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American Republicans Are Bad Economic Managers

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<https://github.com;braddelong/public-files/blob/master/delong-project-syndicate-2020-11-01.pdf>

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We hear many strange things today. They—and it is a complicated “they”—are flooding the zone with misinformation. Why? For lots of reasons. But democracy breaks down under a flood of misinformation. Democracies’ excellences spring from its ability to consider ideas from different places in society, and converge on the good ones. But that requires that the flow of information into the public-sphere be reality-based—or at least that there be confrontations in which the people can watch Lincoln debate Douglas and decide who is trustworthy and correct and who is not. And we have lost that.

But we keep on trying. Here Sisyphus. Here rock. Here hill. And, as Camus wrote now long ago, we must imagine Sisyphus happy, with what he meant depending on which of the many possible ways we choose to read the word “must”.

One piece of misinformation I see more and more these days is that on election day America faces a tradeoff. On the one hand, electing a

Democrat means that America will no longer have a government that permanently kidnaps children just because it can. On the other hand, electing a Democrat “who will be radical and hurt the economy...”, as the *Wall Street Journal* columnist Peggy “No Republicans Should Ever Stab Trump in the Back” Noonan puts it, before writing that “[Biden] should not be going out for ice cream in a mask like John Dillinger on the lam...” and that “[Kamala Harris] is embarrassing. Apparently you’re not allowed to say these things because she’s a woman.... I will not sweat it, I will be myself.... If you can’t imitate gravity, could you at least try for seriousness?...”

So let me give the microphone to economists Alan Blinder and Mark Watson, who write that: “The superiority of economic performance under Democrats rather than Republicans is nearly ubiquitous: it holds almost regardless of how you define success.... The performance gap... strains credulity.... 1.8 percentage points [per year]... from Truman through Obama...” And note that if they went back two more presidents—to Hoover-Roosevelt—the gap would be even bigger: about 3%/year.

Note that in this context Trump was an unusually good president as far as economic performance in his first three years was concerned. In the first three years of his presidency the economy matched the 2.4%/year growth it achieved in Obama’s second term. Even matching the previous Democrat is something that Trump’s and only Trump’s, of all post-WWII Republican presidencies, has seen.

Blinder and Watson are flummoxed on where this performance gap comes from: greater fixed investment, more consumer optimism and thus spending on durables, fewer unfavorable oil shocks, and perhaps stronger growth abroad. But these can explain less than half of the gap. It is not that Democrats pursue overinflationary policies that borrow growth from the future and move it into the present.

When I first read Blinder and Watson, the oil factor jumped out at me. Both President George Bushes—and also Nixon and Ford’s Secretary of State Henry Kissinger—were deeply confused about whether the U.S. wanted a high or a low price of oil as far as boosting real income growth was concerned. Other presidents grabbed for chances to make or keep oil prices lower.

When we look back at history, it seems that Republican presidents and their administrations have little sense of what economic policies are likely to work. It simply never entered George W. Bush’s mind, or the mind of anyone in his administration, that a financial crisis could be produced by underregulation and would be a bad thing. It simply never entered Ronald Reagan’s mind, or the mind of anyone in his administration, that the big budget deficits they created gave America a choice between seeing investment collapse—slowing growth—or borrowing from abroad and in the process importing lots more manufactures—thus turning the Midwest into a rust belt. And Nixon’s belief that low interest rates plus wage-and-price controls could keep both inflation and unemployment low was hard to fathom either at the time.

Here we can say of Trump that he has played true to type. NAFTA: worst trade deal in American history. TPP: second worst. Add some TPP provisions to NAFTA and call it USMCA, and all of a sudden it makes America great again. A trade war with China: “good, and easy to win”. But the result has been no change in manufacturing employment, a widened manufacturing trade deficit, U.S. consumers suffering reduced real incomes because they, not China, have paid the tariffs. Why? Because Robert Lighthizer and company had no clue how to plan or fight a trade war.

Republican presidents with their repeated failures to understand how the economy works have been hurting it since at least 1928. There is no tradeoff here.

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