What Can Presidents Actually Do For the Economy?

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• Introduction
  Some of the promises and claims that presidential hopefuls and former presidents claim they can and have done for the U.S. economy
  1. Added jobs
  2. Reduced inflation
  3. Improved infrastructure
  4. Safer living through use of the military in wars or cold-wars
  5. Ended cold and hot wars
  6. Fairer financial markets through regulation or deregulation
  7. Free trade through trade agreements that improved U.S. employment and living standards
  8. Saved the economy
  9. Others
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• Presidential Terms of Office
  Ronald Reagan 1981-1989
  William J. Clinton 1993-2001
  George W. Bush 2001-2009
  Barak H. Obama 2009-2017

NBER Business Cycles

Peak to Trough
  1973-12-01 to 1975-03-01
  1980-02-01 to 1980-07-01
  1981-08-01 to 1981-11-01
  1990-08-01 to 1991-03-01
  2001-04-01 to 2001-11-01
  2008-01-01 to 2009-06-01
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• A review of the economic events under various presidents since Ronald Reagan took office in 1981
  1. What has happened with GDP from 1978 to the present by Presidential term
  2. Compare Actual to Potential GDP by Presidential term
  3. Key events with energy prices (WTI crude oil prices)
  4. Rate of inflation for Personal Consumption Expenses
  5. Manufacturing Employment
  6. Total Nonfarm Payroll and Construction Employment
  7. Housing Prices and 30-year Fixed Rate Mortgage
  8. Net Domestic Fixed Investment and Net Nonresidential Investment
  10. Interest rates & PCE – Fed Funds rate, mortgage rates 10-year Treasury Bond Rate
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- **Historical Review of the Data By Presidential Term**
  1. GDP vs Potential GDP
  2. GDP and the Price of Oil WTI Price
  3. Rate of Growth of GDP
  4. Manufacturing Employment
  5. Nonfarm Payroll Employment: Total, Private Industries, Construction
  6. Housing Prices and 30-year Fixed Rate Mortgage
  7. Interest Rates and Monetary Policy
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Narrative

• Reagan Administration’s Economic Policies ("Reaganomics"): Deregulation and Reduced Government
  1. Inherited High inflation ("stagflation" and back-to-back recessions (1980, and 1981) and 10% unemployment rate.
  2. Administered DIDMCA (Depository Institutions and Monetary Control Act of 1980) which deregulated interest banks could charge on deposits (6 year phase-out of Regulation Q) and began major banking deregulation culminating in Gramm-Leach-Bliley Act in 1999 which largely repealed Glass-Steагall.
  2. Economic Recovery Tax Act of 1981: Tax cuts for 70% to 28% for top bracket and 48% to 34% for corporate tax rate
     - Tax Reform Act of 1986 (lowered tax rates for individuals from 50% to 28% and corporations)
  4. Instituted substantial budget cuts in 1985 with cooperation of Congress
  5. Increased defense spending as a way to achieved an end to the Cold War
  6. Considerably expanded the national debt through deficit financing of tax cuts
  7. A long economic expansion began under the Reagan Administration that lasted until 1991
What Can Presidents Actually Do For the Economy? Narrative

  1. Began the administration with the S&L Crisis in full swing
  2. 1989 Financial Institutions Reform Recovery and Enforcement Act (FIRREA)
     Limited thrifts’ investment in nonresidential real estate
     Ordered thrift divestiture of junk bonds
     Created Resolution Trust Corporation (RTC) to resolve failed and failing thrifts
  3. 1991 Federal Deposit Insurance Corporation Improvement Act (FDICIA)
     Prompt Corrective Action – mandatory bank interventions by regulators
     Risk-based deposit insurance premiums
     Limited use of too-big-to-fail bailouts
     Extended Federal regulation of foreign bank branches in U.S.
  4. August 2, 1990 (to February 28, 1991), began and completed the Gulf War, Desert Storm and Desert Shield, with invasion of Iraq and defense of Kuwait, Saudi Arabia and Israel, accompanied by a military coalition of 34 countries and a buildup costing U.S. $25 billion.
What Can Presidents Actually Do For the Economy? Narrative

  The administration began in the midst of a recovery from the 1990-91 recession and was ended in recession after the Dot-Com boom had ended in January 2001. The economy was clearly driven by the developments in information technology of the Internet and communications of the time.
  1. **Omnibus Budget Reconciliation Act of 1993**
     Cut taxes on low income taxpayers and raised taxes on the wealthiest 1.2 percent of taxpayers.
  3. **Illegal Immigration Reform and Immigrant Responsibility Act** (IIRIRA) September 30, 1996
     Reducing legal immigration from 800,000 to 550,000 per year
  4. Clinton authorized the use of U.S. Armed Forces in a **NATO** bombing campaign against Yugoslavia in 1999, named **Operation Allied Force** to stop ethnic cleansing and genocide by Serbia.
  5. **Riegle-Neal Interstate Banking and Branching Efficiency Act** 1994
     Allowed bank holding companies to acquire banks in other than their home state and to convert these starting in 1997 into branches of a single interstate bank (also newly chartered branches in other states)
  6. **Financial Services Modernization Act (Gramm-Leach-Bliley Act)** 1999 which repealed a good part of Glass-Steagall.
What Can Presidents Actually Do For the Economy? Narrative

  The Administration began in the midst of the 1991 recession.
  On September 11, 2001 2 hijacked aircraft flew into the Twin Towers in New York City
  several blocks from Wall Street and the New York Stock Exchange. That set in motion the
  retaliation for this attack. Another stuck the Pentagon and another crashed in Pennsylvania.
  1. Taxes
  Economic Growth and Tax Reconciliation Act of 2001
  Jobs and Growth Tax Relief Reconciliation Act of 2003
    Increased tax deductions for married couples, eliminate the estate tax and reduced
    marginal tax rates. These cuts were intended to increase jobs. Neither were made permanent
    and likely increased the deficit.
  2. No Child Left Behind Act in 2002 substantially increased Federal Government spending for
    education
  3. Federal spending increased because of the wars in Iraq and Afghanistan and the Global War
    on Terrorism and the Federal Budget deficit increased as well. This spending was following a
    long reduction in defense spending during the Clinton Administration.
  4. A housing price bubble began in 2004 ending in 2007 and with the start of the Great
  5. To avoid worsening the financial crisis the Economic Stimulus Act of 2008 created lump
    sum tax rebates to avoid recession and the Troubled Asset Relief Program and the Emergency
    Stabilization Act were passed in 2008.
What Can Presidents Actually Do For the Economy?

Narrative

     About $600 billion spent to date.
  2. **2010 Wall Street Reform and Consumer Protection Act**
     a. Creates the Financial Services Oversight Council that would look out for systemic risks at large FIs.
     b. Gives the government power to break up FIs that provide a systemic risk to the financial system.
     c. Creates the Consumer Financial Protection Agency to regulate products such as credit cards and mortgages.
     d. Allows Congress to order the Government Accountability Office to audit Federal Reserve activities.
     e. Gives shareholders the right to a nonbinding proxy vote on corporate pay packages.
     f. Requires some over-the-counter derivatives be traded through clearinghouses to provide transparency of the value of trades.
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Narrative

- Monetary Policy during the various presidential administrations
  Federal Reserve Chairman:
  Paul Volcker
  Alan Greenspan
  Ben Bernanke
  Janet Yellen

The Fed and FOMC are independent of the President and are creations of Congress.
The Federal Reserve Banks are independent corporations overseen by the Board of Governors of the Federal Reserve System

What did monetary policy contribute in each presidential administration era?
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Conclusion

- Presidents can inspire, but can’t do much to contribute to economic growth, stabilization or development without dramatic and directed efforts. In this regard the Reagan Administration stands out.
Real Gross Domestic Product Percentage Change From a Y/Y (Y/Y, %)

Source: US. Bureau of Economic Analysis
research.stlouisfed.org
Manufacturing Employment: 
(M01 1978-M02 2016)
Federal Government Consumption Expenditures and National Defense Contribution to GDP

- Reagan 1980-88
- Clinton 1993-2000
- G.W. Bush 2001-2008
- B. Obama 2009-2017
Real Nonresidential Fixed Investment and by Domestic Business

Reagan 1980-88


Clinton 1993-2000

G.W. Bush 2001-2008

B. Obama 2009-2016
Interest Rates and Personal Consumption Expenditure Inflation: (1978-2016)

- Reagan 1980-88
- Clinton 1993-2000
- G.W. Bush 2001-2008
- B. Obama 2009-2016
Interest Rates and Personal Consumption Expenditure Inflation: (1978-2016)

Reagan 1980-88
Clinton 1993-2000
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The End

Thank you