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OP-ED CONTRIBUTOR | TRANSITIONS

Bursting the Bubble

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I REMEMBER taking a group of business leaders to see President George H. W. Bush in early 1991 to impress upon him the severity of the economic downturn. The business leaders had made their points forcefully to me beforehand. I then marched them down to the Oval Office, where they tripped over themselves praising President Bush's handling of the Gulf war. They barely mentioned the economy.

The Oval Office and Air Force One are a bubble. Despite trying, no president receives enough information from all sides of a debate, economic or otherwise. Naturally, people are awed by the presidency. But a president needs people in the White House and outside the government who will tell him the bad news, not just the good. Without forthright advice, Barack Obama, like the first President Bush, may find that a faltering economy quickly erodes his widespread popular support. While our views on economic policy hardly coincide, I respectfully offer the following suggestions to Mr. Obama.

The most important issues facing the country right now are income, jobs and wealth — not energy, health care, the environment or the distribution of income. This recession is the real thing, far worse than the two brief, mild recessions of the last quarter-century.

Mr. Obama needs to think about everything his administration does through the prism of how it will affect the economy in the next two years. That means postponing, scaling back or slowly phasing in proposals that impose significant costs on the economy. For example, his energy and health care proposals, if enacted, would destroy investment and jobs now, whatever they might accomplish later.

He also needs to focus a fiscal stimulus on what works, not a Congressional wish list. The tax rebates earlier this year were saved, not spent. Permanent tax cuts for households, especially in rates, would work better. Tax incentives for business investment, hiring and home purchases are also desirable. And we should expand unemployment insurance on economic and humanitarian grounds. Spending on public works, on the other hand, did not help the Japanese escape a decade of stagnation and recession. Such spending works its way into the economy slowly, so it should be focused on projects of proven national, not local, benefit.

Mr. Obama should beware the law of unintended consequences. History suggests that most legislation will produce less than forecast, more slowly, at greater cost. The laudable efforts to expand home ownership to low-income people wound up being a prime contributor to the current economic crisis. Similarly, some well-intentioned proposals to prevent foreclosures by modifying the terms of the three million seriously delinquent mortgages risk setting off waves of defaults on the 52 million mortgages being paid.

His administration should also be suspicious of trying to pick economic winners and losers with subsidies, taxes and regulation. It doesn't work. Ask the Japanese, the Koreans or the Europeans. Instead, the government should set general goals for the environment, energy and health care — and then let entrepreneurs, investors, venture capitalists and consumers decide how best to achieve them. No policy that cannot be commercially sustainable in the long run makes sense.

Any tax increases should be delayed until the economy has recovered. Raising tax rates is rarely a good idea, but it is especially foolish in a deep recession. On the budget and spending, he should try pilot programs to test his ideas. If they work at sensible cost, he will get broad support to expand them. If not, he should jettison or reform them.

Mr. Obama should announce that, after doing whatever is necessary to save the financial system, his goal is to exit the bailout business as quickly as possible, in favor of private capital. (We dealt with the savings and loan crisis through the Resolution Trust Corporation without a permanent government role in S.&L.'s.) That would be the single best signal he could send to the financial markets, which are wary of his tax, regulation and trade policies.

He should say no early and often to Congress and special interests. People elect presidents to protect them from other people's congressmen.

Finally, Mr. Obama should propose some policies also consistent with Republican goals. This would increase the possibility that he could work cooperatively with Republicans in other areas where they will be suspicious of his proposals. For example, confront the reality of widespread capital losses by raising the capital-loss offset against ordinary income in the tax code from \$3,000 — a decades-old limit that doesn't take inflation into account — to \$20,000. Replace some of the 42 percent of federal civilian employees who will retire in the next decade with technology. Find some trade liberalization he can support: if he is limited to areas of the world where environmental and labor standards are strong, how about a free-trade deal among the nations of the European Union and the North American Free Trade Agreement?

Those of us who supported the other guy hope Mr. Obama succeeds. We like his top economic appointments, and we will support those of his policies that will help the country surmount its economic and security challenges.

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