The Clinton boom was real -- then Bush happened

Historians, economists and revisionists battle over the legacy of Bill Clinton's economic memory

By Will Marshall

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Most progressives were happy to say goodbye to the “aughts,” as dismal a decade as America has endured since the snake-bitten 1970s. But they may be surprised to learn that the U.S. economy’s poor performance on George W. Bush’s watch was actually Bill Clinton’s fault.

So says Michael Lind, who rang in a new year with a retrospective blast on Salon against the “New Democrat” policies of the 1990s.

If you lived through the Clinton years, you might recall them as flush times. Some basic facts: The economy grew briskly, creating 18 million new jobs; rapid innovation, especially in information technology and online commerce, bred new businesses and helped to raise productivity in old ones; unemployment stayed low despite a steady influx of immigrants and women coming off welfare rolls; markets rose as the percentage of Americans owning stock jumped 50 percent; homeownership reached a record high (nearly 70 percent); the poverty rate shrank significantly; and the United States ran budget surpluses for the first time in three decades.

Not bad, right? Well, as reimagined by Lind, the 1990s were another “lost decade,” just like the Bush years, with their successive dot.com and housing bubbles, regressive tax breaks, zooming federal deficits and, of course, the grand finale: the near-meltdown of U.S. financial markets in the fall of 2008 along with the worst recession since 1982. If the comparison seems, well, strained, no matter. Lind’s real target is what he calls the myth of the “New Economy,” an illusion conjured by Clintonites (Progressive Policy Institute comes in for honorable mention here) to justify “neoliberal” policies.

Specifically, Lind takes issue with New Democrats’ claims that the I.T. revolution helped to spur more robust productivity growth. This is not a terribly controversial point among economists. For example, a 2003 review of more than 50 scholarly studies (PDF) by Jason Dedrick, Vijay Guraxani and Kenneth L. Kraemer (cited in Rob Atkinson's 2007 report "Digital Prosperity") reached this conclusion: “At both the firm and the country level, greater investment in IT is associated with greater productivity growth.”

It’s true that economist Michael Mandel, a PPI friend and prominent advocate of innovation-centered growth, has argued that U.S. productivity gains *after 1998* were overstated. But the fact remains that labor productivity, which grew at an average of only 1.46 percent per year between 1973 and 1995, grew to nearly 3 percent annually afterward. That spurt helped to produce the prosperity of the second half of the 1990s, a period that saw incomes grow in a "picket fence" pattern, meaning that all segments of the population saw roughly equal advances. For those years, at least, relative wage inequality narrowed.

Yet rather than give Clinton credit for economic results in the years when his policies actually were in force, Lind invokes the poor performance of the 2000s to condemn the policies of the 1990s. George W. Bush, arguably the worst economic manager since Herbert Hoover, is oddly absent from this revisionist fable.

And what about all the money gushing into the United States during the '90s from foreign investors? In Lind's telling, New Democrats naively assumed that money was chasing higher returns, when in reality foreign lenders were trying to drive up the dollar's value to make their country's goods more competitive. Currency manipulation, especially by China, is obviously a problem today. But in the 1990s, the U.S. was not only innovating furiously, it was also growing faster than Europe and Japan, making it a natural magnet for foreign investment.

Finally, Lind challenges the notion that skills gaps are related to wage inequality. There are reams of economic studies showing strong positive returns to educational attainment. (For an excellent discussion, see chapter eight in "Creating an Opportunity Society," by Ron Haskins and Isabel Sawhill.) He is probably right that skills disparities alone don't account for the growth in income inequality over the last several decades, but it seems perverse to argue that Clinton and his allies, as well as President Obama, are mistaken in wanting to see more Americans attend college.

As a quick perusal of our Web site will confirm, PPI in the latter part of the 1990s published a raft of reports that a) documented the rise in relative inequality and b) proposed an array of innovative policies aimed at "expanding the winners' circle" to include more working Americans. And perhaps Lind has forgotten that Clinton, in his first budget, raised taxes on the wealthy to restore progressivity and thus reduce after-tax inequality. He also got Congress to pass a massive expansion of the "work bonus" (earned income tax credit) for low-wage workers.

The causes of inequality are a subject of lively dispute among economists, but Lind is not hobbled by doubts. The reasons, he asserts, are to be found in the decline of unions, an eroding minimum wage, and unskilled immigrants. Yet by his own account, inequality really took off in the 1970s, when unions were relatively strong. (Plus, it's strange to blame Democratic policies for growing inequality since 1980, since Democrats controlled the White House for only eight of those 28 years). Moreover, it should be obvious that falling union membership is the consequence, not the cause, of a massive shift in the U.S. employment base from manufacturing to services.

Because it affects only a small proportion of workers (including lots of kids working at part-time jobs), the minimum wage is a slender reed on which to hang the revival of good, middle-class wages in America. And there's scant evidence to support Lind's claim that immigration, legal or otherwise, has exerted significant downward pressure on native workers' wages. The tide of unskilled immigration does have an impact on workers who graduate from high school, but not a very large one.

The problem with Lind's attempted deconstruction of the "New Economy" narrative is that it ignores a whole herd of elephants in the room, namely big structural changes in what U.S. firms do and how work is organized. Consider this description by Rob Shapiro, a key architect of the Clinton economic policies:

> For the first time ever, U.S. businesses have been investing more in the development and use of ideas and other intangible assets than in physical assets of property, plant and equipment. Moreover, most of the value the economy now produces comes from those intangible assets. In 1984, the book value of the 150 largest U.S. companies—what their physical assets would bring on the open market—accounted for 75 percent of their stock market value; by 2005, it was equal to just 36 percent of the their market capitalization. The idea-based economy has gone

from metaphor to reality.

We are left at last with the question of motive. Why is Lind so intent on rewriting the history of the most successful Democratic president in our lifetime, and raising doubts about the economic competence of the first majority-vote winning Democrat -- Barack Obama -- in the White House since LBJ?

Some progressives find it hard to forgive Bill Clinton for forcing them to acknowledge past mistakes. But failing to recognize your own successes may be even worse.

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