

BY ROBERT J. BARRO

HOW'S BUSH DOING? A SIX-MONTH REPORT CARD



MIXED:
He gets kudos for the tax cut, but his deals with the Democrats on education and other issues make it tougher for him to be effective

President George W. Bush has been in office for half a year, so I can now provide an interim report card on his economic programs. His major accomplishment, of course, is the income-tax cut, which receives high marks for removing lots of money that Congress would otherwise spend on "worthwhile social programs."

Unfortunately, most of the revenue reduction for 2001 takes the form of a rebate, which is a way to lower taxes without providing incentives for work and investment. Another troublesome feature is the gradual phase-in of the tax-rate cuts. Just as in the 1982-83 recession, the expectation that future tax rates will be lower than current rates provides an incentive to postpone work and production and, thereby, worsens the economic contraction. It is a little surprising to see this mistake repeated during the possible recession of 2001. However, in the long run, the tax-rate cuts and the elimination of the inheritance tax will be major positive forces.

Social Security reform looks promising, especially the likely introduction of some form of personal accounts. I favor this change mostly because it injects the notions of property rights and choice into the Social Security system. The rights to personal accounts mean that individuals' future retirement benefits will be much less subject to the whims of politicians. The choices about the forms of these accounts will allow people to tailor their retirement portfolios to their own preferences about risks and returns.

Unfortunately, many proponents of personal accounts have used specious arguments about the potential for superior rates of return. These rates look low in the current system mainly because today's workers are financing the generous benefits of their parents and grandparents, not because of the lack of personal accounts. In other words, the direct reward from my Social Security contributions looks low because part of it goes to my mother.

NIX EDUCATION DEPT. Moreover, the argument that Social Security could experience low-risk high returns by investing in stocks is unrealistic, as has become evident over the past year by the dismal performance of the markets. However, with personal accounts, an individual can choose a risk-free portfolio, composed of indexed treasury bonds for example, if he or she wishes.

One of the odder aspects of the Bush Administration is its support for substantially increased funding for federal education programs. The \$42 billion proposed for the Education Dept. budget is an example of the social-welfare spending De-

mocrats pushed in the 1930s and in the 1960s. No wonder Senator Edward M. Kennedy (D-Mass.) and other Democratic liberals support the President's education initiative. Amazingly, to make a deal with the Democrats, Bush dropped the most compelling part of the package—funding for private-school choice.

Republicans are supposed to oppose these types of social-welfare programs because the programs have proved to be ineffective. Moreover, education is better handled at the state and local level. (Even school choice, which I enthusiastically embrace, should probably be left to state governments.) One irony is that the only federal education program for which I have seen evidence of reasonable rates of return—Head Start—is run by Health & Human Services, not Education. Thus, a better idea than expansion of the Education Dept. would be its elimination, but I guess I just do not understand compassionate conservatism.

MEDICARE MESS. The Administration has sounder ideas about energy and the environment. At least the rhetoric surrounding oil drilling, power-plant construction, nuclear energy, and the Kyoto Treaty recognizes trade-offs between the environment and energy availability and avoids the extremism of the environmental lobby. The White House is helped here by the contrast with California's Democratic governor, Gray Davis, whose main response to the state's energy crisis has been to attack suppliers, socialize the industry, and try to shield customers from market prices. California's energy policy is similar to its water policy: In both, market forces could do better than socialism or botched, halfway reforms.

The shape of future health-care legislation is yet to be seen. However, Medicare is likely to expand, at least to include prescription drugs. The reasoning behind this expansion is unclear—why should more of the cost of these drugs be borne by the general taxpayer and less by the elderly user, especially when the typical old person is not poor? Moreover, such interventions come with the distortion of substituting the government for the marketplace.

Given all this, I would prefer to take the income-tax cuts and have Washington go on vacation for the next 3½ years. However, Newt Gingrich-led Republicans tried a government shutdown some time back, and it was wildly unpopular. So I guess we will have to accept the decidedly mixed legislative results that will likely come out of the remainder of Bush's term in office.

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