

# A year on, has Barack Obama met the hopes of the world?

Last November, in Chicago's Grant Park, world politics was transformed by the arrival of America's first black president. But has he made good on his groundbreaking promises?

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## Robert Barro: On the economy

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### He should stop whining about Bush

The near-term outlook for the US economy has improved substantially since the spring, with a sharp upturn in the stock market and the return of positive growth in real GDP. The probability of a depression, which I estimated to be 25% last March, has now fallen to a low level. The principal policy that avoided a meltdown was the massive governmental assistance to large financial institutions as a way to prevent a repeat of Lehman's failure of September 2008. This policy, started under Bush and continued under Obama, involved the US Treasury and, increasingly, the Federal Reserve.

In comparison to the intervention, Obama's well-publicised programmes – the fiscal stimulus package, bailouts of carmakers, cash for clunkers, curbs on imports from China – have played minor roles. These have wasted money and were mistakes and have had little impact on the short-term turnaround.

The medium and long-term economic outlook is not promising. My main concern is that the Obama administration's remedy for nearly everything is more government. And some proposals involve lots more money over much longer periods. Prominent here are bad ideas about dealing with healthcare, energy and the environment. Also worrying are proposals for additional income redistribution, featuring higher taxes on the "rich" and removal of more people from paying any income tax at all.

Put all this together with the already accumulated budget deficits and you get a serious long-run fiscal problem. The only possibility I see for raising sufficient revenue is a European-style value-added tax, which is comparatively efficient but still a drag on future economic growth.

Another mystery is how the Federal Reserve will unwind its massive infusion of liquidity and corresponding expansion of credit. The Fed's balance sheet has ballooned remarkably. (A private institution would likely be declared insolvent.) If the economy grows in a sustained way, with subsiding fears reducing the demand for liquidity, the Fed's stance will become highly inflationary. Although chairman Ben Bernanke is well aware of this threat, the necessary unwinding of positions – engineered to minimise inflation while avoiding contractionary shocks to GDP – is unprecedented and scary. The likely outcome is high inflation within a few years, coupled with a financial system influenced more by politics than economics.

Finally, there is the unusual propensity of the Obama administration to blame its predecessors for "inherited" problems, economic and otherwise. Although I am not a fan of most of Bush's economic policies, he did begin the intervention that likely staved off a financial implosion. When I think back to Reagan, who began with a legacy of high inflation and interest rates in 1981, I recall a president who was more interested in fixing things than in blaming Carter, Nixon, etc. And when Bush came to office in 2001, he did not spend a lot of time blaming Clinton for the stock market crash of 2000. It would be nice if Obama and his team stopped whining about Bush's supposed failures, accepted the economy as their responsibility and focused on implementing sound policies.

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- This article was amended on Sunday 1 November 2009. In the article above we said that David Landau was editor of Haaretz, he is the former editor. This has been changed. Details regarding Robert Barro were also updated.

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