

# Goldilocks Economy

The bad news is the good news isn't being heard.

BY IRWIN M. STELZER

**T**HERE ARE TIMES when the president can convert his famed inarticulateness into a charming trait. But more often, the inability to explain and defend his policies causes serious political damage. Somehow, for instance, all the president's men have managed to snatch defeat from the jaws of victory in the debate over the state of the U.S. economy.

Because the administration seems unable to sell genuine triumphs as triumphs, it is forced to claim credit for recent congressional outpourings, and argue that they represent economic progress. In a desperate and wholly unnecessary search for victories, the White House claimed paternity of the energy and highway bills. The energy bill (\$12-\$66 billion over the next decade, depending on the cost of mandates) will subsidize energy producers of every sort, including oil producers rolling in profits from \$60 oil and corn growers whose ethanol will cost drivers another 10 cents per gallon, while at the same time cutting benefits to the car companies that have pioneered gasoline-saving hybrid cars. Democratic congressman Ed Markey, no wild-eyed advocate of free markets, still summed it up best: "Right now, Adam Smith is spinning in his grave so fast that he would qualify for a subsidy in this bill as an energy source. That is how bad this bill is."

And the highway bill (\$286 billion over six years, up 31 percent from the last highway bill) makes the energy bill seem like chump change. It contains so much pork, including many

hundreds of millions for everything from bike paths to bridges-to-nowhere in South Carolina and to no one in Alaska (both states homes to key committee members), that only a president who feels his economic record needs shoring up would consider signing it. It is, after all, \$28 billion above the president's veto limit of last year, a difference that only Washington politicians such as House speaker Dennis Hastert would dare precede with the adjective "only."

The pity of all this is that the administration would not have to claim these legislative travesties as its own, or as victories, if it had the skills needed to explain to voters that it has been a fine steward of their economic interests, these legislative extravagances notwithstanding. For we are living in an economy that is about as good as it gets.

"Goldilocks" is the adjective now most often being applied to the economy—not too hot, not too cold. "Boom" is a better descriptive, say many of my business friends. Last year the economy grew at an annual rate of 4.2 percent, the fastest in five years. Preliminary estimates are that the economy grew at a rate of 3.4 percent in the past quarter, and that figure will almost certainly be revised upward. That was the ninth straight quarter in which the economy has grown at an annual rate of more than 3 percent, and compares with a 2.1 percent rate, and falling, in the last quarter of the Clinton administration. Even the formerly woebegone manufacturing sector is growing. And with consumer spending so high that inventories have been depleted, business investment on the rise, profits exceeding expectations, and the housing market going from record to record, economists are scrambling to

---

*Irwin M. Stelzer is a contributing editor to THE WEEKLY STANDARD, director of economic policy studies at the Hudson Institute, and a columnist for the Sunday Times (London). Xinyue Zhu of the Hudson Institute provided research assistance for this article.*

raise their projections for economic growth in the second half of this year and early 2006.

When Bill Clinton left office almost 138 million Americans were at work; this June, that figure stood at close to 142 million. Real compensation—wages plus benefits—was growing at an annual rate of 2.8 percent when Bush was settling into the White House; it grew at a significantly faster 3.9 percent rate in the first quarter of this year, the latest period for which such data are available. In the past year, the economy has added 2.4 million jobs, 207,000 in July alone.

There's more, and in my view very significant, data that we should look to when thinking about how Americans live. Almost eight million privately owned housing units have been completed since President Bush took office. Of these, over six million were single-family homes. Home sales are at record levels, as are prices.

Add to all these indicators of rapid growth the happy fact that—thanks to rapid increases in productivity and some skillful monetary management by Alan Greenspan and his Fed colleagues—inflation remains low by historical standards.

This is not to say that there are not data that can be cited to support a gloomier outlook. There are. That's what makes economic tea-reading difficult. But, as a lawyer might say, we have to look to the weight of all the evidence. And when we do that, it is difficult to make a case that the Bush administration has mismanaged the economy.

Nor is it to say that the Bush record is without its blemishes. The 5.0 percent unemployment rate, although low by historical standards, is still above the 4.2 percent rate that he inherited. The fiscal situation, with expenditures outrunning rising tax receipts, is hardly one of which a conservative president, his veto pen gathering dust in its holster, should be proud, especially at this stage in the business cycle, when a bit of a surplus might be in order. To an unreformed and underfunded Medicare program the president has added a wildly

expensive prescription drug program. Tax reform suffers from lack of attention, as the president squanders political capital on "reforming" Social Security, the one feature of the welfare state that has met its goal of softening the strain of retirement for the non-rich and, in the process, rounded the sharpest features of meritocratic, market-based capitalism.

Still, taken as a whole, the Bush record is certainly worthy of a trumpeting or two, and by someone more in the class of the legendary Harry James than of some of the second-string players that the president has sent to inform his audience. As an intro, the trumpeter might point out that the president was dealt a poor hand: His economic inheritance—on the national as opposed to the personal level—left something to be desired.

Bill Clinton left him a weakening economy; the dot-com bubble burst; 15 Saudis and four friends, believing America to be the "weak horse" in the international race, decided to bring down the World Trade Center; a string of scandals, hatched before Bush took office, weakened confidence in corporate America; our European trading partners decided to will themselves into recession with an odd combination of fiscal and monetary policies grafted onto rigid labor and product markets; and, later, \$60 oil made its appearance. Not the best of hands.

But Bush played it very well indeed. With the help of Larry Lindsey, he fashioned and pushed through a shrewd tax-cutting program that was part neo-Keynesian political catnip (\$500 checks for consumers) and part supply-side relief that stimulated business investment. More important, he established a tone that combined Reaganesque sunny optimism with pro-business actions such as class-action and bankruptcy law reform to provide further encouragement to a level of risk-taking and entrepreneurial activity that is the envy of the world.

Spend much time in Europe and

you find that the loud anti-Americanism that is the stock in trade of Jacques Chirac and Gerhard Schröder (both their economies suffering from unemployment rates approaching double digits) merely covers the quieter inquiries of their officials and likely successors about how best to emulate American economic performance. The American job-creation machine, its productivity growth, the profitability of its companies, and the amazing flexibility that sees one million job separations (firings plus quits) and even more new hires every week—these things count with serious policymakers who are concerned more about Europe's future than the rabid anti-Bushism of their bosses.

All of which means that the Democrats are the lucky party: They oppose winners who don't know how to claim victory. Nor is the press going to do the administration's job for it. The *New York Times* grudgingly headlined its story on the release of data showing above-trend growth, rising final demand, and inventories so low that activity is bound to increase even more: "Suggestions Of Strength In Economy."

But the White House can't really blame its inability to get its message across on the media. First, the president started his campaign for Social Security reform with a "crisis" message that implied a bleak economic future for Americans. Second, Bush has failed to make the case that should be easy to make: The economy is on a roll, workers are gaining ground, shareholders are doing just fine, and there are even better times ahead—"sustained economic growth," to borrow a phrase from the Fed chairman.

Sure, it might be, as the president's critics contend, that we are in for trouble down the road.

\* Rising interest rates might stifle demand for houses—but so far even Greenspan's increases in short-term rates have not produced a sufficient rise in mortgage rates to do harm to a market that is more solid than the "bubble" blowers imagine.

\* The persistent trade deficit might cause a run on the dollar—but

so far the downward drift of the greenback shows no sign of accelerating as Asian and other investors continue to find America a good place to put their excess savings.

\* The high price of oil might slow economic activity—but so far consumers and businesses seem to be adjusting to \$60 oil, not without pain and grumbling, but without a recession.

\* The fiscal deficit might trigger inflation—but so far the deficit is headed down and is at an unthreatening ratio to GDP.

\* The over-indebted consumer might retreat from the malls, triggering a recession—but the \$2.9 trillion in debt that households have taken on since the end of the mild recession is more than offset by the \$10.6 trillion increase in assets owned, and the cost of carrying the debt as a percent of after-tax income is no higher than it was two years ago.

In short, if we are headed for apocalypse, it seems to be an apocalypse later, much later, rather than an apocalypse now. But don't judge the likelihood of a collapse by what you read in the papers. Remember the 2001 recession? Well, it turns out that revised data show that it never happened: We did not experience the two consecutive quarters of decline that define "recession."

Perhaps there is hope. The appointment of the distinguished Ben Bernanke to chair the President's Council of Economic Advisers, and the addition of two academics, Katherine Baicker and Matthew Slaughter, both of Dartmouth, might allow that neglected organization to regain a seat at the policy table, especially if Bernanke is, in essence, being auditioned to see if he has the right stuff needed to succeed Greenspan. And the beefing up of the Treasury team, now that the Senate has ended its block on several presidential appointments, might give Secretary John Snow the professional and intellectual support he clearly needs.

Now, if the president can just find some way of arranging another term for Alan Greenspan . . . ♦