Insight

Leadership and facts, please

DOUGLAS HOLTZ-EAKIN | JANUARY 5, 2011

Speaking for the President of the United States on ABC's *This Week*, CEA Chairman Austan Goolsbee launched this analysis of the upcoming need to raise the limit on federal debt:

This is not…this is not a game. You know, the debt ceiling is not…is not something to toy with. That's the…the…if we hit the debt ceiling, that's the…essentially defaulting on our obligations, which is totally unprecedented in American history. The impact on the economy would be catastrophic. I mean, that would be a worse financial economic crisis than anything we saw in 2008.

As I say, that's not a game. I don't see why anybody's talking about playing chicken with the…with the debt ceiling.

If…if we get to the point where you've damaged the full faith and credit of the United States, that would…that would be the first default in history ***caused purely by insanity****.* [Emphasis added]

This was an abysmal performance. When representing the United States to world capital markets, there is simply no place for empty speculation or artificially heated rhetoric. The right answer is simply, "We fully expect that the United States will never fail to meet its obligations as a borrower and that as time passes it will reduce its reliance on international lending." Period. And repeat.

The question, then, is whether the administration does not understand the demands of leadership and governance, or whether it lets those priorities be trumped by narrower political objectives.

To me, at least, leadership means you don't "talk down" the economy and don't demagogue important economic issues. As director of economic policy for the McCain 2008 campaign, I took great pains to ensure that the senator was not perceived as predicting (or worse, advocating) doom for the U.S. economy. When running for president one should act and speak like someone who would be president.

I've never been sure that the Obama team understood or agreed with this view. As a candidate and even as president, Barack Obama has been uneven in his handling of economic distress. At times he has appeared presidential, but at others seemed willing to predict the worst "unless" his policies were adopted (think back to the debate over the stimulus bill). This has the same feel. Goolsbee's quote — "The impact on the economy would be catastrophic. I mean, that would be a worse financial economic crisis than anything we saw in 2008." — has no business being uttered by a prominent administration official.

I certainly believe that both the Obama campaign and administration have sought to construct a political narrative that dispenses with inconvenient facts. The campaign narrative was that the U.S. economy was crumbling, broken by Republicans, and in need of being "rebuilt." (In this narrative, a comment by Senator McCain that the fundamentals of the economy were sound was transformed from a calming presidential stance into a partisan defense of damaging policies — the citizens' confidence be damned. It also ignored the inconvenient fact that candidate Obama had said the same thing.) That narrative supported "investments" —

progressive-speak for massive federal spending — government takeovers where desired (health care) or needed by unions (autos), and massive deficits.

The facts, unfortunately, were and remain quite different. The U.S. macroeconomy was and is not broken. The housing market suffered a bubble. Two auto firms, *not* the U.S. auto sector, had been managed into the ground. And several financial firms suffered from solvency issues. The remainder of the financial sector suffered from a severe *liquidity* (not solvency) crisis, as witnessed by the banks' quick ability to repay the capital infusions from TARP and return to profitability. The remainder of the economy is recovering slowly, impeded by the very policy agenda the narrative was designed to enable.

The other key fact is that the American people rejected this narrative (see Elections, November 2010) and demanded that the spending-fueled debt binge be stopped.

The administration now requires a new narrative as cover for its liberal agenda. In this version, Republicans are the fiscal dangers. This narrative emerges in the argument that repealing the health care law will raise the deficit (a tribute to budget gimmicks). It is at the heart of the notion that the House "cut-as-you-go" spending rules are a budgetary danger (ignoring the fact that if the problem is spending, then rules have to deal with spending).

And, finally, it is at the heart of Goolsbee's claim that "insanity" will cause the U.S. to default. There is no serious drumbeat in favor of sovereign default. Republicans and responsible Democrats are committed to meeting U.S. obligations. And Republicans are not "dangerous" because they will insist that spending go down instead of continuing to rise; they are just dangerous to a policy agenda that the American people have already rejected.

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