TrendMacrolytics

Donald Luskin, Chief Investment Officer
David Gitlitz, Chief Economist
Thomas Demas, Managing Director

POLITICAL PULSE

# Mankiw Very Much

Friday, June 13, 2003

**Donald Luskin**

**Dr. Mankiw looks like he'll be a valuable pro-growth member of the Bush team.**

**N. Gregory Mankiw** has just arrived in Washington, having recently been confirmed by the **Senate** as the new chief of the **White House's Council of Economic Advisors**. Mankiw's appointment was the third in a series of major personnel changes in the **Bush** economic team, following closely on the appointment of **John Snow** at **Treasury** and **Stephen Friedman** at the **National Economics Council**. We were openly critical of Snow's and Friedman's appointments, seeing Snow as an advocate for the Old Economy *status quo*, and Friedman as a deficit-hawk (see "Why Bother?" December 9, 2002).

We knew nothing about Mankiw, except that he taught economics at **Harvard**, and that the media tried to make an issue of the fact that his textbook, *Principles of Economics*, included formulas supporting the **Rubinomics** notion that deficits lead to higher interest rates. Now, after a getting-to-know-you conversation with Mankiw this week, my first impression is that he could make very valuable contributions to the cause of pro-growth policy, and to the improvement of the policy process.

Mankiw seemed eager to establish his *bona fides* as a member of the Bush team. He told me, "Just because I taught at Harvard, don't assume I'm a liberal." He said that his fundamental orientation is toward free markets, and that he has taught **Milton Friedman's** *Capitalism and Freedom* to freshman classes, believing it is one of the single most important books on economics ever written. Mankiw says he favors policies leading to smaller government, lower taxes, less regulation and greater personal responsibility.

Mankiw admitted to having a dog named **Keynes**, or at least having had such a dog in the past (the dog is now deceased, as the eponymous economist predicted we all would be someday). Mankiw told me that the dog, when alive, had very strong "animal spirits."

Mankiw said his personal agenda was "to bring good economics to the policy process," by which he means a consistent, accountable and transparent set of analytical tools for evaluating the impacts of potential policy decisions. He was sympathetic to our often-voiced complaint that the Bush administration sends mixed and muddled messages both in the way it talks about the economic principles underlying policy, and the way its economic analysts model policy scenarios. Mankiw seems to understand that market participants need more than good policy -- they need to understand the philosophy that forms the policy, so that they can make judgments about the nature of future policy decisions.

He believes that "dynamic scoring" -- the analysis of potential changes in tax rates that reflects their impact on future market behavior -- is a necessary tool for budget analysis, and that it has finally taken root in the Washington economics establishment. Mankiw sees the challenge now to make dynamic scoring both valid and valuable by making its inevitably complicated analytic processes more transparent. TM