Surrender

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Published by University of Michigan Press

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Surrender: How the Clinton Administration Completed the Reagan Revolution.

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Nineteen ninety-eight marks seven years since the beginning of the recovery from the last recession. The recovery began so slowly that in 1992 an angry public swept the incumbent president from the White House. In 1994, the anger still palpable, the Democratic Party lost control of Congress in a massive repudiation of William J. Clinton, the new president. By 1996 voters had enough “good feeling” to give President Clinton almost 50 percent of the popular vote in a three-way race. In 1997 growth in the economy was even faster than predicted. When the president and Congress agreed on a budget-balancing plan, the amount of net cuts in government spending necessary to achieve balance had fallen from a 1995 projection of $200 billion to $24 billion. By early 1998, even these optimistic projections had been rendered moot by the strength of the economy. Nineteen ninety-seven had surprised all prognosticators with faster growth and lower inflation than they had predicted. The president’s Council of Economic Advisers correctly celebrated a year when the economy turned in its best performance in a generation. President Clinton proposed a balanced budget for fiscal 1999, three years earlier than projected just six months before.

So the “great pain” and “tough choices” anticipated by all commentators while Congress and the president wrestled with the budget in 1995 and early 1996 had by the end of 1997 evaporated into a euphoric reaction to a “successful” economy. Two years of economic growth at a rate of more than 2.5 percent a year had caused this feeling, but how long will this euphoria last? The answer is, until the next recession, when growth will be negative, even if for a short time. Then, all positive projections will evaporate, and, once again, the “pain” of cutting spending and/or raising taxes to achieve budget balance will return.

The speed with which fear over the “painful choices” of budget balance had given way to the euphoria of 1997 should remind us that even though we live in the short-term present, a long-run perspective is essential in understanding which public-policy choices are appropriate.
Accordingly, this book takes a long-term approach. It traces what has come to be known as the “Reagan Revolution” in economic policy.

In 1980, while on sabbatical leave, I returned to Cambridge, England, where I had studied economics in the mid-1960s. In one year Prime Minister Margaret Thatcher had revolutionized economic policy, and strong protests were voiced by many Cambridge economists. I had read some of the conservative writings on economics in American public-policy journals published during the late 1970s, and I brought some of this work to the attention of colleagues in Cambridge. These discussions led to the organization of a conference sponsored by the Cambridge Journal of Economics. In the summer of 1981, “New Orthodoxy in Economics” drew participants from the United States, Great Britain, the European continent, Argentina, and Australia to discuss the theoretical underpinnings of the Thatcher government’s plan for Britain and the Reagan administration’s projections for the United States.

After that conference, I began to teach about the economic policy changes that the Reagan White House and the Volcker-led Federal Reserve were instituting. At first I simply presented my students with alternative diagnoses of what ailed the economy before 1981 and what the Reagan administration proposed as cures. Beginning in 1984, with the recession of 1981–82 behind us and the economy in a strong recovery, I was able to give my students some evidence for the successes and failures of those policies. In 1987, challenged by students’ questions, I resolved to study the accumulated evidence since the end of the recession. Had the changes introduced in 1981, combined with the strong anti-inflationary policies of the Federal Reserve, “fixed” the problems identified by conservative economists and public-policy people? I compared the recovery from the 1981–82 recession to the recovery from the 1974–75 recession. I have continued to utilize this comparative approach as information has accumulated.

When the data on President Reagan’s eight-year tenure was complete, and the recession of 1990 had marked the end of the economic recovery, I decided to synthesize years of teaching and thinking about these issues into a coherent interpretation that would reach a larger audience. I planned a sabbatical for 1994–95, thinking that I would write a history. With the success of the Republicans in the 1994 elections, my historical project took on a sense of immediacy. In 1996, I extended the analysis to cover the 1994 victory and the Republican budget proposals for zero deficit by 2002.
While President Clinton and the Republicans were locked in a great battle of wills, with two government shutdowns and high-decibel partisanship flooding the media, I rewrote the first and last chapters to keep up with the changes. When President Clinton agreed to balance the budget by 2002, albeit with a tax and spending mix different from the Republicans’, I knew that the Reagan Revolution had succeeded.

This project began as a history of the Volcker and Reagan policies with an analysis of their successes and failures from a long-term perspective. Our judgment about those years remains important as a prologue to our understanding of present decisions. Currently, there is real commitment to budget balance. The effects of the changes necessary to balance the budget are no longer merely theoretical possibilities; we will soon feel the impact of those changes. My desire is to make the issues related to the Reagan Revolution accessible to the general reader and student of public policy. I believe the reader will discover that the specialized language and competing theoretical perspectives about economics and public policy are readily understandable. It is my hope that readers will follow the story of the past eighteen years of policy and experience and become well positioned to exercise their roles as citizens. The next few years will put this book’s analysis to the test. Just as we Americans participated in a major “experiment” in economic policy between 1979 and 1990, we are about to enter a new experimental phase through the year 2002. If the analysis of this book proves accurate, when the next recession begins, we will be faced with the “pain” and “tough choices” that the past two years of euphoria have postponed. This is not good news; however, if we take the lessons of history to heart, we will be able to shake off the dogmatic dictates of current policy and escape a repetition of the mistakes of the past.

* A Note on Data * Many of the tables in both the text and the endnotes are based on quarterly time series data. Rather than include all of the raw data, which would be rather voluminous, the publisher and author have decided to post them on the web site of the Department of Economics at Western New England College. The address for the page is <mars.wnec.edu/~econ/surrender>. Once there, readers can follow directions to the numbered tables that apply to the data being discussed in the text. Readers without access to the World Wide Web can request a hard copy by writing to the author at Western New England College, 1215 Wilbraham Road, Springfield, MA 01119.