

*Published on Wednesday, October 2, 2002 by the Los Angeles Times*

## **White House Economic Policies Are Bankrupt**

by Joseph Stiglitz

Although the economy was slowing even before President Bush took office, he has made the situation much worse than it had to be. What could have been a mild and brief recession has instead turned into a prolonged downturn likely to last more than two years.

In terms of increases in unemployment and the gap between the economy's actual and potential performance, the downturn is already substantial.

The president appears to believe that every economic problem is spelled T-A-X.

That misguided thinking has precluded him from adopting a sound policy program.

The centerpiece of his economic agenda, the tax cut that he pushed through Congress, was fiscally irresponsible.

The administration also disingenuously disguised the true cost of the tax cut, both by having it magically disappear in 2010 and by using the little-known alternative minimum tax to reduce the recorded revenue loss.

The administration belatedly tried to sell the tax cut as a short-term stimulus measure, but that is like arguing that a few new Ferraris are the solution to a city's public transportation problems. The cost-effectiveness is abysmally low.

A much better alternative to the sports car approach to economic stimulus would have provided assistance to states and localities to meet the fiscal shortfall that inevitably develops as the economy goes into a downturn.

This assistance would have provided more generous unemployment benefits to displaced workers, who will almost immediately spend the money on goods and services.

Similarly, on the corporate scandals, the Bush administration should have acted faster and more resolutely.

The administration still has not advocated legislation forcing companies to properly report stock options as expenses. The indiscriminate awarding of such options has been shown to be an important underlying source of the problems facing corporate America; they provided strong incentives to report large profits, and top executives did better for themselves by increasing these reported profits than by improving the fundamentals of the corporation.

To be sure, I believed that the Clinton administration should have supported such a reform in the 1990s.

At the time, my argument was based on the theory that bad information leads to bad decisions, with adverse consequences for the economy. Now we have the evidence.

And yet the Bush administration still refuses to take the action.

Some of my other qualms about economic policy during the 1990s apply with much more force now.

For example, partly in an attempt to break the legislative deadlock with the conservative Republicans who took over Congress in 1995, the Clinton administration allowed the deregulation agenda to be pushed too far. But that does not mean Republican conservatives should be allowed to push it still further.

Even today, the administration has not owned up to the excesses of the past--the mistakes, for instance, evidenced by electricity deregulation in California and elsewhere--nor has it set forth a program for dealing with the myriad scandals facing the financial industry, from allocations of initial public offerings of stock to distorted advice given by brokerage houses with clear conflicts of interest.

As we should have learned long ago, market-friendly government regulation is necessary if markets are to work well.

I wish that we had done more to address corporate welfare in the 1990s, but we didn't. Now Bush has made this situation much worse. Indeed, corporate coddling has reached new heights with soaring agriculture subsidies, most of which go to rich farmers and corporate farms, and new steel tariffs, which have rightly exposed us around the world to charges of hypocrisy.

It's no secret that I am a tough grader on economic policy. The Bush administration may want to pretend that its F is really an A. But that won't change the reality.

We'd all be better off if the administration would spend more time rethinking its policies and less time muddling the debate with doublespeak.

*Joseph E. Stiglitz, a professor at Columbia University, is a recipient of the 2001 Nobel Memorial Prize in economics. He was chairman of the Council of Economic Advisors under President Clinton.*

Copyright 2002 Los Angeles Times