## PRESIDENTIAL ECONOMICS

THE MAKING OF ECONOMIC POLICY FROM ROOSEVELT TO CLINTON

Third Revised Edition

## Herbert Stein

American Enterprise Institute for Public Policy Research Washington, D.C.

1994

## Contents

	Preface to the Third Revised Edition	11
	ACKNOWLEDGMENTS	13
1	Introduction: A Turn to the Right	15
2	HOOVER AND ROOSEVELT: THE DEPRESSION ORIGINS OF LIBERAL ECONOMICS Macroeconomics and Keynes 37 Beginnings of the Tax-Transfer Explosion 53 The Spread of Economic Regulation 59 The Legacy of the Depression, Roosevelt and Keynes 62	27
3	TRUMAN AND EISENHOWER: POSTWAR CONSOLIDATION Postwar Schools of Economic Thought 71 The Macroeconomic Consensus 75 The Truce in the Microeconomic Struggle 84	65
4	KENNEDY AND JOHNSON: ACTIVISM EXHAUSTED Kennedy Economic Policy 101 Johnson Economics 113 The Beginning of Inflation 118	89
	Economic Indexes, 1929–1992 Growth of Output in the U.S. Economy, 1929– 1992 124 Total U.S. Employment, 1929–1992 124 Unemployment as a Percentage of U.S. Labor Force, 1929–1992 125 Annual Rate of Inflation in the United States, 1929– 1992 125 Index of U.S. Consumer Prices, 1929–1992 126 Employment Declines during Contractions of the U.S. Economy, 1929–1991 126	123

	<ul> <li>U.S. Government Expenditures as a Percentage of Gross Domestic Product, 1929–1992 127</li> <li>U.S. Government Receipts as a Percentage of Gross Domestic Product, 1929–1992 127</li> <li>Federal Expenditures by Type, 1940–1992 128</li> <li>Federal Receipts by Type, 1940–1992 128</li> <li>Federal Expenditures in Constant Dollars, 1940–1992 129</li> <li>Federal Deficit as a Percentage of Gross Domestic</li> </ul>	
	Product, 1929–1992 129	
	U.S. Debt at End of Year, 1929–1992 130 Individual Federal Income Tax Receipts, 1929– 1992 130	
	Federal Corporate Tax Accruals, 1929-1992 131	
5	NIXON: CONSERVATIVE MEN WITH LIBERAL IDEAS Tiptoeing around the Inflation-Unemployment Dilemma 148 The Price Control Interlude 176 The Old-Time Religion 187 Nixon on Regulation 190 Spending and Taxing 197 Summing Up 206	133
6	FORD AND CARTER: THE UNCERTAIN TRANSITION Leading Up to the 1980 Campaign 219 How Sharp a Turn? 226	209
7	THE REAGAN CAMPAIGN: THE ECONOMICS OF JOY Supply-Side Economics and Politics 237 The Inflation-Unemployment Trade-off 250 The No-Fault Expenditure Cuts 253 Reagan Comes to the Economics of Joy 254 The Turning Point 261	235
8	THE REAGAN PRESIDENCY: ENCOUNTER WITH REALITY The Reagan Budgets 267 Monetarism 294	263
9	Toward a New Consensus A New Consensus 321 Inflation 326 The Significance of Budget Deficits 345 The Undertaxed Society 355 The Nature of the System 363	307

10	TEN YEARS OF THE U.S. ECONOMY AND ECONOMIC POLICY, 1977–1987  The "Real" Performance of the Economy 377 Performance in the "Nominal" Economy 381 The Role of Policy 382 Policy and the Real Economy 392	377
11	ECONOMIC FASHIONS OF THE TIMES, 1977–1987 Fashions of 1977 398 Fashions of Mid-Decade 402 Fashions of 1987 407	397
12	A LOOK BACK AT BUSH Clouds in Mr. Reagan's Sunny Picture 414 How President Bush Coped 416 The Economy after Bush 428	413
13	THIS PECULIAR RECOVERY A Historical Perspective 431 Equilibrating Forces 437 Proposals of the Clinton Administration 440 Behavior of Monetary Policy 442	431
14	Another New Economics New Economics, 1961 445 New Economics, 1969 447 New Economics, 1981 447 New Economics, 1993 448 Skepticism toward the New Economics 449	445
	Appendix	451
	Notes	469
	Index	479
	ABOUT THE AUTHOR	495
	List of Tables Savings and Investment as a Percentage of GNP, 1977– 1986 380 U.S. Gross Domestic Product. Gross Domestic Product	

U.S. Gross Domestic Product, Gross Domestic Product per Capita, and Output per Hour, 1929-1992 452
U.S. Employment, Unemployment, and Price Level, 1929-1992 454

- U.S. Government Expenditures and Receipts as a Percentage of Gross Domestic Product, 1929– 1992 456
- Federal Government Deficit and Debt as a Percentage of Gross Domestic Product, 1929–1992 458
- Federal Expenditures as a Percentage of Gross Domestic Product. Fiscal Years 1940–1992 460
- Federal Receipts as a Percentage of Gross Domestic Product, 1940–1992 462
- Federal Outlays in Billions of Constant 1987 Dollars, 1940–1992 464
- Federal Taxes and Income, 1929-1992 466

## LIST OF FIGURES

- Levels of Manufacturing Output and Employment,
- 1960-1986 381
- Real GNP, 1950-1987 384
- Total Employment, 1950–1987 384
  Percentage Change in Real GNP, from Prerecession Peak
- Ouarters 1973:O4 and 1981:O3 385
- Unemployment Rate, 1960–1987 385
- Consumer Price Index and Hourly Compensation.
  - 1960–1986 386
- Federal Government Receipts as a Percentage of GNP, 1960–1987 386
- Federal Budget Outlays as a Percentage of GNP, 1960–1987 387
- Federal Government Budget Surplus and Current
- Account Surplus as a Percentage of GNP, 1960-1986 387
- 13-1 Real U.S. Gross Domestic Product, 1960– 1993 432
- 13-2 Total U.S. Employment, 1960-1993 433
- 13-3 U.S. Unemployment Rate, 1960–1993 43
- 13-4 Changes in the U.S. CPI, 1960-1993 435 13-5 Annual Rate of Change of Nominal GDP in the
- United States, 1960–1993 436 13-6 Change in Deficit, National Income Accounts,
- 13-6 Change in Deficit, National Income Accounts 1960–1993 441
- 13-7 Changes in Real M1 and M2, 1960-1993 443