

## **Economic boom marks Clinton's legacy**

by Chibli Mallat

President Clinton's America ranks first in the world in most if not all current economic indicators.

The figures speak plainly: a remarkable GDP growth rate averaging from 4 to 5 percent in the last presidential term, low inflation at a consistent 2-3 percent, unemployment rate down to 4.4 percent (the lowest in 30 years) productivity growth of 2.75 percent in the last two years, in contrast to about 1.75 percent in the 1970s, and most stunning of all, a balanced budget with a surplus of \$1,000 billion and rising.

Whether Bill Clinton was behind that boom, whether the wisdom of successive tightening by enlightened holders of the purse strings in Congress prevailed over the past two decades, whether the Democratic administration has finally reaped the US victory in the Cold and Gulf wars, or whether it is one of those inevitable cycles, is open to speculation by historians. One thing is certain: US prosperity will long be associated with the name of William J. Clinton.

The problem for the next president is to keep it up. With no exact clues about the miracle, the likelihood is to adopt a cautious, steady-as-it-goes policy, keeping the Federal Reserve Board and its conservative policy in place and the tax system untouched. The chances are that presidential economic policies in the next three or so years will resemble the last four if only because of the need to ensure a repeat term for the incumbent.

Beneath the rosy figures, uncertainties can be read in the detail of available economic statistics, which tend to fall off the larger economic map. One is the shift in sectoral terms. The macroeconomic tradition which jelled in the first half of the 20th century continues to focus its sectoral accounting on a division between industry, agriculture and services which has become largely irrelevant in an age of non-palpable commodities. It is time to replace the received tripartite macroeconomic tradition.

Within the dominance of services a significant source of wealth is the so-called world of hidden revenues, or invisibles. Against a US trade balance which remained chronically in deficit as the country was heading toward a projected \$270 billion trade deficit for 1999, its largest annual shortfall ever, invisibles contribute immense transfers into the economic system, whether they are related to the performance of the US economy itself or not, and whether they take the form of investments, simple interest-bearing deposits in the US banking system, or "transit" money.

The City of London has long been famed for its hard-to-calculate inputs into the British economy by way of these hidden flows, and New York remains the heart of international capital. The increase in direct foreign investment in the US is staggering. Capital inflows have more than quadrupled in four years, reaching \$190 billion in 1998.

While investments coming in and out have less effect in the United States than the \$100 billion which fled Malaysia last year as soon as tremors hit confidence in the local markets and wrecked its whole economy, the American balance sheet remains sensitive to unruly financial fluxes. Some order must be brought to the vagaries of "the electronic herd," possibly with tighter regulations in world finance where accountability has weakened with the rise of impersonal online transactions.

Speculation over currency has been wreaking havoc on investors in productive industries the world over. There have been easy gains with little or no input in terms of value-added labor. While the mechanisms of world financial fluxes are elusive to the Federal Reserve Board chairman himself, by his own account, any plan on this score must be measured and incremental, but a properly calibrated tax on speculative gains could be a first step to bring some accountability to hotheaded and unruly financial markets. The fundamental shift in sectoral categories is complicated by the revolution affecting the labor force in terms of age and flexibility. Until recently, salaried employees were the norm. Now that aging and the flexibility of the communication revolution have made their presence felt, the profile of the labor market is profoundly altered.

Traditional economies risk failing to understand the needs of the workplace and its people. One message coming from an ever more complex economic and social world is that society needs novel equations to account for the shift in sectoral priorities and to devise a new understanding and policy toward the labor force, away from the fixed-salary traditional age group between adulthood and retirement.

The challenge therefore is to appreciate correctly the effective threats to continuous economic expansion, together with a more concerned focus on less traditional indicators than GDP, rate of inflation, and unemployment. Another challenge is the “compassion” factor used by the successors of Ronald Reagan as a safety valve against the unpleasant quick-buck yuppie face of the last two decades, and the destruction of the urban and communal fabric by market forces. President George Bush’s “compassion” was as hollow on his lips as the legendary cap on taxes, and his 90 percent popularity rate achieved in the wake of the Gulf War went down in flames with smoldering warehouses in Los Angeles a few weeks later. With 40 million Americans living in precarious economic conditions, compassion must remain relevant. How to make it true is a serious challenge to any US president.

A more obvious terrain for intervention is the economic, social and ecological desolation in many parts of the planet. There is no need to deliberate on developments which find their better place in foreign policy, but the 270 million American citizens, 4.5 percent of the Earth inhabitants, cannot forever claim 30 percent of world GDP. Whether the changes needed on this score are considered in terms of a world ecological program, in the reduction of moral and material support of non-productive military forces in the Third World, or in a new economic world order heralded by Washington, the economic standards of the American way of life must be extended beyond its borders, gradually and comprehensively, much in the way anticipated by the Marshall Plan and the reconstruction of Japan after World War II.

The natural propensity of a new president is to keep things as they are in the context of a seemingly successful policy. Still, it might be inspiring to revive the spirit behind the New Deal-Marshall Plan-Great Society schemes as the funds are there and no wars are looming to siphon off funds from the immense federal budgets. This calls for a determinedly engaging Keynesian policy, doubling up with enticing projects which have failed during the Clinton administration, including projects leading (paradoxically) to a decrease in state intervention, and more sophisticated macro-economic indicators.

To make compassion real, the president of the richest nation on the planet must ensure, in the words of a leading historian of America since 1945, that “in the midst of these positive changes, poverty does not remain an abiding national disgrace.” There must be room to design serious indicators, useful both for conservative and

progressive America, to reverse the disgrace and measure the reversal rate of poverty nationwide, let alone in the rest of the planet.

A steady-as-it-goes economic policy might work or not. Challenges are there, and they are many even if they are not necessarily apparent on the table of traditional indicators. Still, and despite dark spots and troubling questions, the economic success of Clinton's America is an incontrovertible fact.

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