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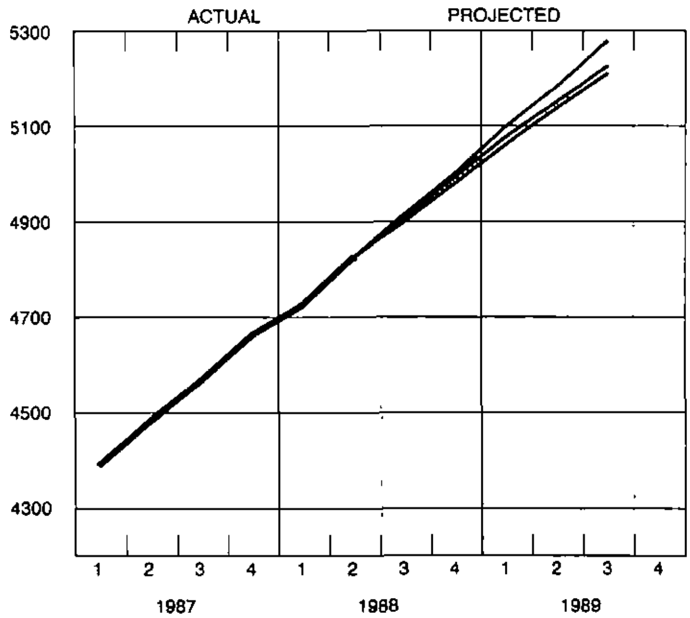

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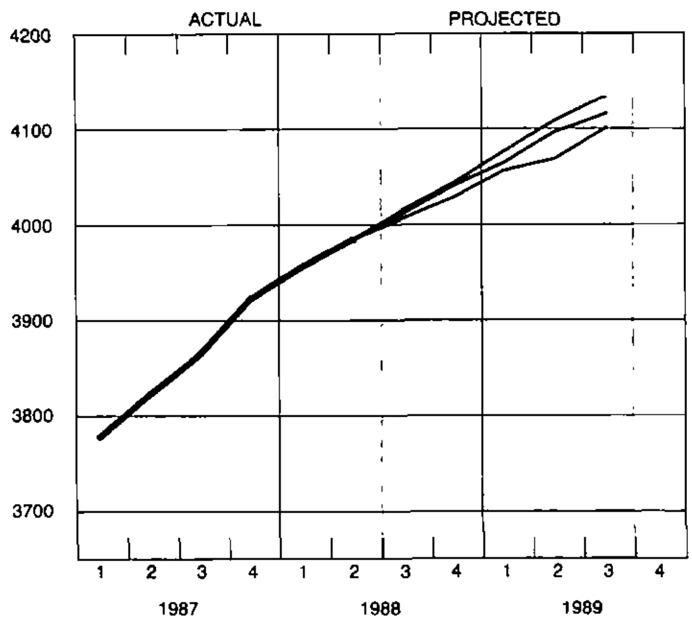

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Candidate Appeal in the 1988 Presidential Campaign

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Introduction

Midway through the 1988 presidential campaign, it looks like there will be a close contest all the way to election day. At this writing (early in October) George Bush has lost some of the lead which he has held since late August, but he seems to hold a strategic edge along a number of dimensions as we enter the last six weeks of the campaign.

For a variety of reasons, this campaign has been structured by the candidates as a choice between ensuring continuity and managing change. Because this is the first election since 1968 in which an incumbent has not been running, there is an inevitable sense of change in knowing that a new man will occupy the White House in 1989. The fact that George Bush is the sitting vice-president from an administration headed by a personally popular incumbent and under which many Americans have prospered economically means that he would inevitably campaign on the basis of maintaining similarly successful policies. With Michael Dukakis representing the party out of power, he must inevitably argue about the need for change and demonstrate how he will bring it about. And increasing external economic pressures must also be dealt with by whoever is inaugurated on January 20th.

In surveys conducted in the last several months, the public has vacillated in its satisfaction with the way things are going in the United States these days, with large numbers expressing both optimistic and pessimistic views. In the latest measure, the balance has tilted toward satisfaction with the way things are going, giving a boost to Bush. This happens at the same time that both personal and national economic expectations have become somewhat more optimistic, and favorable evaluations of Ronald Reagan have increased as well. Furthermore, the Bush strategists have been very successful in restructuring the public's image of Michael Dukakis, painting him as very liberal and outside the mainstream of contemporary American political and social values.

For Dukakis, on the other hand, the public clearly distinguishes him from Bush as a candidate who cares about them. And he is seen as better able to deal with a variety of social issues that fall under the heading of what is known as a "compassionate" role for government. He has attempted to focus scrutiny on Bush's role in the Iran-Contra affair and on dealings with General Noriega in Panama, as examples of both failed Reagan administration policies and poor judgment displayed by Bush. Substantial public doubt exists about the competence of Senator Dan Quayle to serve as president, if necessary, and this could be a deciding factor in a very close race.

All of these factors are discussed below in terms of the results of recent surveys conducted by the Gallup Organization under the sponsorship of the Times Mirror Company. In particular, shifts in public perceptions of the candidates between May and September, as well as concerns about various issues, form the basis for these conclusions about the nature of the race.

Evaluations of the Candidates

Favorable vs. Unfavorable Ratings. One major change since the spring is that voters now have a more positive opinion of George Bush than at any other time since he announced his candidacy. In the September survey, 59 percent gave Bush a favorable rating while 37 percent rated him unfavorably (see Table 1). Looking at the trend line in these evaluations, it is clear that Bush has been able to hold on to the boost in public favorability that he achieved at the time of the Republican convention. In contrast, Michael Dukakis was not only unable to maintain his post-convention lift in personal popularity; but he also experienced a precipitous decline in favorability in the first two weeks of September under a series of withering attacks from the Bush campaign. As a result, more voters now have an unfavorable opinion of Dukakis (42 percent) than feel that way about Bush (37 percent).

These surveys have also consistently shown that George Bush's favorability ratings have closely tracked with Ronald Reagan's. In a related measure, the September Gallup Poll found 57 percent approving of the president's job performance (see Table 2). Since the May Summit, Reagan's approval rating has consistently been in the mid-

TABLE 1. Trend in Favorability Ratings of Bush and Dukakis

Survey Date	Favorability Rating (Percent)		Difference (Percentage Points)
	Bush	Dukakis	
April/May, 1987	68	—	—
May 13–22, 1988	50	68	−18
June 10–12, 1988*	53	70	−17
July 8–10, 1988*	52	57	−5
August 18–19, 1988†	60	55	5
August 24–25, 1988	65	59	6
September 9–14, 1988	59	51	8

*Source: Gallup/Conus

†Source: *Newsweek*

*The author is currently at the Gallup Organization while on leave from the Center for Political Studies.

TABLE 2. Trend in Ronald Reagan's Approval Rating (Percent of Registered Voters)

Survey Date (1988)	Approve	Disapprove	Don't Know
January 22–24	47	36	17
March 10–12	52	39	9
May 13–15	46	42	12
June 10–12	55	38	7
June 24–26	54	37	9
July 8–10	56	39	5
August 5–7	52	40	8
August 19–21	60	35	5
September 9–11	57	36	7

Sample size ranged from 1000 to 1211 for the various surveys.

fifties, and it peaked at 60 percent after the Republican convention.

Personal Image. As the campaign has progressed, the voters have developed fuller images of each candidate. However, George Bush has been able to improve his image more substantially than has Michael Dukakis, while at the same time he has successfully altered the public's image of his Democratic opponent. In earlier *Times Mirror* surveys, the less well known Dukakis was more positively evaluated on a variety of dimensions than was Bush. Today neither candidate has a clear advantage in how he is perceived by the public.

This conclusion is based upon an analysis of responses to a question in which respondents were asked to indicate whether or not they felt each of eight personal traits applied to George Bush and Michael Dukakis. For six of the eight, a majority indicated they applied to Bush (see Table 3). At the top of the list, just as it has been for some time, is "has the record and experience for the job of president" (75 percent). Bush has consistently enjoyed an advantage over Dukakis as a result of his service as vice-president, and this is also reflected in the item "appears presidential" (64 percent). About as many respondents feel he is "steady and dependable" (68 percent).

For six of the eight issues, a majority also feel they apply to Michael Dukakis. He has consistently been rated highly on the items "strong and forceful" (58 percent) and "concerned about the needs of people like me" (66 percent). He also receives high ratings for "steady and dependable" (63 percent) and "can get things done" (62 percent).

Comparatively, there have been two significant shifts in the electorate's relative assessments of George Bush and Michael Dukakis since the end of the conventions. The first is that Bush is now as likely as Dukakis to be seen as an agent of change, 45 percent compared to 46 percent respectively. And while Dukakis remains the more likely candidate to be seen by respondents as "concerned about the needs of people like me," the gap between the two has narrowed significantly, to a 66 percent to 53 percent advantage. Dukakis remains more likely to be seen as "strong and forceful," by a 58 percent to 43 percent margin, and he has closed the gap in terms of convincing the public that he has the ability to serve as president.

The Mood of the Electorate

George Bush's resurgence coincides with a generally more positive mood in the American electorate. This optimism can be credited to a shift to increasingly positive evaluations of the Reagan administration, and Bush has been successful in linking himself to them — especially economic prosperity. In turn, the balance in the public's mood has now tipped slightly in the direction of continuity and away from change. This has both hurt the Dukakis campaign strategy and strengthened the Bush position.

The American electorate remains optimistic about economic concerns — including both personal economic expectations and prospects for the national economy. While there is somewhat greater concern about how the economy will look one year from now compared to five years from now, most of those surveyed expect to be at least as well off in the future as they are now.

The major change since earlier in the year is that Americans are now more likely to be satisfied with the way things are going in the country than dissatisfied. Both of these factors are working to diminish the electorate's appetite for change and to increase its interest in continuing important elements of what are perceived to be the successes of the Reagan administration.

TABLE 3. Candidate Image (Percent Mentioning that Each Item Applies)

Image Factor	George Bush	Michael Dukakis
Has the record and experience for the job of president	75	40
Is steady and dependable	68	63
Appears presidential	64	53
Will be careful in the way he brings about the changes the country needs	62	57
Can get things done	57	62
Concerned about the needs of people like me	53	66
Can bring about the changes the country needs	45	46
Is strong and forceful	43	58

Sample size was 2001 registered voters.

The question was: I am going to read you a list of phrases to get your views about George Bush. As I read each phrase, please tell me whether or not you feel it applies to Bush.... And what about Michael Dukakis?

Satisfaction with the Way Things Are Going. The most significant change in the national mood since last May's survey is that more Americans (50 percent) are now satisfied with the way things are going in the country than are dissatisfied (45 percent). Only four months ago, there were more Americans dissatisfied than satisfied (55 percent to 40 percent). The latest reading represents a second important reversal of a trend line for the Reagan administration. By the end of his first term, Reagan was able to overcome concerns about the state of the nation which he had inherited from the Carter administration. Americans then remained optimistic until the time of the Iran-Contra disclosures, when their confidence in the Reagan administration was shaken by the questions raised about who was in control in the White House and the manner in which foreign policy decisions were being made. The latest survey shows that on balance a slim majority of Americans are satisfied.

Outlook for One's Personal Financial Situation. Americans are as optimistic about their personal economic prospects for the next year as they were in May, and more so than they were in January. Just over half (54 percent) expect to be better off financially a year from now, while only one in seven (14 percent) expects to be worse off; 29 percent volunteer that they expect no change. In January, only 44 percent expected to be better off one year from then.

In the May survey, satisfaction with the way things are going was a more significant predictor of support for George Bush than the respondents' expectations for their personal financial situation one year from now. In this survey, that relationship is even stronger. The major difference from May is that there are now more people who are satisfied than dissatisfied, while the reverse was true then.

Among those who are satisfied with the way things are going now, Bush is preferred by 73 percent of those who expect to be better off in one year, 77 percent of those who expect to be the same, and 58 percent of those who expect to be worse off. Among those who are dissatisfied, Bush is preferred by 26 percent of those who expect to be better off, 22 percent of those who expect to be the same, and 29 percent of those who expect to be worse off.

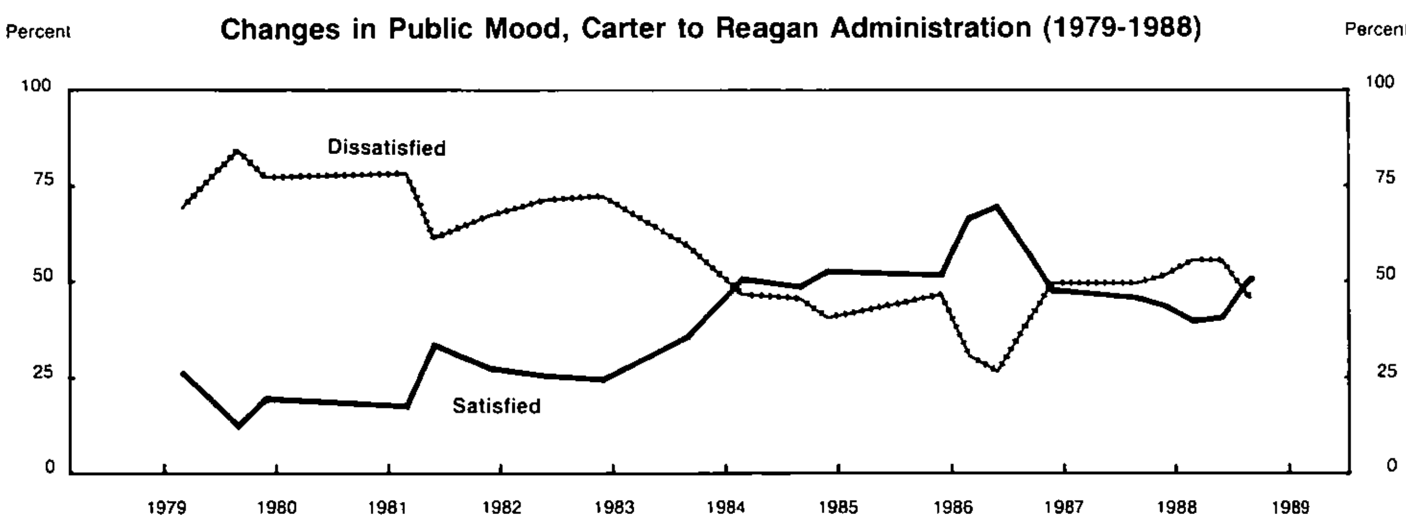
Outlook for the Country's Economic Situation. Americans remain reserved about the prospects for the nation's economy in the next year, but they are bullish on the long term. Compared to last January (26 percent) and May (20 percent), voters in the latest survey are less likely (16 percent) to expect economic conditions to be worse in one year. Thinking about the national economic conditions five years from now, over two in five (44 percent) expect them to be better and only about one in five (19 percent) expects them to be worse.

While there is no difference in the proportion of Democrats and Republicans who expect to be better off one year from now, Democrats are twice as likely to expect to be worse off than Republicans (19 percent compared to 9 percent). Independents are less optimistic than partisans.

Campaign Issues

The Significance of the Vice-Presidential Candidates. In a *Times Mirror* survey conducted after the Republican convention, the electorate evaluated Lloyd Bentsen much more favorably than Dan Quayle on two counts. Bentsen was more likely to be seen as qualified to serve as president if necessary. And his choice increased the likelihood of support for Dukakis, while Quayle's selection decreased the likelihood of support for Bush.

In later surveys, evaluations of Quayle have been even less positive than they were following the convention. Only one-third of the American public feel Quayle is qualified to serve as president if necessary (34 percent), compared to four in ten (41 percent) who felt that way three weeks earlier. Respondents with the highest levels of education and



The question was: In general, are you satisfied or dissatisified with the way things are going in the U.S at this time?

those who are most likely to follow public affairs are the most likely to think that Quayle is not qualified to serve as president. While there are partisan differences in the assessments of Quayle, only bare majorities of Republicans believe he is qualified. On the other hand, a clear majority of voters feel that Lloyd Bentsen is qualified to serve as president if necessary.

Two out of three respondents indicate that the choice of the running mates doesn't make much difference in their presidential choice. But by a three to one margin (27 percent to 8 percent) voters say that the choice of Quayle makes them less likely, rather than more likely, to vote for Bush, while the choice of Bentsen makes them more likely to support Dukakis (25 percent to 9 percent).

Two surveys conducted after the debate between the vice-presidential candidates, by ABC News/*The Washington Post* and CBS News/*The New York Times*, showed that a majority felt that Lloyd Bentsen got the better of the contest and about one-quarter felt that Dan Quayle did. While there were no "fatal gaffes" by either candidate, the Dukakis campaign had commercials prepared to air immediately afterwards that question Quayle's qualifications and competence. This will be an enduring theme for the remainder of the campaign.

The Role of Ideology in the Campaign. While Michael Dukakis has declared that this campaign is about competence and not ideology, George Bush has set about the task of portraying his opponent as too liberal for the American electorate. Bush has clearly been more successful here, as successive surveys show that increased proportions of the public perceive Dukakis to be a liberal and out of sync with the mainstream of their ideological leanings (see Table 4). At the present time, more Americans rate Michael Dukakis as a liberal (46 percent) than perceived Walter Mondale in this fashion (39 percent) at the equivalent point in the 1984 presidential campaign.

The problem for Dukakis is that the American electorate has traditionally described itself as moderate to conservative. In the September survey, one-quarter of the respondents (27 percent) placed themselves at the "conservative" end of a scale and one-fifth (21 percent) at the "liberal" end, while 46 percent placed themselves in the middle. When asked to place Dukakis on the same scale, 46 percent classified him as "liberal" and only 9 percent as "conservative"; an additional one-third (35 percent) placed him in the middle, and 10 percent said they could not place him. For Bush, on the other hand, 47 percent placed him at the "conservative" end and only 9 percent at the "liberal" end. Nine percent did not know where to place him.

TABLE 4. Political Ideology as Reported in May and September 1988 (Percentage Distribution)

	George Bush		Michael Dukakis		Self	
Category	May	Sept.	May	Sept.	May	Sept.
Liberal	16	9	31	46	18	21
Moderate	29	35	39	35	56	46
Conservative	37	47	10	9	18	27
Don't know	18	9	20	10	8	6

Sample size was 1204 for the May survey and 2001 for the September survey.

The question was: If "6" represents someone who is very liberal in politics and "1" represents someone who is very conservative, where on this scale of 6 to 1 would you rate each of the presidential candidates and yourself? First, where would you place George Bush? Where would you place Michael Dukakis? Where would you place yourself?

Allowing for a tendency of partisans to see their own candidate in less extreme ideological terms and the opposition party's candidate in somewhat more extreme ideological terms, there is a great deal of consistency in the public perceptions of the ideological positions of the two candidates. The significance of ideology is the relationship between perceptions of where the candidates are in relation to how the voters see themselves. While half the respondents (48 percent) see themselves as more conservative than Dukakis (including 35 percent who see themselves as much more conservative), it is also true that four in ten (42 percent) see themselves as more liberal than Bush (including 24 percent who see themselves as much more liberal). These relative perceptions are important explanations of both candidate support among partisans and defection among those who identify with the other party.

The Role of Issues in the Campaign. On the issues about which the public is most interested in hearing more, their assessments of which candidate could best address them is almost evenly divided. And those voter groups which the survey identifies as most volatile are among those most interested in hearing more discussion. This indicates considerable potential for the candidates to add to their current coalition by addressing these interests.

When offered a list of specific issues, at least three out of four indicated they had not heard enough discussion and wanted more (see Table 5). In one area — dealing with Soviet Premier Gorbachev — almost as many say they have heard enough as say they want to hear more. The relative lack of significance of this issue is of course a tribute to the Reagan administration's improved relations with the Soviet Union and a result of the atmosphere of relative calm in these relations since last May's Summit Meeting.

Leading the list of concerns about which the public would like to hear more are five important domestic issues — improving the quality of education in the public schools (85 percent), providing a decent standard of living for the elderly (85 percent), creating good economic conditions for people like me (83 percent), dealing with the drug problem (80 percent), and dealing with crime (79 percent). For the first three issues, both candidates have described specific programs and policies which the public is currently evaluating.

On the drug issue, Dukakis has put Bush somewhat on the defensive because of his attacks on Reagan administration policies in this area. On the crime issue, Bush has put Dukakis on the defensive because of references to the Massachusetts furlough program for convicted criminals.

TABLE 5. Relative Ranking of Issues Which the Public Wants Discussed More

Issue	Percent Wanting More Discussion
Improving the quality of education in the public schools	85
Providing a decent standard of living for the elderly	85
Creating good economic conditions for people like me	83
Dealing with the drug problem	80
Dealing with crime	79
Keeping the U.S. economy competitive with Japan's and Western Europe's	74
Dealing with the federal budget deficit	72
Dealing with Soviet Premier Gorbachev	54

Sample size was 2001 registered voters.

The question was: I am going to read you a list of important issues being discussed in this year's presidential campaign. For each one, tell me whether you would like to hear more discussion of this issue by the candidates, or whether you've heard enough from the candidates on this issue.

TABLE 6. Perceptions of Which Candidate Could Best Address Each Issue

	Candidate Who Could Best Address Issue (Percent)		
Issue	George Bush	Michael Dukakis	Don't Know
Improving the quality of education in the public schools	38	48	14
Providing a decent standard of living for the elderly	37	52	11
Creating good economic conditions for people like me	46	44	10
Dealing with the drug problem	41	43	16
Dealing with crime	49	36	15
Keeping the U.S. economy competitive with Japan's and Western Europe's	54	33	13
Dealing with the federal budget deficit	49	37	14
Dealing with Soviet Premier Gorbachev	64	25	11

Sample size was 2001 registered voters.

In terms of the relative rankings of which issues the voters want to hear more about, which are essentially the most important domestic issues, Michael Dukakis is now generally judged as more likely to do the best job of addressing each. As for those issues about which the electorate has heard relatively enough, Bush is judged to be more likely to be effective in dealing with them — and by a larger margin (see Table 6).

The single most important issue explaining current voter preference, taking all the others into account, is the voters' perceptions of which candidate can best "create good economic conditions for people like me." And this is one of the two issues on which the public is now evenly divided about which candidate can better deal with it. Ensuring personal economic prosperity ranks far above a second tier of issues which includes "keeping the U.S. economy competitive with Japan's and Western Europe's," "improving the quality of education in the public schools," "dealing with crime," and "dealing with the drug problem."

Conclusions

In general, one would have to say that George Bush has been more effective in getting his message out to date, because the public sees Bush as relatively more effective in dealing with issues they are more likely to think they have heard enough about. But there is also more of a chance for Dukakis to appeal to Democratic-oriented voters to come home and to attract defecting Republicans on those issues about which they want to hear more.

As the level of political advertising by each candidate increases, the voters will become more familiar with the particular elements of their personalities and their issue agendas which they choose to emphasize. The chances are good that this element of the campaign will become increasingly negative, as well.

While the election can be expected to remain close in popular vote terms, this does not easily translate into a similar division of the electoral college. The candidates will devote more of their time to a relatively few states with large numbers of electoral votes at stake. The best way to track the campaign near the end — with an eye toward the eventual winner — is to look for statewide poll results from these states.

The Political Economy Scoreboard: An Update

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In 1986 this publication carried an article titled "The Political Economy Scoreboard," which examined the record of all six postwar administrations in the U.S., and looked at the behavior of both real and financial variables to assess differences in the outcomes achieved by various administrations, as well as to determine the economic outcomes that seemed most important to voters. This article updates the information base, adds a few new measures that relate to economic outcomes, and reexamines the question of voter preferences.

Measuring Economic Performance

Using actual results during a particular political administration to assess the success or failure of the economic policies associated with that administration is a chancy business. Changes in the economy are often the result of forces that have little to do with current economic policy, and good outcomes or poor outcomes may be largely attributable to the fortuitous consequences of forces that are purely exogenous and thus entirely uncontrollable from the point of view of current policy. Ideally, one should judge the effectiveness of policy in the context of a fully specified model of how the economy behaves. One would take into account not only the economic conditions inherited from the past and therefore attributable to the policies of prior administrations, but also the effects on outcomes of exogenous shocks originating either domestically or internationally but which no policy-maker could control. In that context, the effectiveness of policies would be judged by comparing the results of simulating the behavior of the economy under actual Policy A, given circumstances that were either inherited or exogenous, compared to the outcomes under Policy B, which was considered but rejected. Policy successes would be defined as outcomes that were the best that could have been achieved and (therefore) better than the alternatives, while policy failures would be outcomes that were worse than could have been achieved with alternative policies.

Needless to say, we lack sufficient understanding of the economy to create comparisons of the appropriate sort. Not only would we have difficulty in defining the consequences of the set of conditions inherited from past administrations on the actual path of economic developments during any given administration, but we would also have to understand the consequences of exogenous changes as well as to decide whether the changes were truly exogenous or were themselves a consequence of some current or past policy.

The fact that policy successes or failures cannot be accurately assessed will not prevent presumed successes or failures from being important issues in an election campaign. Voters will make their own judgments about why successes or failures occurred, and those judgments might or might not agree with judgments made by economists or other presumably well-informed critics. In addition, voters may well attach different weights to various economic outcomes than economists or others, and the weights attached by voters are the ones that count when it comes to elections.

In this article, we pose two types of questions. First, forgetting about the influence on outcomes of either initial conditions inherited from the past or of exogenous shocks (either favorable or unfavorable), how do different postwar administrations compare on results? Who did best on various criteria? Who did worst? And second, what policy outcomes do consumers (voters) appear to consider most important? An interesting subsidiary question is whether the scoreboard on results shows the same pattern as the apparent preferences of voters.

Table 1 displays various outcomes associated with the six postwar administrations (Truman, Eisenhower, Kennedy-Johnson, Nixon-Ford, Carter, and Reagan). With the exception of the first and last (Truman and Reagan), the measures cover the complete span of each administration. The readily available data do not extend far enough back to provide a complete record for Truman, hence we consider only his complete term starting in 1949; and the Reagan record is still slightly incomplete, since the last two quarters of 1988 should be included in the estimates, given the framework we are using for the calculations.

Table 1 essentially answers the question: Ignoring initial conditions or exogenous shocks, how well did each of these administrations do in terms of results? The top half of the table contains the measures that are naturally computed as compound growth rates over the time period during which each administration was in office. These are largely real growth measures — GNP, GNP per capita, etc. — except for the Consumer Price Index. The bottom half of the table contains measures that are best calculated as averages over the relevant spans of time — the unemployment rate, the interest rate, the ratio of federal deficit to GNP, etc.

Table 2 contains many of the same measures, but focuses on estimates of change rather than average performance on the grounds that these might be more salient to voters. Thus we show the difference between the last year of any given administration's record (the most recent four quarters for the Reagan administration) and the last year of the prior administration's record. Some of the numbers look quite different when calculated that way than when calculated as averages over the entire span of an administration's tenure. For example, Table 2 shows that the unemployment rate was a bit lower at the end of the Truman administration's term than the unemployment

TABLE 1. Patterns of Overall Economic Outcomes Associated with Six Postwar Administrations

Indicator	Truman	Eisenhower	Kennedy-Johnson	Nixon-Ford	Carter	Reagan
Annual Growth Rates (percent change)						
Real GNP	5.7	2.0	4.7	2.3	2.9	3.0
Real GNP per Capita	4.0	0.3	3.3	1.2	1.7	2.0
Civilian Employment	0.9	1.0	1.9	2.0	2.7	1.9
Productivity*	3.0	1.9	3.0	1.2	0.2	1.4
Industrial Production	7.0	2.2	6.7	2.4	3.7	2.8
Consumer Price Index	2.5	1.4	2.2	6.4	10.2	4.3
Levels (average over administrations)						
Corporate AA Bond Rate (percent)	2.9	4.0	5.1	8.5	10.0	12.2
Real Interest Rate† (percent)	0.0	1.9	2.2	0.0	−1.6	6.4
Federal Surplus or Deficit (NIPA) as Percent of GNP	+.74	−.29	−.55	−1.53	−1.63	−4.15
Unemployment Rate (percent)	4.4	4.9	4.8	5.8	6.5	7.7
Index of Consumer Sentiment (points)	NA‡	91	96	79	74	86

*Calculated from the series output per worker, nonfarm business sector.

†Calculated as the difference between the average long-term government bond rate and the annualized inflation rate (change in consumer prices) during the administration.

‡The quarterly Index of Consumer Sentiment series began in November 1952.

rate inherited as an initial condition (which in this case was the last year of the Truman administration that came into office following the death of Franklin Roosevelt). A similar calculation of differences shows that the unemployment rate rose substantially under Eisenhower, dropped substantially under Kennedy-Johnson, rose even more substantially under Nixon-Ford, dropped slightly under Carter, and has dropped moderately under Reagan. This is a very different perspective from that shown by the unemployment data in Table 1, where unemployment was about the same, on average, under Truman, Eisenhower, and Kennedy-Johnson, was a point or so higher under Nixon-Ford, higher still under Carter, and highest under Reagan.

The bottom half of Table 2 is designed to focus on changes in economic outcomes that are quite close to election dates. Here we measure change during the last four quarters of each administration — the type of outcome measures that many political scientists have tended to find useful in explaining voting behavior. Some of the outcome measures are also plotted in Chart 1 — measures that have some claim to possible political sensitivity — the unemployment rate, changes in the Consumer Price Index, the FHA secondary market mortgage rate, and the ratio of federal deficits to GNP.

What Do the Measures Show?

The data in Table 1 — average performance over the full span of each administration, ignoring initial conditions and good or bad luck, provide some reasonably clear generalizations. The conclusion that would be most likely to find broad agreement among economists is that the 1950s and 1960s were easier periods for economic policymakers than the 1970s and the 1980s. Virtually all of the measures in Table 1 show a tendency for economic performance to deteriorate in the last three administrations (Nixon-Ford, Carter, and Reagan) compared to the first three (Truman, Eisenhower, and Kennedy-Johnson).

While there are exceptions, most of the real output measures (real GNP, productivity growth, industrial production, unemployment rates) show that tendency, and the financial variables (assuming that low price inflation rates and interest rates are "good") have the same pattern. Thus it might be judged that it was easier to produce good results in the 1950s and 1960s than in the 1970s and 1980s — presumably because exogenous forces were more benign then than they have been during recent decades. This measurement of results is also clearly influenced both by structural forces in the economy that have little to do with policy and by the differential incidence of external shocks, as well as by forces that are likely to be related to policy. For example, growth in civilian employment has been somewhat larger during the last several decades than during the 1950s and 1960s, presumably due at least in part to the size of the baby boom cohort and to rising labor force participation rates for women. And industrial production growth was typically stronger in the 1950s and 1960s than during the 1970s and 1980s, but that is again due largely to changes in the structure of the economy — away from goods and in the direction of services. Exogenous shocks have clearly influenced these data — the two OPEC oil price shocks in 1973 and 1978–79 show up in substantially higher inflation rates under Nixon-Ford and Carter, as well as much higher nominal interest rates, than one finds in the record of prior administrations. Of course, policy may have had some influence here — shocks in particular prices do not have to affect the inflation rate, and policy certainly could have some influence on the degree to which a price shock is transmitted throughout the economy.

Finally, differences in the Table 1 results are clearly influenced by the frequency and depth of recessions. That is most evident in comparisons of the Eisenhower and Kennedy-Johnson records. The Eisenhower administration included two full recessions, and the third was in process in 1960 as Eisenhower's second term was ending. Kennedy-Johnson, in contrast, experienced only the end of the 1960–61 recession plus the mini-recession of 1966–67 during their term of office. Overall, the Eisenhower record shows the most recession periods of any postwar administration, while Kennedy-Johnson shows the fewest — a difference that shows up quite visibly in the comparisons of real growth records. And here, of course, outcomes can be influenced by policy choices.

Partisan Interpretations

The data in Table 1 can be and have been used to support politically partisan claims of superior economic performance. How do the various claims that have been and are being made stack up against the record? Several observations can be made — although the reader should be wary of the fact that no one, including this writer, is totally objective about interpretation of the record. Scoreboards of the sort displayed in Table 1 can look different depending on which aspects of performance are included and which excluded, and on how one assesses the role of luck as opposed to skill in producing outcomes.

Having said that, a number of differences show up quite strongly in Table 1, and other differences look less sharp than is often alleged. Looking at the data for the 1950s and 1960s, Democratic politicians would be quite cheerful: Both the Kennedy-Johnson and the Truman administrations produced significantly better outcomes than the Eisenhower administration. In terms of real growth rates, both Kennedy-Johnson and Truman were very substantially higher than Eisenhower, and in terms of financial variables (prices, interest rates), they were close although a bit worse. In terms of one financial variable that has been much discussed of late (the ratio of federal deficits to GNP), the *only* administration that averaged out with a budget surplus was Truman's, although both Kennedy-Johnson and Eisenhower had very small average deficit/GNP ratios.

As noted earlier, the basic reason why both Kennedy-Johnson and Truman, especially the former, showed much stronger growth records than Eisenhower was the differential incidence of recessions. The two and a half recessions that occurred during the Eisenhower administration substantially curtailed the average real growth rate and the productivity growth rate, and that difference shows up very strongly in the data.

Looking at more recent decades, what may be surprising to many is the rather modest difference in performance on real variables that shows up between the Carter administration and either the Nixon-Ford or Reagan administrations. In terms of growth in real GNP, real GNP per capita, and employment, Carter and Reagan are quite close and both tend to be better than Nixon-Ford. Reagan and Nixon-Ford are much better than Carter on productivity growth, although all three are well below the levels of productivity growth reached during the 1950s and 1960s — the well-known productivity slowdown which began around 1973 is very visible in these data.

The big difference between the Carter and the Reagan or Nixon-Ford administrations shows up in prices, where the Carter administration has by far the worst postwar record — an average of over 10 percent inflation with the next highest being the 6+ percent under Nixon-Ford.

Interestingly enough, interest rate performance is on average much worse under the Reagan administration than under any previous administration, whether measured in nominal or in real terms. Nominal interest rates have averaged several hundred basis points higher under Reagan than under Carter, and both were substantially higher than during any previous administration. Real interest rates have been vastly higher under Reagan than under any other postwar administration, and the probable reason shows up in a policy variable — the deficit/GNP ratio — which is much higher under Reagan than under any prior administration, averaging over 4 percent during the 1981–88 period.

One can find some reflection of what are often characterized as typical differences between Democratic and Republican policy preferences in the data. As a generalization, Democratic administrations have better growth records than Republican ones, and worse inflation records. The Eisenhower growth record is much worse than either Kennedy-Johnson or Truman, while the Carter growth record is better than Nixon and about the same as Reagan. But on inflation the Eisenhower record is best, the Nixon-Ford record in reacting to the first OPEC price rise was better than the Carter record in reacting to the second OPEC episode, and the Reagan record is very good on prices and quite good on nominal interest rates (taking account of the inherited inflation).

Finally, one has to look long and hard to find any evidence that supply-side economics has any empirical content except for the size of the federal deficit and the level of real interest rates.

If one moves beyond partisan claims, the data in Table 1 need to be carefully interpreted. For example, the Eisenhower record does not fare well in these results. But the Eisenhower administration bequeathed a roughly one percent inflation rate to the Kennedy-Johnson administration, along with a mild recession — a good jumping-off position for a new administration. Kennedy-Johnson produced an excellent record during the 1960s, but left a substantially higher and escalating inflation rate to Nixon-Ford. In turn, Nixon-Ford left Carter with the aftermath of the first OPEC oil shock and the severe 1974–75 recession, while Carter in turn left Reagan with very high interest rates and price inflation rates, both stemming partially from the second OPEC oil shock. And Reagan will leave whoever inherits the presidency with a cumulative stock of both domestic and foreign debt that is well beyond any previous experience. And so on.

Voter Perceptions

The data in Table 2 are designed to provide a view of policy outcomes focused more on performance close to an election, on the grounds that voter perceptions may be more closely related to recent outcomes than to either more distant or average outcomes. The top part of the table is responsive to the question: How have you done compared to where you started? The bottom part is responsive to the question: What have you done for me lately? The measures in this table are ones that tend to enter into public discussions of economic policy issues — inflation rates, real growth rates, unemployment rates, interest rates, etc.

An interesting feature of Table 2 is that it often conveys a very different impression of best and worst performance than the data in Table 1. For example, while the Reagan record is fourth best on the average inflation rate over the entire period in office, and worst on both nominal and real interest rates, it is best on *reducing* its inherited inflation rate and nominal interest rate. And the table shows very clearly the problem that President Carter faced in the 1980 election. Not only was the inflation rate 7 percentage points higher than when he started and the long-term interest rate over 400 basis points higher, but during the year prior to the election the Carter administration was associated with a negative real growth rate, an increase of more than a point in the unemployment rate, an inflation rate of over 12 percent, and an increase in interest rates of more than 200 basis points.

Interestingly enough, if one looks at the bottom half of Table 2 and asks which two administrations seem most comparable in terms of how things were going during their last year in office, the two that are most like each other are the ending records of the Kennedy-Johnson and the Reagan administrations. Both had about a 4 percent real GNP growth rate during their last year, a slight reduction in the unemployment rate, a modest increase in consumer prices, a small increase in interest rates, and essentially no change in consumer sentiment. Both administrations could be charged with leaving negative legacies — the escalating inflation growing out of the Vietnam war in the case of the Kennedy-Johnson administration, and the budget and trade deficits accumulated by the Reagan administration. And for those who like to stretch parallels even further, in both cases one of the candidates was an incumbent vice-president trying to establish an independent image, and both elections were (or appear to be at present) closely contested.

What Do Voters Weigh Most Heavily?

Not surprisingly, the evidence suggests that the public is more apt to look at changes like those shown in Table 2 than at average results like those in Table 1. Perhaps of more interest and surprising to some, voters seem to evaluate economic changes in nominal rather than in real terms, a sort of money illusion in public perceptions of economic outcomes.

The best way to show the money illusion point is to note public perceptions of interest rates. In the Michigan Sur-

TABLE 2. Patterns of Economic Outcomes Relating to Change Associated with Six Postwar Administrations

Indicator	Truman	Eisenhower	Kennedy-Johnson	Nixon-Ford	Carter	Reagan
Change from Beginning to End of Span (last 4 quarters compared to last 4 quarters of prior administration)						
Unemployment rate (percentage points)	−0.7	2.5	−2.0	4.1	−0.5	−1.4
Inflation Rate (percentage points)	−3.0	−0.2	3.3	0.4	7.5	−8.7
Corporate AA Bond Rate (basis points)	19	172	192	175	418	−271
Real Long-term Interest Rate (basis points)	320	149	−203	109	−346	686
Index of Consumer Sentiment (points)	NA	8	−1	−7	−22	28
Change during Last Four Quarters						
Real GNP (percent)	3.7	0.7	3.6	3.8	−0.1	4.2
Unemployment Rate (percentage points)	−0.5	0.7	−0.5	−0.5	1.4	−0.8
Consumer Prices (percent)	1.5	1.4	4.6	5.1	12.6	3.9
Corporate AA Bond Rate (basis points)	−14	−42	28	−143	255	43
Index of Consumer Sentiment (points)	NA	−4	−1	11	10	2

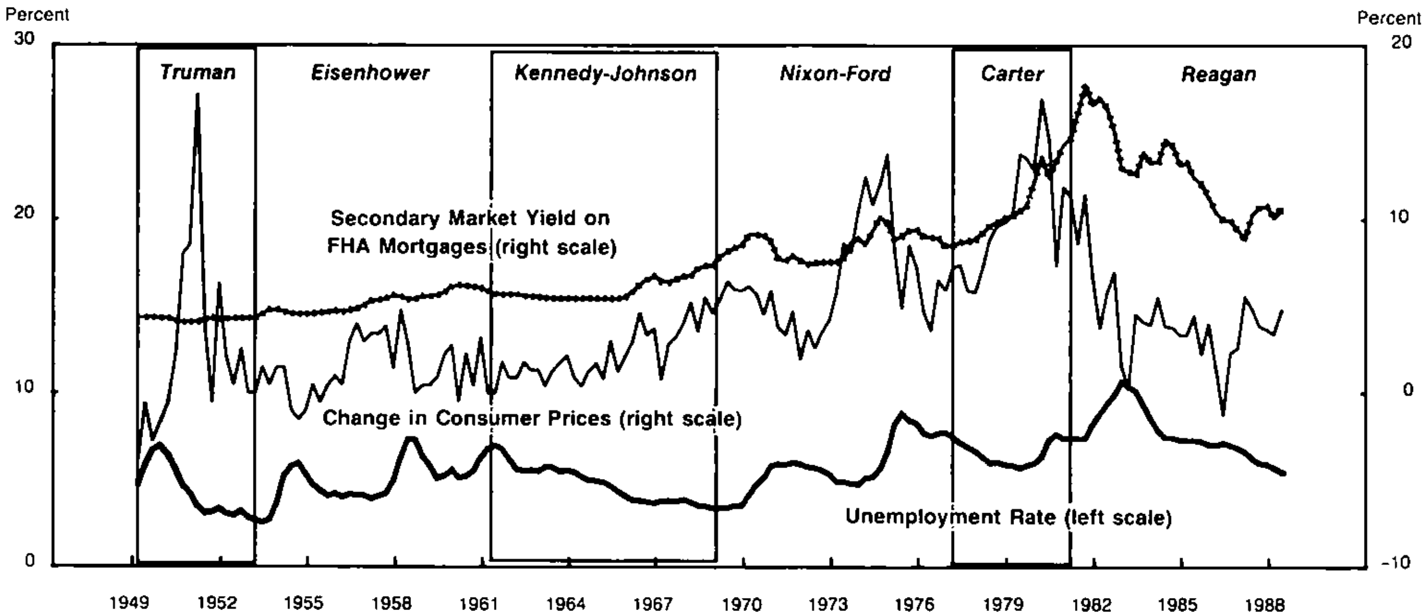
veys of Consumer Attitudes, consumers are always asked about buying conditions for houses, cars, and durable goods. During the last few years, a strong majority of consumers have reported that this was a good time to buy a house, and most of those respondents said that the reason was financing conditions — interest rates were low and money was plentiful. In the late 1970s and early 1980s, the same kind of data showed exactly the opposite perception — that was seen as a bad time to buy a house because interest rates were high and money was scarce.

The data in Table 2 (and in Chart 1) indicate the basis for these perceptions. Compared to rates prevailing when the Carter administration left office, the mortgage interest rate has been several hundred basis points lower in recent years. Similar calculations for the prime rate would show an even larger difference in the same direction. But Table 2 also shows (along with Chart 1) that *real* interest rates (estimated as the nominal long-term government bond rate less the inflation rate) have not declined at all since the turn of the decade, but instead have risen to all-time highs. While there has been a decline during the last year or so, the real rate is higher today than at virtually any time in the past 40 years.

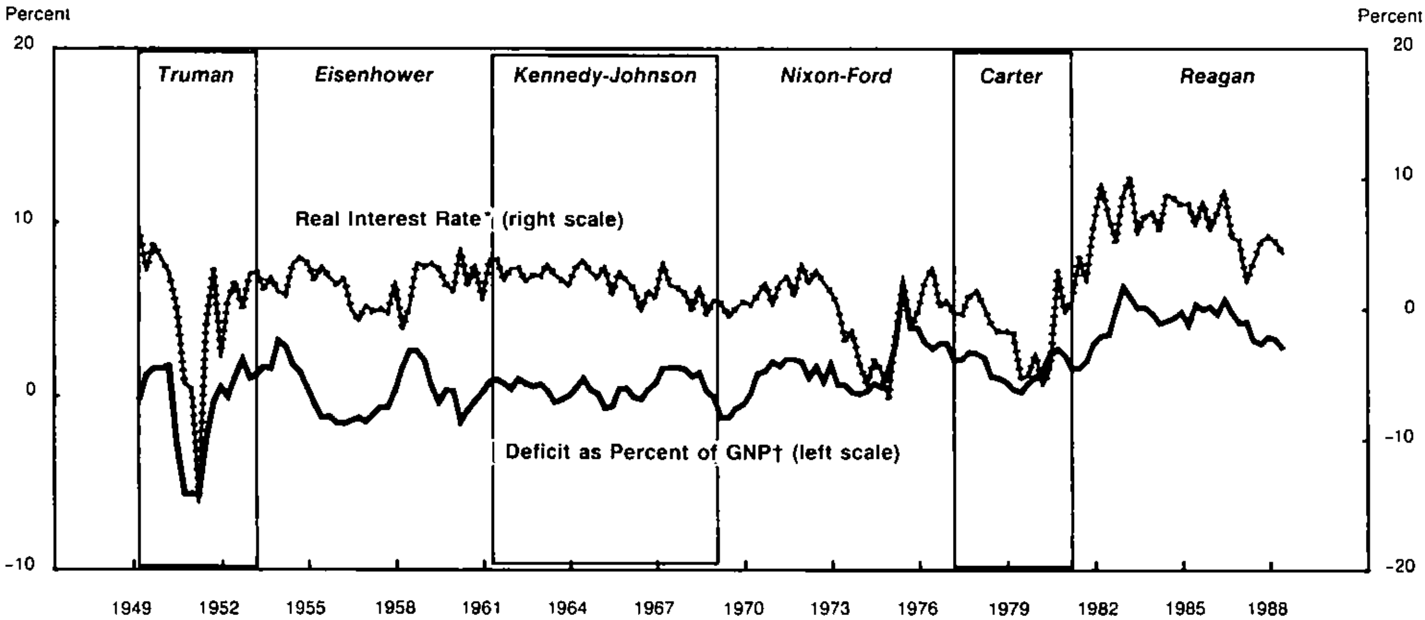
Thus consumers (and voters) clearly assess the combination of a 16 percent mortgage interest rate and a 14 percent inflation rate as a high interest rate environment,

CHART 1. Trends in Selected Economic Indicators, 1949-1988

A. Rates of Unemployment, Long-term Interest, and Inflation



B. Real Interest Rate and Deficit Relative to Gross National Product



*Long-term government bond rate less change in consumer prices (CPI).
†Deficits are shown as positive percents; surpluses as negative percents.

while the mixture of a 10 percent mortgage rate and a 2 percent inflation rate is seen as a low interest rate environment. Yet one computes to a 2 percent real interest rate, the other to an 8 percent real interest rate. But what apparently matters to consumers is that nominal rates have declined from 16 percent to 10 percent, not that real rates have risen from 2 percent to 8 percent.

Other data provide additional evidence that inflation rates and interest rates enter strongly into consumer and voter preference functions, quite independently of whatever is happening to real economic outcomes. Responses to an economic policy question (In terms of policies to combat inflation and recession, is the administration doing a good job, a fair job, a poor job, or what?) show relatively high ratings for current administration policy, and that judgment must be based on the current mix of low inflation rates, low growth rates, low (in comparison to the early 1980s) nominal interest rates, and high real interest rates. And throughout the 1970s, changes in the rate of price inflation dominated consumer perceptions of economic conditions, often independently of the movement of real variables. The best summary measure of this phenomenon is the change in the Index of Consumer Sentiment during the Carter and Reagan administrations — high and rising rates of price inflation and nominal interest rates showed up as a 22 point drop in the ICS during the Carter years, while declining inflation rates and declining nominal interest rates showed up as a 28 point rise in the ICS under Reagan.

As a broad generalization, the data are consistent with the notion that when financial variables (prices and interest rates) are relatively well behaved and show only moderate swings, real variables (output growth, employment, and unemployment) determine consumer and voter perceptions of policy success or failure. But when monetary variables (inflation rates, nominal interest rates) show wide swings, their movements will tend to dominate judgments about policy success or failure.

Moreover, the data support the inference that consumers have a strong preference for a low inflation rate and low nominal interest rate environment, given the same real environment; that is, consumers strongly prefer the combination of 2 percent money income growth and zero inflation to 12 percent money income growth and 10 percent inflation, even though both provide 2 percent real income growth; and consumers would very likely prefer the combination of zero money income growth and zero inflation, thus no real growth, to combinations of high money income growth and high inflation rates that yield positive real growth rates.

What accounts for this preference pattern? Probably three factors. First, consumers have always seen nominal changes in money income as related to their own efforts as workers — a 10 percent pay increase is seen as a reward for hard work — while price inflation is seen as an injury done to them by others. Thus the combination of 10 percent money income increase and 8 percent inflation is assessed as an unfair erosion of the gains from hard work, and is judged negatively.

Second, high inflation rates create a good deal of uncertainty. While the *average* consumer gains if *average* income growth rates are 10 percent and *average* price increases are 8 percent, quite a few consumers will lose, and many more will be fearful that they might lose. The distribution of real income change probably has more variability when it comes from a (+10, +8) combination of income change and price change than when it comes from a (+2, 0) combination. In short, consumers don't like uncertainty.

Third, consumers tend to judge high rates of price inflation, and high nominal interest rates, as a forecast of future economic difficulties — as indeed they should given the U.S. economic policy-making process. In addition, consumers seem to characterize a high interest rate/high inflation environment as one in which policy-makers have lost control and are unable to manage the system effectively.

Are these preferences for well-behaved nominal variables, and a down-weighting of real variables, a stable feature of the economic landscape? Probably but not necessarily. The aversion to high inflation rates and high nominal interest rates may be a simple consequence of the fact that these environments have been associated with the poor real economic performance of the 1970s and the early 1980s. If (relatively) low inflation and nominal interest rates do not produce better performance in future, those judgments could change. After all, history does not always support the inference that low inflation rates and nominal interest rates are a winning combination — the depression of the 1930s was characterized by precisely that combination! To date, however, the current survey data continue to support the nominal values idea. At present, consumers are expecting no change in real income, with about the same moderate growth in both income and prices, and are reporting very positive overall sentiment.

Economic Policy Issues and the Election: Does It Matter Who Wins?

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Introduction

Is it likely to make any difference to the performance of the U.S. economy, and to the economic well-being of U.S. citizens, whether Vice-President Bush or Governor Dukakis becomes president? If so, what would be different?

To examine that issue, it is necessary to understand both what the major economic policy issues facing the next president will be, and then to specify (speculate on?) how a Dukakis presidency would differ from a Bush presidency in addressing those issues. And of course it is not just that there may be differences between the policy views of a Republican or Democratic president; whoever wins would be working with the Senate and the House, hence any difference between Democratic and Republican parties in economic philosophy would also play a role in the evolution of economic and social policies.

In this article, I first look at some basic differences between Republicans and Democrats in both values and analytic judgments that have an influence on the evolution of policy, speculate about the probable policy differences between the two candidates, examine the economic policy issues that seem most important over the next several years, and conclude with some judgments about the way in which a Bush or a Dukakis presidency would handle some of those issues.

Basic Differences in Values and Approach

Although both Democrats and Republicans have been edging toward the right over the last decade, there continue to be some basic differences in how the two are likely to assess both macro- and microeconomic policy issues. On macro policy, although everyone is willing to put up with somewhat more unemployment if it can be associated with a lower inflation rate, Democrats tend to see a bigger cost to unemployment than Republicans and a smaller cost to inflation, thus influencing the way in which the two parties assess tradeoffs between the two. Democrats see unemployment as involving a huge social waste — output that could be obtained that isn't, income that could be earned that is forever lost, and hardship and inequity that could be avoided but is not. In contrast, Republicans are apt to think of unemployment as the price that must be paid to achieve a more stable economic environment, and perhaps to think of unemployment as resulting more from individual unwillingness to work except at excessively high wage rates and from individual preferences for a leisurely life, rather than from inevitable fluctuations in the demand for labor.

Democrats tend to see inflation as nowhere near as costly to society as it is often represented. In technical terms, they argue that inflation produces distributional changes because wages and prices rise at differential rates, with some people winning and some losing; it produces uncertainty, which most people dislike; and if it gets to be severe enough, it may disrupt the real economy in terms of employment, output and productivity. But except for disruption, none of these effects carry the same kind of social cost as unemployment, and disruption doesn't usually happen.

In contrast, Republicans see inflation as "Public Enemy Number One." They argue that it creates an insidious distortion of incentives working through tax effects, it causes inefficiency in resource allocation working through misperception of real prices, and that even moderate inflation has the ever-present threat of escalating to hyper-inflation, threatening to bring on fundamental economic breakdown.

Tax and Expenditure Policy

Differences in tax and expenditure policy are probably the most universally perceived differences between the two political parties. The differences extend to both the level and composition of taxes and expenditures.

On taxes, Republicans appear to believe that lower is always better, and, in particular, that lower tax rates on both earned income and capital income are always better. That is the extreme version of supply-side economics, and most Republican politicians, for good or ill, appear to have embraced it. Thus lower tax rates are presumed to encourage effort and risk-taking, thence lead to higher output, saving, and investment. On expenditures, Republicans typically believe that less government is better than more government (except for defense), and have either enacted or urged smaller social programs, less government intervention, and more reliance on the free market. None of those strictures apply to spending for national defense or agriculture, where more appears to be largely synonymous with better.

In contrast, the Democrats are more apt to see an important role for the federal government in social programs, and in correcting the inability of the market to produce sufficient resources for education, health, child care, etc. They are more protective of tax revenues and thus less inclined to reduce them, and more likely to regard tax increases as a possible solution to intractable budget deficits. They also see a much larger role for government on the expenditure side, basically in providing goods and services that the free market will not supply enough of left to its own devices, as well as in ameliorating the economic circumstances of those who cannot compete effectively in the market. In addition, they are probably less impressed than Republicans, on the average, with the ability of tax policy to have a significant impact on incentives to work, save, or invest, and are therefore less inclined to provide tax incentives for those types of objectives.

Attitudes toward the federal deficit are also quite different between Democrats and Republicans, although they are very different now for both parties than has been true historically. It used to be true that Republicans always worried about budget deficits, while Democrats thought that budget deficits during recessions were a good thing, but not necessarily at other times. But during the 1980s with the advent of supply-side Reaganomics, it is the Democrats who have focused more on the economic problems of deficits, especially structural ones. Many Republicans are uneasy about the deficit but don't want to talk about it, while the supply-side true believers view deficits with equanimity — something that represents a temporary problem that the economy will naturally grow out of if only given enough time.

In addition, Republicans tend to argue publicly that the only reason we have large structural deficits is that the Democrats are unwilling to cut pork-barrel programs, and that the profligacy of Democratic Congresses is responsible for the deficit. Many — perhaps most — Republicans don't really believe that, since the numbers don't add up. All in all, basic views on the deficit problem seem quite different now than was true in the 1960s and 1970s, and the mainstream views of both parties have shifted dramatically during the 1980s.

Reliance on the Market

Differences here are deeply rooted, largely impervious to empirical evidence or analytical insights, and have many and important implications. To overstate the case somewhat, Republicans tend to think that the market always functions perfectly and that tampering with it is bound to lead to worse outcomes, while Democrats tend to believe that the market can't be trusted and that imposing legislative constraints or rewards is better than working entirely through financial incentives.

This difference in reliance on the market shows up in the treatment of a good many areas of economic policy. For example, Republicans (at least the current crop) tend to be strongly in favor of free trade, opposed to quotas or other market limitations on imports, and insistent that foreigners be responsible for their debts. Democrats, in contrast, are more apt to be protectionist and to be concerned about the cost of the adjustment process for U.S. workers in industries where imports have made major inroads, more inclined to favor quotas, and more inclined to favor debt rescheduling amounting to partial forgiveness for countries with poor prospects of meeting their financial obligations.

On environmental policy, although nobody seems to favor vigorous use of the market in the way economists would prefer (effluent taxes instead of prohibitions, selling pollution permits to the highest bidder, etc.), it still tends to be true that Democratic politicians are adamant about prohibiting sin rather than taxing it, while Republicans are somewhat less adamant on that issue. And Republicans are apt to be more relaxed about enforcement of existing environmental provisions, probably because they feel that many such restrictions are foolish and ineffective invasions of private decisions, while Democrats would be more inclined both to regard regulations as fair and effective and to undertake vigorous enforcement to punish the sinners. Both parties tend to be tolerant of environmental damage done by small firms.

Much the same underlying set of values about reliance on the market probably accounts for the marked difference between Democrats and Republicans on income distribution issues. Republicans are apt to feel that the market is not only efficient but fair, and that if some people are rich while others are poor it's because the former have earned it and the latter are only getting their just rewards for being lazy and/or inefficient and/or improvident. Moreover, Republicans are apt to take the view that trying to equalize income by taxing the rich and giving to the poor will impair the incentives of the rich, who are a major source of saving, productive effort, and economic progress, and that providing transfers to the poor will impair work incentives, enabling them to live a life of ease in relative luxury. The extreme version has welfare queens riding around in Cadillacs and drinking vodka and tonic while watching color television, all at the taxpayers' expense.

In contrast, Democrats are more apt to feel that one of the most important functions of government is to help make life more tolerable for those who, largely by accidents of birth, environment, and opportunity, do not fare well in a market economy. They are also likely to judge that people are rich at least as much because they are lucky as because they are energetic and skillful, and that asking the better-off to help maintain the consumption standards of the worse-off is neither destructive of incentives nor in conflict with basic principles of equity.

Attitudes toward the market and considerations of equity also underpin important differences in public policy views about areas like education and health. Republicans are less willing to subsidize public education, particularly higher public education, because they think that the money is not well targeted towards those who would benefit from subsidies, and it is taken advantage of by those who don't really need the subsidy. Democrats, in contrast, tend to feel that education is the principal vehicle for unlocking the doors of opportunity for those who would otherwise find them closed, and are willing to put up with some inefficiency in order to ensure that opportunities are available to everyone, especially to those with disadvantages of birth or environment. And much the same is true for public policy regarding health care, where the Republicans may be more cognizant of the costs of effective and widespread coverage than of the inequities created by less generous programs, while Democrats are more cognizant of the inequities and less concerned about the costs.

Finally, there is an interesting difference between Democrats and Republicans, at least in recent decades, regarding support for various kinds of research and development activities. The differences here do not really relate to different views of how well the market functions, or even to different views about economic costs and benefits. Rather, they seem to relate to differences in the priority to be given to military spending, to different judgments about the links between research and development outlays and productivity, and to different perceptions about the links between scientific research and public policy programs. These differences can be seen most visibly during the 1980s, and may be more a reflection of Reaganomics than of any longstanding difference between Democrats and Republicans.

Since 1980, there has been a dramatic shift in the composition of federal R&D support, with little change in the share of output going to R&D. Support for military R&D has gone from something over a third of total R&D in the 1970s to almost two-thirds by the middle 1980s. Within the civilian R&D sector, support for the physical and natural sciences has been relatively well maintained while support for the social and behavioral sciences has been cut sharply. At the National Science Foundation, for example, which is only a few percent of total R&D but an important source of support for much basic scientific research, the share of social and behavioral sciences has been cut almost in half since 1980 (and would have been virtually eliminated if the Reagan administration had been able to implement its earliest budget plans).

The reason for the growing R&D effort going to the military is simple enough — defense has been a very high priority of the current administration, and defense R&D has grown correspondingly. The cuts in basic research in the social and behavioral sciences appear to reflect both the unhappiness of the Reagan administration with the absence of support for their economic program from within the scientific community, and possibly a perception that costly social programs are less likely to be mounted if less is known about the economy and the society.

Incidentally, the latter view is not characteristic of conservatives, who are quite likely to take a dim view of the wisdom of spending large amounts of money on untested, untried, and unpredictable social programs, simply because they believe that resources ought to be used wisely and not wasted. But conservatives are also likely to take the view that research into understanding the economy and the society has a high priority, since the best way to avoid putting money into programs that ultimately prove wasteful is to have a better understanding of which programs are likely to be effective and which not. Thus the R&D pattern seems to be an idiosyncracy of the Reagan administration, not a longstanding characteristic difference between Republicans and Democrats.

Policies, Candidates, and Issues

The first part of this article has sketched out some characteristic differences between Democrats and Republicans on economic policy issues. Such differences do not necessarily attach to the views of either Vice-President Bush or Governor Dukakis, since — like most generalizations about differences — there are many exceptions, and both parties have a wide spectrum of views on all of the issues discussed above. Still, one might expect to find some relationship between the traditional views of the two parties and the views of the current candidates.

At the moment, it seems to this writer very hard to tell what differences might be expected between a Dukakis presidency and a Bush presidency on economic policy issues. So far, this seems to have been largely an image campaign rather than an issue campaign, and the primary issues that seem to have attracted the attention of voters — perhaps because they have attracted the attention of the media — are almost entirely non-economic (Vice-President Bush's judgment and leadership ability, Governor Dukakis's lack of foreign policy experience and his defense posture, who is is tougher on crime or drugs, who can better recite the Pledge of Allegiance, etc.). To the extent that economic policy issues have surfaced, they have been largely nonspecific — Vice-President Bush has focused on the economic track record of the Reagan administration and essentially argued that the Democrats can't be trusted not to repeat the economic performance of the late 1970s, while Governor Dukakis has focused on his track record in Massachusetts in creating jobs and prosperity and has suggested that the same vision and insight can be applied to the national scene. And the Governor has suggested that "Republican prosperity" has resulted in a vanishing middle class, the creation of large numbers of bad jobs, and a need for families to have two earners in order to reach an acceptable living standard.

Neither has said much about either the budget or the trade deficit, or at least has not proposed a solution with any specificity. Taxes have become a dirty word in the campaign, with the vice-president pledging never under any circumstances to raise them, and the governor suggesting that taxes are an unlikely but possible last resort in the event of real catastrophe on the budget.

Although the judgment that economic policy issues have been totally ignored is a bit harsh, since the candidates have talked about health care, job training programs, child care issues, trade issues, and the environment, the public impression is certainly one of image rather than substance. And in a sense, the public may have only itself to blame: The public opinion poll data seem to indicate that many of the electorate do not care about issues, but instead are concerned about general impressions and images. Of course, there may be a chicken-and-egg problem here — the candidates are being nonspecific about issues because they think that the public isn't really interested in them, and the public is concentrating on images because that is what they are being offered by the candidates.

An alternative explanation is that the media are to blame — they tend to prefer snappy sound bites, and it's easier to do that on image (especially a negative one) than on substance. Finally, it may still be true that the campaign will eventually address issues in some detail, but that the evolution of campaign strategies has forced both candidates to focus initially on general impressions and perceptions — a stage that will pass.

Economic Policy Issues

Regardless of whether or not the campaign gets around to an intensive discussion of economic policy issues, the incoming president will have to face up to these issues sooner or later.

Everyone's list of the relevant issues will look a bit different. Some of what seem to me the relevant ones are short-term and probably urgent, while most are longer-term and can temporarily be ignored, although eventually they will have to be faced.

The Twin Deficits. The most visible problem, which has been subject to continual discussion and commentary, concerns the twin deficits in the federal budget and in the merchandise trade account. Most economists think that the two are causally related — the budget deficit pushed up real interest rates, pushed up the dollar, sucked in foreign capital from abroad, and deteriorated the U.S. merchandise trade balance. The numbers, while they have been improving, are still imposing: The national income and product accounts (NIPA) version of the federal deficit is currently running around $150 billion annually, while the merchandise trade deficit has been running at about the same level over the last four quarters.

The budget deficit is the easiest to understand, although even that is clouded by dispute among economists about whether the NIPA measure is an appropriate measure of the deficit, and considerable dispute among politicians as to what should be done about it.

As many economists see it, the basic problem with the federal deficit is that it makes a major negative contribution to total national saving, and hence a major negative contribution to total national investment. If foreign lending permits national investment to be higher than national saving, as has clearly been true over the last several years, then investment may not represent a problem. But returns to that investment do not accrue to U.S. citizens, going instead to the foreigners who have put up the money. That may be fine for an undeveloped country with large unexploited capital opportunities and little domestic saving, but no one has characterized the U.S. as being an underdeveloped country.

The basic problem with the budget deficit is not that deficits are always bad for the economy: Economists of almost all political persuasions agree that deficits incurred to cushion cyclical downturns have a benign influence — but not many take that view with respect to deficits that occur when the economy is (as now) at or close to full employment. Then, the deficits mean that we are consuming too much collectively, and that private and corporate saving is being largely used to finance federal government dissaving rather than to finance net productive capital investment. Thus most economists and politicians think that the deficit ought to be reduced — preferably to zero — unless there is a recession in progress.

The arguments are about how to do that, and the battle lines are clearly drawn. Republicans want to cut wasteful domestic spending, while Democrats want either to cut wasteful defense spending or to raise taxes or both. The problem with the Republican argument is that once you exclude their untouchables — defense spending, Social Security entitlements, and interest on the debt itself — there isn't enough left to cut with any likelihood that the cuts could equal the size of the deficit. The supply-siders, of course, keep hoping that we will grow ourselves out of the deficit, but that message has been repeated now for about seven years without any evidence that it's more than wishful thinking. (As one distinguished Democratic economist put it, "There's nothing wrong with supply-side economics that dividing everything by ten won't fix.")

On the Democratic side, cuts in defense from an already slowed rise in military spending won't plausibly do the job, and unless both entitlements and other social programs are to be cut drastically, there won't be anything left to do but find some way to generate more tax revenue. Closing loopholes and taxing the underground economy won't do it, so something else is required. But political perceptions being what they are, everyone thinks that proposing to raise taxes is the kiss of death — after all, that's why Mondale lost so heavily in 1984, it is thought.

The net result is a standoff on policy discussions. The Republicans are promising a smoke-and-mirrors solution, while the Democrats are offering smoke alone. Everyone is presumably hoping that some kind of miracle will bail them out. And the recent contributions from the candidates haven't helped much. Mr. Dukakis wants to move people from welfare to productive work and thus save money as well as generate tax revenues, in addition to closing tax loopholes. These are certainly desirable objectives but won't come close to solving the deficit problem. Mr. Bush wants to solve the problem by lowering the capital gains tax rate and thus generating lots of tax revenue, a program that sounds like supply-side economics squared.

It is worth noting that the deficit problem is actually worse than it looks. The conventional deficit numbers include any surplus or deficit resulting from transactions in the Social Security trust fund. In the late 1970s and early 1980s, that trust fund didn't make much net contribution either way to the federal deficit. But after the 1983 legislation designed to fix the long-run Social Security problem, the trust fund has been accumulating surpluses — as indeed it ought to. In 1988, for example, the Social Security trust fund had a surplus of almost $40 billion, meaning that the true deficit (if one defines that as the official deficit plus any surplus contributed by the trust fund) was around $190 billion instead of $150 billion. Congressional Budget Office projections put the annual Social Security trust fund surplus at over $100 billion by the 1990s, and project the federal deficit excluding all the trust funds as rising toward $300 billion rather than falling.

Should we worry about the deficit excluding Social Security trust fund accumulations, or is the right measure the one that everybody uses? If we think of the Social Security trust fund as representing a pool of saving needed to finance the investment necessary to produce the real goods and services that will be transferred to Social Security recipients in future, the answer seems to be that the right number is the conventional deficit plus the Social Security trust fund accumulations. If all the trust fund accumulations do is lend money to more profligate sectors of the government rather than facilitate investment in real capital, there won't be any added product with which to pay the claims of future Social Security beneficiaries, and those claims will have to come out of product available for the rest of the society. Thus the problem is worse than it looks, and neither smoke and mirrors nor avoidance is of much help.

The trade deficit is more complicated. In the short run, U.S. net investment and the capital stock have been augmented by the trade deficit, and the productivity of U.S. workers is presumably enhanced just as if the investment were financed from domestic saving rather than foreign saving. But in the longer run the services side of the current account deteriorates as earnings on foreign investments in the U.S. accumulate. That continues as long as the deficit remains, since any annual deficit adds to the cumulative stock of debt owed to foreigners. Thus even when the deficit stops, it leaves behind the residue of a large foreign debt that needs to be serviced, requiring in one way or another a real transfer of resources from the U.S. to the rest of the world.

Finally, the twin U.S. deficits are also closely related to the behavior of the international economy. For example, our current stance of relying solely on monetary policy to deal with demand management in the U.S. has meant that real interest rates (the nominal interest rate minus the inflation rate) have been extremely high in the U.S., given the need to attract funds to cover our massive budget deficit. But that pushes up interest rates generally, creating among other problems serious dislocations for developing debtor nations who must also pay those same high real interest rates.

Productivity Growth. The second policy issue, more long-term but equally urgent and also not new, is to find ways to enhance productivity growth in the U.S. economy, presumably in part by way of increasing the flow of saving and investment. Fixing the budget deficit, which would in an accounting sense dramatically increase the flow of net saving if nothing else changed, would make a substantial contribution to the productivity problem, but the problem is almost certainly more deeply rooted than that.

It is well to keep in mind that, from the perspective of national economic policy, finding ways to bring the rate of productivity growth back up to the levels reached in the 1950s and 1960s is probably the single most important issue. The trend of productivity growth is the most important determinant of economic well-being in the society as a whole, and even small differences in trend growth rates add up to very large differences in output, consumption, and well-being over longer spans of time. Improving the productivity growth rate by as little as a half percent per year adds tens of billions to output and potential consumption each year, and adds hundreds of billions after a decade — more than enough to pay for most of the social programs thought to enhance quality of life in our society. And other important societal objectives are far easier to accomplish if real incomes are rising because productivity is rising than if real incomes are stagnant because productivity is stagnant. For example, reducing income inequality by providing resources to those in the lower part of the income distribution is politically much easier to accomplish if people have to give up only part of their gains to provide resources for the less fortunate, much harder if people have to reduce their living standards to provide such resources. Thus it is not accidental that social programs had much easier going politically in the rapidly growing period of the 1960s than during the more sluggishly growing 1970s and 1980s.

Although the objective of improving productivity growth would meet with universal acclaim by politicians of all persuasions, finding out how to do it is not so simple. The U.S. economy, along with other economies in the developed world, has had a persistent and nagging slowdown in productivity growth that dates from about the early 1970s. Just why productivity has slowed down is in considerable dispute: The possible explanations more than exhaust the amount of slowdown to be explained.

Although solutions cannot be guaranteed, it does seem clear that finding some way to promote a higher level of investment could only be helpful — it might not help much, but it would certainly help some and could not possibly hinder. That applies not only to investments of the conventional type — tangible capital assets in the private sector — but also to investments in "human" capital — education, health, etc. If we are to believe recent stories about the effectiveness of schooling in the U.S., a major solution to the present and future productivity problem may be to find more effective ways to increase the level of skills associated with years of schooling, either by increasing the intensity of effort on the part of students or by changing the curriculum mix between the mastery of basic skills and everything else.

The problem does not lie solely in the effectiveness of schools and teaching. A great deal of skill development takes place in households, particularly in the early years of child development. In a society where fewer and fewer children will have exposure to both parents during their developing years, it seems likely that the contributions of parents to child development will be declining, and an offset will have to be found elsewhere. That is presumably why issues relating to daycare have surfaced in the present campaign, and that focus seems to be fully warranted by the available data and the likely future trends.

Demographic Shifts. The third economic policy issue that needs to be addressed is even more distant in time, although its appearance is a lot more certain than any of the others. Everyone is aware of the fact that the U.S. population, as well as almost all populations in the developed world, will be undergoing a dramatic change in age composition over the next several decades. Given present fertility trends, there will be a substantial shift over the next half-century, reaching its peak around the year 2020, in the proportion of the U.S. population that will be dependent in the sense of consuming without producing — the retired population plus the school-age and preschool population. The retired population will increase substantially as a percent of the total. This compositional change is basically the after-effect of the baby boom of the 1950s and early 1960s, coupled with a general tendency for older people to live longer. None of this is news — the relevant population has already been born, and the only uncertainties are retirement age and length of life.

What are the policy implications of this demographic shift? As a minimum, policies designed to influence retirement decisions, policies designed to influence the utilization of health care for the aged, and policies designed to expand the productivity of the working population will become central during the next several decades.

While these are a very important set of policy issues, they can be avoided for a while since the consequences of these shifts will not (except for medical care expenditures relating to the aged) begin to impact until the early part of the next century. But if nothing has been done by then, it will be too late.

Inequality. Finally, there is a distinct possibility that the next president will have to face up to the facts of rising income inequality among American households. The data here are not entirely clear, but it does appear that the share of the top 10 percent of the population has grown relative to the total, while that of the bottom 10 percent has declined. For example, the poverty population is now substantially higher, as a proportion of the total population, than it was during most of the 1970s, despite the long economic expansion during the 1980s. These issues are complex, and the outcomes depend on a good many other things besides economic policy. But policy during the 1980s has clearly moved in the direction of greater inequality, driven by a perception that lowering marginal tax rates for the wealthy would result in an upsurge in output and productivity and pull everybody up, including the bottom. But the rising tide of the 1980s has not lifted all boats equally, and some of them appear to be still mired in the mud.

How Would Policy Differ?

The central question for the voters, to the extent that economic policy issues are of concern, is: How would policy differ under a Democratic or a Republican administration? One can make a plausible case for the proposition that, given the constraints that will be faced by any incoming administration, given the limited degrees of freedom available to any administration as a consequence of the need for political compromise to achieve any policy change at all, and given the quite modest influence of policy on the economy, one would not expect outcomes over the next four years to be very different under President Bush than under President Dukakis.

But that is probably too strong an assertion. While policy may not be able to make more than very modest changes over a span of time like four years, the direction of the economy can be shifted by policy, and the direction of the shift will matter a good deal over the long run. An obvious illustration is the influence of the Reagan administration on the American economy over the last eight years, which has undeniably shifted its direction compared to the 1960s and 1970s and left any incoming president with limited options with regard to domestic programs.

Speculating on differences in economic policy between possible administrations is hazardous, especially given the very generalized nature of economic policy discussions in the campaign so far. And speculation not only has to take into account the views of the candidates, but also the political reality that will influence the translation of presidential initiatives into policy decisions.

My speculations about differences are based more on impressions and considerations of political process than on assessments of detailed statements about position. Thus I would expect that:

- A Dukakis administration would make more progress on the budget deficit than a Bush administration — that is partly because Vice-President Bush has locked himself into a position where tax increases cannot be used to help solve the problem, and it will be easier for a Dukakis administration to blame previous policy for the deficits and propose vigorous steps toward a solution.

- A Dukakis administration would be more intrusive than a Bush administration in areas where market forces seem to be producing unpalatable outcomes. That would apply, for example, to the provision of publicly supported daycare and health care, environmental policy, and trade policy.

- A Dukakis administration would do better on real growth rates and on reducing the trade deficit, and worse on inflation rates, than a Bush administration. That judgment is based on the fact that a Dukakis administration will try to use both fiscal and monetary tools to influence the economy, while a Bush administration won't use fiscal policy at all except for its supply-side aspects. And a Dukakis administration will be more ambitious on social programs, but is likely to find that the costs will generate more demand than they had hoped.

Possibly the most important difference between a Dukakis or a Bush administration is in the degree to which the president can set an economic policy agenda, inspire confidence that the agenda is important and warrants being supported, and implement that agenda. Differences between presidents in leadership style and effectiveness are surely among the most important such differences, and probably matter more to eventual outcomes than differences in detail or in particular policy preferences. At the present writing, neither candidate seems to have captured the imagination of the public — formulating a coherent and consistent vision of the future and inspiring confidence that the vision can be realized. And to the extent that the election turns on issues at all, it is likely that the intangible of creating a vision for the future will carry more weight — deservedly so — than any of the other differences.

Actual and Projected Economic Indicators

seasonally adjusted

SERIES FORECAST BY THE ASA-NBER PANEL

ECONOMIC INDICATOR	Quarterly Data										Annual Data		
	Actual					Projected					Actual	Projected	
	1987:2	1987:3	1987:4	1988:1	1988:2	1988:3	1988:4	1989:1	1989:2	1989:3	1987	1988	1989
GROSS NATIONAL PRODUCT	4,484.2	4,568.0	4,662.8	4,724.5	4,823.8	4,891.0	4,972.8	5,056.1	5,129.6	5,204.3	4,526.7	4,850.0	5,173.3
GNP IMPLICIT PRICE DEFLATOR (index, 1982 = 100)	117.3	118.2	118.9	119.4	121.0	121.9	123.1	124.4	125.8	127.0	117.7	121.3	126.4
CORPORATE PROFITS AFTER TAXES	141.1	149.5	145.7	149.4	162.7	157.5	162.0	163.5	164.0	165.0	142.9	155.0	164.0
UNEMPLOYMENT RATE (percent)	6.23	5.97	5.90	5.70	5.43	5.40	5.40	5.50	5.60	5.70	6.18	5.50	5.65
INDUSTRIAL PRODUCTION (index, 1977 = 100)	128.2	130.9	133.2	134.5	136.0	138.0	139.0	140.0	141.0	142.0	129.8	137.0	141.0
NEW PRIVATE HOUSING UNITS STARTED (millions)	1.606	1.619	1.533	1.477	1.481	1.500	1.470	1.420	1.410	1.400	1.634	1.481	1.427
CONSUMER PRICE INDEX (annualized percent change from prior quarter or year)	4.94	3.94	3.59	3.40	4.79	4.80	4.90	5.00	5.10	4.90	3.70	4.20	5.00
3-MONTH TREASURY BILL RATE (%)	5.73	6.03	6.00	5.76	6.23	6.95	7.20	7.35	7.40	7.34	5.83	6.50	7.40
NEW HIGH-GRADE CORPORATE BOND YIELD (percent)	9.65	10.14	10.37	9.64	10.08	10.20	10.40	10.60	10.80	10.70	9.69	10.03	10.68
GNP IN 1982 DOLLARS	3,823.0	3,865.3	3,923.0	3,956.1	3,985.2	4,012.9	4,042.2	4,066.3	4,097.8	4,117.5	3,847.0	3,999.7	4,106.0
PERSONAL CONSUMPTION EXPENDITURES (1982 dollars)	2,516.6	2,545.2	2,531.7	2,559.8	2,579.0	2,591.0	2,603.0	2,616.0	2,628.0	2,641.0	2,520.9	2,582.3	2,633.5
NONRESIDENTIAL FIXED INVESTMENT (1982 dollars)	434.8	462.8	464.8	473.4	490.2	498.0	504.0	510.0	515.0	516.0	445.2	491.2	517.5
RESIDENTIAL FIXED INVESTMENT (1982 dollars)	197.6	192.1	192.7	189.5	189.6	191.0	189.0	188.0	188.0	188.0	195.2	189.5	187.9
CHANGE IN BUSINESS INVENTORIES (1982 dollars)	27.8	13.0	67.1	66.0	35.3	35.0	30.0	30.0	27.1	26.0	34.4	44.0	27.4
NET EXPORTS (1982 dollars)	-126.0	-130.7	-126.0	-109.0	-92.6	-84.0	-79.0	-74.0	-70.0	-65.0	-128.9	-90.0	-67.5
FEDERAL GOVERNMENT PURCHASES (1982 dollars)	332.1	342.1	347.7	327.8	331.6	333.0	340.0	339.8	339.0	340.0	339.0	331.9	340.0
STATE AND LOCAL GOVERNMENT PURCHASES (1982 dollars)	440.1	440.8	444.9	448.7	452.2	454.0	457.0	458.7	460.9	463.2	441.2	452.7	461.5

SERIES FROM THE CURRENT-DOLLAR GNP ACCOUNTS

ECONOMIC INDICATOR	Quarterly Data										Annual Data		
	1986:1	1986:2	1986:3	1986:4	1987:1	1987:2	1987:3	1987:4	1988:1	1988:2	1985	1986	1987
GROSS NATIONAL PRODUCT	4,180.4	4,207.6	4,268.4	4,304.6	4,391.8	4,484.2	4,568.0	4,662.8	4,724.5	4,823.8	4,014.9	4,240.3	4,526.7
PERSONAL CONSUMPTION EXPENDITURES	2,739.0	2,772.1	2,842.8	2,876.0	2,921.7	2,992.2	3,058.2	3,076.3	3,128.1	3,194.6	2,629.0	2,807.5	3,012.1
GROSS PRIVATE DOMESTIC INVESTMENT	686.6	667.8	653.0	656.4	685.5	698.5	702.8	764.9	763.4	758.1	643.1	666.0	712.9
NET EXPORTS	-93.0	-101.2	-109.1	-114.3	-119.1	-122.2	-125.2	-125.7	-112.1	-90.4	-78.0	-104.4	-123.0
GOVERNMENT PURCHASES	847.8	868.8	881.8	886.5	903.8	915.7	932.2	947.3	945.2	961.6	820.8	871.2	924.8
DISPOSABLE PERSONAL INCOME	2,965.1	3,016.3	3,032.4	3,064.7	3,143.9	3,154.1	3,224.9	3,315.8	3,375.6	3,421.5	2,838.7	3,019.6	3,209.7
PERSONAL SAVING RATE (percent of disposable income)	4.6	5.1	3.3	3.2	4.2	2.2	2.3	4.3	4.4	3.7	4.4	4.0	3.3

Note: (1) All data are at annual rates and in billions of current dollars unless otherwise indicated.

Sources: Projections: American Statistical Association—National Bureau of Economic Research panel of forecasters.
Actual Data: U.S. Departments of Commerce and Labor, Board of Governors of the Federal Reserve System.

*Substantial revision of the data for series marked with an asterisk has occurred since the last printing.

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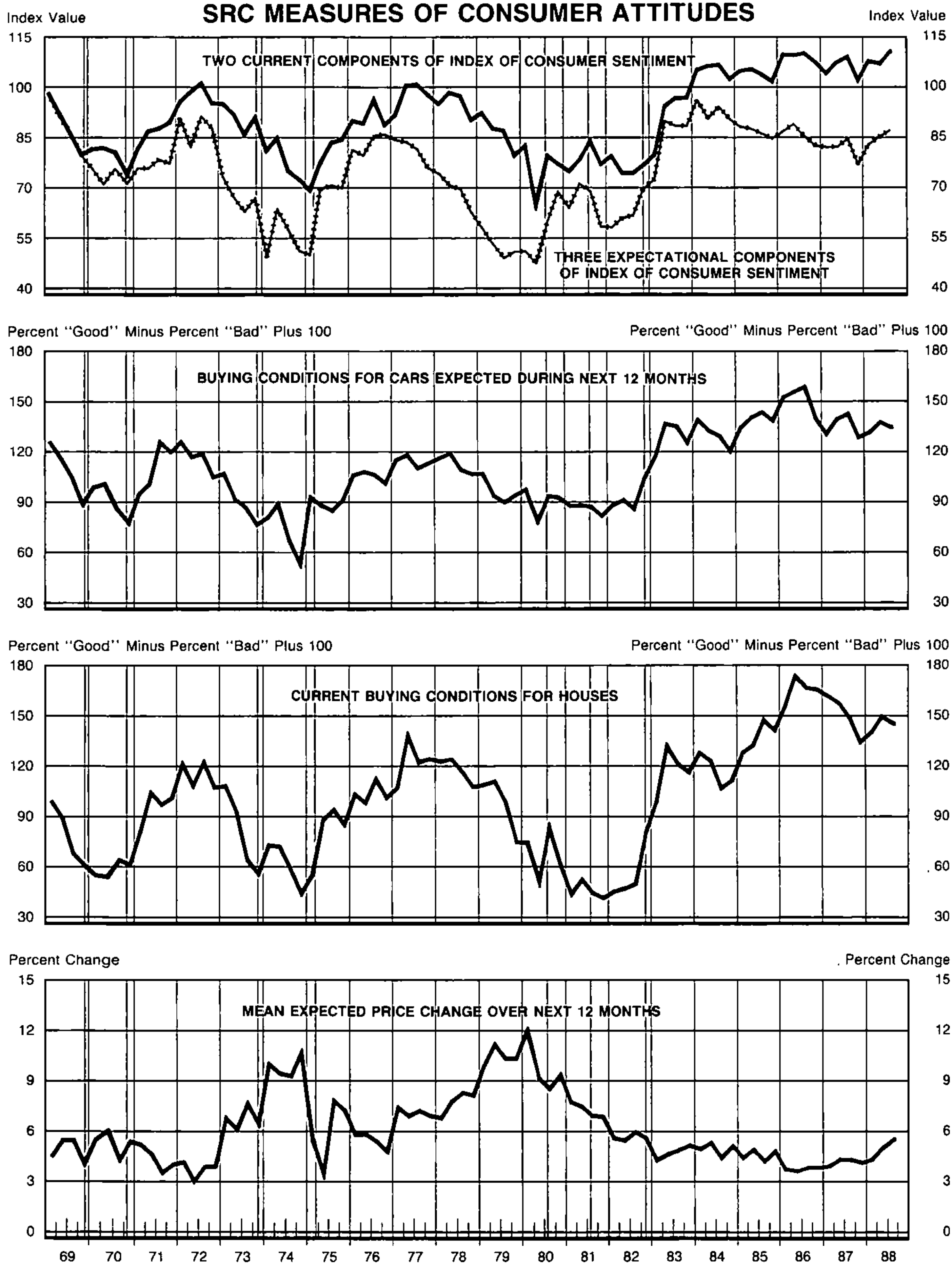

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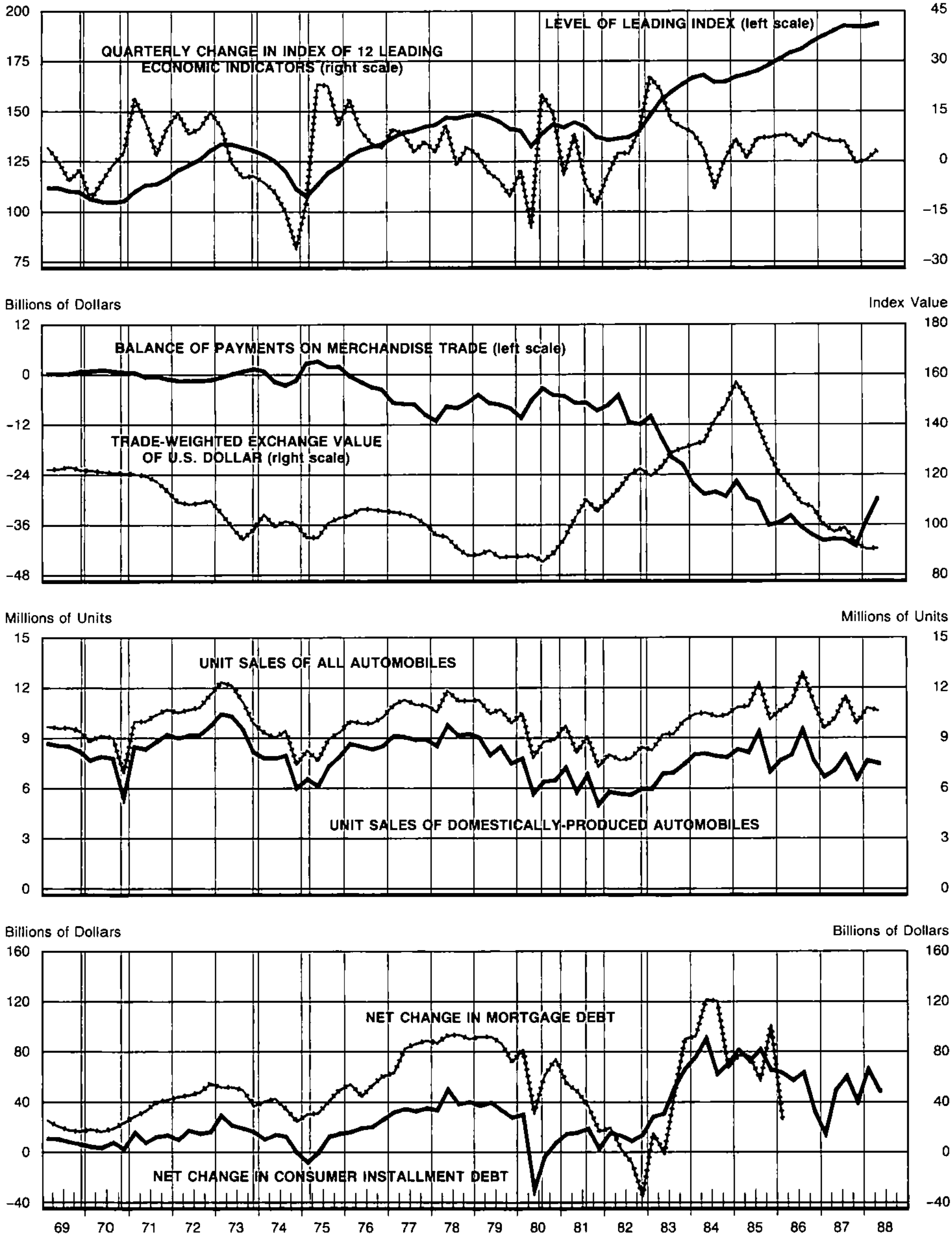

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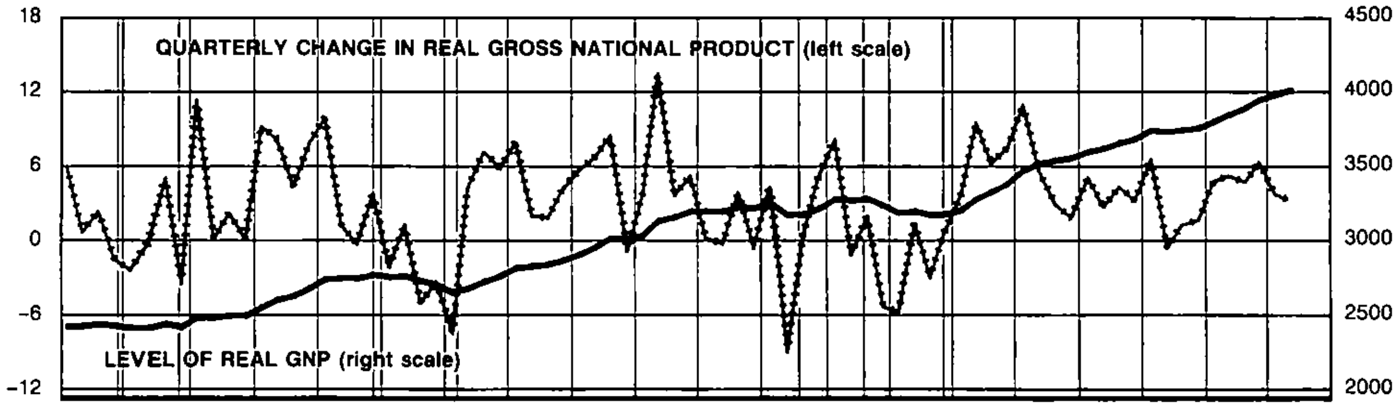

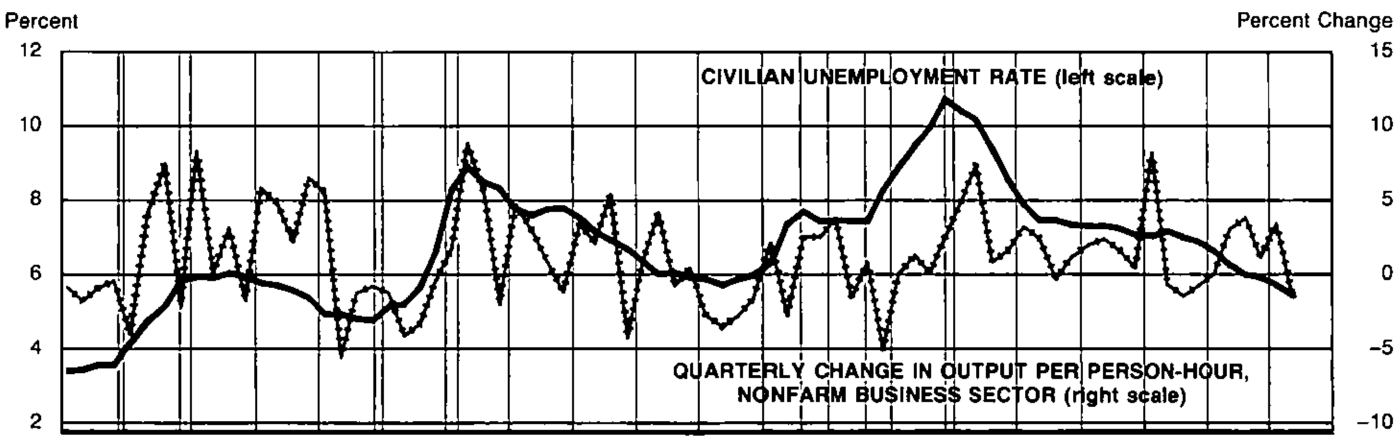

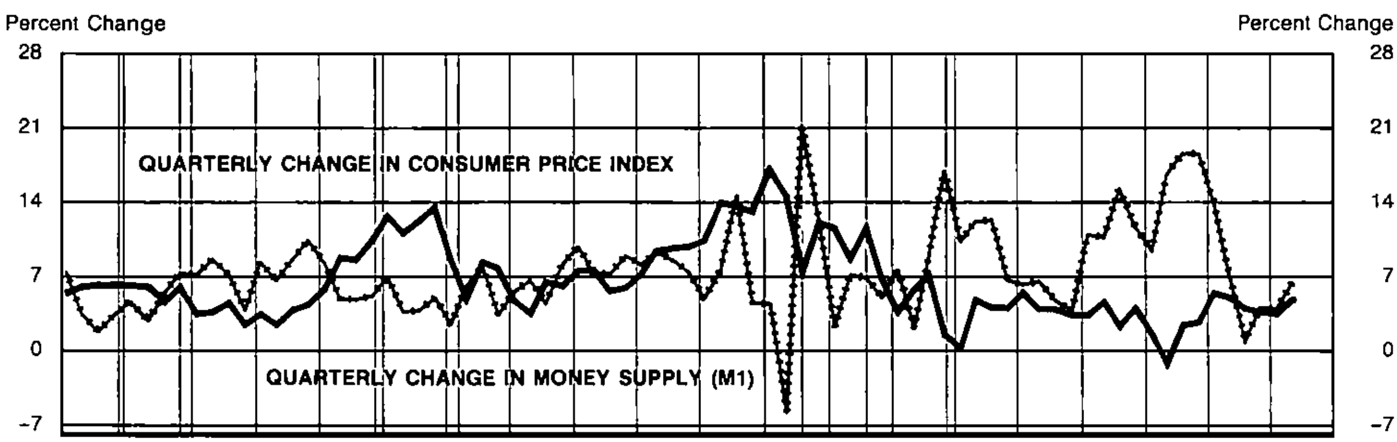

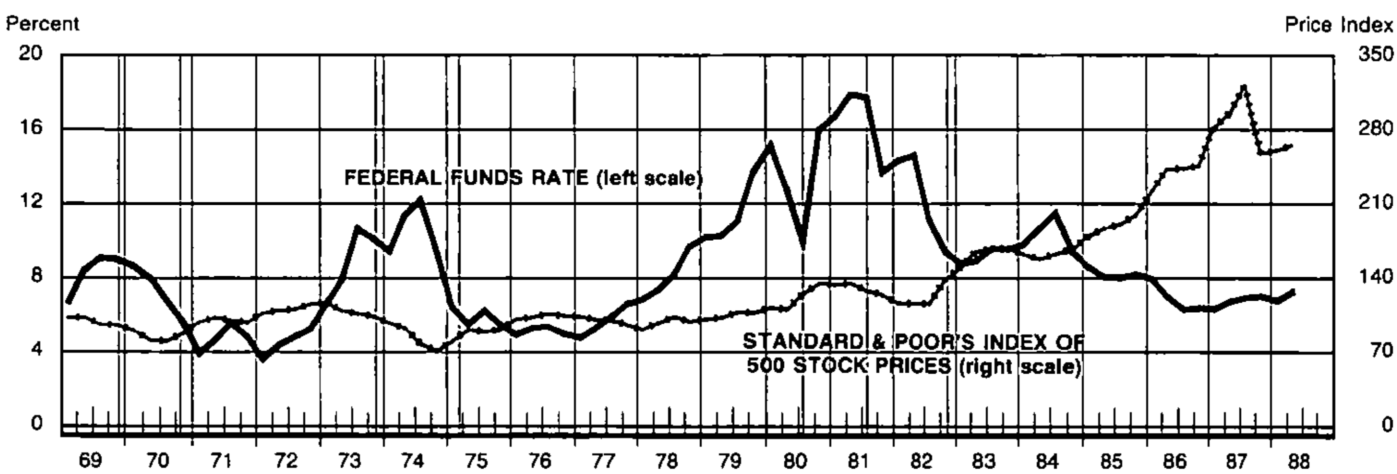

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