

Capitalism and Skepticism

As each new day brings word of another Wall Street bailout more colossal than the last, one question presents itself with ever-increasing force: Why does the economy perform so badly under Republican Presidents?

The facts are hard to dispute; indeed, the historical record is now so stark that diehard Republicans are probably starting to wonder if there is a curse. As *Slate's* Michael Kinsley has pointed out, for the interval over which modern statistics are readily available, Democrats have outperformed Republicans by almost *any* measure of economic achievement (GDP growth per capita, unemployment, inflation, budget deficits). Democrats have even managed to beat the Republicans on their own turf: Thanks to the profligacy of the current administration (and the prudence of the previous one), average Federal spending as a fraction of GDP under Republican Presidents now exceeds spending under Democrats over the measured period (see Kinsley for details).

The pattern of Republican deficiency holds up when the span of historical analysis is extended by using stock returns instead of GDP to measure economic performance: On average, since the inception of the Standard and Poors composite stock index data in 1926, the reward to putting your money in the market has been about 16 percentage points lower per Presidential term under Republicans than under Democrats. Republican underperformance remains a stubborn fact even when the Great Depression and World War II are left out of the analysis (in the fond hope that they will prove to have been unique experiences). (Data are available on my web page.)

With the current president's term lurching to such a calamitous close that he is probably starting to worry whether he will be remembered as George Herbert Hoover Walker Bush, the robust correlation between Presidential party and economic outcome demands some kind of explanation.

The answer can't be found by drilling down (so to speak) into the specific policy proposals of the two parties, which have evolved so much over the years as to defy any kind of meaningful generalization.

Nor are there clearly identifiable differences in doctrine that should translate into a reasonable expectation of better economic performance under one party than the other.

Perhaps the best explanation has to do with attitudes, not doctrines: Maybe capitalism works better when its excesses are restrained by skeptics than when true-believers are writing, interpreting, judging, and executing

the rules of the game. (The Democrats are surely the more skeptical of our two parties).

Some evidence can be found in those features of the American economy that we hold up for emulation by others. There is now an overwhelming consensus that open, transparent, and accountable mechanisms of shareholder control are essential for the efficient functioning of public corporations; virtue is defined by good accounting rules. But it is instructive to recall that many of those now-universally-admired rules were fiercely resisted when first proposed. The options backdating scandal that recently caught Apple's Steve Jobs provides a nice microcosm of innovation, prosecution, and reform; now that a rule has been written to prohibit backdating, this particular scam will not happen again. Thus do our accounting rules approach perfection.

What do we learn from this example? It's hard to say. Maybe that capitalism works better when it is being held accountable to some external standard than when left to its own devices.

As the twentieth century recedes in the rear view mirror, it increasingly seems that for better or worse, the defining manifesto of our time has been Milton Friedman's *Capitalism And Freedom*. But the source of that book's power was its fierce independence from the orthodoxies of its time. Friedman's voice was a skeptical breath of fresh air when the reigning viewpoint was a kind of smug pseudo-socialism that did not recognize the astounding power of markets to accomplish desirable aims. But now, the reigning Republican orthodoxy is a kind of smug pseudo-Friedmanism that believes markets left to themselves can do no wrong; perhaps it is time for another breath of fresh air.

The book for the new epoch has not been written yet, but I have a proposed title: *Capitalism and Skepticism*. Skepticism might not be as bracing as freedom, but it's something we could have used a bit more of in the past few years.

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