- NYDailyNews.com DAILY NEWS
- OPINION
- AUGUST 15, 2011

Obama Can Lead – Or He Can Continue to Blame Others

By ROBERT J. BARRO

The way to restoring America's AAA credit-rating starts with President Obama moving beyond blaming the economy on the admittedly inept George W. Bush.

Standard & Poor's recent downgrade of the U.S. government shows how far the world has moved into a crisis of governments.

The official reactions to the S&P action have not been promising. The Obama administration attacked S&P's competence, and the U.S. Congress has threatened hearings, apparently aimed at bullying S&P and the other agencies from further downgrades.

The main substantive criticism was that S&P made a $2 trillion mistake in its baseline projection of 10-year deficits. Of course, these projections came from the Congressional Budget Office, which lost its credibility in these matters when it scored President Obama's health care reform plan as reducing 10-year deficits - mostly because of the inclusion of phantom reductions in Medicare payments to doctors.

In truth, S&P's downgrade stemmed mainly from its legitimate concern that the U.S. government has no coherent medium- or long-term plan to eliminate budget deficits and stabilize the path of public debt. This judgment is accurate and courageous and goes some distance in offsetting the hit to S&P's reputation that came from the AAA ratings that it gave not so long ago to mounds of mortgage-backed securities built on subprime garbage.

Unfortunately, Obama's main response to S&P's downgrade and the economic crisis more generally has been to continue blaming almost everything on his admittedly inept predecessor, George W. Bush, and on the Republican Congress.

Another familiar theme is the unwillingness of the evil rich to pay more taxes. (I have one modest proposal that could save the President valuable time in this regard. Rather than continuing to repeat the long phrase "millionaires and billionaires," I suggest a merger: "mibillionaires." I know it looks funny and is hard to say on a first try, but after three or four repetitions it becomes strikingly mellifluous.)

Enough.

The way forward to restoring our AAA rating begins with Obama taking seriously the surprisingly sound report by his recent bipartisan debt and deficit commission. Building on those recommendations, I have constructed a fiscal plan:

- Make structural reforms to the main entitlement programs starting with increases in ages of eligibility and a shift to an economically appropriate indexing formula.
- Eliminate the unwise increases of federal spending by Bush and Obama, including added outlays for education, farm and ethanol subsidies, and expansions of Medicare and Medicaid.
- Lower the structure of marginal tax rates in the individual income tax.
- Pay for the rate cuts by gradually phasing out the main tax-expenditure items, including preferences for home-mortgage interest, state and local income taxes, and employee fringe benefits.
- Permanently eliminate federal corporate and estate taxes, levies that are inefficient and raise comparatively little money.
- Introduce a broad-based expenditure tax, such as a value-added tax (VAT). Depending on the structure of exemptions, a rate of 10% should raise about 5% of GDP in revenue.

The VAT system is present in most developed countries and can be highly efficient because it has a flat rate, falls on consumption and has built-in mechanisms for ensuring compliance. However, a VAT is also a magnet for criticism by conservatives - who worry about the promotion of a larger government.

I share this concern and would defend a VAT only if it can be firmly linked to the other parts of the reform package. But more fundamentally, given the projected path of entitlement spending, I see no reasonable alternative.

It is hard to imagine President Obama becoming the leader of this kind of broad fiscal initiative. Though he has endorsed some pieces of some of these components, the embrace has been halting. He is hedging, not leading.

Thus, as S&P observed, uncertainty about our fiscal path will likely not be resolved at least until the outcomes of next year's crucial elections.

The one person with the power to eliminate part of this uncertainty is the President, who could nobly decide not to stand for reelection, thereby following in the footsteps of Lyndon Johnson and Calvin Coolidge. Johnson was forced out by a different type of crisis, Vietnam, and he hung on too long, delaying his announcement until he saw his poor performance in the New Hampshire primary and in subsequent electoral polls. Coolidge is a more dignified model, as he opted out in 1927 while things were going fine. In fact, Obama could borrow Coolidge's memorable phrase, "I do not choose to run."

Barro is a professor of economics at Harvard University and a senior fellow of Stanford's Hoover Institution.