

10-1-1993

# Fiscal Policy, Monetary Policy, and the Carter Presidency

Ann Mari May

University of Nebraska - Lincoln, amay1@UNL.edu

Follow this and additional works at: <http://digitalcommons.unl.edu/econfacpub>



Part of the [Economics Commons](#)

---

May, Ann Mari, "Fiscal Policy, Monetary Policy, and the Carter Presidency" (1993). *Economics Department Faculty Publications*. Paper 34.

<http://digitalcommons.unl.edu/econfacpub/34>

This Article is brought to you for free and open access by the Economics Department at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Economics Department Faculty Publications by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

# Fiscal Policy, Monetary Policy, and the Carter Presidency

Ann Mari May

Associate Professor of Economics  
University of Nebraska–Lincoln

## Abstract

The Carter years have often been characterized as a period of profound economic malaise brought on by weak and misguided leadership. Indeed, not since Herbert Hoover left office in 1933 has a president faced such pervasive allegations of economic mismanagement. However, examination of broad indicators of economic conditions demonstrates that the economy performed quite well during the Carter years. Moreover, fiscal policy during the Carter Administration was relatively stable and less volatile than fiscal policy during other postwar presidential periods and appropriate in its countercyclical thrust. In contrast, monetary policy was highly erratic compared to monetary policy during other presidential terms and represented a destabilizing influence in the late 1970s.

The “Ranking of Presidents,” according to Clinton Rossiter, “has always been a Favorite Indoor Sport of history-minded Americans.”<sup>1</sup> An important aspect of ranking the president involves drawing analogies and making, at times, tortuous comparisons. While Jimmy Carter has sometimes been compared to fellow Democrat Franklin Roosevelt, more often he has been compared to the only other engineer turned president, Herbert Hoover.

Carter shared Hoover’s disdain for the compromises of politics and thought “politics was incompatible with good government.”<sup>2</sup> Carter and Hoover both distrusted strong central government.<sup>3</sup> More importantly, however, Hoover and Carter both became associated with economic decline and mismanagement. As Sidney Weintraub saw it, Carter was “likely to succeed where all Democrats—and Republicans—have failed—namely, in making his own name a synonym for economic mismanagement and expunging memories of Herbert Hoover dawdling at the onset of the Great Depression.”<sup>4</sup> So strong was this comparison that during the second half of his Administration Carter acquired the unenviable nickname “Jimmy Hoover.”<sup>5</sup>

Not since Hoover left office in 1933 has a president faced such pervasive allegations of economic mismanagement. Like Hoover, Carter saw himself as an activist, a leader, a problem solver. And like Hoover, Carter was defeated after one term in office. To be fair, economic circumstances did conspire against Hoover and he did reign over the worst economic crisis in our nation’s history. But what about Carter? How do the Carter years compare with economic performance throughout the postwar period? Was fiscal and monetary policy inappropriate or misguided? How did Carter respond to the economic environment facing him in the late 1970s?

## Economic Performance and the Perception of a Failed Presidency

In the 1970s, structural changes in the U.S. economy conspired to make good economic performance an elusive goal. The large influx of workers from 1964 to 1980, a result of the postwar baby-boom, made low unemployment difficult to attain while increases in world energy prices put upward pressure on inflation. Although these pressures affected economic performance throughout the 1970s, the Carter years are most generally associated with economic decline. However, recent studies indicate that economic performance during the Carter years was not as dismal as our collective memory might lead us to believe.<sup>6</sup>

Economic growth during the Carter years was quite strong. In fact, the average growth in real GNP of 3.1 percent during the Carter years was stronger than either the Reagan, Eisenhower, Nixon, or Ford years and represented the longest peacetime expansion, at that time, in the postwar era. Although the unemployment rate in the 1970s was higher on average than that which prevailed in the 1950s and 1960s, the unemployment rate during the Carter years was lower than in either the Ford years or the Reagan years. Moreover, the unemployment rate was falling throughout most of the Carter years, at least until 1980.<sup>7</sup> It is quite true that during the Carter years inflation was high—averaging about 8 percent. This rate exceeds the average inflation rate of the 1950s and 1960s as well as the inflation rate during the Reagan years. However, the average rate of inflation during the Ford years was higher, averaging 8.1 percent. Moreover, the rate of inflation was 9 percent on an annual basis for only one year during the Carter Administration whereas the rate of inflation was above 9 percent for two consecutive years during the Ford Administration.

A ranking of economic performance during seven postwar presidential periods on the basis of growth in output and employment, unemployment, inflation and interest rates, productivity, and capital investment shows that the Carter years outperformed the Ford, Reagan, and the Nixon years. Only in the Eisenhower years was peacetime economic performance better than during the Carter years, and only marginally so.<sup>8</sup>

What appears to have influenced popular perceptions of economic performance during the Carter years, however, was the poor performance of the economy in one year, 1980. While output expanded each year from 1977 through 1979, real GNP declined at a .2 percent annual rate in 1980. Unemployment, which had fallen throughout the Carter years from 6.9 percent in 1977 to 5.8 percent in 1979, rose sharply in 1980 to 7 percent. While inflation rose steadily from 1977 to 1979, oil price increases produced a large jump in the inflation rate from 6.9 percent in the fourth quarter 1979 to 10 percent in the first quarter 1980.

The poor state of the economy in 1980 undoubtedly contributed to the view, held by many, that the Carter years were a period of economic malaise. Although the president is not solely in control of the economy and quite often has only minimal influence over changes in fiscal and monetary policy, the public attributed the economy's poor economic performance to Carter's weak, misguided leadership. The public's perception of a presidency wrought with indecision was understandable. Carter campaigned in 1976 on a platform to promote growth and reduce unemployment; how-

ever, growing inflationary pressures subsequently led the President to modify his concern for unemployment. The budget deficit of \$53.6 billion in 1977 rose slightly in 1978 to \$59.2 billion. In 1979, however, the budget deficit fell to \$40.2 billion, reflecting a more contractionary policy stance. As the economy turned downward in 1980, the budget deficit swelled to \$73.8 billion as Carter publicly supported more expansionary policies. As Erwin Hargrove points out, Carter's policies "appeared to many to be a presidential strategy of zigzag in economic policy. . . ."<sup>9</sup>

The increase in the budget deficit in 1980 contributed to another criticism of the Carter Administration. Carter took on the hue of a big spending liberal who, rather than balancing the budget, reigned over the largest annual peacetime budget deficit in U.S. history. In nominal terms, the budget deficit increased by 38 percent in only four years. Even in real terms, the budget deficit expanded from \$79.6 billion to \$86.1 billion by 1980.<sup>10</sup> Although oil price increases in 1979 put significant upward pressure on prices, many associated the rising inflation with the "liberal" policies of the Carter Administration.

### **Fiscal Policy, Monetary Policy, and the Presidency**

Despite appearances, Carter was, from the beginning, a conservative Democrat—fiscally speaking.<sup>11</sup> Throughout his presidency, Carter continually preached the virtues of a balanced budget and warned of the hazards of inflation. Indeed, if we look at the budget deficit as an indication of fiscal policy, we can see that, while the budget deficit has grown throughout much of the postwar era, the deficit was held in check during the Carter years. Comparing the average real budget deficits of postwar Presidents from Eisenhower to Reagan reveals that the budget deficit during the Carter years was an average \$74.7 billion per year compared to \$103.3 billion during the Ford years and \$153.1 billion during the Reagan years.<sup>12</sup> While budget deficits were held in check during the Carter years, were fiscal and monetary policy appropriate given the state of the economy?

The difficulty in examining stabilization policy in the postwar period stems from the fact that there is no single fiscal or monetary policy measure that adequately reflects discretionary policy changes enacted by policy-makers. For example, the budget deficit, often used as a fiscal policy measure, may expand or contract because of changes in the level of economic activity without any deliberate intervention from policy-makers. The full employment budget surplus or deficit is a better reflection of discretionary fiscal policy. However, this measure is also problematic. According to Alan S. Blinder and Robert M. Solow, "Since the FES fails to weight tax receipts by the MPC [marginal propensity to consume], it is impossible to associate a given change in the FES with a specific change in income; it depends upon how the change is apportioned between taxes and spending."<sup>13</sup>

Conventional measures of monetary policy are insufficient as well. The growth rate in the money supply, for example, is inappropriate because changes in the money supply reflect policy as well as non-policy influences.<sup>14</sup> That is, the money supply may fluctuate because of changes in the lending behavior of banks or the public's holding of currency.

To examine economic policy in the postwar period, impact measures of fiscal and monetary policy are presented.<sup>15</sup> These impact measures are derived using a macroeconomic model to estimate the impact of changes in fiscal or monetary policy in a given year on real GNP four quarters later.<sup>16</sup> The macroeconomic model is used to compare the simulated real GNP with the actual changes in policy against the simulated real GNP without the actual changes in policy that occurred in a particular quarter to determine the degree to which policy changes were expansionary or contractionary.<sup>17</sup>

The fiscal policy impact measure is obtained by comparing the simulated real GNP with the actual fiscal policy changes that occurred, "Y", against simulated real GNP without the changes in fiscal policy, "Y\*". Therefore, the fiscal policy impact measure in time "t" on real GNP "Y" in period "t + j" is:

$$F_y^j(t) = Y_{t+j} - Y_{t+j}^* \quad j \geq 0$$

The ten fiscal policy variables held constant in the "Y\*" simulation include: real federal purchases of goods, personal income tax rate, profit tax rate, indirect business tax rate, employee social security tax rate, employer social security tax rate, civilian jobs, military jobs, transfer payments to households, and grants-in-aid to state and local governments.<sup>18</sup> Clearly, most of the variables measure discretionary changes in fiscal policy. The primary exception is transfer payments to households, which has a highly cyclical component.

The monetary policy impact measures are derived in a similar fashion by comparing stimulated real GNP with the actual monetary policy changes that occurred, "Y", against simulated real GNP without the changes in monetary policy, "Y\*". The monetary policy impact measure in time "t" on real GNP "Y" in period "t + j" is thus:

$$M_y^j(t) = Y_{t+j} - Y_{t+j}^* \quad j \geq 0$$

The three monetary policy variables held constant in each quarter are the discount rate, the reserve ratio, and non-borrowed reserves.

### Fiscal Policy

The average quarterly fiscal policy impact measures for each year from 1956 to 1984 appear in Table I.<sup>19</sup> These figures indicate, for example, that fiscal policy in 1957 was, on average, expansionary—increasing simulated real GNP by \$2.52 billion per quarter. In contrast, fiscal policy in 1959 was contractionary—decreasing simulated real GNP an average \$2.35 billion per quarter.

A brief examination of the fiscal policy impact measures indicates that the impact of fiscal policy has increased over time, adding more to simulated real GNP in the 1970s and 1980s than in the late 1950s and 1960s. The most expansionary fiscal policy occurred in 1982, when changes in fiscal policy increased simulated real GNP by an average \$13.23 billion per quarter. The most contractionary fiscal policy occurred in 1969 when Richard Nixon entered office and embarked upon a policy of "gradualism" to reduce inflation. Fiscal policy changes in that year reduced simulated real GNP an average \$2.62 billion per quarter.

**Table 1.** Average Quarterly Fiscal Policy Impact Measures on Real GNP.\*

Year	Quarterly Average	Year	Quarterly Average
1956	\$ 0.14	1971	\$ 1.28
1957	2.52	1972	1.58
1958	3.88	1973	2.01
1959	-2.35	1974	5.76
1960	0.53	1975	7.60
1961	3.25	1976	1.85
1962	2.40	1977	4.38
1963	-0.35	1978	1.87
1964	-0.68	1979	5.43
1965	4.30	1980	4.90
1966	6.29	1981	6.84
1967	4.36	1982	13.23
1968	-0.41	1983	2.46
1969	-2.62	1984	8.04
1970	2.18		

\* Four quarter time horizon in billions of 1972 dollars.

This increase in the expansionary impact of fiscal policy in the postwar period can also be demonstrated by examining the mean of the quarterly fiscal policy impact measures by presidential administration. According to Table 2, the mean value of the quarterly impact measure during the second Eisenhower Administration was \$1.15 billion. The mean value of the fiscal policy impact measures increased throughout the 1960s from \$1.77 billion in the Kennedy years to \$2.77 billion in the Johnson years. The mean value then fell rather dramatically in the first Nixon Administration to \$.88 billion. After 1970, the means increased to \$5.07 billion in the Ford years, \$4.14 billion during the Carter years, and \$6.41 billion in the first Reagan Administration.

The figures in Table 2 allow us to compare fiscal policy during the various postwar presidential periods. Examination of the means indicates that the fiscal stimulus of the Carter years was on average less than either the Ford years before or the Reagan years to follow. Although the Ford years were impacted by the recession of 1974-75 and the Reagan years impacted by the 1981-82 recession, the means indicate that the Carter years were not characterized by extreme fiscal expansion.

**Table 2.** Summary Statistics of the Fiscal Policy Impact Measures.

Presidential Administration	Mean Value	Standard Deviation	Coefficient of Variation	Deviation from Trend
Eisenhower	\$ 1.15	3.66	3.18	.54
Kennedy	1.77	2.93	1.66	.40
Johnson	2.77	4.98	1.80	.52
Nixon	.88	3.61	4.10	-2.46
Ford	5.07	13.21	2.61	.85
Carter	4.14	4.48	1.08	-.11
Reagan	6.41	9.83	1.53	1.77

Further evidence is gained by examining the difference between the average annual fiscal policy impact measures and the computed trend value of the fiscal policy measures for each presidential term. These data indicate that the Reagan years produced fiscal policy changes well above the trend expansion. The Ford years also produced fiscal policy changes above the trend growth as did the Eisenhower, Kennedy, and Johnson years. Most interesting, however, are the Carter years which show that fiscal policy changes were actually below the trend growth in fiscal policy. That is, while fiscal policy has become increasingly expansionary in its impact on real GNP, fiscal expansion during the Carter years was less than might be expected.

Examination of the means gives us some indication of the central tendency of the fiscal measures or the average values of the fiscal policy measures by presidential administration. However, we can also evaluate fiscal performance by obtaining some measure of the relative variability of the impact measures. This will allow us to determine the stability of fiscal policy.

The standard deviation is a common measurement of variability. However, because the means in Table 2 vary considerably, a better measurement of relative variability is the coefficient of variation, which is obtained by dividing the standard deviation by the mean.<sup>20</sup> The coefficient of variation for the various presidential terms is also reported in Table 2.

These data reveal some interesting characteristics of fiscal policy in the postwar period. Although the Nixon years had the lowest mean value in fiscal policy impact measures, the coefficient of variation was highest during those years. Thus, while fiscal policy during the Nixon years appears on average to be quite moderate in its expansionary impact, it was highly variable and subject to wide swings. Accounting for this volatility was the contractionary policy stance taken early on in an effort to cool inflation followed by the expansionary fiscal policy pursued before the 1972 presidential election.<sup>21</sup>

Also interesting is the coefficient of variation for the second Eisenhower Administration, which was second in magnitude only to the Nixon years. This high value emanates from the expansionary policies pursued during 1957 and 1958 followed by the contractionary policies in 1959 and early 1960. The direction of fiscal policy during the second Eisenhower Administration provides an interesting contrast to the Nixon years. While both are highly variable, Nixon's fiscal policy is consistent with the vote maximizing president who intends to engage in contractionary policies early in his administration in an effort to reduce inflation only to engage in expansionary policies before the presidential election in an effort to benefit from a booming economy at election time.<sup>22</sup> In contrast, fiscal policy during the Eisenhower years, which had been expansionary in 1957 and 1958, became highly contractionary in 1959 and 1960. Eisenhower's policies before the 1960 presidential election were certainly not consistent with vote maximizing behavior, and may have contributed to Nixon's defeat.<sup>23</sup>

Although Carter and Eisenhower were similar in ranking of their overall economic performance, the data presented here indicate that fiscal policy during the Carter years was much more stable and less subject to wide variation than that of the second Eisenhower Administration. Moreover, fiscal policy during the Carter years

**Table 3.** Average Quarterly Monetary Policy Impact Measures on Real GNP.\*

Year	Quarterly Average	Year	Quarterly Average
1956	\$ 2.10	1971	\$11.62
1957	5.38	1972	7.45
1958	14.01	1973	27.89
1959	3.11	1974	2.58
1960	5.49	1975	5.55
1961	3.89	1976	10.38
1962	4.66	1977	12.87
1963	2.29	1978	6.18
1964	6.04	1979	8.02
1965	6.09	1980	1.62
1966	7.28	1981	4.92
1967	11.66	1982	16.46
1968	10.83	1983	8,07
1969	3.83	1984	21.87
1970	7.29		

\* Four quarter time horizon in billions of 1972 dollars.

stands out as the most stable of any of the presidential administrations evaluated, with the lowest coefficient of variation. These data belie the perception of “zigzag policies” pursued during the Carter years. Rather than being the most erratic, fiscal policy during the Carter years was actually the most stable of any postwar presidential term.

### Monetary Policy

The average quarterly monetary policy impact measures for each year are reported in Table 3. These findings indicate that changes in monetary policy exert a larger influence on real GNP in general than do fiscal policy changes. For example, the largest average expansion in monetary policy occurred in 1973 when changes in monetary policy increased simulated real GNP by an average of \$27.89 billion per quarter. In contrast, the largest annual fiscal policy expansion occurred in 1982 when fiscal policy changes increased simulated real GNP \$13.23 billion per quarter.

The mean values of the monetary policy impact measures reported in Table 4 also indicate that monetary policy changes exerted a larger expansionary impact on real

**Table 4.** Summary Statistics of the Monetary Policy Impact Measures.

Presidential Administration	Mean Value	Standard Deviation	Coefficient of Variation	Deviation from Trend
Eisenhower	\$ 6.88	9.66	1.40	1.57
Kennedy	3.61	10.84	3.00	-2.50
Johnson	8.82	12.68	1.44	1.11
Nixon	10.10	16.33	1.62	3.11
Ford	6,17	21.22	3.44	-3.31
Carter	7.17	20.98	2.93	-3.18
Reagan	12.23	25.54	2.09	1.50



GNP than did fiscal policy changes. Moreover, monetary policy in the first Reagan Administration exerted the largest average expansionary influence on real GNP with a mean of \$12.23 billion, followed by the Nixon years with a mean of \$10.10 billion, and the Johnson years with a mean of \$8.82 billion. The Carter years, with a mean of \$7.17, were similar to the Eisenhower and Ford years, while the Kennedy years show the lowest mean value of \$3.61 billion. Monetary policy during the Carter years was not as expansionary on average as either the Nixon or Johnson years before or the Reagan years to follow.

Further evidence of the relatively restrained nature of monetary policy during the Carter years is gained by examining the difference between the average annual monetary policy impact measures and the computed trend value for each presidential term. These data indicate that the Nixon, Eisenhower, Reagan, and Johnson years produced monetary policy changes above the trend expansion. In contrast, the Ford, Carter, and Kennedy years reflect monetary policy expansion below the trend expansion with both the Carter and the Ford years well below the trend.

If monetary policy was on average less expansionary in the Carter years than in other recent years, it was nonetheless highly volatile. The coefficient of variation indicates that monetary policy was more erratic in the Carter years than it was during either the Reagan, Nixon, Johnson, or Eisenhower years. Only during the Ford and Kennedy years was monetary policy more erratic. Moreover, the figures suggest that monetary policy since the 1970s has been subject to wider swings than was monetary policy in the 1950s and 1960s.

While examination of the means and the coefficients of variation of the fiscal and monetary policy impact measures allows us to compare certain characteristics of policy changes during the Carter years with other postwar presidents, we need finally to examine these changes in the context of the economic environment of the late 1970s. How appropriate was fiscal and monetary policy during the Carter years and what policy direction did Carter provide in the late 1970s?

### **President Carter as Manager of Prosperity**

When Jimmy Carter entered the White House in 1977 the economy was still recovering from what at that time was the worst recession since the Great Depression. The recovery, however, was not dramatic. Although real GNP expanded at a 4.9 percent annual rate in 1976, much of the expansion occurred early in the year and the recovery appeared to be waning as voters went to the polls in November.<sup>24</sup> Unemployment, which was down from its recessionary high of 9.2 percent, remained virtually flat throughout 1976, fluctuating between 7.7 and 7.8 percent.<sup>25</sup> Inflation, too, had moderated. After reaching a high of 10.8 percent in the first quarter 1975, it had fallen to 5.4 percent by the fourth quarter 1976.<sup>26</sup>

President Carter was not out of step with public opinion when he declared early on that reducing unemployment should be a high priority. Although public opinion polls indicated that Americans continued to express a strong concern about inflation throughout 1976, unemployment was increasingly perceived to be important from 1976 to 1977. According to Gallup Poll data, unemployment was ranked as the most

important problem facing the country by 23 percent of those polled in February 1976, 31 percent in November 1976, and 39 percent in April 1977.<sup>27</sup>

Like most postwar presidents, Carter also expressed a perfunctory desire to balance the budget. However, growth and employment concerns clearly predominated. To reduce the relatively high unemployment rate, Carter proposed a reduction in personal and business taxes for 1977 totaling \$12.5 billion and expansion in public works and job training programs.<sup>28</sup> Although the original tax reduction was not passed, another fiscal stimulus package was enacted that included some minor tax reductions and employment programs.<sup>29</sup>

As the fiscal policy impact measures developed earlier indicate, fiscal policy was moderately expansionary in 1977. Fiscal policy changes in that year expanded simulated real GNP an average of \$4.38 billion per quarter, only slightly below the trend growth of \$4.66 billion. This continued expansion in fiscal policy was also reflected in the budget for 1977 which, ultimately, was no more expansionary than the budget proposed by former President Ford.<sup>30</sup>

By early 1978, however, growing inflation, which had increased to 10.7 percent in the second quarter 1978, and falling unemployment led to an increased desire to reduce the fiscal stimulus. The President proposed that tax cuts effective October 1, 1978, be delayed until January 1, 1979, and reduced from \$25 billion to \$20 billion.<sup>31</sup> As the annual fiscal policy impact measures show, fiscal policy became more contractionary in early 1978. Fiscal policy changes increased simulated real GNP by an average of only \$1.87 billion per quarter in 1978—an expansion well below the trend growth of \$4.88 billion.

The 1979 *Economic Report of the President* reflected the increasing concern for inflation. Although the report states, “We will not try to wring inflation out of our economic system by pursuing policies designed to bring about a recession,” fiscal policy remained contractionary into early 1979.<sup>32</sup> While the annual average fiscal policy impact measure for 1979 expanded simulated real GNP by \$5.43 billion, most of the more expansionary policies took place in the third and fourth quarters. Examination of the full employment budget indicates that the budget went from a deficit of \$11.6 billion in 1978 to a surplus of \$9.8 billion in fiscal 1979.<sup>33</sup>

Along with contractionary fiscal policy, Carter implemented a program of “voluntary wage and price standards” to fight inflation. From the beginning, the standards were criticized by everyone from Arthur Burns, Chairman of the Federal Reserve in the early years of the Carter Presidency, to labor leaders, who feared that business and not labor would benefit from the guidelines.<sup>34</sup> Moreover, the public, who increasingly saw inflation rather than unemployment as the most important problem facing the country and favored wage and price controls to combat inflation, viewed guidelines as a weak and ineffective solution.<sup>35</sup>

While the business community and Congress talked about wage and price controls, Carter himself did not pursue them. The business community was generally opposed to controls in the early years of Carter’s term, although some business leaders, such as Henry Kaufman, began to call for controls in the spring of 1980.<sup>36</sup> Members of Congress, however, remained divided on the issue of controls and never authorized the President to impose them.<sup>37</sup>

The opposition to controls stemmed, in part, from the belief that controls would not be effective in stopping inflation because much of the inflationary pressure was the result of oil price increases imposed by OPEC. While it is no doubt true that the OPEC doubling of oil prices in 1979 contributed significantly to the rising inflation in 1979 and 1980, the belief that controls would be ineffective was not the only constraint acting upon the President. Carter was also constrained in using wage and price controls because of his domestic policy of deregulation. This policy of deregulating the airlines, financial institutions, and energy prices would have been widely inconsistent with the imposition of wage and price controls. For a president who was increasingly perceived as indecisive and capable of providing only weak leadership, such inconsistency was not to be cultivated.<sup>38</sup>

If Carter was unwilling to take strong or extreme steps to deal with the growing inflation through fiscal or incomes policies, he was willing to take definitive steps to restore confidence in the dollar and provide monetary restraint to control inflation. Monetary policy, which had been quite expansionary in 1977 and moderately accommodating in 1978 and early 1979, turned contractionary in late 1979 and early 1980. It was at this time that Carter replaced G. William Miller with a known conservative, Paul Volcker, as Chairman of the Federal Reserve.<sup>39</sup> While Miller opposed dramatic changes in monetary policy as late as April 1979, Volcker favored a more activist approach and soon announced his intentions to fight inflation with contractionary monetary policy.

Perhaps over-anxious to wrench inflation from the system, Volcker's policies in the next six months exerted the largest contractionary influence on estimated real GNP of any period since 1956. The monetary policy impact measures indicate that monetary policy in the fourth quarter 1979 and the first quarter 1980 together reduced simulated real GNP by a total of \$28 billion. As a result of this contractionary monetary policy, actual real GNP declined significantly in the second and third quarters of 1980. As Gerald Epstein points out, "Between April and June, real GNP fell at an annual rate of almost 10 percent, the largest quarterly decline on record."<sup>40</sup>

After the massive contraction in late 1979 and early 1980, monetary policy became highly expansionary in mid-1980. The monetary policy impact measures in the second and third quarters 1980 indicate that monetary policy exerted the largest expansionary impact on estimated real GNP of any two consecutive quarters since 1956. This expansion was, of course, short lived, and was followed by a full percentage point increase in the discount rate just six weeks before the election. The monetary policy impact measure for the fourth quarter 1980 was the most contractionary of any measure in the entire period from 1956 to 1984.

In the midst of such tremendous fluctuations in monetary policy, Carter continued to support a more expansionary fiscal policy. In August 1980 Carter announced his "Economic Renewal Program," an attempt to stimulate the economy through a partnership between the private and the governmental sectors. The act provided governmental support to deal with economic dislocation, lower corporate taxes to stimulate investment spending, and adjustments to the income tax structure.<sup>41</sup> As the fiscal policy impact measures indicate, however, fiscal policy in 1980 was not strongly

expansionary. Changes in fiscal policy increased estimated real GNP only \$4.9 billion in 1980, an amount below the trend growth of \$5.32 billion. This, of course, was not enough to compensate for the severely contractionary monetary policy enacted by the Federal Reserve.

## Conclusion

In April 1980 Democrat Arthur Schlesinger, Jr., in almost utter disbelief that Carter would be renominated after four years of what he perceived to be incompetence, asked, "Have we turned into a nation of masochists?"<sup>42</sup> Schlesinger's comment reflected the prevailing view that the Carter years were a period of economic malaise. While economic policy-making is, in the end, the result of myriad forces, it was the Carter Presidency that became associated with indecision and mismanagement.

However, upon examination, fiscal policy during the Carter years appears to have been moderate, in the sense that it did not produce large swings in output or unemployment, and appropriate in terms of conventional countercyclical policy. When President Carter took office, the unemployment rate was above 7 percent—an unusually high rate for an expansionary period. The policy response was moderate expansion to reduce unemployment. This policy of moderate expansion put only marginal upward pressure on prices from 1977 to 1979 until oil price increases began to be felt. In response to the increase in inflation, fiscal policy became contractionary. However, when the highly contractionary monetary policy threatened to produce a protracted recession in 1980, a more expansionary fiscal policy was pursued.

While fiscal policy was unusually consistent, monetary policy was highly erratic. The evidence presented here suggests that unusually erratic monetary policy substantially impacted popular perceptions of the Carter presidency. Because Carter appointed Volcker as Chairman of the Federal Reserve, he must share partial blame for the volatile economic performance late in his term. However, in the uneasy relationship that exists between the Federal Reserve and the chief executive, such blame is often misplaced. For his part, the President did call for more expansionary monetary policy late in his term, but to no avail.

In general, the economic policies of the Carter Administration are best viewed as a modern tragedy of sorts and provide us with an important example of the potential conflict between presidential self-interest and the public good. Vote maximizing presidents have an incentive to engage in contractionary policies early in their terms to reduce inflation then engage in expansionary policies before the presidential election to reduce unemployment and reap the electoral rewards of an expanding economy. President Carter chose not to increase an already high rate of unemployment early in his Administration and due to external events was forced to embrace an appropriate, if ill-timed, contractionary policy stance to fight inflation before the 1980 election. Carter's policies were economically appropriate, but politically disastrous.

In a very fundamental sense, Carter was more like Roosevelt than Hoover. Just as Roosevelt has been criticized for trying what was acceptable rather than what would work. Carter too failed to provide a creative policy response to his own economic cri-

sis—the supply side shocks of 1979 and 1980. In the end Carter tried what was acceptable rather than what might have worked. Rather than enacting an incomes policy to fight inflation, Carter preached the gospel of fiscal discipline and monetary conservatism. In Carter's own words, his policies involved "costs . . . They involve pain . . . [but] with proper discipline we will prevail in our fight against inflation."<sup>43</sup> This particular sermon was not, however, what the American public wanted to hear.

*Ann Mari May would like to thank anonymous reviewers from Presidential Studies Quarterly for their helpful comments on an earlier draft of this article.*

## Notes

1. Clinton Rossiter, *The American Presidency* (New York: Harcourt, Brace & World, Inc., 1960), p. 142.
2. David D. Lee, "The Politics of Less: The Trials of Herbert Hoover and Jimmy Carter," *Presidential Studies Quarterly*, 13 (Spring 1983). p. 306.
3. *Ibid.*, p. 307.
4. Sidney Weintraub, "Carter's Hoover Syndrome," *The New Leader*, March 24, 1980.
5. Seymour Melman, "Jimmy Hoover?" *The New York Times*, February 7, 1979.
6. For a more complete examination of economic performance during the Carter Presidency and comparisons of economic performance by presidential term, see Ann Mari May, "Economic Myth and Economic Reality: A Reexamination of the Carter Years" forthcoming in *Jimmy Carter: Keeping Faith*, Herbert D. Rosenbaum and Alexej Ugrinsky, eds. (Westport, CT: Greenwood Press).
7. The unemployment rate fell from 7.1 percent in 1977 to 6.1 percent in 1978 and 5.8 percent in 1979. See the *Economic Report of the President 1990* (Washington, D.C.: United States Printing Office, 1990), p. 339.
8. The ranking of postwar presidents on a scale of ten is as follows: Johnson 8.2, Kennedy 7.3, Eisenhower 5.7, Jimmy Carter 5.3, Nixon 5.1, Reagan 4.3, and Ford 3.9. See May, "Economic Myth and Economic Reality," p. 7.
9. Erwin C. Hargrove, *Jimmy Carter as President: Leadership and the Politics of the Public Good* (Baton Rouge, LA: Louisiana State University Press, 1988), p. 70.
10. The real budget deficit is deflated using the implicit price deflator and 1982 dollars and data from the *Economic Report of the President 1990*, p. 298 and p. 383.
11. See Hargrove, *Jimmy Carter as President*, p. 69.
12. See May, "Economic Myth and Economic Reality," p. 18.
13. Alan S. Blinder, Robert M. Solow, George F. Break, Peter O. Steiner, and Dick Netzer, *The Economics of Public Finance* (Washington DC: Brookings Institution, 1974), p. 17.
14. See, for example, Thomas M. Havrilesky and John T. Boorman, *Monetary Macroeconomics* (Arlington Heights, IL: Harlan Davidson, Inc., 1978).
15. The fiscal and monetary policy impact measures are derived using an approach developed by Alan S. Blinder and Stephen M. Goldfeld, "New Measures of Fiscal and Monetary Policy, 1958–1973," *American Economic Review*, 66 (December 1976), pp. 780–96.
16. The FAIRMODEL macroeconomic model, version 2.0, is used to simulate the fiscal and monetary policy impact measures. The four-quarter time horizon is used here because it represents a realistic impact lag and because the dynamic properties of the macroeconomic model produce highly correlated two-, four-, and six-quarter impact measures.
17. The fiscal and monetary policy impact measures presented here examine independently changes in fiscal and monetary policy and do not account for interaction effects between fiscal and monetary policy.

18. For a complete discussion of the macroeconomic model and the policy variables see Ray C. Fair, *Specification, Estimation, and Analysis of Macroeconometric Models* (Cambridge, MA: Harvard University Press, 1984).
19. Data from the first Eisenhower and the second Reagan Administrations are not available.
20. Hubert M. Blalock Jr., *Social Statistics*, 2nd ed. (New York: McGraw Hill, 1972), p. 88.
21. See Robert R. Keller and Ann Mari May, "The Presidential Political Business Cycle of 1972," *Journal of Economic History*, 44 (June 1984), pp. 265-71.
22. For a complete discussion of the political business cycle see William D. Nordhaus, "The Political Business Cycle," *Review of Economic Studies*, 42 (April 1975), pp. 169-90 or Edward R. Tuftes, *Political Control of the Economy* (Princeton, NJ: Princeton University Press, 1978).
23. See Ann Mari May, "President Eisenhower, Economic Policy, and the 1960 Presidential Election," *Journal of Economic History*, 50 (June 1990), pp. 417-27.
24. While the annual growth in real GNP in 1976 was 4.9 percent, fourth quarter growth was a mere 1.2 percent. See the *Economic Report of the President 1978* (Washington, DC: United States Printing Office, 1978), p. 259.
25. *Ibid.*, p. 289.
26. *Ibid.*, p. 261.
27. George H. Gallup, *The Gallup Poll: Public Opinion 1972-1977*, Vol. II (Wilmington, DE: Scholarly Resources Inc., 1978), pp. 655-56, 913, and 1040.
28. See *Economic Report of the President 1977* (Washington, DC: United States Printing Office, 1977), pp. 31-32.
29. *Economic Report of the President 1978*, pp. 51-52.
30. Joseph A. Peckman, ed., *Setting National Priorities: The 1978 Budget* (Washington, DC: Brookings Institution, 1977), p. 3.
31. *Economic Report of the President 1979* (Washington, DC: United States Printing Office, 1979), p. 47. 32. *Ibid.*, p. 7.
33. *Economic Report of the President 1980* (Washington, DC: United States Printing Office, 1980), p. 50.
34. Stephen Woolcock, "The Economic Policies of the Carter Administration," in *The Carter Years: The President and Policy Making*, M. Glenn Abernathy, Dilys M. Hill and Phil Williams, eds. (London: Frances Pinter, 1984), p. 39.
35. According to Gallup Poll data in March 1979, 62 percent of those interviewed reported that inflation was the most important problem and only 6 percent reported unemployment. To fight inflation, the public consistently favored the imposition of wage and price controls. In May of 1979, 57 percent of those interviewed favored controls while only 31 percent opposed controls. See George H. Gallup, *The Gallup Poll: Public Opinion 1979* (Wilmington, DE: Scholarly Resources Inc., 1980), p. 94 and p. 170.
36. Leonard Silk, "Uncertainty on Controls," *The New York Times*, February 22, 1980.
37. See the *Wall Street Journal*, February 25, 1980.
38. See George H. Gallup, *The Gallup Poll: Public Opinion 1980* (Wilmington, DE: Scholarly Resources Inc., 1980), p. 250.
39. Gerald Epstein, "Domestic Stagflation and Monetary Policy: The Federal Reserve and the Hidden Election," in *The Hidden Election: Politics and Economics in the 1980 Presidential Campaign*, Thomas Ferguson and Joel Rogers, eds. (New York: Pantheon Books, 1981), pp. 168-69.
40. *Ibid.*, p. 172.
41. *Public Papers of the Presidents, Jimmy Carter, 1980-81*, Vol. II (Washington, DC, 1982), pp. 1585-91.
42. Arthur Schlesinger, Jr., "The Great Carter Mystery," *The New Republic*, April 12, 1980.
43. From remarks announcing the Administration's anti-inflation program given March 14, 1980 in *Public Papers of the Presidents, Jimmy Carter, 1981*, Vol. I (Washington, DC, 1981), pp. 481-82.