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**OA/ID Number:** 13898  
**Folder ID Number:** 13898-002

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**Folder Title:**  
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*Congress Spending*

**PRESIDENTS AND ECONOMIC PERFORMANCE:**

**AN ANALYSIS BY FISCAL YEARS**

**Prepared for**

**Representative Richard K. Armey (R-TX)  
Ranking Republican, Joint Economic Committee**

**and**

**Senator Connie Mack (R-FL)  
Member, Joint Economic Committee**

**November 11, 1991**

## EXECUTIVE SUMMARY

**"Progress, far from consisting in change, depends on retentiveness. Those who cannot remember the past are condemned to repeat it."**

**--GEORGE SANTAYANA**

*The Life of Reason, Vol. I. (1905)*

As Congress and the Bush Administration grapple with policies to help spur economic growth, some media reports of economic studies purport to show that the late 1970s, contrary to popular perception, were actually better years in terms of economic growth and job creation than were the mid-to-late '80s. By implication, the fiscal policies pursued by President Jimmy Carter were better for the country than those pursued by President Ronald Reagan.

As is often the case with revisionist history, these reports are based on flawed evidence. Retrospective economic analyses consistently measure a president's fiscal performance from the time he was sworn into office (if not before), even though no president's fiscal policies can take effect until the beginning of the first fiscal year in which he presides. This analysis examines the average annualized rate for three important economic factors affecting all Americans (job creation, growth in the real gross national product (GNP), and inflation) by extracting data from the fiscal years during which a president served.

You cannot accurately measure gallons with a ruler, and you cannot accurately measure a president's fiscal performance with calendar year data. This analysis seeks to use the proper data base with which to hold a president accountable for fiscal performance, which are data from the fiscal years during which he served.

The results are interesting. Recent reports based on calendar year data show Jimmy Carter's annualized job creation percentage standing as a peak between the Nixon/Ford and Ronald Reagan administrations, while fiscal year analysis shows his job creation percentage as a valley between the two. And rather than showing a steady rise in real GNP from 1970 to 1989, Carter's fiscal year presidency again appears as a valley between his predecessors and his successor.

The implications for policy makers are clear. President Ronald Reagan's fiscal policies have a vastly better chance of reviving the U.S. economy from its current, flat state than would returning to the policies enacted under the presidency of Jimmy Carter.

President Bush has only completed 21 of the 48 fiscal months in his term, but unless Congress passes and he enacts economic policies to spur growth and create new jobs, his economic performance as measured by fiscal years will be closer to Jimmy Carter's than Ronald Reagan's. As policy makers look at recent history for clues to economic performance, they should accurately consider the fiscal year performance of different presidents, rather than be misled by calendar year analyses.

DICK ARMEY  
Ranking Republican  
Joint Economic Committee

## PRESIDENTS AND ECONOMIC PERFORMANCE: AN ANALYSIS BY FISCAL YEARS

November 11, 1991

Prepared for Representative Richard K. Armev (R-TX),  
Ranking Republican, and Senator Connie Mack (R-FL),  
Member, Joint Economic Committee

### INTRODUCTION

Recent articles in the media and various retrospective analyses of past economic performance have indicated that, despite common perceptions, the 1970s were actually a period of greater job creation than were the 1980s. These articles and comparative analyses which purport to compare the economic performances of presidents rely on data drawn from the calendar years during which a president served (if not from years prior to their election).<sup>1</sup>

However, if a president is to be held accountable for fiscal performance, it is only fair that data be drawn from the fiscal years during which he presided, as this is the time frame in which his economic policies, or at least the economic policies enacted during the budget cycles over which he presides, are in effect.

It makes little sense to attribute to Jimmy Carter the tax and spend decisions signed into law by his predecessor, Gerald Ford, but that is exactly what many economic analyses do. Though Carter was elected in 1976 and sworn into office on January 20, 1977,<sup>2</sup> spending levels signed by Carter in annual authorization and appropriation bills for various agencies and programs did not actually take effect until October 1, 1977, the start of fiscal year 1978.<sup>3</sup>

This analysis of economic performance draws data from the fiscal years in which the economic policies -- particularly tax and spend decisions -- a president helped formulate and enact are in effect, providing a more accurate assessment of a president's economic performance. Rather than hold Jimmy Carter responsible for the economic performance in the months of February through September 1977, we attribute them here to Gerald Ford, since the fiscal policies in place during this time were enacted in 1976, before Carter was even elected.

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<sup>1</sup> "Selective Prosperity, Increasing Income Disparities Since 1977," Center on Budget and Policy Priorities, p.9, "Choosing Comparison Years," July 1991. Brookes, Warren, "New Jobs Bushed-out?," Washington Times, September 2, 1991, p.F1. For a general critique of problems related to the selection of base years for comparative analyses, see "There They Go Again," Senate Republican Conference Task Force on Economic Growth and Job Creation, September 1991.

<sup>2</sup> "Public Papers of the Presidents of the United States, 1977," Book 1, U.S. Government Printing Office, Washington, D.C.

<sup>3</sup> Carter's first tax bill, enacted May 23, 1977, did not affect taxable personal income on yearly returns until after Dec. 31, 1977, beyond the third month of FY 1978. See P.L. 95-30, Tax Reduction and Simplification Act of 1977.

By drawing from fiscal year economic data, this study provides a clearer picture of presidential economic performance based on average annual performance in job creation, growth in the real gross national product (GNP) and inflation rates. These average annual measures are taken from the fiscal years of a president's completed term(s), excluding the current president since he has completed less than half his term in fiscal years. (At the time of this study's completion, President Bush had presided over only 21 of 48 months of his first term's four fiscal years.)

## JOBS

Table 1 shows the job creation performance of presidents from FY 1970 through FY 1989 based on civilian employment. Job creation was robust beginning in the 1970s. The Nixon-Ford terms averaged 2.3 percent per fiscal year. During the four Federal budget cycles of President Jimmy Carter, jobs increased by 7.9 percent, slightly less than 2 percent per fiscal year. President Reagan averaged a 2.17 percent annual increase in job creation between fiscal 1982 and fiscal 1989, but without the high and accelerating inflation rates of the late 1970s.

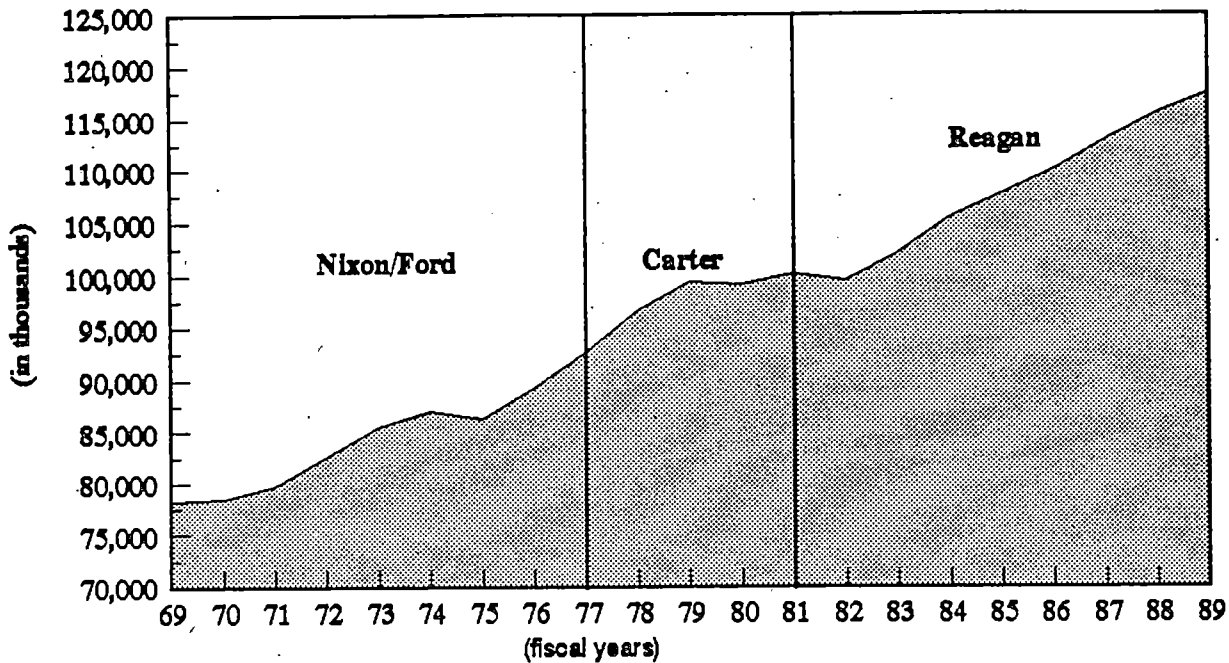
**Table 1 -- Annual Job Growth by Presidents' Fiscal Years**

President	Oct. 1	to	Oct. 1	Number of Jobs (in thousands)	Annualized Percentage Increase
Nixon/Ford	1969 (FY'70)		1977 (FY'78)	78,250 to 92,702	2.31%
Carter	1977 (FY'78)		1981 (FY'82)	92,702 to 100,064	1.99%
Reagan	1981 (FY'82)		1989 (FY'90)	100,064 to 117,417	2.17%

Source: Bureau of Labor Statistics civilian employment, household survey data, and JEC Republican Staff fiscal year calculations.

An economic assessment of the presidential terms, measured from the first full Federal budget cycle of the term, suggests that an inflationary surge, despite the resulting high nominal interest rates, did produce some jobs in the FY 1978-81 period, but Carter's job creation record finishes below the average among the full-term records of all presidents of the last 20 years (see Graph 1). The high costs of these jobs, however, are significant, in terms of double-digit inflation and high nominal interest rates. Sluggish real GNP growth resulted from distortions to resource allocation in the markets disrupted by 1970s economic policies.

**Graph 1 -- TOTAL CIVILIAN EMPLOYMENT**  
(seasonally adjusted)



Note: Figures represent measure as of October 1 of each calendar year, the start of the fiscal year.  
Source: Bureau of Labor Statistics and JEC Republican staff calculations.

### REAL GROWTH IN GNP

The decade of the 1970s started with a lull as the measure of real (inflation-adjusted) national output, real GNP, fell one-tenth of a percent in FY 1970.<sup>4</sup> Subsequently, real GNP rose 2.3 percent, 5.3 percent and 4.4 percent in FY 1971-73, before falling seven-tenths of a percent in 1974 as recession began in the second quarter of the year. Real GNP was two-tenths of a percent lower to end FY 1975, then increased by 4.2 percent in FY 1976 and surged by 6.1 percent in FY 1977, both Ford years. The change in real GNP over these years averages over 2.9 percent per year.

Real GNP for the Carter fiscal years increased by 5.3 percent in FY 1978, by 2.5 percent in FY 1979, was slightly negative in FY 1980, and increased by only 1.9 percent in FY 1981. However, the 1981-82 recession, the most severe in postwar history, began before the end of Carter's last fiscal year. In FY 1980, real GNP fell 1.5 percent (a decline of \$25.4 billion in 1982 dollars), then rose 3.3 percent in FY 1981. Without the illusionary gains of inflation, this real growth falls short of that of the mid-to-late 1980s, and the early 1970s (see Table 2). This result is consistent with the efficiency loss implied by economic distortion and uncertainty that results from accelerating inflation that depresses real GNP growth (see Graph 2).

<sup>4</sup> All real GNP data is seasonally adjusted, quarterly data in 1982 dollars, Department of Commerce, Bureau of Economic Analysis.

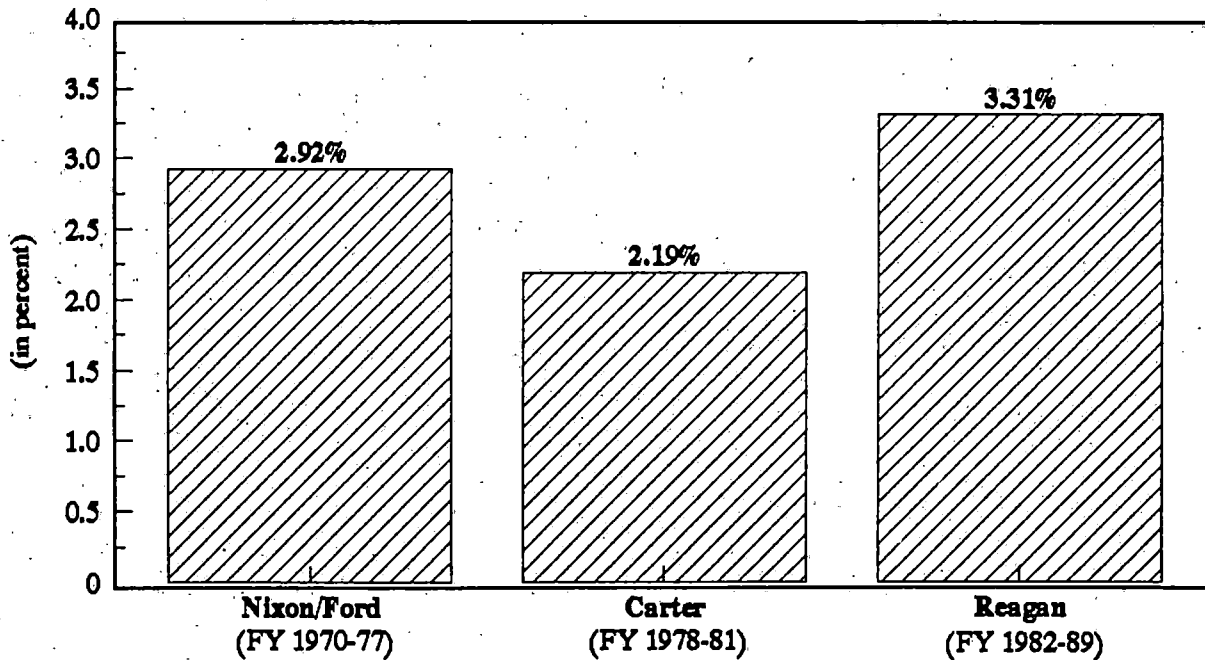
Recently published statistics based on calendar year data suggest that the Nixon/Ford years were inferior to the Carter term in real GNP growth.<sup>5</sup> However, the change in real GNP for the Carter term averages less than 2.2 percent per fiscal year, while the Nixon/Ford fiscal years averaged over 2.9 percent.

**Table 2 -- Real Gross National Product Growth During Presidents' Fiscal Years**

President	Oct. 1	to	Oct. 1	Real GNP (in 1982 \$ billions)	Annualized Percentage Increase
Nixon/Ford	1969 (FY'70)		1977 (FY'78)	2,433.2 to 3,001.8	2.92%
Carter	1977 (FY'78)		1981 (FY'82)	3,001.8 to 3,264.6	2.19%
Reagan	1981 (FY'82)		1989 (FY'90)	3,264.6 to 4,129.7	3.31%

Source: Department of Commerce, Bureau of Economic Analysis, and fiscal year calculations by JEC Republican staff.

**Graph 2 -- REAL GROSS NATIONAL PRODUCT**  
(average annualized growth rate)



Source: Department of Commerce, Bureau of Economic Analysis, and JEC Republican staff calculations.

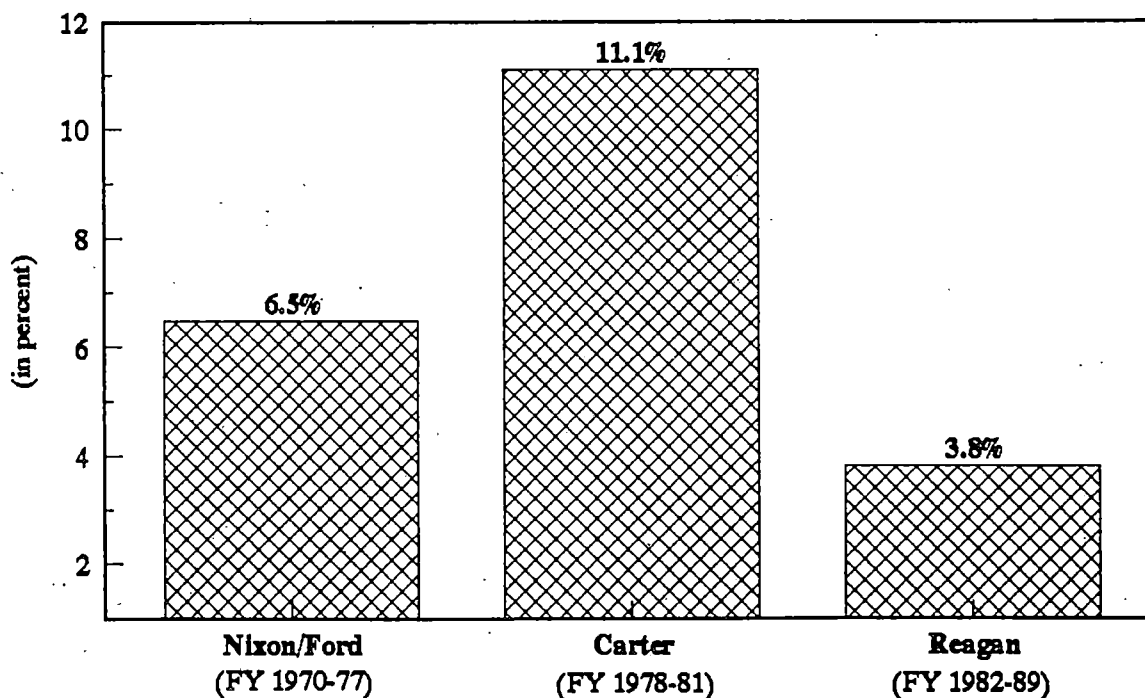
<sup>5</sup> "U.S. Budget Deficit Shackles Bush's Economic Policy Makers," Washington Post, October 28, 1991, p.A1, A6-7, GNP chart on p.A7.

The first fiscal year of the first Reagan term was dominated by a continuing tight monetary policy designed to extinguish the accelerating inflation of the 1970s. Real GNP fell 3.4 percent in FY 1982 before increasing 4.8 percent in FY 1983 and surging 6.5 percent in FY 1984. For the next five Reagan fiscal years, 1985 through 1989, real GNP growth was fairly steady at 3.3, 2.1, 4.0, 4.5, and 2.4 percent, respectively. The change in real GNP over the two full Reagan terms averages better than 3.3 percent per fiscal year.

### INFLATION

The negative real interest rates of the 1970s produced accelerating inflation, which peaked in March of 1980 at 14.8 percent (annual rate), and averaged 12.8 percent for the fiscal year as measured by the Consumer Price Index (CPI) (see Graph 3). Inflation, combined with negative real interest rates, encouraged people to borrow money to invest in hedges against inflation. Often this investment took the form of existing assets such as residential and commercial real estate, undeveloped land, art-work and antiques.

**Graph 3 -- CONSUMER PRICE INDEX**  
(annualized percentage rate)



Source: Bureau of Labor Statistics and JEC Republican staff calculations.

Speculative activity in the 1970s was emphasized at the expense of productive investment in research and development and plant and equipment, since accelerating inflation made **real (after inflation)**, after-tax rates of return to productive investment often negative. Even in inflated nominal terms, after-tax profits per dollar of sales for all manufacturing corporations hit a decade-long low of 4.6 percent at the beginning of FY 1976, while inflation soared to more than 6.4 percent.<sup>6</sup> In FY 1977-79, inflation continued upward to 8.5, 11.9 and 12.8 percent, respectively. Clearly, policies during this period produced very expensive jobs and economic distortions that hampered investment and job creation.

Tight monetary policy dramatically reduced domestic inflation as well as speculative international inflation in commodities markets, helping to bring the recession to an end in 1982, and robust real growth continued through the remaining six years of the Reagan Administration. Inflation stayed below 5 percent from this period through the end of the Reagan years.

Growth of real GNP (inflation-adjusted to constant 1982 dollars) during the latter part of the 1970s was lackluster, and ranked low in the two decades from 1970 to 1990. Real GNP growth stalled out during Carter's four fiscal years and subsequently turned down as the Fed fought inflation. Deficit spending as a percentage of GNP doubled under Carter to 4 percent, compared with 2 percent for the previous four presidents. This high percentage fell as the inflationary dividend to the Federal government provided by unindexed tax brackets increased revenue by more than 73 percent in the four Carter fiscal years. During this period, taxpayers continued to pay taxes on interest that was negative in real terms.

## CONCLUSION

As Congress and the Bush Administration grapple with a stubbornly stagnant economy, the debate more and more turns to a retrospective look at past economic policies.

Regrettably, much of this debate seems to rest on "revisionist history" which purports to show that, despite the conventional wisdom, the U.S. economy flourished more during the presidency of Jimmy Carter than that of Ronald Reagan. The underlying premise seems to be that job creation and growth in GNP were both better in the late 1970s than in the decade of the 1980s, and therefore the general policies of the Carter Administration, rather than the Reagan administrations, would better serve the American economy now.

The premise is flawed because it relies on data which have very little to do with a president's economic policies, since they measure a president's economic performance in terms of the calendar years in which he served. By nature of the Federal budget process, the initial decisions on fiscal policy of any president do not take effect until at least eight months after he takes the oath of office.

The results of a fiscal year analysis prove very interesting. For instance, a calendar year analysis of annualized average job growth rates results in Jimmy Carter's presidency (1977 through 1980) emerging as a **peak** between the Nixon/Ford years (1969 through 1976) and the Reagan years

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<sup>6</sup> Department of Commerce, Bureau of Census, as found in the Economic Report of the President, 1991, Table B-91, A391.

(1981 through 1988). However, a fiscal year analysis of the Carter presidency (FY '78 through FY '81) results in his annualized average job growth rate becoming a valley between those of the Nixon/Ford years (FY '70 through FY '77) and the Reagan years (FY '82 through FY '89).

Real GNP growth in FY 1970-89, exclusive of the distortions of 1970's inflation, exhibits an even more dramatic valley for the Carter fiscal years than the Carter valley in job growth. Fiscal year analysis, however, suggests superior real GNP growth before and after President Carter's four fiscal years. In the Reagan years, the average real GNP growth rate was more than 50 percent higher than that of the Carter fiscal years. Based on fiscal year analysis, President Carter's policies were associated with diminished real, long-term growth of output in the U.S. economy.

Early in this century, George Santayana wrote, "Progress, far from consisting in change, depends on retentiveness. Those who cannot remember the past are condemned to repeat it." In considering fiscal policy for the present, it's important for policy makers to remember the fiscal policies of the past. A look at the data from the years presidents' fiscal policies were in effect may remind us that compared to his predecessor and his successor, the inflation under President Carter's fiscal policies was higher, the average annual rate of job creation was lower, and the rate of real growth in the gross national product was also lower.

As policy makers look at recent history for clues to economic performance, they should accurately consider the fiscal year performance of different presidents, rather than be misled by calendar year analyses.

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This analysis was prepared by the Republican staff of the Joint Economic Committee: Senior Economist Paul Taylor, Ph.D., Staff Director Edward Gillespie, and Staff Assistant Nita Morgan.