

with being careless about theory, indifferent to the facts, and readable—in a word, unacademic. Krugman's own polemic, however, is based on unsupported assertions, factual distortions and errors, and an abuse of language—in a word, unacademic. Krugman's enfilade against the policy entrepreneurs is strictly bipartisan, but most of his fire is directed against the supply-siders with only a few random shots against the new strategic traders.

Krugman's makes three major charges against the supply-siders:

1. They "claimed that lower tax rates would lead to such an explosion of growth that everything—even tax revenue—would rise. . ." (p. 107).
2. Supply-side "ideas commanded the allegiance of . . . most of the Republican Party, and the President of the United States" (p. 89), who "made supply-side economics the law of the land" (p. 103).
3. "There was *no* sign of an acceleration of long-term growth rates at any point during the twelve years of conservative rule" (p. 108).

Each of these charges merits a serious response.

The first charge is wholly unsupported. Krugman does not document a single quotation by those he identifies as supply-siders that is consistent with this charge. Nor, to my knowledge, has anyone else. Continued repetition of this charge does not establish its validity.

The second charge is misleading. The Reagan economic program incorporated some supply-side policies but not others. The key elements of this program were spending restraint, tax cuts, deregulation, and monetary restraint, much of which was extraneous to the supply-side agenda. A large tax cut was approved in 1981, but some tax rates were increased in each of the three subsequent years. No administration official or document ever made the claim that tax cuts would increase revenue, and all of the revenue forecasts were based on a static model. The administration never considered the supply-side proposal to fix exchange rates or return to the gold standard. Only one person identified by Krugman as a supply-sider served in the administration, and he resigned in 1982.

The third charge is just flat-out wrong. The chapter on growth has a section on "How to Lie with Statistics," and his own analysis illustrates every trick in the book. First, he combines the Reagan and Bush years, despite the substantial differences in policies. Reagan's objectives and his record were to reduce the growth of domestic spending, taxes, and regulation; it was always difficult to identify Bush's objectives, but his record was one of an increased growth of spending, taxes, and regulation. Second, Krugman does not adjust for changes in the rate of growth of the adult population, a variable over which an administration has little current effect. Third, Krugman recognizes that the choice of end points to compare growth rates is somewhat arbitrary, and that there is a lag of uncertain duration between changes in policy and the economy, but he does not develop the implications of these points.

Let's make these adjustments and compare the records.

TABLE 1  
REAL GROWTH AND INFLATION

Period (Lag in Years)	Real GDP/Adult (Average Annual Percentage Change)	Productivity	Inflation
1973-1979	.62	.76	.59
1979-1989	1.09	1.01	-.32
Carter			
0	.82	.08	1.11
1	.19	.15	.53
2	-1.43	-.12	-.38
Reagan			
0	1.48	1.46	-.70
1	1.68	1.20	-.43
2	2.14	1.28	-.03

The first two rows compare growth rates between the cyclical peak years of 1973, 1979, and 1989, without making a distinction by administration. This comparison indicates that the rates of growth of real GDP per adult and of productivity were somewhat higher from 1979 through 1989 than in the prior period, despite a substantial decline in the inflation rate. The comparison of the Carter and Reagan years is more dramatic. Economic growth was substantially higher in the Reagan years, despite a sharp decline in the inflation rate. Moreover, the difference in growth rates is even larger if there is a one- or two-year lag between changes in economic policies and conditions. Reagan's policies did not restore economic growth to the rate of the 1948-1973 period, but growth was clearly higher than during the seven preceding years.

Krugman is also careless or devious in the use of statistics to make other points. A comparison of the distribution of income gains in the 1980s is based on data from 1977 through 1989. The growth of median family income is not adjusted for the decline in family size. (He also claims that many conservatives denied the changes in income distribution, but again without one quotation to this effect.) His most irresponsible use of end-point years, however, bears on the origin of the increased deficit, which he attributes primarily to a reduction of the revenue share of GDP. This conclusion is based on a comparison of the fiscal 1981 and fiscal 1992 federal budgets. Krugman is correct that the unemployment rate was about the same in these two years, but he does not acknowledge that the inflation rate was very different.

A more accurate assessment of budget changes should be based on the cyclical peak years fiscal 1979 and fiscal 1989, years in which both the unemployment rates and the inflation rates were more nearly equal. This comparison leads to a very different conclusion. Both the noninterest outlay and receipts shares of GDP were about the same in these two

*TABLE 2*  
FEDERAL BUDGET CHANGES

	FY79 (Percent of GDP)	FY89	Change
Noninterest outlays	18.97	18.83	-.14
Interest outlays	1.75	3.27	1.52
Receipts	19.07	19.15	.08
Deficit	1.65	2.95	1.30

years, and the increase in interest outlays was somewhat more than the increase in the deficit. In other words, the higher deficit in fiscal 1989 was primarily due to higher deficits in the intervening years, and *not* to a long-term increase in noninterest outlays or a reduction in the federal revenue base.

Any number of minor asides in the Krugman book are irritating or wrong. He describes economic activity as the least edifying of human activity. Somehow, he has discerned that policy entrepreneurs are "invariably insecure." Art Laffer is not a professor at the University of Southern California. The privatization in Britain is described as "disastrous." The European Monetary System and the Maastricht Treaty are attributed to the conservatives. The Smoot-Hawley tariff was approved in 1930, not 1929; as an international trade specialist, Krugman should know that.

In the end, Krugman also skewers the competitiveness advocates and strategic traders for taking his own classroom examples too seriously, but that is not enough to rescue this uneven and irritating book.

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### **Prices and Knowledge: A Market Process Perspective**

Esteban F. Thomsen

London and New York: Routledge, 1992, 160 pp.

Over the past several decades important arguments of "Austrian School" economists have had a significant influence on more orthodox economics in such fields as monetary economics, competition and monopoly theory, comparative systems, and even environmental economics. References to Mises, Hayek, and Kirzner have become common. Yet, from the perspective of Austrian economists themselves, the extent of this influence, while gratifying, is less than satisfactory. In their view, something essential is not recognized. The nature of that missing ingredient is not always well articulated, and therefore its implications are not always well understood by Austrian and non-Austrian economists alike.