American Economic Policy in the 1990s. Edited by Jeffrey A. Frankel and Peter R. Orszag. Cambridge, Mass.: MIT Press, 2002.

This book consists of 14 articles and comments about each by a three-member panel. The book's editors wrote one of the articles: "The Role of Institutions in the White House."

Many of those who contributed to this book participated in the making of economic policy during the 1990s. Alice M. Rivlin, for example, served as President Clinton's Director of the White House Office of Management and Budget before becoming Vice Chair of the Federal Reserve System's Board of Governors, and Robert Rubin was the Secretary of the Treasury in the Clinton administration. An example of an exception is panelist Murray Weidenbaum, who was President Reagan's first Chairman of the Council of Economic Advisers.

Other Washington veterans include N. Gregory Mankiw, Martin Feldstein, Alan Blinder, William A. Niskanen, David T. Ellwood, and Allan H. Meltzer. Like the book's editors, both of whom were members of Clinton's Council of Economic Advisers, most who served during the 1990s were members of the Clinton administration. Because this administration accounted for the great majority of that decade, this book is largely a review of the economic policy of the Clinton administration by a group of people with extensive credentials.

Among those who have not served in Washington is Joseph P. Newhouse, a professor of health care and management at Harvard University, who authored *Medicare* and commented on "Health Policy in the Clinton Era: Once Bitten, Twice Shy." Newhouse lauds the Clinton administration for bringing about through the Balanced Budget Act of 1997, an "unprecedented slowdown" in the rate of growth of Medicare spending that significantly contributed to this administration's "great economic achievement" of the first budget surpluses in decades.

Another author without a Washington background is Pamela Samuelson, Director of the Berkeley Center for Law and Technology, who co-authored with Hal R. Varian, "The 'New Economy' and Information Technology." Varian, who is the Dean of the School of Information Management and Systems at the University of California, Berkeley, is also no Washington veteran. In his comments about their paper, Paul Romer, a Senior Research Fellow at the Hoover Institution and professor of economics in the Graduate School of Business at Stanford University, pretty well summarizes

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this book when he says that "through a combination of good luck and good policy (pick your own weights), Clinton presided over a remarkably long and stable economic expansion."

As is to be expected, people who served in the Clinton administration sometimes disagree with those who served in a Republican administration. So it comes as no surprise that in this book Robert Rubin says that Martin Feldstein's claim that the strong economic performance of the 1990s was due to the Reagan administration's tax cuts in the 1980s "had roughly the same plausibility as attributing the performance to Herbert Hoover's policies."

Feldstein, who credits the Clinton administration with having made a "very positive contribution" to the development of Social Security reform, disagrees with Douglas W. Elmendorf, Jeffrey B. Liebman, and David W. Wilcox, who in their paper, "Fiscal Policy and Social Security Policy During the 1990s," conclude that tax increases and spending discipline played a significant role in bringing about an unexpected turnaround in the U.S. fiscal situation. (Good luck in the form of a strong economy, they say, was also important.) Feldstein contends that the primary explanation for the elimination of the budget deficit "was the increase in economic growth driven by the new technology that raised taxable personal incomes, corporate profits, and capital gains."

In his comments about "Fiscal Policy and Social Security Policy During the 1990s, Rubin advises against the "politically easy path" of substituting equities for debt because "having spent close to 28 years on Wall Street, I think that many people are not equipped, in terms of understanding securities valuation and in terms of discipline and thoughtfulness, to invest effectively in equity markets for the long term." He warns, too, that in periods of time when large numbers of people are "adversely affected in their individual portfolios, there is a substantial probability that the political pressure to make good on those losses from the federal budget would be enormous."

After comparing the performance of the economy during the 1990s with other recent decades in his paper, "U.S. Monetary Policy During the 1990s," Mankiw concludes that "Although the average levels of inflation, unemployment, and real growth were similar to those that were experienced in some previous decades, the stability of these measures is unparalleled in U.S. economic history." The fact that while the nation was experiencing "macroeconomic tranquility" the money supply was exhibiting high volatility, he says, discredits the monetarist view that "stability in the monetary aggregates is a prerequisite for economic stability." In large part, Mankiw claims, the stability of inflation, unemployment, and real growth was due to luck. He believes that the low rate of inflation experienced during the 1990s shows that "discretionary money policy can work well."

In his comments about Mankiw's paper, Blinder attributes, in part, what he believes to have been the successful monetary policy of the 1990s to the fact that, excluding himself, but including Rivlin, Clinton's "appointments to the Fed were truly excellent—and quite nonpolitical." He credits Clinton, too, for his hands-off policy towards the Fed. A "Clinton-Greenspan mix," he claims, "of tight budgets and easier money contributed to the investment boom."

William Poole, President of the St. Louis Federal Reserve Bank, in his comments on Mankiw's paper agrees that Greenspan had proved that it is possible for the Fed to “manage policy quite actively,” and that in the process he produced a “better outcome than would have been likely under a constant-money-growth rule.”

In her comments about Mankiw’s paper, Rivlin agrees with him that the “superb performance” of the economy in the 1990s cannot be attributed primarily to monetary policy. Instead, luck, the “absence of the demand and supply shocks that beset other recent decades” largely accounts for the performance of the economy in the 1990s.

In their paper, “Between Meltdown and Moral Hazard: The International Monetary and Financial Policies of the Clinton Administration,” J. Bradford DeLong and Barry Eichengreen conclude that from a domestic point of view the Clinton administration’s monetary and fiscal policy was “extraordinarily successful.” They attribute this to the fact that deficit reduction created space for monetary ease that supported an investment-led recovery that ended a 20-year-long slowdown in productivity. DeLong and Eichengreen claim that because the international financial crises of this period followed a new pattern, they surprised policy-makers. As a result, there was too much dependence on “standard monetary and fiscal instruments in addressing crises whose roots were not fundamentally monetary or fiscal.” They blame Robert Rubin and Lawrence Summers for not warning of the risks of international financial liberalization largely on “their belief that, if markets were not perfect, the alternatives were worse.”

In “The Clinton Legacy for America’s Poor,” Rebecca M. Blank and David T. Ellwood claim that the Clinton years were a period of “remarkable social change” for the better because there was a dramatic increase in support for low-income working families. In his comment on this paper, Ron Haskins, who describes Clinton’s social policies for the poor as one of the most successful in the nation’s history, points out that Clinton lost control of welfare reform because he chose to table welfare reform in favor of health care reform, thereby providing Republicans with an opening to create their own legislation. Some liberals, he points out, still resent Clinton’s support for the welfare reform law.

In his paper, “Tax Policy from 1990 to 2001,” Eugene Steuerle, who served in various positions in the U.S. Treasury Department under four presidents, complains that “Traditional principles of equal treatment of equals, efficiency, and simplicity were often ignored, since tax policy was largely determined by budgetary, spending, and other concerns.”

Panelist Nancy-Ann DeParle’s description of Newhouse’s paper as a “nice job of cataloging” is an apt description of this 1063-page tome as a whole. Its reading level is low enough that professors can assign readings from it to seniors majoring in economics whom they want to familiarize with recent economic history from the point of view of our mainstream economics elite. It can also be used as a reference work by today’s journalists and tomorrow’s historians. People familiar with a paper’s subject matter are unlikely to find it enlightening.

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