens, conservative economists tend to apply long-term logic to the short term without making the distinction clear to the public. Yes, narrower deficits from spending cuts and the avoidance of tax hikes will boost long-term growth. In the short run, however, most mainstream economists would argue that cuts to government spending suppress growth (because they reduce consumer spending and aggregate demand for goods and services).

There is plenty of evidence to support that point of view. After David Cameron was elected prime minister of the United Kingdom, the new government embarked on an ambitious program of spending cuts and reforms. Much of what was done was long overdue and will pay massive long-term dividends for the country. But in the short run, the cuts have reduced short-term economic growth and have raised the risk of another recession.

Similarly, in other struggling and debt-burdened countries in Europe, there is a plainly evident need to bring down borrowing to reduce the risk of a debt crisis. But it is also plain that the austerity measures put in place in Spain, Italy, and Greece in the aftermath of the 2009 global crisis have suppressed short-term growth in those countries. Such measures were unavoidable, given the seriousness of the debt risk and the fragility of these economies in the post-crisis period. And some tough medicine now will put these countries in a far better position to grow again in the future. But there can be no denying that reduced government spending is pushing GDP below where it would have been today with higher levels of government spending.

This is a reality that conservatives in America would be well-advised to acknowledge. Since 2009, it has been common to hear conservatives argue that what is needed is spending restraint to free up the private economy to produce jobs. That is true up to a point; it is especially true
in the case of entitlement spending, without reform of which the U.S. will move steadily toward a debt crisis of its own. But the reforms that are necessary to get spending under control are not likely to produce short-term gains in growth.

Making this point is not an endorsement of Keynesian theory. Sugar-high economics is still bad public policy, and will suppress growth over time. But conservatives should not imagine that the opposite of ill-conceived stimulus policy will itself automatically have a stimulative effect on the economy. Just as with their understanding of the causes of the crisis of 2008, conservative economic thinkers and politicians must articulate their case in a way that is not simply a reaction to the left. More important, they must identify and seek to enact policies that, without hindering the economy’s long-term prospects, can realistically be expected to spur short-term growth.

LONG-TERM GROWTH AND SHORT-TERM REALISM

If Republicans are to be trusted again with the White House, they need to be clearer with themselves and with voters about their approach to managing the national economy. The best course would be to ground their arguments more firmly in plain economic reality that aligns with the practical (and non-ideological) inclinations of most voters.

First, they must confront the Democratic talking point that the previous Republican administration “created this mess” whenever that spurious claim is made. The best way to do so is to point out that the financial crisis was more pronounced in much of Europe than it was in the United States, including in many countries—Ireland and Portugal, for example—that have far heavier regulation and more liberal tax and spending policies than the United States does. Bush’s economic policies did not create this worldwide crash, and to suggest that they did is ludicrous.

Second, Republicans must explain what they would do to prevent these economic problems from recurring. It is not enough to argue that financial-sector regulations of the sort imposed by the 2010 Dodd-Frank financial-reform law are ill advised and counterproductive. The GOP must push for an aggressive change in the regulatory environment to prevent another financial-sector bubble from endangering global finance. A reform agenda that includes full dissolution of Fannie and Freddie, an embrace of strong regulations to prevent big firms from
securing an implicit federal guarantee, and much stiffer oversight of credit agencies and mortgage-risk underwriting is in order. Republicans must make clear that they stand for sensible prevention of systemically catastrophic risk.

Third, the GOP must embrace a more nuanced approach to explaining both its medium- and long-term growth strategies as well as its current plans for better managing a struggling economy. Over the long run, there is compelling evidence that an economy built on low taxes, disciplined spending, narrow deficits, stable money, and free trade will provide the most opportunity and broadly dispersed growth. But that does not mean, in the midst of protracted languor, that cutting spending will instantly boost growth. There is little support for that contention in experience or in theory.

Instead, when an economy is struggling, conservatives should acknowledge the potential of expansionary monetary policy (within reasonable bounds) to provide a floor for the economy and to speed recovery. Most conservatives rightly endorse a “rules based” approach to monetary policy, under which the Federal Reserve raises or lowers key interest rates as necessary in order to keep the pace of money-supply growth as close as possible to a pre-determined rate. This sort of faithful adherence to a well-known standard reduces the uncertainty that creates bubbles and inflation pressures over the medium and long terms.

One consequence of this approach, however, is that when the economy is contracting, the Fed must respond with monetary easing. And when the economy contracts as severely as it did in 2009, the Fed may need to increase money circulation dramatically—which can cause monetary hawks consternation. It is worth noting that acknowledging the potential of monetary policy to help economic recovery does not require endorsing the specifics of the Fed’s various recent rounds of quantitative easing, about which there are legitimate reasons to be concerned. On the contrary: Supporting a rules-based approach would express a realistic understanding of what must normally occur during an economic contraction, while also highlighting the dangers of the improvisational nature of the Fed’s recent activity.

Fourth, Republicans should embrace policies that can boost aggregate demand in a manner consistent with their long-term growth plans. For instance, in late 2012, as a number of Bush-era tax cuts were scheduled to expire, a temporary payroll-tax cut that had been implemented
by Obama was also set to expire. Republicans championed extending the income-tax provisions but not the payroll-tax cut, when the latter would have helped more middle-income families. That was a mistake. Embracing the extension of the payroll-tax cut would have simultaneously improved the party’s standing with middle-class voters and provided a needed short-term boost to the economy without new spending. Embracing such a move would not have complicated any element of the GOP’s longer-term economic program, and it might have actually strengthened the case for reforming the entitlements that are dependent on payroll-tax collections.

Conservatives have long understood and articulated the right formula for sustained growth: sound money, narrow deficits, low spending and taxes, and free trade. Over the long run, this is the only viable recipe for promoting jobs for the American middle class.

But this agenda must be pursued with sound arguments, and must be forthrightly defended from the shameless calumnies of liberal politicians. Proponents of activist government would like voters to believe that the conservative economic agenda caused the crash of 2008, and that it has had nothing to offer in its aftermath. It is essential to refute that lie. But it is no less essential to develop and advance a realistic, evidence-based case for sound and sustainable growth— one capable of addressing the challenges our economy faces both now and in the years ahead.