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All the President's Economists

By Richard W. Rahn
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Runaway deficits should be prompting resignations

The Congressional Budget Office, in last week's update of President Obama's budget forecasts, estimated that budget deficits will average nearly $1 trillion per year for the next decade. There is no school of economics (classical, Austrian, Keynesian, etc.) that says deficits of this magnitude for a decade or longer will not result in great economic hardship or worse. Greece, here we come.

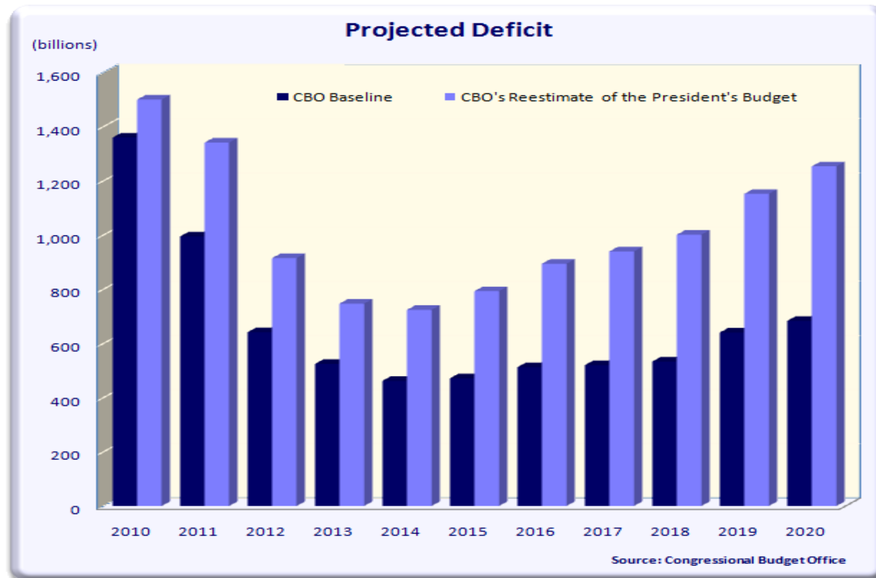
The operative question is, why would the president sign off on such a budget without presenting some plan to get the United States out of the mess - and where are his economists?

Mr. Obama assembled a team of highly competent economists, led by former Treasury Secretary Lawrence Summers as head of the National Economic Council, former Federal Reserve Chairman Paul Volcker as a senior adviser, Christina Romer as chairman of the Council of Economic Advisers (CEA), former Congressional Budget Office Director (CBO) Peter Orszag, now head of the Office of Management and Budget, and former University of Chicago Economist Austan Goolsbee, a member of the CEA.

Larry Summers has had a stellar career as an academic economist and government adviser - including serving on the staff of President Reagan's CEA, where I first met him. He is very smart and thoroughly knowledgeable in all schools of economic thought, and he presided over the last federal government surplus - with pride - when he was Treasury secretary under President Clinton. Paul Volcker has warned about the dangers of government budget deficits throughout his career, and at one point, he even served on the board of the American Council for Capital Formation with yours truly and other spending hawks.

Christina Romer, though described as a "New Keynesian," surely believes that running deficits larger than 3 percent of gross domestic product (GDP) for a decade or more is fiscally irresponsible. Peter Orszag repeatedly warned of the dangers of large budget deficits when he was head of the CBO. And Austan Goolsbee, as a Chicago economist, is familiar with the works of Milton Friedman, F.A. Hayek and others who described where excessive government spending and deficits would lead.

Preliminary Analysis of the President's 2011 Budget



Despite all of this intellectual brainpower and experience within the Obama economic team, Obamanomics has so far been defined as a series of seemingly ad hoc decisions based on neither economic theory nor philosophy. Though the Obama administration adopted traditional Keynesian "stimulus" deficit spending during the recession, even the Keynesians thought deficits should only be run at the bottom of the business cycle, not throughout the business cycle, as is being proposed. The president and his advisers made it clear in their speeches that wasteful spending would not be tolerated - but they have not only tolerated it, they have expanded it exponentially.

The Obama administration has been pushing for substantially higher taxes on productive capital (capital gains, dividends and interest). Its economic advisers used to know that taxing productive capital at high rates and multiple times, as is being done, is economically destructive and is equivalent to eating your seed corn. Most economists understand that the administration's health care and energy proposals will only add to a greater government burden and result in fewer jobs - but that has not deterred the administration and the Democratic Congress from charging ahead without due care for economic efficiency or ensuring that the benefits are greater than the costs.

Good economists of every stripe (the modifier "good" leaves out the socialist and communist economists) understand that government ownership of the means of production leads to less efficiency and innovation. Yet the administration has been involved in takeovers of parts of the auto and financial industries - whose problems could have been handled more properly by the centuries-old and proven technique of bankruptcy.

It is, of course, not easy to be an economic adviser to presidents or other political figures - as I know from personal experience. Many bad things that economists find objectionable are done in the name of political expediency. The adviser's question is, where do I draw the line before speaking out or resigning? Those economists who have gone along with very harmful policies almost always have hurt their own reputations. They also did no favor to the person they were advising, because he or she assumed that the consequences of some stupid policy would not be all that bad if the advisers were quietly tolerating it.

When Richard Nixon decided to institute price and wage controls against the advice of his CEA chairman, Paul McCracken, Mr. McCracken resigned. His successor as chairman, Herb Stein, was able to keep his intellectual integrity by famously stating, "This administration believes that price and wage controls are best administered by people who do not believe in them." Some of President

Reagan's political advisers were furious that Reagan's acting CEA head, William A. Niskanen, would not say and endorse things he did not believe. Lawrence B. Lindsey, George W. Bush's first head of the National Economic Council, was vilified by many in the administration for correctly stating that the cost projections for the Iraqi war were grossly understated.

Advisers cannot expect to win every issue, but to be effective and truly do their job, they have to know which issues are important enough to either win or resign over. At the moment, one gets the impression that Mr. Obama's economic advisers find the elixir of being close to the seat of power more intoxicating than avoiding economic disaster over the next decade.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.

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