BY ROBERT J. BARRO

ALOOKATLARRYSUMMERS-FROM TAXES TO HAIRCUTS

JAY REED

ACTIVIST: A strong fiscal conservative, Summers has long believed in the potential benefits of government intervention in the economy

With Lawrence H. Summers soon to become U. S. Treasury Secretary, his views and background have become a public concern. Several years ago, Summers told me: "If I had your views on economics, I would find another profession." My views involve a limited government that allows private markets to operate freely. Hence, my perspective does not admit much opportunity for economists to design useful interventions for policymakers. Some people, including Summers, think that economics would be a pretty dull field in such a world. Therefore, if he accepted my vision of reality, he would find something else to do.

Fortunately for Summers, he has always believed in the potential benefits from governmental activism, although the strength of this belief has diminished over time. He thinks that economic incentives and markets are powerful but that free markets do not always achieve socially desirable outcomes. Thus, the power of incentives becomes, for Summers, an efficient way for policymakers to influence choices. For example, incentives can affect behavior involving savings rates, environmental pollution, jobs, and wages. He believes financial markets are especially subject to problems such as irrational exuberance and bubbles that sometimes burst. Summers therefore supports strong government regulation of these markets, and he was once even sympathetic to an onerous tax on the buying and selling of securities.

NOTHING BUT GREED? Summers is strongly fiscally conservative and supports budget policies that promote national saving and higher productivity. Hence, he favors balanced budgets and funded plans for Social Security, including a role for private accounts. However, he has a tendency to favor "capital levies," the term that economists give to taxes that fall on capital goods or other products of past decisions. The idea is that such taxes do not distort the economy because earlier decisions cannot be undone. Hence, Summers tends to favor investment tax credits or subsidies to new capital rather than reductions in corporate tax rates, which treat old and new capital alike. Unfortunately, one problem with capital levies is that they cause serious distortions when businesses and households anticipate them.

The inheritance tax is an example. High death taxes tend to be inefficient because live people know about them and alter their lifetime plans on savings and bequests accordingly. Summers once said that opposition to high inheritance taxes could be based only on greed. But I think this argument reflected more his overly liberal upbringing than his understanding of public finance.

Summers has been a positive force for free trade, the introduction of indexed bonds and the new dollar coin, and a hands-off policy toward the Federal Reserve's monetary policy. More problematic has been his support of international bailouts, starting with the Mexican deal in 1995. These bailouts have involved an unfortunate alliance between the International Monetary Fund and the U.S. Treasury. Subsequent problems in East Asia, Russia, and Brazil have made the IMF and Treasury eager to get out of the bailout business. I think these desires underlie the tentative and reasonable support from Summers and other officials for dollarization proposals in Latin America.

.300 HITTER. Much has been written about Summers' tendencies to be badly dressed and tardy. On the former, I can offer the hypothesis that no one has ever come up with a brilliant idea while wearing a tie. On the latter, I can quote the locally renowned barber, Michael, who operates in the shadow of one of Summers' previous haunts, the National Bureau of Economic Research in Cambridge: "Larry used to make an appointment for 10 a.m. and show up at 4 p.m., saying, 'Are you ready for me yet?'" At least as Treasury Secretary, almost everyone else will have to accommodate their schedules to his.

Until the early 1990s, Summers was the consummate academic, always pursuing simultaneously more interesting projects than any reasonable person could keep track of. He once said that I viewed him as batting .300 with respect to the quality of these projects, but I thought that was pretty good. When I came to Harvard University in 1987, he was my most stimulating colleague, and I and others benefited greatly from his insights. As recently as two years ago, the Harvard economics department tried to rehire him, thinking he could be wooed back to the academic path. That won't happen, but Summers is still the best economist ever to be Treasury Secretary. Alexander Hamilton may have had better intuition, but he lacked the formal training.

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