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Whose Economy Was Best?

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Under which recent president do you think the U.S. economy performed best? The policies of Presidents Bush, father and son, and Jimmy Carter clearly did not work as well as Ronald Reagan's and Bill Clinton's.

Recently, Hillary Clinton blasted Barack Obama because he said Reagan was a man of ideas, which is heresy in the Democratic Party. There are, however, objective numbers about how well some of Reagan's ideas worked versus Mr. Clinton's.

The U.S. economy performed very well during both the Clinton and Reagan years. In fact, total economic growth was almost identical, averaging about 4 percent per year, with Reagan edging out Mr. Clinton by less than 1 percentage point for the total eight-year period. (Note: all the data in the accompanying table and in this commentary are derived from official U.S. government sources.) Actually, Mr. Clinton partially adopted Reagan's policies — remember his State of the Union address in which he said: "The era of big government is over" and where he partially reversed his 1993 tax increase by cutting the capital-gains tax in 1996.

CLINTON VERSUS REAGAN
By the Numbers

	Reagan change 1981-1989	Clinton change 1993-2001
Number of new jobs	+17%	+14%
Increase in real GDP	+32%	+31%
Change in the CPI	-53%	-7%
Change in the Prime Rate	-48%	+50%
Domestic federal government discretionary spending as a percentage of GDP	-1.4	-0.2
Total federal government revenue as a percentage of GDP	-1.3	+2.3
Change in top individual income tax rate	-60%	+28%

Despite the similarity in some of the performance numbers, the two presidents had very different challenges. Reagan took over an economy with double-digit inflation and almost no growth, yet left office with much lower inflation than he inherited and a strongly growing economy. Mr. Clinton, by contrast, took over a relatively low inflation, moderately growing economy, and left it in recession.

(Note: Mr. Clinton left in January 2001, and the recession began in that quarter, before George Bush or Congress were able to make any changes in tax, spending or regulatory policy).

Employment growth was very strong during both the Reagan and Clinton years, but in terms of percentage change in the total number of jobs, Reagan beat out Mr. Clinton by 3 points. (Total jobs increased slightly more under Mr. Clinton, but the size of the work force and population was sufficiently larger to make his performance a bit less impressive than Reagan's).

The rate of inflation and interest rates are largely determined by the Federal Reserve and any president has very little say about what the Fed does. After the disastrous appointment of the incompetent G. William Miller as Fed chairman by President Carter, inflation went into double digits and the prime rate reached 21 percent. Mr. Carter was finally forced to replace Mr. Miller with the competent Paul Volcker, whom Reagan retained.

In 1987, Reagan appointed Alan Greenspan, and Mr. Clinton retained him throughout his eight years in office. The inflation and interest rate crisis had been taken care of by the time Mr. Clinton entered office.

To revive the American economy, Reagan sharply cut marginal tax rates, and reduced domestic discretionary spending as a percentage of GDP, but not in absolute terms. His administration did increase military spending by 1 percent of GDP, but then started to reduce it as the Soviet Union entered its death spiral. President Clinton, with pressure from the Republican Congress, kept domestic discretionary spending in real terms at roughly Reagan's ending level. However, Mr. Clinton did sharply reduce defense spending, ultimately bringing it down to about half the level in real terms from the Reagan high point.

The two presidents mostly differed in tax policy. Reagan, early on, cut marginal tax income rates 25 percent across the board, and ultimately brought the top marginal tax rate down from 70 percent to 28 percent, causing a 1.3 point drop to 18.3 percent in tax revenues as a percent of GDP. Mr. Clinton increased the marginal tax rates and brought the top rate up to 39.6 percent. These rate increases caused tax revenues as a percentage of GDP to increase by 2.3 points to 19.8 percent.

It is important to note that despite the very big swings in marginal tax rates during the last quarter-century, federal tax revenues as a percentage of GDP have varied relatively little. This shows that people substantially change their behavior in response to changes in tax rates — which is bad news for those who hope to get more revenue from tax rate increases, and good news for those who favor tax rate cuts.

The irony for Mr. Clinton is that the data show that he almost certainly would have achieved an economy that outperformed Reagan if only he had not raised

income tax rates in his first term. He was too much a prisoner of left-wing orthodoxy to follow the empirical evidence of Reagan's success.

Smart Republican candidates should argue they want to go back to and improve upon the Reagan policies that worked — lower marginal tax rates, lower government spending, less regulation. But they also need to remind voters that the Clinton economy was in free fall during the last six months of his administration.

Democrats can continue "the-Clinton-economy-was-best" ploy only if the Republicans and the news media let them get away with the factual misrepresentation. Republican candidates will get press attention and voter approval if they are not timid in pointing out that the Democrat economic proposals amount to nothing more than making both of the mistakes of George H. W. Bush (increasing taxes) and George W. Bush (not controlling spending) rather than replicating Ronald Reagan's successful policies.

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