Bush Throws a Party

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How does U.S. President George W. Bush's preelection spending binge stack up against history?

Any alert voter can see that U.S. President George W. Bush is engineering a remarkable election-time economic boom. But before high-minded economists and commentators start crying foul, just how excessive is the Bush business cycle? How will this president's economic pursuit of electoral success stack up against the standard for largesse set by U.S. President Richard Nixon back in 1971-72, or against the free-spending ways of politicians in the rest of the world, for that matter?

The objective of electoral economic engineering is to get votes. So, judge first which end-of-first-term U.S. president pandered more to the elderly, who vote in greater proportion than any other demographic group. In late 2003, Bush pushed through a spectacular increase in old-age benefits, offering huge subsidies for the purchase of prescription drugs. Of course, in 1972, Nixon really swung for the fences by hiking Social Security benefits some 20 percent. Comparing the costs of the two policies is difficult, since it hinges on the role of drugs in future medical treatments, but my personal estimate is that the annual price tags are roughly equal. The advantage goes to Nixon, because he began indexing Social Security benefits to inflation at the same time.

Presidents seeking a preelection boost can also run big deficits to increase domestic demand. Bush's high spending results from homeland security and "Iraqistan," whereas Nixon experienced the mother of all financial pits: Vietnam. Both presidents slashed taxes before their reelection campaigns (although Nixon recognized that the economy would pay for his profligacy later). The Nixon budget deficit in 1971 and 1972 was around 2 percent of gross domestic product (GDP); Bush's deficit exceeded 4 percent in 2003 and will likely reach 4 percent again in 2004. Advantage: Bush.

Exporters in Bush's economy are also benefiting from a sharp depreciation of the U.S. dollar, as they did under Nixon in 1972. The ultimate decline of the dollar will likely be far more spectacular under Bush than under Nixon. But whereas the movements may have been smaller under Nixon, they were much more traumatic, because in the early 1970s, exchange rates weren't supposed to move at all! The dollar depreciation only followed the complete collapse of the long-standing Bretton Woods system of fixed exchange. So call it a tie: Bush for size of exchange-rate moves, Nixon for drama and trauma.

Next, consider monetary policy. In theory, the U.S. Federal Reserve is independent of the executive branch. But just listen to the 1972 White House tapes of Nixon's blistering exchanges with then Federal Reserve Board Chairman Arthur Burns. Historians can debate whether Nixon intimidated Burns or if the chairman simply succumbed to faulty economics. Regardless, Burns certainly delivered the goods. In the run-up to the 1972 election, he printed money like it was going out of style, wreaking havoc with global price stability and exacerbating worldwide inflation.

Bush can't beat that. True, Bush is the beneficiary of an extremely aggressive monetary policy, with interest rates reaching 45-year lows in 2003. And yes, if rates remain too low for too long, inflation could heat up after the election. But even in a worst-case scenario, inflation is unlikely to reach the double-digit levels of the 1970s anytime soon. While Burns's monetary policy was atrocious, current Fed Chairman Alan Greenspan's hardly threatens a reckless inflation binge. Advantage: Nixon.

Overall winner: Nixon—although Bush has eight months left.

Does all this election-year economic engineering pay? In the short run, yes, because voters sure like a booming economy and a free-spending government at election time. They don't seem to question why anyone should reward a politician for artificially boosting an economy before elections, even if doing so produces serious long-term problems. Perhaps, like moviegoers who expect to be emotionally manipulated, voters just enjoy an election-year high.

Of course, U.S. presidents are hardly the only or the best practitioners of electoral economics. Mexico, for example, boasts a history of political business cycles that make the United States look fiscally Puritan. Mexican Presidents José López Portillo in 1982 and Carlos Salinas de Gortari in 1994 set benchmarks that few have surpassed. Former Russian President Boris Yeltsin gave away the country's natural resource base (under the guise of "privatization") to ensure his reelection in 1996, a problem the country is still painfully sorting through today. In Italy, every prime minister seems to produce a fiscal splurge come election time—and Italy has a lot of elections. But then, a country does not achieve one of the world's highest debt-to-GDP ratios (more than 100 percent) without effort.

Occasionally, politicians resist temptation. In 1979, U.S. President Jimmy Carter replaced his spectacularly ineffectual Fed Chairman William Miller with the tough-minded Paul Volcker, who over the next five years reversed the inflation damage Burns and Nixon had wrought. In appointing Volcker, Carter did his nation a great service, yet probably sealed his fate as a one-term chief executive. But Carter was the exception. According to the diaries of former British Chancellor of the Exchequer Nigel Lawson, even a budget hawk such as former British Prime Minister Margaret Thatcher pushed for looser macroeconomic policy during reelection campaigns.

U.S. voters will be more influenced by a robust economy than by commentators who cannot imagine that Bush would ever do anything right when it comes to economic policy. Believe me, as chief economist of the International Monetary Fund from 2001 to 2003, I worried greatly about the U.S. fiscal and trade deficits, and I still do. But so far, the U.S. recovery has been downright impressive—even if it is on cue for the U.S. election. The economic pickup in the United States also helps the global economy, fueling growth in Asia and even in Europe.

Assuming Bush doesn't try to outdo Nixon's political business-cycle record, the aftermath of the Bush binge won't be as bad as the one after Nixon in 1972, which included inflation and a decade of anemic growth. And while no one should relish the prospect of an economic hangover in 2005 and beyond, we should at least recognize a good party when we see one.

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