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An Economist's Evaluation of President Carter's Freshman Year in Office

Murray L. Weidenbaum
Washington University in St Louis

This paper attempts to grade the president's economic policies and performance through his first year. Specifically, it examines what President Carter's economic objectives are, what he has accomplished to date, what difference he has made to the nation's economy, and what he needs to do before leaving office in order to earn a passing grade.

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BY

Murray L. Weidenbaum

CENTER FOR THE STUDY OF AMERICAN BUSINESS
WASHINGTON UNIVERSITY  BOX 1208  ST. LOUIS, MISSOURI 63130

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By Murray L. Weidenbaum, Director
Center for the Study of American Business
Washington University, St. Louis

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On the basis of his freshman year in office, I conclude that President
Jimmy Carter is not in danger of flunking out, nor is he likely to graduate
with honors in economics. However, I would not urge this particular
student to attempt to go on for an advanced degree in 1980. At this point,
it is difficult to award a grade based upon the President's economic
performance since there is little identifiable operational economic policy
that is emanating from the Administration.

I am mindful of the fact that my appraisal is likely to have all the
objectivity of a history of the Civil War written by Stonewall Jackson.
Nevertheless, let us examine what President Carter has set out to do,
what he has accomplished to date, what difference he has made to the
nation's economy, and what he needs to do to receive a passing grade.

President Carter's Economic Objectives

A review of the various economic statements made by President Carter
during and since the 1976 campaign reveals the following five key goals
and targets:

1. "The No. 1 domestic commitment of the next administration" was to
create jobs and reduce unemployment with a long-term goal of 4½ per-
cent unemployment and a short-run target of 6.6 percent by the end
of 1977.
2. The inflation rate was to be reduced to 4 percent. No specific time dimension was set. We can reasonably infer that he meant some time during his term of office.

3. The budget was to be balanced by the end of his term. On one occasion, President Carter stated that he favored balancing the budget over the business cycle. He also said, "If the economy is managed progressively, we can attain a balanced budget with full employment by 1979."

4. The federal government was to be made more efficient by requiring zero-based budgeting, reforming regulation, and reducing the number of federal agencies from 1900 to 200.

5. And, of course, President Carter planned to reform that disgraceful federal income tax system.

How has his initial performance stacked up against this ambitious economic agenda?

Economic Accomplishments to Date

Let us attempt to assess President Carter's performance in each of the five key economic areas.

Employment

The unemployment rate has come down, from 8.0 percent in November 1976 to 6.9 percent in November 1977, somewhat short of the 6.6 percent target. On the more positive side, a large number of jobs has been created during the past year, mainly in the private sector. Employment has risen from 88 million in November 1976 to 92 million in November 1977.

Far more important than the modest slippage in the 1977 schedule for reducing unemployment is the point that it is virtually impossible to identify any reasonable combination of economic policies that would get
unemployment down to 4½ percent during the next three years. Even the most optimistic analysts see a fundamental contradiction between that objective and the President's other economic goals, such as curbing inflation and balancing the budget. Most analysts, including those at the Congressional Budget Office and the Joint Economic Committee, have concluded that these various goals are not simultaneously achievable in the American economy during the next several years.

**Inflation**

The most optimistic statement that I can conjure up on the inflation front is that we have avoided an escalating inflation rate during the past year. But the President's 4 percent target is nowhere in sight, not even with the most powerful telescope. If anything, we have lost some ground during the past year and the prospects are poorer for the year ahead. The average rate of inflation (using the GNP deflator) was 5.1 percent in 1976. The figure for 1977 is likely to be closer to 6 percent.

Moreover, most forecasters currently show a somewhat higher expected rate of inflation for 1978, in the neighborhood of 6½ percent. Also, specific actions supported by the Carter Administration -- such as restricting imports, raising farm price supports, and increasing the compulsory minimum wage -- can be expected to exacerbate future inflationary trends. Surely the overpromising implicit in any revised Humphrey-Hawkins type of proposal will further increase inflationary expectations.

**Balanced Budget**

This does not seem to be a period in which much progress is being made toward achieving the goal of a balanced budget. The $45 billion budget deficit incurred in fiscal 1977 is likely to be exceeded this year. Any disagreements over the estimate center almost exclusively on how much
larger the final '78 deficit will be. Initial projections for fiscal 1979 do show a smaller deficit. However, those results are predicated on current tax rates and do not take into account the revenue losses from tax cuts for economic stimulus purposes, as are now being widely discussed.

If we want to quibble, we can recall that candidate Carter merely stated, "We can have a balanced budget by 1980 if I'm President." After all, he did not actually promise that the budget would be balanced.

Efficient Government

The Carter Administration's initial efforts to reform government regulation seem to have been abandoned. We may now recall with some amusement that last spring the President instructed the members of his cabinet to personally review each new regulation and to identify the author of each new ruling in order to fix public accountability.

Perhaps this exercise in naivete could have been avoided if the White House staff had been closer students of American history. We may recall the meeting in 1910 at which Louis Brandeis was supposed to have said to Walter Fischer, the incoming Secretary of the Interior, "I have but two suggestions to offer: approve no documents the contents of which you do not understand; sign no letters which you have not read." Fischer replied tersely, "You ask the impossible." In contrast, the more recently proposed executive order on Improving Government Regulations is both more modest and more likely to achieve positive results.

We should also note that, pursuant to President Carter's directive, the Office of Management and Budget has issued a directive to the federal departments and agencies instructing them to begin implementing a system
of zero based budgeting. On the basis of prior efforts, we can be confident that additional resources will be devoted to analytical efforts and supporting paperwork, but somewhat less confident in expecting an actual improvement in the budgetary process. Past disappointments, however, should not necessarily move us to a position of cynicism, much less of despair; genuine improvements in decision making on budget priorities are possible. A healthy skepticism, however, is the order of the day.

Progress in reducing the number of federal agencies from 1900 to 200 has been limited. The Federal Energy Administration and the Energy Research and Development Administration have been consolidated into a new Department of Energy. Also, the President has proposed consolidating the U. S. Information Agency with the State Department's Bureau of Cultural Affairs. He has eliminated the Council for International Economic Policy and revived an office for science policy in the White House. If my arithmetic is correct, that leaves 1,698 consolidations for the next three years.

Perhaps we should be thankful that massive organizational changes have not occurred. After all, the most popular way of reducing the number of separate government bureaus is to take three (or four) existing agencies, impose a new level of expensive overhead on them, and conclude that the number of government agencies has been reduced from three (or four) to one. A decade ago New York City furnished an excellent example of this procedure, and the returns from that effort are now in. Consolidations of agencies do not translate into reductions in the pace of government activity. Actually, government payrolls continued to rise.
Tax Reform

The experience to date with the Carter version of tax reform is instructive as to the nature of on-the-job training for presidents. The episode of the on-again, off-again $50 income tax rebate is subject to varying interpretations. A harsh attitude would describe it as an example of presidential indecision and wavering under fire. Perhaps, we should be inclined to the more charitable view that sees it as a case of openmindedness and flexibility.

After initially upsetting major elements of the taxpaying public with trial balloons such as proposals to eliminate capital gains, the White House is now disappointing tax reformers by apparently pulling back in favor of more straightforward tax cutting to provide fiscal stimulus. We are thus free to conclude that either we should punish ourselves by bearing with that disgraceful tax system a while longer -- or that the optimum amount of tax reform is zero. That attitude surely is strengthened when we contemplate the prospective increases in the social security tax and the proposals for new energy taxes. Together, those actions would constitute a major tax rise and a substantial cost-push inflationary force as well.

Presidential Impact

Quite clearly, our eager student has fallen short of his own goals. But that is not the normal basis for assigning grades. How has the American economy performed during the past year? There is no obvious standard for comparison. However, one way to start is by reminding ourselves what the majority of economic forecasters were saying before Jimmy Carter took office, and even before the election. It is not too wide of the mark to characterize most of those projections in the fall
of 1976 as "5-6-7" -- 5 percent real growth for 1977, a shade under 6 percent inflation, and about 7 percent unemployment. Although the fourth quarter data are not yet in, preliminary indications are that 5-6-7 may turn out to have been a fairly good set of projections for 1977.

Thus, it would appear that the Carter presidency seems not to have been able to significantly affect the course of the American economy during its first year in office. That state of affairs may reflect deliberate action as well as the inability to get proposals through the Congress. However, given the fears engendered by much of the campaign oratory, perhaps we should be grateful. Possibly, we should give the economy a B and the student an incomplete.

The Need for Economic Leadership

At the risk of carrying a good analogy too far, let us consider what President Carter, the student, must do to complete his education in economics. Basically, he needs to define a set of compatible economic objectives. The campaign is over. The electorate can be expected to forget about the details of campaign promises if the President in turn is willing to update his economic outlook and to make some hard choices.

Surely, President Carter needs to reevaluate his targets in the areas of employment, inflation, budgeting, reorganization, and tax reform. That reevaluation should be more realistic than the naively optimistic attitude embedded in the Humphrey-Hawkins approach to economic policy. That approach can unfortunately but accurately be summarized by words from two old songs -- the individual voter singing, "What Lola wants, Lola gets," and the President responding, "I'm just a gal (or rather guy) who can't say no."

Perhaps a new departure toward setting Presidential priorities was better expressed by the Rolling Stones, "You can't always get what
you want...but if you try, try, try, you just might find, you get what you need." Then again, Bob Seger wrote, "You just can't have it all;" that song, interestingly enough, has the title "Beautiful Loser."