Policy Brief 166

3-1-1996

Is This The Healthiest Economy in Three Decades?

Murray L. Weidenbaum
Washington University in St Louis

The same people who would not admit a real economic recovery was underway in 1992 are reluctant to acknowledge that this same recovery is now old and tired in 1996. Only 31% pf the adult population is satisfied with the economy. Over one-half of Americans believe that the country is "headed in the wrong direction." For the most part, the data support these sentiments, from slowed GDP and productivity growth to increased worker insecurity. Policymakers need to take their own Hippocratic oath: First, do no harm. At the same time, they cannot sit idly by either.

NOT FOR RELEASE
BEFORE 10:30 A.M. E.S.T
MARCH 22, 1996

Center for the Study of American Business

CSAB

Is This the Healthiest Economy in Three Decades?

Murray Weidenbaum

Policy Brief 166
March 1996

Contact:
Robert Batterson
Communications Director
(314) 935-5676

Washington University Campus Box 1208 One Brookings Drive St. Louis, Missouri 63130-4899

Is This the Healthiest Economy in Three Decades?

by Murray Weidenbaum

To paraphrase Charles Dickens: This may not be the worst of times, but it surely is not the best of times.

Ironically, the same folks who would not admit that a real economic recovery was underway in 1992 are reluctant to acknowledge that in 1996 that same recovery is now old and tired.

Let us begin by examining how Americans view the economy and then turn to the statistics on economic performance. In neither case do we find support for the claim that this is the healthiest economy in three decades — or even two or one.

In early March, the *Wall Street Journal* reported the results of its national survey: only 31 percent of the adult population is satisfied with the economy. Over one-half of the people believe that the country is "headed in the wrong direction." The data tell us why.

What the Numbers Show

The gross domestic product, the most comprehensive measure of the economy, grew a modest 2 percent in 1995. The prevailing forecast for 1996 by experienced forecasters is even more anemic — 1.9 percent (even the inflation rate is higher, at 2.3 percent).

Murray Weidenbaum is chairman of the Center for the Study of American Business and Mallinckrodt Distinguished University Professor at Washington University in St. Louis. In 1981-82, he was chairman of President Reagan's Council of Economic Advisers. This testimony will be presented before the Congressional Joint Economic Committee in Washington, D.C., on March 22, 1996.

In the past, the U.S. economy has experienced periods of far more rapid growth while inflation was held in check. In 1984, GDP grew 6.8 percent and the GDP deflator (measuring inflation) rose 3.8 percent. In 1966, economic growth was 6.4 percent and the deflator rose a modest 2.8 percent. Even in 1992, the year of supposedly non-existent recovery, GDP increased by 2.1 percent (and inflation 3.0 percent). If 1992 was not a year to write home about, it is hard to see how 1996 is sensationally better.

When we dig below the surface, we find a number of economic concerns. Those concerns are not limited to Republicans and independents. Robert Reich, the Secretary of Labor, has noted all sorts of deficiencies in the economy, especially worker insecurity and slow growth in employee compensation.

The growth of productivity, a key to rising living standards and international competitiveness, has dipped from 3 percent in 1992 to an average of 2 percent since. Not all sectors of the economy are participating in the recovery. Real farm income is down from $40 billion in 1992 to an average of $33 billion more recently.

The Economic Outlook

But, as I noted at the outset, this is not the worst of times. Unemployment has been declining, as has the budget deficit. The American economy is neither going down the tube nor is it a candidate for the Guiness Book of World Records. Nevertheless, the American economy can do better.

The sharp rebound in Southern California — which has offset the painful decline in defense employment — is an especially heartening indicator of our future potentials. The rapid increases in jobs in computers, software, entertainment, and biotechnology are not a response to public sector initiatives, but to the resourcefulness of the private sector. In retrospect, we should be glad that the pressures for expensive federal defense "conversion" initiatives were in the main ignored.

Recommendations

I conclude with a few policy prescriptions:

1. *Policymakers should take an economic equivalent of the Hippocratic oath: First, do no harm.* The economy will only suffer from brave new government spending programs or tax increases or regulatory expansion. A significant amount of today's unemployment results from the phenomenon of "the discouraged employer" — discouraged from hiring more people by a thicket of byzantine workplace regulations and costly mandates.

2. *My standard advice is pertinent: don't just stand there, undo something.* The performance of the economy will improve if the Congress undoes complicated taxation and burdensome regulation and reduces the growth of federal expenditures. Such structural reforms will increase the flow of saving for new investment and encourage the creation of new and improved products and production processes. That healthier economy will reduce the pressure for new government programs. The result will be an economy with greater productive capacity that can grow 3 percent a year or faster — and thus provide a higher level of sustained employment.

Note: A detailed statement is submitted for the record.