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Where Presidents Have No Power

Don't give them credit (or blame) for the economy—it's beyond their control

WERE THE HOME OF THE BRAVE AND THE LAND OF THE free, but our elections are an exercise in irrationality. Presidential races are won and lost largely on the state of the economy. War is the only larger issue, and of course this year Iraq looms large. But bad news from Iraq appears not to be altering the presidential race. John Kerry certainly seems to think the election will hinge on the economy, which is why he just spent three days riding 427 miles through the economically hard-hit Midwest on a bus called the Jobs First Express.

The last challenger to unseat an incumbent President, Bill Clinton, ran on the axiom that it's "the economy, stupid." He won, but that does not make the assumption—that Presidents control the economy—any less fictitious. They do not. The idea that they do, the central motif of most every presidential election, is crazy.

"Bill Clinton and Al Gore created 22 million new jobs." So says Democratic National Committee chief Terry McAuliffe and just about every Democrat alive. How can anyone believe this? Clinton did not create any jobs. Bill Gates did. Andy Grove did. Jeff Bezos did. In fact, they created an industry. The '90s were a decade when the silicon chip met the "peace dividend"—billions saved by the ending of the cold war—and gave us an economic boom. Clinton deserves credit for not getting in the way. He fulfilled the economic Hippocratic oath: first do no harm. Not screwing up a boom going on around you, however, is not the same as job creation.

The fact is that Presidents have very little effect on the state of the economy. Sure, they can affect trade policy, regulation, the environment and, of course, foreign policy. But the economy? With globalization, trillions of dollars flow daily in and out of financial markets. One dollar in 10 is now involved in foreign trade. All advanced economies are subject to huge outside forces beyond a President's control. Moreover, U.S. Presidents have even less economic control than most other democratic leaders. The President does not control the money supply; the Federal Reserve does. Presidents cannot dictate their own budgets (as Prime Ministers can in parliamentary systems like Britain's); here, Congress has the ultimate say. Even worse, more than half the federal budget goes to entitlements and "transfer payments" like Social Security, where government is merely a conveyor belt transferring money from younger workers to older folks. What is

left, "discretionary" spending, is a mere 8% of the \$11 trillion economy Presidents are reputed to control.

All of which makes American presidential elections a competition in mythmaking. What exactly did the first George Bush do that made him responsible for the mild recession of 1991 that cost him the election of 1992? Today the Democratic mantra is that the second George Bush has cost the economy nearly 3 million jobs. (The numbers keep changing. It is now down to 1.8 million jobs lost.) However, 94% of net job losses to date occurred during the first year of the Bush Administration.

Can anyone seriously argue that an Administration that had barely come into office and whose economic plan had barely been enacted caused those job losses? If they are to be attributed to anyone it should be to Clinton, who had "run" the economy for the previous eight years. But that too would be unfair and irrational. The losses were a result of autonomous economic forces—the Internet bust and the subsequent recession—followed by autonomous political events like 9/11 and the war on terrorism.

Yet this election is likely to be decided largely on the economy. And even more narrowly than that. The dominant domestic issue in the past six months has been job creation—a single number, released monthly, that nearly monopolizes political debate and media coverage. When it is up, as it was in March, Republicans rejoice. When it is not, Democrats start measuring for curtains for their White House offices.

This is odd in the extreme. There are a dozen other measures of economic health. Democrats understandably do not want to talk about them because they happen to be positive: the fastest growth rate in the West (now settling in at a healthy 4.2%), historically low interest rates and mortgage rates, record high productivity, record high homeownership, booming home values and low inflation. Why, even the unemployment rate, the traditional measure of the job market, is significantly below the average for the past three decades. Nonetheless, the burning political issue is job creation, a thin slice of the economic picture, which in turn is but one slice of the country's overall well-being—and almost entirely outside a President's control. Bizarrely, that number, and the rhetoric it generates, will have an unprecedented effect on who gets to be President—in other words, who gets to pretend to control the economy for the *next* four years. ■

