

**"What Can An Economic Adviser Do  
When the President Adopts  
Bad Economic Policies?"**

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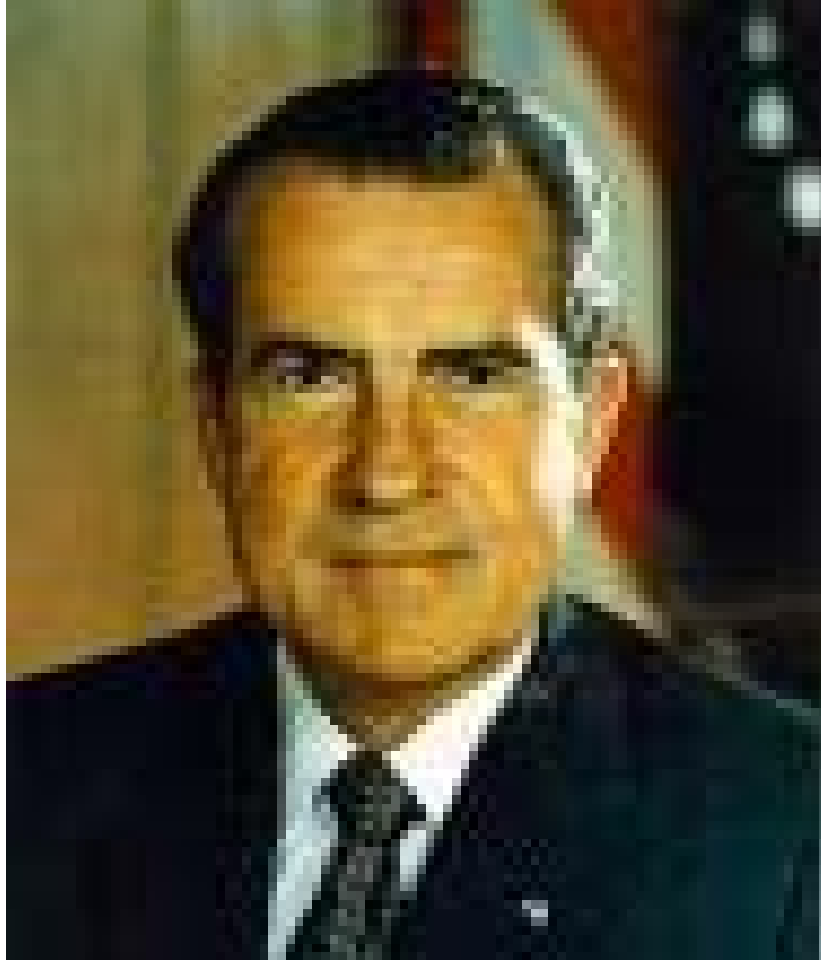
# Bernie Saffran (1936-2004)



# Examples from earlier decades

- 1966: LBJ rejects Ackley advice to raise taxes to pay for Vietnam
- 1971: Nixon rejects McCracken & Stein advice re wage-price controls
- 1984: Reagan WH rejects Feldstein forecasts of twin deficits







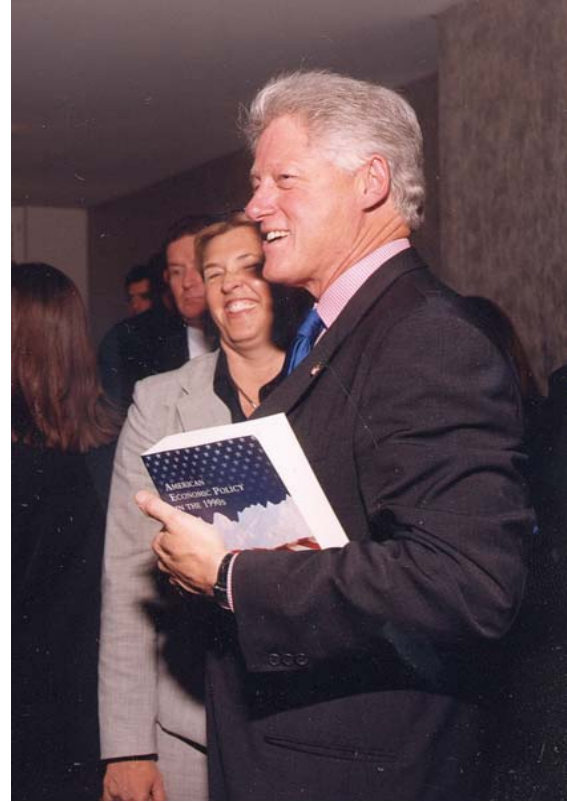
# 1990s

Clinton was a dream  
to work for,  
by comparison

- 1993: Tyson had doubts about health care reform proposal
- 1997: Yellen had doubts about Kyoto Protocol

Boskin fared less well  
under G.H.W. Bush

- 1990: tried to warn of weak economy
- 1992: econ.advisers were publicly dropped from future team





# Do economic advisers ever resign?

- McCracken quit over Nixon's controls, but 4 months later, quietly
- Weidenbaum quit over Reagan's excessive spending, again quietly

Don't conclude Ph.D. economists always know better than others in government.

1. Episodes where “good economics” gives unambiguous answers to major controversial policy questions, later vindicated, are relatively rare.
2. CEA is often not alone, making its points.
3. President has to weigh in many factors besides economic theory, incl. political factors, in a democracy.



# Why so big a gap between presidential policies and good economics in the current administration ?

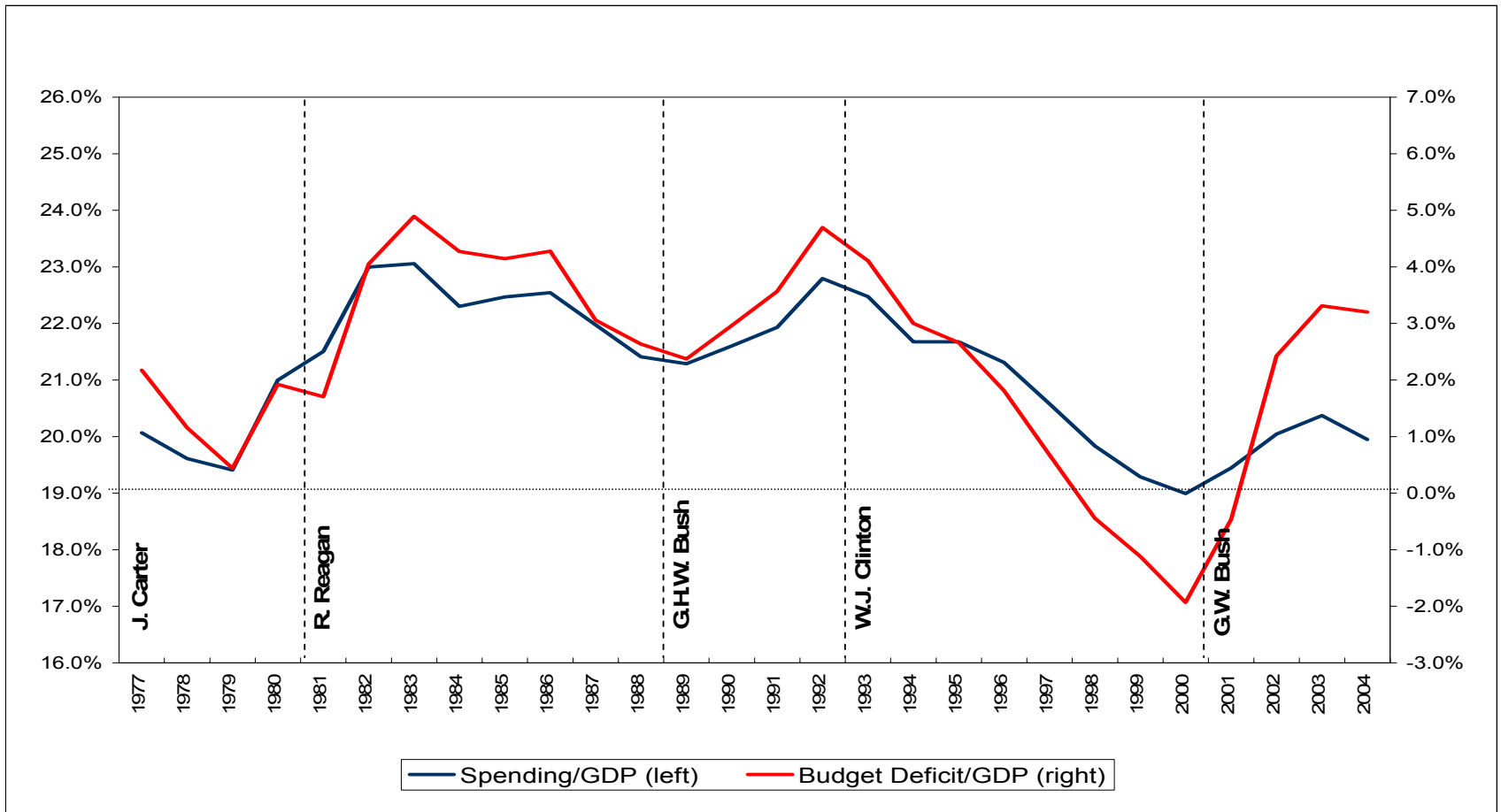
- as in Nixon & Reagan administrations.
- Aren't Republicans supposed to be the ones who recognize neoclassical economic truths: laissez faire, and macro discipline?
- Didn't FDR & LBJ let loose micro interventionism & macro expansion?
- My thesis: since the 1960s,

***Republican and Democrat Presidents Have Switched Economic Policies***

# Compare George W. Bush (& Nixon & Reagan) to Bill Clinton (& Carter)

- Record budget deficits
- Easy monetary policy (esp. before elections)
- Growing government (e.g., employment)
- Actions opposite to free trade rhetoric.
- Even deregulation started under Carter, not Reagan.
- Of course the differences are even bigger if one cares about anti-trust, environment, equality,...

# US Federal Budget Deficit and Spending as % of GDP.



# Dem.s not all right, and Repub.s not all wrong

- Carter's initial energy policy & Clinton's initial health care policy were misguided.
- Ronald Reagan's firing of air traffic controllers, striking in violation of contract, admired by economists.
- George H. W. Bush's 1990 decision to revoke "no new taxes" campaign pledge was a brave step, ranking of equal importance with Clinton's two measures, in setting path to eventual budget balance.

# Why?

- I don't know
- Democrats remain saddled with big-government image. Wary voters would never elect a Democrat president, unless he or she exhibited the ability & will to grapple with the problems of government's role in the economy.
- The public seems willing, however, to accept Republican presidents who believe it is enough to adopt small-government rhetoric, even while their actions have the opposite effect.