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Tallying presidential economic success

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In the last half-century, under which president did the economy perform the best? Most Americans would answer Ronald Reagan, while some Democratic commentators have argued it was Bill Clinton or John F. Kennedy. What is the truth?

A president has a major influence on tax, spending, regulatory and trade policies that largely determine the rate of economic growth, but he is constrained by Congress, particularly when one or both houses are controlled by the opposition party. A president has much less influence on inflation and interest rates in that they are largely determined by the independent Federal Reserve.

However, a president can influence the Fed through his selection of the chairman and members of the board, as well as through "moral suasion."

Increasing the rate of economic growth, creating jobs, reducing inflation and interest rates -- up to a point, and reducing the tax burden are normally considered hallmarks of a presidential success. A president who needs to correct the failed economic policies of a predecessor will have more difficulty obtaining very low unemployment, so the degree of improvement over the previous administration is an important measure of success, rather than the average or ending number.

A well-known Democrat economist, the late Arthur Okun, created the misery index (i.e., the rate of inflation plus the unemployment rate), which was a proxy to tell the public whether they were better off under the current or under the previous administration. Using the misery index criteria, three Presidents -- Messrs. Kennedy, Reagan and Clinton -- improved on their predecessor's performance by the end of their own term. The economic misery index dropped the most on Mr. Reagan's watch to only 10.1 from Mr. Carter's horrific 17.9.

Using the "misery index" improvement criteria, Mr. Reagan was clearly No. 1, followed by Mr. Clinton and Mr. Kennedy. Mr. Carter by far performed worse than any of the last nine presidents.

The rate of economic growth is often considered a measure of a president's success. However, this measure must be used with care, given it normally takes at least a year after a new president takes office before he can get his initial tax and spending program

enacted by Congress. Thus, it is appropriate to lag this measure by one year so a new president is not saddled with the sins or virtues of his predecessor.

John Kennedy is the clear winner in the growth criteria. He had the advantage of taking office during the middle of an economic recovery, and the wisdom to enact major tax cuts, both of which resulted in very high growth rates during and immediately after his administration.

Ronald Reagan comes in next in the growth race, even though the economy suffered from stagnation and double-digit inflation and interest rates when he took office. Also, his major tax cuts were not fully effective until two years into his administration. Mr. Clinton comes in third, having inherited a growing economy, but his policies left the nation in a recession.

Mr. Reagan and Mr. Clinton come in No. 1 and No. 1, respectively, in the jobs' creation race. About 17 million jobs were created during each of their times in office, but Mr. Reagan did it with a labor force about 18 percent smaller than the one when Mr. Clinton took office. In addition, employment lags economic growth, so when an appropriate one-year lag is used to adjust the figures, Mr. Reagan also obtains a substantial absolute advantage in numbers of new jobs created.

Both Mr. Kennedy and Mr. Reagan cut taxes for all income levels. Mr. Kennedy reduced the maximum rate from 91 percent to 70 percent, and Mr. Reagan from 70 percent to 28 percent. In both cases, the economy boomed and federal government tax revenues actually increased. Under Mr. Reagan, federal tax revenues rose from $599 billion in 1981 to $991 billion in 1989. despite the tax rate cuts.

Opponents of Mr. Reagan charge his deficits "left future generations saddled with debt." Mr. Reagan did use debt to partially fund his increase in military spending to win the Cold War, just as Franklin Roosevelt used debt to win World War II. At the end of the Roosevelt administration, the national debt held by the public was more than 100 percent of our gross domestic product (GDP). At the end of the Reagan administration, it was only 41 percent of GDP. (Mr. Kennedy left us with debt equal to 42 percent of GDP; in 1996 at the end of the first Clinton administration, debt was 48 percent of GDP; and it is about 37 percent today.)

As a rough rule of thumb, if the economy grows 6 percent (4 percent real and 2 percent inflation), a deficit of 2 percent to 3 percent yearly can be sustained forever without increasing the national debt burden. (If your personal income grows faster than the amount it costs you to service your debts, you can keep acquiring debt and yet the burden will grow lighter rather than heavier.) During the last three years of both the Reagan and the Kennedy administrations, GDP was growing faster than the debt burden.

By any reasonable criteria, Presidents Reagan and Kennedy were far and away the most economically successful presidents in the past half-century. They both left the economy stronger and freer than they found it. And most Americans, regardless of income level,

were clearly better off. Mr. Reagan faced a far tougher challenge than did Mr. Kennedy, whose term was also too short to be definitive.

The jury is still out on the current President Bush, but his tax cuts are working in the same magical way they did for Presidents Kennedy and Reagan. If the Fed can keep inflation low, and if the administration can reduce the growth in spending and regulation, Mr. Bush still has the opportunity to a place in the top three -- if he is re-elected.

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