A Primer on Clintonomics

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The 1994 *Economic Report*

The first *Economic Report* of a new administration has often been an important statement, especially following a change in the party of the president. The 1962 and 1982 *Reports*, for example, were among the best summaries, respectively, of the Keynesian perspective of the Kennedy administration and of the supply-side perspective of the Reagan administration. The 1994 *Report* is only slightly less important as a statement of both administration policy and economic theory, primarily because much of it represents a reprise of themes developed in the 1962 *Report*. For Clinton's Council of Economic Advisers (CEA) has endorsed a pervasively activist economic policy: one part Keynesian fine-tuning, one part microeconomic intervention to correct market failures, and one part redistributive—seasoned by a dash of youthful arrogance that smart people in high office can solve most any problem.

The Keynesian Virus

Clinton's message sets the theme for the 1994 *Report*: "As a result of our efforts, the economy is now on a path of rising output, increasing employment, and falling deficits." One might think that the current recovery started on Clinton's watch and that the rest of us were born yesterday. A more objective record would have acknowledged that the current recovery began in the spring of 1991 and that most economic conditions improved more during 1992 than during 1993

Cato Journal, Vol. 14, No. 1 (Spring/Summer 1994).

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TABLE 1

SUMMARY OF U.S. ECONOMIC CONDITIONS

	1992	1993
	Percentage Change	
Real GDP	3.7	3.1
Productivity	3.4	1.9
Employment	1.3	2.1
	Percentage Point Change	
Interest Rates		
3 months	−0.87	−0.17
30 years	−0.26	−1.19

(see Table 1). Only employment and long-term interest rates improved more rapidly in 1993 than in 1992, but long rates have since backed up to a higher level than when Clinton took office. Despite the rhetoric of Clinton's continued campaign, he inherited an economy well into a moderate recovery with low inflation.

The Keynesian virus is apparently incurable, but I was surprised to realize that there are still several surviving Keynesians under the age of 50. The macroeconomics of the 1994 *Report* is thoroughly Keynesian but is not without some complications. Our low long-term growth rate is attributed to low saving and investment, but weak short-term growth is blamed on excess saving. The weak early recovery from the 1990-91 recession, for example, is attributed in part to several conditions that may have shifted income to those with a higher marginal propensity to save. (Where is the black hole into which all this excess saving disappeared?) The explanation of why the spending cuts and tax increases in the 1993 budget agreement will increase economic growth but why additional measures to reduce the deficit would reduce growth is too torturous to describe.

The CEA should at least get the facts straight. The following is a selection of statements from the macro-chapter that are just not true:

- ". . . banks show new signs of wanting to make business loans." (Total commercial and industrial loans by commercial banks continued to decline through December 1993 to the lowest level in five years.)
- "Typically, the saving rate falls as recovery begins . . ." (The saving rate increased in the first year of recovery from the recessions of 1949, 1960, 1970, 1980, and 1990.)

- "... the 1980's saw a classical Keynesian, demand-driven expansion." (A demand-driven recovery is characterized by an increase in both output and inflation. The record peacetime recovery of the 1980s, in contrast, was marked by a substantial decline in inflation.)
- "... contrary to the supply-sider's claims, income tax cuts have generally *reduced* tax revenues." (This is one of the most persistent unfounded charges by the critics of Reaganomics. What supply-sider ever claimed otherwise? Where? When?)
- "Healthy gains in productivity ... will be the key to keeping inflation tame." (That is backward: inflation, which is primarily a monetary phenomenon, somewhat reduces productivity growth. There is reason for more general concern when a government official now on the Fed attributes inflation to some nonmonetary condition.)

Keynesian economics seems to have evolved into a secular religion in which the facts are squeezed, tortured, and misrepresented to fit the theory. One wonders what happened to the CEA's vaunted fact-checking process.

Microeconomics with a Special Twist

Several other chapters reflect a broader consensus among economists but, in each case, with a special twist. Much of the chapter on developments in the U.S. labor market addresses the increasing wage premium to higher skills. That development is attributed primarily to conditions specific to the United States without mentioning that it is common to most of the major economies. The CEA, for example, dismisses the effect of trade liberalization on the wage distribution but attributes much of the increased variance of U.S. wages to the decline of union membership and the decline in the real minimum wage.

The chapter on microeconomic initiatives is generally sensible and summarizes a thoughtful approach to reform of the Superfund program. This chapter, however, is a bit gushy about the prospect for environmental and technological initiatives and stronger antitrust enforcement, a perspective that reflects more concern about market failures than to the potential for government failures.

The trade chapter includes some surprisingly critical language about the dumping provisions of U.S. trade law and a rather strained rationalization of increased U.S. trade pressure on Japan. The focus of Clinton's trade policy seems to be the opening of foreign markets by any means (hopefully) short of gunboats.

Health Care: An Arrogant Policy of Redistribution

The CEA would have been best advised to avoid a public discussion of health policy, because the chapter on health care reform is as shameless as the Clinton health plan is arrogant. What is the evidence, for example, that "Tens of millions of Americans . . . live in constant fear of bankruptcy should they become ill"? The statement that "nearly 39 million people . . . were uninsured throughout 1992" is quite misleading; this estimate is specific to the number of uninsured at the time of the survey, most of whom were reinsured within six months. Health security is defined as guaranteed comprehensive health insurance, not access to medical care. Charging high-risk people a higher premium is described as a "shortcoming" of the private insurance market. The increase in health care costs is attributed to demographic and technological developments with little attention to the effects of broader third-party coverage. The chapter does not acknowledge the probable effects of the proposed controls on new drug prices, insurance premiums, and provider fees or the effects of the complex pattern of marginal tax rates on the labor market. Finally, the chapter endorses the fantasy that the Clinton health plan would not only substantially broaden health insurance but would also reduce the growth of health care prices and expenditures, increase real wages, and reduce the federal deficit.

One wonders why an administration needs a group of high-priced economists if their primary role is to parrot the party line.

Reference

Economic Report of the President 1994. Washington, D.C.: Government Printing Office.