BY ROBERT J. BARRO

BUSH'S ECONOMICS TEAM IS BROKEN, AND IT'S TIME TO FIX IT

MUDDLED: The White House economic policy comes up short. Taking a longer view would help, and new advisers wouldn't hurt

When it comes to advice and expertise, the Administration's economic chiefs are no match for its international security leaders. Basically, O'Neill-Lindsey is no Rumsfeld-Cheney. Paul O'Neill is candid and undoubtedly made a strong CEO, but he lacks the financial and economic skills needed for being Treasury Secretary. Lawrence Lindsey, Assistant to the President for Economic Policy, never was a strong economist, and I was always concerned by the President's reliance on him.

I have to admit that I once wrote a column stating that economic outcomes bore no relation to the credentials of an Administration's main economic advisers. But this proposition is now being severely tested, and a cautious approach would dictate a change in the top personnel. Even within the Administration there are strong candidates, such as R. Glenn Hubbard, chairman of the President's Council of Economic Advisers, and John Taylor, under secretary of the Treasury for international affairs.

Since the mostly laudable tax cut, the Administration's economic policies have been pretty bad. Most glaring is the protectionist stance on international trade. Steel tariffs, lavish farm subsidies, and duties on Canadian timber indicate that short-term political gains have been favored over national economic benefits. Remarkably, the Administration now is following up on this protectionism by pursuing free-trade agreements—a dubious strategy after the destruction of our free-trade credentials.

The Administration also has lacked fiscal discipline on the spending side. For example, Bush pushed for an extravagant bill on education. On Medicare, the Administration has adopted the agenda of its opponents by debating the form of a new program for prescription drugs, rather than seeking a decrease in overall spending. The President created a new Cabinet department for homeland security, continuing the process of enlarging the federal government. A better approach would have been to eliminate departments, such as education and transportation. The spending strategy seems to be to predict the Democratic position and then get out in front by taking this position first.

The White House also has accepted the Democrats' reaction to the corporate scandals by signing the Sarbanes/Oxley Act of 2002. This legislation seems largely innocuous, but it would have done nothing to lessen the financial problems that many high-tech firms have experienced. Consider WorldCom Inc. and its inappropriate booking of $3.8 billion of current expenses as capital outlays. A more accurate picture of earnings would have resulted in an earlier fall in the stock price and an earlier bankruptcy filing. Mostly the same people would have lost the same amount of money. The main problem is that WorldCom vastly overinvested in a telecom network that now is worth a fraction of its cost. This miscalculation, and not accounting tricks or corporate greed, is the main reason for its financial collapse. Anyway, corporate greed is a constant; it was not discovered in 2002.

If one wants to consider a government policy that actually mattered for WorldCom, then one can go back to the rejection of the merger with Sprint in June, 2000, by the European Union and the U.S. Justice Dept. It is laughable in hindsight that the two governments were concerned about the potential negative consequences of the merger for competition in Internet backbone services and long-distance telephony. Now, with the dramatic excess in telecom capacity, the prices that providers can command are too low to sustain profitability. Presumably, today's government officials would be happy if Sprint or AT&T—which themselves are in tenuous financial states—were to absorb WorldCom. Actually, it might be good economic policy if the EU and U.S. antitrust divisions went out of business.

One can take a quantitative approach to assess the economic outcomes that result from an Administration's economic policies (together with many factors beyond the government's control). I have written before about an extended "misery index" that considers inflation, unemployment, interest rates, and gross domestic product growth. For the Bush Administration, through the second quarter of 2002, inflation has done well (1.9% rate, compared with 3.7% at the end of the previous Administration); unemployment has done poorly (an average rate of 5.1%, compared with 4.2%); interest rates have been O.K. (4.7% on 20-year U.S. Treasury bonds, compared with 5%); and economic growth has been weak (1% rate, compared with a long-term average of 3.1%). Putting all this together, the Administration thus far ranks 8th out of 14 administrations since Harry S. Truman's second term. Bush Jr. comes out just behind his father.

Clearly, the Administration needs to do more to improve its economic policies. A change in the top advisers may help. But, more to the point, the Administration must rely more on sound economic principles and less on short-term political maneuvering. ■

Robert J. Barro is a professor of economics at Harvard University and a senior fellow of the Hoover Institution (rjbweek@harvard.edu).