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Inflation and Growth in the USA, From Eisenhower to G. W. Bush: A Descriptive Study

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ABSTRACT

The relationship between inflation and growth has attracted much attention whether in traditional theories or the theories of endogenous growth. In this context, and in what follows we studied the relationship between inflation and growth in the United States over the period 1951-1982 and the period 1983-2004, we reviewed some presidential terms that marked economic history of the United States such as the mandate of Reagan (Reaganomics), the Bush presidential term, the mandate Clinton and George W. Bush Jr. mandate , to conclude with a ranking , in terms of inflation and growth, of the different mandates since the end of World War II until 2004. Our conclusions are as follows: all scenarios are possible, low inflation may be accompanied by low growth or high growth, and high inflation may be associated with low growth or high growth.

Keywords: *link, inflation and growth, United States, presidential terms.*

1. INTRODUCTION

Who said the United States, said one of the two great powers of the world with the USSR. The USA will arise as the guarantors of a liberal conception of the world economy based on capitalism to deal with the communist world. Since 1945, the internal life of the country does not have spectacular events, political life of the United States is dominated by an alternation of the two major political parties to lead the country, Republicans and Democrats. Economic power, in turn, is based on a technological advance, a business efficiency, the power of the dollar and growing population (the "baby boom"). Some believe that inflation, unemployment, the external deficit and the public deficit are all, manifestations of the decline of the United States in the global economy. Others think that the American economy is still the strongest in spite of periods of recession and stagnation that characterized the latter; this huge global economic weight has provided, among other things, the financial hegemony of the dollar and a delocalized production by foreign affiliates of multinational firms.

To better analyze the economic situation of the American post-war to the present, our section was divided into two periods: the first from 1951 to 1982 and the second from 1983 to 2004, our study focuses on the evolution of both aggregates, inflation and growth over time and the relationship that may exist between them. To do this, we will refer to different times of the Presidents of the United States who ruled during these periods as well the various economic events that took place there.

2. THE PERIOD FROM 1951 TO 1982

The growth of the fifties in the United States is relatively small, reaching 3.1% per annum; substitution of capital for labor is relatively strong. The unemployment rate is 5.5%, employment rose by 1.1% per annum. The first half of the sixties is characterized by an expansion on the basis of Fordism, public spending on the Vietnam War effectively stimulate economic activity. Growth during this period was relatively high: 4.7% per annum.

Substitution of capital for labor is low, the unemployment rate drop from 5.5% to 4.5% per annum. Inflation was 1.6% per annum.

The period from the late sixties and the first half of the seventies is characterized by two recessions, one in 1970 and one in 1975, and recorded the appearance of a deficit, the acceleration inflation and the falling dollar. Growth falls to 2.8% a year, the unemployment rate rose to 4.5% in 1965 to 8.5% in 1975 prices, or rather the inflation increase at a rate of 4.3% per annum in the late sixties and 6.6% per year in the early seventies.

The late seventies was marked by rising inflationary pressures and slowing productivity growth, which has led to a sharp tightening of economic policy and hence a further collapse of the business. Growth was 3.6%, employment increased by 2.7% per year, the unemployment rate fell to 7.1%. Inflation accelerated sharply to move to 7.1% per annum.

2.1 Summary

Based only on our two indicators namely inflation and the growth of gross domestic product in real terms, we can say that during the first half of the fifties, the growth of the United States has been relatively strong, the order of 4.55% on average (9.84% in 1951 and 5.63% in 1955 apart from the fall 1954 0% where it fell to -0.69%). As for inflation, it has remained generally low (except in 1951, when it reached 8.15%); in 1955, it went down well below zero reaching -0.49%. The second half is characterized by uneven growth, it is -0.49% in 1958 and 5.46% in 1959, inflation has been very low, of the order of 2% on average (average of five years, i.e., is the second half of the fifties).

The sixties were characterized by relatively strong growth of 4.04% on average, with inflation of 2.34% in the same period. During the seventies, the

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American economy had regained its status as non-regularity, this because of the effect of oil price shocks. Growth dropped alarmingly, it reached negative rate 0.3% in 1974 and -0.45% in 1975 after being 5.14% and 5.05% respectively in 1972 and 1973, on average, and this growth was of the order of 3.06% on all ten years (1970-1979).

As for inflation, it was strong: it had reached a value of two numbers in 1974 and in 1979 (11.18% and 11.42%), the minimum value was 4.38% in 1971 Over the entire period of the sixties ten, the inflation has been high, of the order of 7.09%. In the three years that followed, the growth was -0.64% in 1980, 1.68% in 1981 and relapsed again below zero to reach the value of -2.04% in 1982 As for inflation, it began to gradually fall in a two-digit value (13.49% in 1980) to a value of 6.18%. Over the entire period from 1951 to 1982, the American growth has not been strong enough; she remained modest 3.13% per year while inflation was high, of 4.50% per year on average. So the growth of the American economy was more inflationary growth with these movements of "stop and go", which gave it an uneven appearance.

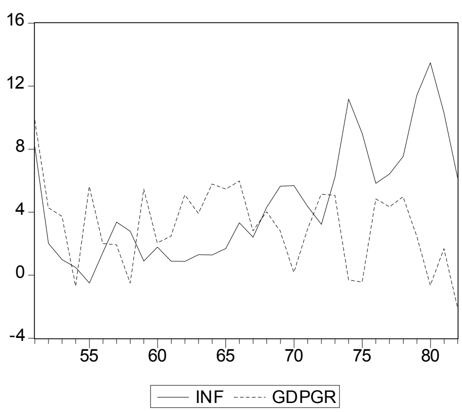

Fig 1: Growth and inflation in the United States from 1951 to 1982

Source: Compiled by us, from the CD-ROM data 'World Development Indicators' (WDI 2004 and WDI 2006)

The Growth from 1983 to 1984 marks the beginning of a new cycle, which will be the subject of analysis for the period 1983-2004.

3. THE PERIOD FROM 1983 TO 2004

3.1 The Reagan era (1981-1988)

It should be noted first that the Reagan era began in 1981 to end in 1988. Indeed, in 1981, Ronald Reagan came to power and immediately instituted a new type of economic policies known as Reaganomics. The latter consisted of a series of four key elements, which aimed to reverse the high inflation observed during the period and low rate of growth in the seventies:

- A restrictive monetary policy to stabilize the dollar and end to increased inflationary pressures.
- A tax cut in the amount of 25% across the country, the objective of this policy is to lead to a growth in savings, investment, employment rate and economic efficiency.

- A rebalancing of national accounts and in particular public budgets by imposing certain constraints expenses.

- A reduction of state intervention, drastic cuts in social spending and reducing constraints and government regulations on businesses.

These measures replace liberal inspiration somehow Keynesian solutions that have failed to face the crisis (the seventies).

In 1983 occurs an apparent economic recovery. The recovery of the American economy is based essentially on increasing public spending for armaments policy; it was also based on the lowest price paid for imported goods exporter of raw materials, but especially on the implementation of monetary policy; reducing costs, salaries and social services, industrial restructuring, reorganization of the labor market supported the economic recovery.

The Reagan era was characterized as a decade of crisis. Theorists' note that offers this era was the longest peacetime expansion since World War II. Indeed, during this period, Robert Bartley describes seven fat years, real income rose by 3.94% per year. Total employment in the United States increased by almost 18 million jobs from 1982 to 1989, the unemployment rate fell from 9.7% in 1982 to 5.3% in 1989, and the index of the Stock Exchange (the Dow Jones) almost tripled from 884 points in 1982 to 2,509 in 1989, the average annual growth rate of GDP during the Reagan years was 3.94%. During the same period (1981-1988), inflation was 4.63%. If we just reasons over the period 1983-1988 (included in our study period 1983-2000), we calculate an inflation rate of 3.43%, a rate that is not high, which means that this period is a time when the economy is not inflationary.

3.2 Bush (senior) Period (1989-1992).

Successor policies its predecessor Ronald Reagan, George Bush attached great importance to foreign policy and diplomacy. It was under his tenure that ended the Cold War between the United States and the USSR, the latter having collapsed. According to him (George Bush), this collapse gives birth to a new world order where the United States is the only superpower.

During the period of the government of Bush, i.e. from 1989 to 1992, we calculated an average annual growth rate over the four years of 1.57%, a very low rate. Inflation has been relatively high, 4.37%, unemployment recorded in the same period a rate of 6.3%. This leads us to say that during this period, the unemployment rate and inflation have increased both compared to the Reagan era, while the growth rate has declined.

After the above, the popularity of George Bush fell. Some have criticized him for neglecting domestic problems of the country, economy, employment, etc. ..., and its inability to resolve the crisis of the eighties, which are all problems that caused the non-election of the latter to a second term. He failed his campaign, where the election of Bill Clinton in 1993.

3.3 Clinton period 1993-2000

With the coming to power of the Democrats, the United States entered the era of "eight dreamed," marked by eight years of continuous growth and development of the "New Economy." Bill Clinton and William Jefferson Clinton, is the successor to George Bush (father), he is a Democrat, he governed the United States for two terms, and the second is considered better than the first (economically).

For Clinton, it is certain principles abandon outdated, particularly Keynesianism; besides its main instigators called themselves as proponents of "The New Growth Economists." The Clinton team intervened on industrial and commercial; Indeed, the return of trade and industrial policies proved effective: the offensive against Europe (imposing a new CAP, the WTO) against Japan (the country imposing export restrictions), setting of NAFTA bore fruit. Hence we are witnessing a new era: the era of the New Economy; actually what are the basics of this new economy? The new economy is synonymous with industrial revolution based on new technologies and focus on information rather than on investment, business or property; specifically the New Economy emerges as a communication technique in the service business.

According to his campaign promises, Clinton balanced the state budget and tried to control the rate of inflation moderating monetary policies. During his tenure, the United States has benefited from a growing economy, a decline in unemployment and an increase in national wealth due to the rise of the stock market.

> "... Clinton's first term was satisfactory: reductions in unemployment, inflation and interest rates, combined with a relatively favorable economic growth, allowed ranked fifth, close to the time of Kennedy Johnson. Clinton's second term gave much better results, the average rate of GDP growth (4.2%) was the highest since the mandate of Johnson, the unemployment rate (4%) at the end of 2000 was the most lowest since 1970, the average inflation rate (2.3%) was the lowest since the mid-1970s and the average rate of long-term interest of 5.6% at the end of 2000 was the lowest depuis1968 "RJ Barro.

But the Clinton era and the era of "eight dreamed" ended quickly with the slowdown in the American business and the appearance of an excessive trade deficit and heavy speculation. All this will allow the new President George W. Bush to place the blame on his predecessor.

3.4 The period 2001-2004 and the George W. Bush era (Bush son)

The arrival of GW Bush in power was under conditions where the US economy was experiencing enormous difficulties. Indeed, the dynamism of the new economy masked evil elements in the growth of the Clinton era: a huge debt of households that became poorer with the collapse of the NASDAQ or the Dow, a large market speculation, deficits with regard to outside scary; the other companies are heavily indebted and have difficulty repaying.

So GW Bush begins his tenure with the weight of a difficult economic situation, the threat of a recession. It attempts to impose high tariffs on certain products undergoing major foreign competition in primary sectors (steel, agriculture). He set up the largest tax cuts ever recorded, in order to boost US consumption. Thus, Stiglitz wrote, "The first step of this government was to increase the welfare of the rich ..."

It increases the internal and external security budgets decrease but non-military spending programs. The state spending increase by 20% in four years. If Bill Clinton had left leaving a surplus of $ 236 billion, George W. Bush totals at the end of his first term (2004) a deficit of $ 422 billion. After adjustment for inflation, the largest deficit since the end of World War II. By totaling the expenses already incurred and tax reduction targets, the "Congressional Budget Office" has calculated that the deficit could exceed 4 trillion over the next decade.

As for growth, it rose to 2.5% per year on average during the four-year term of office Bush. And optimism prevails on the side of the International Monetary Fund (IMF), which now expects a 4.3% increase in gross domestic product (GDP) in 2004 and 3.5% in 2005. Indeed, during the last year 2003-2004, the apparent performance of the US economy continue to surprise the world: 4.7% GDP growth, 6% unemployment. An important question arises: in a depressed international context, how little we evaluate the recovery of the US economy without taking into account the conditions of the external and fiscal balances that make possible the recovery (we rather speak of performance)?

Regarding the deficit in the current account, he settled end of 2004 to 5.75% of GDP. In other words, an increase of 4.7% of GDP, the US economy then needs remittances from the world of the order of 5.75% of that GDP. In absolute terms, this translates as follows: in 2004, an increase of its national income of $ 513 billion, America imported from abroad for 597 billion, which equals its current account deficit. In these circumstances it is not surprising that foreign debt continues to worsen:

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foreign debt is growing faster than US GDP. Over the past three years, from 11 September 2001 until September 2004, the GDP observed a cumulative growth rate of 10% or 3.3% average annual rate. Whereas, during the same period, the foreign debt of the US economy has cumulatively increased by 27% or 9% per year. It is obvious that with a debt that is growing by 9% a year, the GDP growth rate of 3.3% will not be impressive.

Regarding the issue of the budget balance, the US situation is not better; Indeed, during the last year of the term of Clinton (2000), the balance of the US federal budget had reached a surplus of around 2.4% of GDP, while the GDP growth rate remained greater than 6.5%. In other words, the US economy of the Clinton era had a capacity to generate significant additional net proceeds. But now, the US economy has the budget balance to - 4.7% of GDP growth rate of the economy of around 4.7%.

That is to say, the Bush spending without cover increased by 7.1% of GDP (2.4% surplus realized as 4.7% added to the Clinton Bush deficit: 2.4% - (- 4.7%) = 7.1%). In this case, the real growth of the economy is not 4.7% but 4.7% -7.1% = - 2, 4% .In these conditions, we can say that US growth barely covers the initial costs of the public deficit that allow it to occur and, as noted Stephen Roach, the US economy is "dependent" (addicted) stimulating the public deficit, which is struggling to generate significant net.

The conclusion that can be drawn regarding the twin US deficits is that the US economy, unable to form a stable mode of operation and because of the collapse of its domestic savings, is still in the obligation 'daily carry huge savings outside transfers, all this comes at the expense of the economies of the world. Indeed, with 30% of world GDP, the United States levies 80% of world savings through diversified processes. Moreover Stanley Morgan notes that 80% of funding for the US economy from the outside of its American partners.

Regarding inflation, the year 2001 saw the abrupt end two decades of political struggle against inflation in the United States with the implementation of monetary and fiscal stimulus since the 1970s monetary stimulus remained high almost continuously between 1966 and 1980. Due to a very restrictive monetary policy (with Paul Volcker at the Federal Reserve Bank), it turned negative again between 1981 and 1985 and neutral until 2000, before returning to strongly positive since 2001. the fiscal stimulus also remained high throughout the inflationary period until 1985 (the period of Reagan deficits). Then it turned negative again until 2000. The policy of George Bush reversed this situation, with a fiscal stimulus record, twice that of the Reagan period.

The year 2001 has seen a radical change in US economic policy, with the combination of fiscal and monetary stimuli, which will generate an accumulation of these stimuli and consequently a rise in inflation in the coming years. So the symptoms of a resurgence of inflation increase, in fact, after twenty years of relative stability, commodity prices experienced a violent increase. And the Dow Jones, who had remained in the range between 120 and 150 between 1982 and 2001, after falling to 100 following the events of September 11, exceeded 180 in 2004, an increase of 80% in two year old. On the other hand, the prices of precious metals and oil rose in similar proportions. The price of gasoline is to a new record in the US and is expected to grow in the years to come with a ripple effect on other sectors.

In summary and in terms of growth and inflation, the US economic situation is as follows:

Throughout the second period of the study (1983-2004), US growth was modest, a rate of 2.81% and inflation was around 3%. But this should not suggest that during the last twenty years, US growth has been weak; on the contrary, came from years, there is an overview of the average growth rate of the economy that exceeded 4% (6.2% in 1984 and 4.40% in 2004). As for inflation, it has continued to decrease to cases in record numbers (1.5% in 2002).

Comparing the two decades, US growth has experienced a significant acceleration in the second half of the eighties; it averaged 3.17% per year and inflation was 3.17%. During the decade of the nineties, growth was less strong, it was 2.67% with an inflation rate of 3%. The end of the second millennium and the beginning of the third were very difficult for the United States; Indeed, growth fell to 2% in 2000 and 0.8% in 2001; inflation did not move much, it has stagnated at around 2.5% (except in 2002, when it was 1.6%). But, as we saw earlier, the year 2004 was a miraculous year when US growth, despite an unfavorable international environment and internal economic conditions (deficits), was able to reach the 4.4% mark. Schematically, the relationship between our two aggregates, namely growth (represented by the real GDP growth rate) and inflation during the second study period is represented by the following figure :

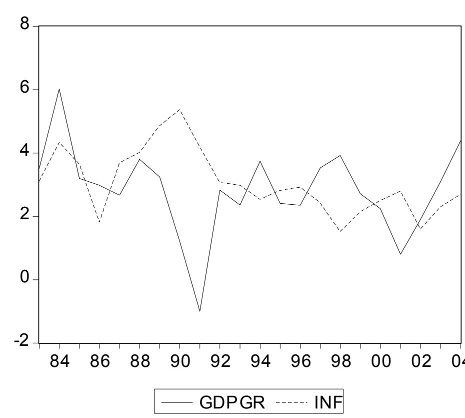

Fig 2: Inflation and Growth in the United States in 1983 to 2000

Source: prepared by us, using data from CD 'World

Development Indicators "(WDI 2004 and WDI 2006)

4. CONCLUSION

Based on the above and throughout the period 1951-2004, the US average growth was 3.64% per year and the average inflation was 4.54%, a relatively strong growth with inflation also high. But did not make much sense; Indeed, if we go back a little back and if we examine our numbers well, we'll see that in the first period (that is dire1951-1982), the economic situation has been characterized by a weaker inflation that in Europe, but growth was relatively weak, it was just over 3%.

Between 1983 and 2004, growth was not strong enough, it did not reach the 3% threshold; Inflation also remained below this figure; but if we take the period 1983-2000, that is to say, just before the crisis (September 11, 2001, the stagnation of 2002, the 2nd Gulf War), one will notice that during this period, the United States has been a growth far beyond the 4%; inflation, meanwhile, was 2%.

We went a little further in our analysis of the economy of the United States of America and we followed the Barro approach that tried to show the state of the US economy during the thirteen presidencies from the second term of Truman in the second Clinton. The results are summarized in Barro an index called "expanded difficulty value of life" that Arthur Okun called "misery index", a term invented by the author in the 1960s the life of mediocrity index rises if the rate of inflation accelerates if unemployment rises and if long-term interest rates and GDP growth rates are below average.

In the following table, we simply just to measure inflation and growth rates achieved during the thirteen presidencies beginning with that of Eisenhower and ending with the GW Bush (first term); we classified these warrants or presidencies in these two indices (or rate) beginning with the era when the economy was less inflationary and ending with the most inflationary and second column, we begin with the era the economy achieved the highest growth rate and ending with the lowest rates. The results of these rankings are:

Table 1: Ranking the Presidents of the United States in terms of inflation and growth rates achieved in their respective mandates from 1953 to 2004

	Inflation	**Growth**	**The era in which the inflation rate is the lowest**	**The era where GDP growth rate is the highest**
Eisenhower I 1953-1956	0,61%	2,66%	1	8
Eisenhower II 1957-1960	2,21%	2,23%	4	12
Kennedy-Johnson 1961-1964	1,01%	4,32%	2	2
Johnson II 1965-1968	2,93%	4,57%	7	1
Nixon 1969-1972	4,73%	2,75%	10	6
Nixon-Ford 1973-1976	8,03%	2,28%	12	11
Carter 1977-1980	9,71%	2,79%	13	5
Reagan I 1981-1984	5,98%	2,29%	11	10
Reagan II 1985-1988	3,29%	3,16%	8	3
Bush (Père) 1989-1992	4,37%	1,57%	9	13
Clinton I 1993-1996	2,81%	2,71%	6	7
Clinton II 1997-2000	2,14%	3,1%	3	4
Bush (Fils) 2001-2004	2,35%	2,55%	5	9

Source: Prepared by us from the data (WDI 2004 and WDI 2006)

According to the third column of the table above, we see that the lowest inflation rate was achieved in the first term of President Eisenhower (1953-1956); this rate was 0.61%, while the highest inflation rate was achieved under President Carter (1977-1980), the rate was 9.71%. See in the fourth column and over the same presidencies, it has been on the side of growth. According to the fourth column, we see that the growth rate corresponding to the same periods (or chairs) are respectively 2.66%, a modest rate when inflation was very low (0.61%) and 2.79%, a growth rate that is too low to very high inflation of 9.71%. Moreover, we note that the second term of the Johnson presidency (1965-1968), is the era where there was the highest growth rate (4.57%), while the era Bush Sr. (1989-1992) was the era in which there was the lowest growth rate (1.57%). During the same period the inflation rates summers 2.93% and 4.73% respectively. That is to say that we have a low inflation rate, accompanied by a high growth rate and high inflation accompanied by a low growth rate.

Thus, we can give the names of the five presidencies why inflation was the lowest: they are those of Eisenhower, Kennedy, Johnson, Clinton II (2nd term of Clinton), Eisenhower (2nd term of Eisenhower) Bush (son). The Presidencies why growth was the strongest are those of Johnson II, Kennedy-Johnson, Reagan II, Clinton II, Carter.

From all the above, and from the table, removed the idea that there have been different combinations: a high-growth high inflation (the case of the second Reagan term); low-inflation low growth (2nd term Eisenhower); low-high growth inflation (Eisenhower I) and high-growth low inflation (Bush).

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