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A Better Way to Grade Presidents

By N. Gregory Mankiw

When unemployment falls, inflation is low and the economy grows briskly, we often give the president high marks for handling the economy. But is that really how the economic record of presidents should be judged? As we pick the next president, this question is useful to ponder, for it is central to how we understand our history. Yet most people take the wrong approach to answering it.

The most common way to evaluate presidents is simply to look at how well the economy did while they were in office. If the nation did well, the president must have done a good job. If it struggled with rising unemployment, high inflation or slow growth, he must have failed.

Yet this approach has three related problems. First, a president’s policy decisions influence the economy long after he is gone. Second, every president inherits an economy from his predecessors, whose decisions cast a long shadow.

Third, and most important, presidents are not omnipotent. Not only do they face an often uncooperative Congress, but the economy is also buffeted by forces beyond the control of any policy maker.

Take Jimmy Carter, for example. Many people view him as one of the worst modern presidents. To be sure, he made some political missteps, such as his infamous malaise speech. But was his stewardship of the economy really so bad?

When Mr. Carter took office in 1977, the economy was struggling with inflation. The problem first arose under Lyndon Johnson as a byproduct of Vietnam War spending and an overly passive Federal Reserve. It continued under a series of feckless policies, including Richard Nixon’s wage and price controls and Gerald Ford’s Whip Inflation Now campaign.

The battle against inflation was finally won because of the tough monetary policies of the Fed chairman, Paul Volcker, appointed by Mr. Carter in 1979. Mr. Volcker vanquished high inflation, but the cost of this long-run success was short-term pain in the form of high interest rates and rising unemployment. By appointing the right person to head the nation’s central bank, Mr. Carter sowed the seeds of his own defeat in 1980 to Ronald Reagan (who in turn reappointed Mr. Volcker in 1983).

While Mr. Carter was dealt a bad hand, the opposite is the case for Bill Clinton, who is often portrayed as an economic miracle worker. Without doubt, his eight years in office were good ones, with strong growth and declining unemployment. Yet the main driving force of this prosperity was not government policy but rather accelerating productivity from new information technologies together with the dot-com bubble.

Of course, the dot-com bubble eventually gave way to the dot-com bust, but Mr. Clinton's timing was fortunate. The Nasdaq composite index reached a high of over 5,000 in March 2000 and lost almost half its value before Mr. Clinton left office. The resulting recession, however, did not officially begin until March 2001, two months into George W. Bush's term. (Full disclosure: I was an economic adviser to Mr. Bush from 2003 to 2005 and will avoid commenting here on his record.)

So if looking at contemporaneous economic conditions is not a reliable way to judge presidents, how should they be graded?

Consider how you would assess a physician whom you could observe treating only a single patient. A terrible way to judge the doctor is by whether the patient lives or dies. After all, even the best physicians have patients who die when their illnesses are severe. And given the natural restorative powers of the human body, even a quack can have a patient who returns to good health.

The best way to evaluate a physician is to determine whether state-of-the-art medical practices are followed. A doctor who prescribes the right antibiotics gets high marks, while one who prescribes snake oil gets a failing grade.

Similarly, a better way to judge presidents is by the policies they pursue, not the outcomes over which they preside. This task is harder than merely looking at unemployment, inflation and the growth of gross domestic product. It requires having a view about what policies are best at fostering prosperity and acknowledging that the experts are often divided on that question.

Looking ahead, judging presidents by policies rather than outcomes may be all the more important. In a new book, "The Rise and Fall of American Growth," the economist Robert Gordon argues that we are in the midst of an era of meager technological change. Yes, we now have smartphones and Twitter, but previous generations introduced electric lighting, indoor plumbing and the internal combustion engine. In Mr. Gordon’s view, technological change is just not what it used to be, and we had better get used to slower growth in productivity and incomes.

I have no idea whether Mr. Gordon’s pessimism is justified. In light of economists’ abysmal track record of long-term forecasting, all such prognostications should be taken with a shaker of salt.

But if Mr. Gordon turns out to be right, future presidents will operate in a more difficult economic environment than many of their predecessors. Because the pace of scientific and technological advance has a life of its own, slow productivity growth may be a problem without a solution.

Particularly in this environment, judging presidents based on outcomes rather than policies is an egregious error. We would end up blaming them for results over which they have little control. We would find ourselves disappointed in our leaders, even if they are doing the best they can. Instead of supporting sound policies, we might cast our votes out of a frustration that is not fully rational.