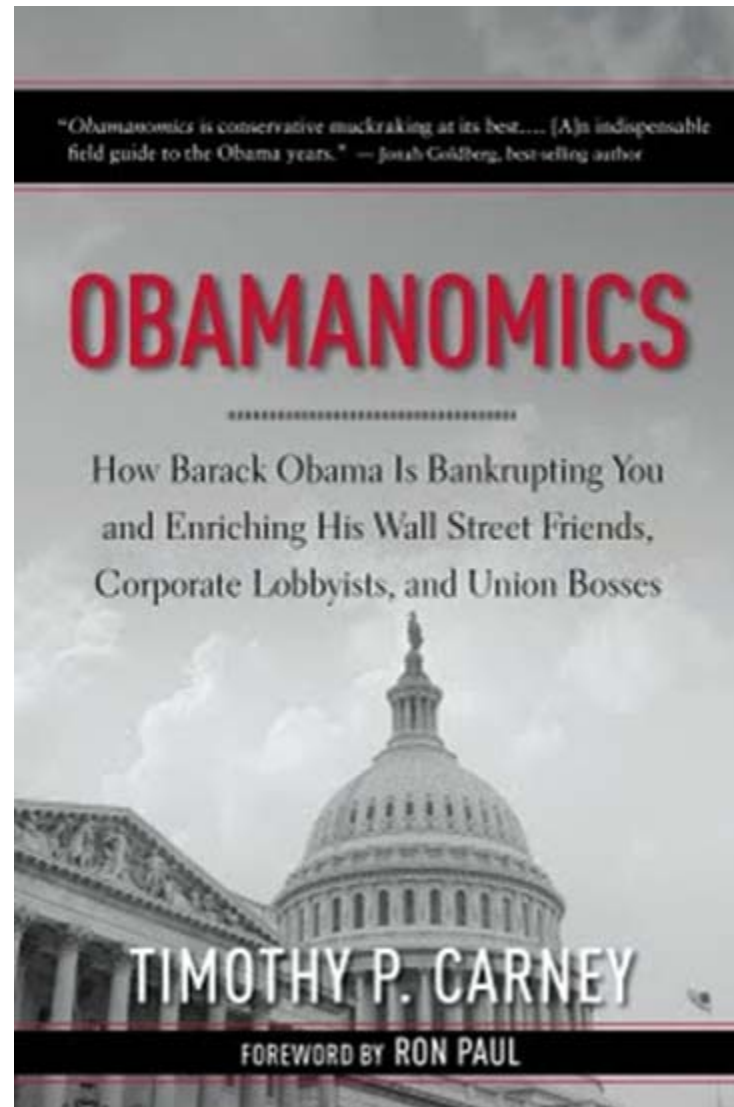


Comments on Timothy P. Carney's *Obamanomics*

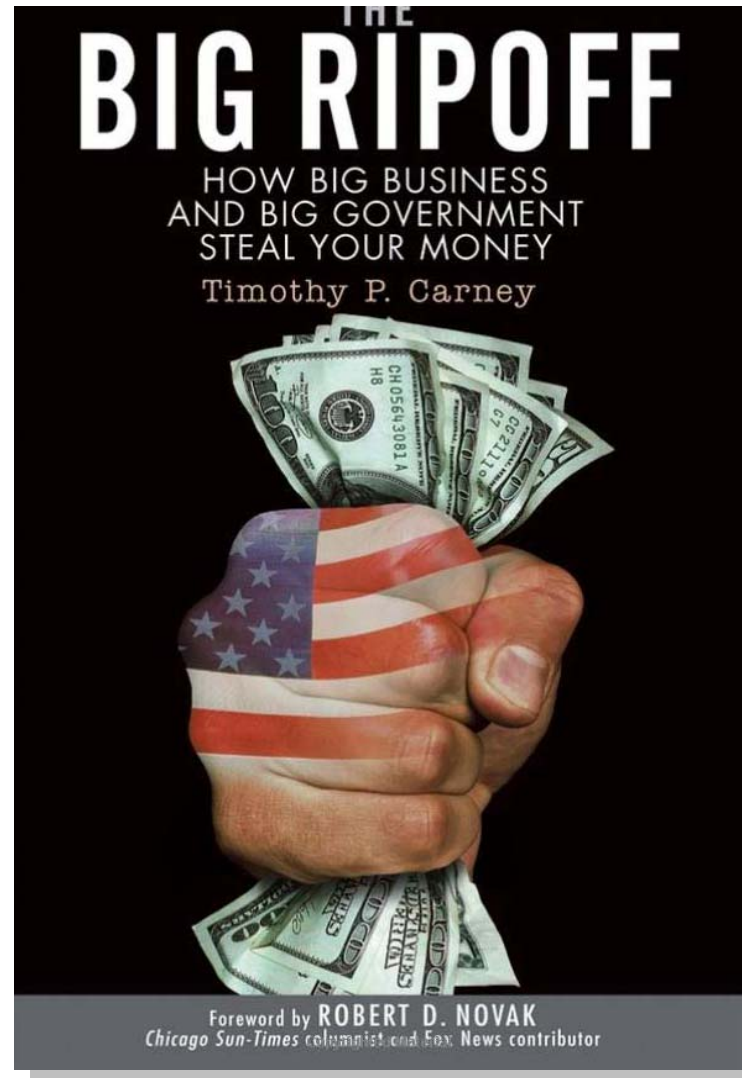
**Uwe E. Reinhardt,
Professor of Economics and Public Affairs
Princeton University**

**Cato Institute
Washington, D.C.
January 12, 2010**

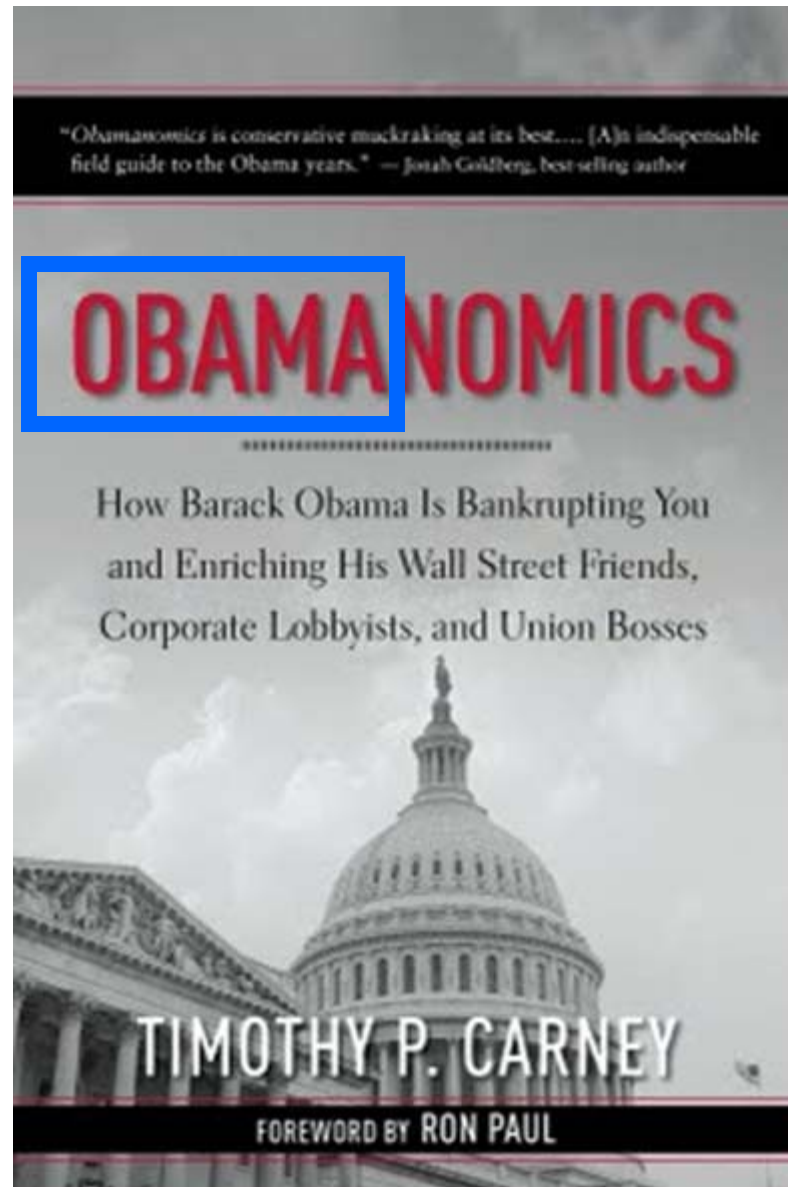
We are gathered here together to comment on Timothy Carney's new book:



. . . which is a sequel to an earlier book, published ca 2005, entitled:



Why the *ad hominem*?



On page 8 of the book, the author presents the *Four Laws of Obamanomics*. I present here only the first; but the rest are similar. They raise the question: “Why *Obamanomics*”? Why not just *Washingtonomics*? Has it not always been so – and will it not always be so? Why blame it on President Obama?

THE LAWS OF OBAMANOMICS

Underlying Obamanomics are some basic economic facts and political realities. These are the Four Laws of Obamanomics, paired below with some of the lobbying strategies that exploit these laws.

- 1) During a legislative debate, whichever business has the best lobbyists is most likely to win the most favorable small print. Similarly, once a bill has passed, the business with the best lawyers and lobbyists will best be able to craft the regulations and learn how to game them. A big business, counting on this fact while lobbying for more government spending or control, is employing *The Inside Game*.

A crucial passage can be found on page 4 of the book, where the author stipulates:

“I trust Obama’s intentions. His aim, I assume throughout this book, is simply to make this country better. He is also clear that he thinks what is best for the country, at least for now, is more federal government control – of Wall Street, of Detroit, of health-care, of energy and of our money.

His policies favor Big Business not out of nepotism or corruption, but out of tactical necessity – he needs powerful allies – and out of economic reality: expanding government tends to boost Big Business.”

That is our system of governance. To get anything done in Washington, D.C., any U.S. President has to cave in to the powerful interest groups that effectively are major shareholders of the U.S. Congress. Besides, the President wrote a lot of I.O.U.’s to powerful interest groups just to get elected.

MAJOR THEMES IN OBAMANOMICS

1. Big Business (BB) makes tons of profits off U.S. government spending and therefore favors high government spending.
2. BB makes profits off government regulation and interference in the free market and therefore favors it.
3. The BB Oligarchy can and does purchase the affection of Congress and of the Executive branch, which tends to beget:
 - a. legislation that favors BB*
 - b. regulation that favors BB*
 - c. administration that favors BB*
4. Presidential candidate Obama made statements and promises during his election campaign that are belied by his conduct as President.

And, at least tacitly, to use the idiom of *The Urban Dictionary*

5. America's system of governance, like, sucks.

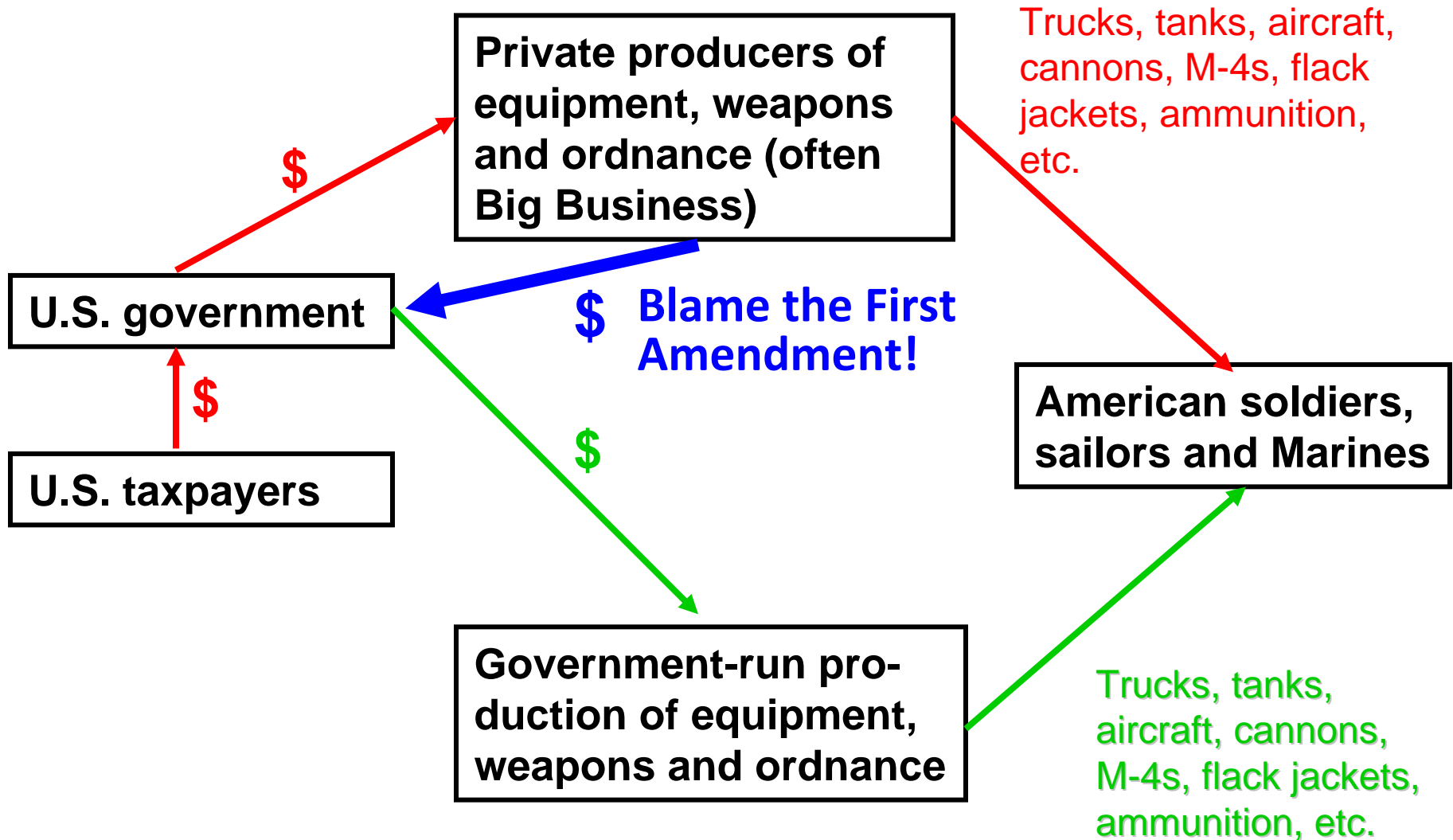
Let's look at these themes one by one.

MAJOR THEMES IN *OBAMANOMICS*

- 1. Big Business (BB) makes tons of profits off U.S. government spending and therefore favors high government spending.**

WHAT IN THIS ARRANGEMENT OFFENDS TIMOTHY P. CARNEY?

Armaments must be produced and paid for. Should Big Business produce it, or should government itself produce it?



Whether we like it or not, every time one of our fighting men empties a clip with his M- 4 rifle, or a bomb is dropped or a missile fired, some folks at home make a tidy profit from it.

You can call it a “rip-off” or just “in the nature of the beast.”

And, yes, defense contractors lobby with campaign financing for business from government, just like every other industry selling stuff to the government.

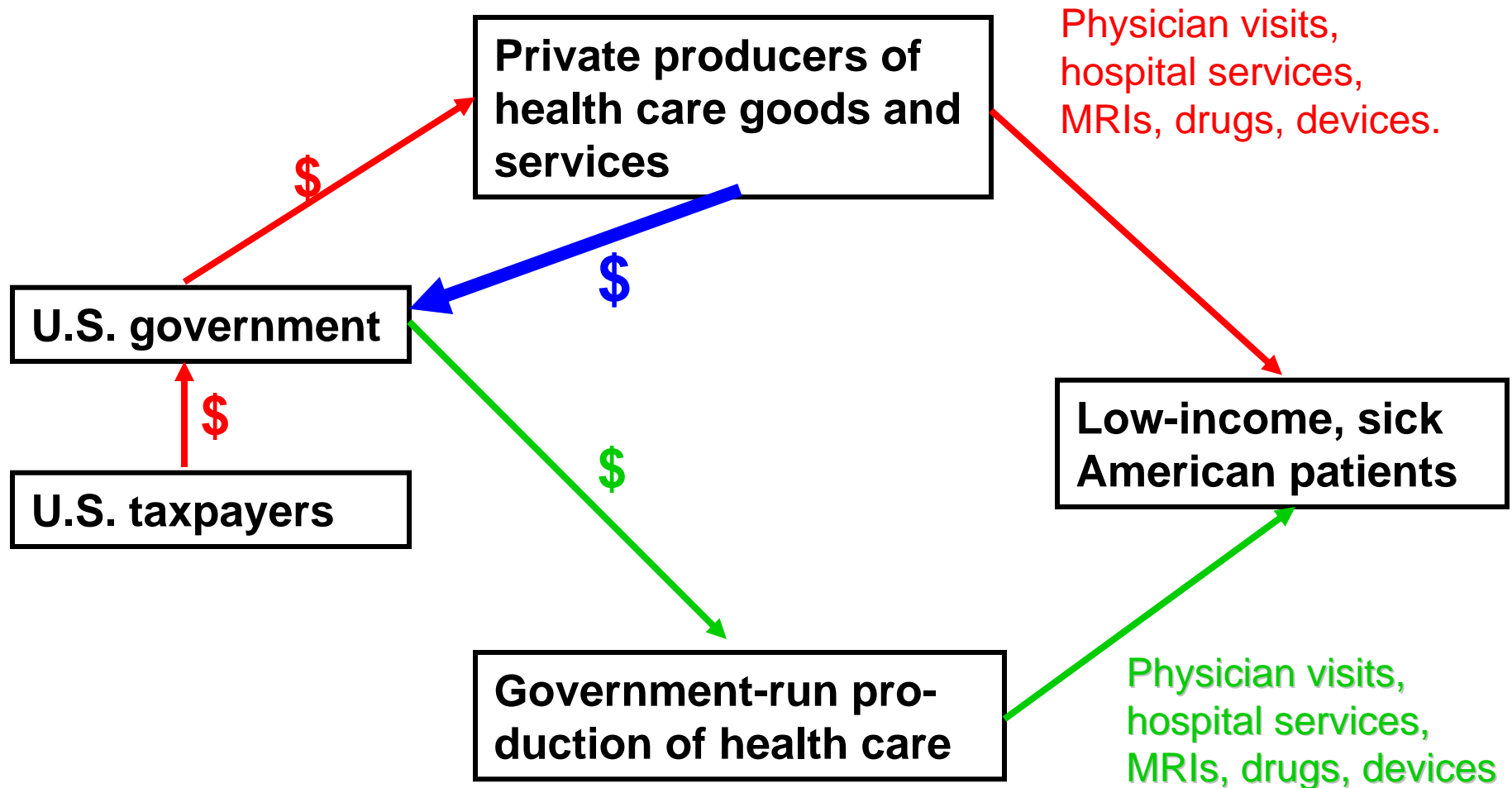
For all we know, they may even egg on the nation’s politicians toward war, which is so highly profitable to them.

The health-care industry, of course, is just another “defense” industry, except that it fights microbes and illness, than human enemies.

Suppose this lady does not have any net worth. Would the private health-insurance sector take care of her? Should she just be left on her own – to die, if that's what it means?



So here we go again with my earlier question on defense contractors. What in this flow chart offends Mr. Carney, and what would he prefer we do?



Note that very few Americans now have accumulated enough wealth to be able to finance with it their health care during retirement, through the purchase of private health insurance or with out-of-pocket payments. Government will be in their lives big time.

Indeed, I find it remarkable that even very rich corporate executives are so spooked by the very thought of having to pay for any of their own health care out of pocket that they invariably insist, when they retire, that their previous employer pick up all of the cost of health care not covered by Medicare, for the rest of the executive's and spouse's life!

Corporate executives may pay lip service to the virtue of rugged individualism, but rugged individualism is decidedly not their thing when it comes to health care.

Why, then, should we expect lower-income Americans to think differently? Just like corporate executives run to their corporations to have their medical bills covered, so will Americans without that privilege run to the government for help.

PROPOSITION

The role of government in the lives of Americans will grow in the years ahead, regardless of whether Democrats or Republicans run Washington.

At this time we are still the least taxed nation in the OECD, measured by the fraction of GDP absorbed by sum of all of all kinds paid at all levels of government (about 29%).

That ratio is apt to rise inexorably towards the mid 30% in the next few decades, regardless of who runs government.

The reason is not some demonic, hegemonic urge on the part of the left-wing elite of Democrats.

The reason, pure and simple, is the rather juvenile life-cycle planning of the legendary “rugged” American individualist, symbolized by the picture on the next slide. And it also resides in the reckless deficit-financing of government since 1980 (the 1990s excepted).

POSTER BOY OF RUGGED AMERICAN INDIVIDUALISM



Behold the wondrous creature on this motorcycle!

In Europe a such a biker would be mandated to wear a protective suit and to wear protective head gear.

In many U.S. states we can see these creatures biking joyously on their Harley Davidsons, in their jeans, a bandana at most for headgear, tea shirt flapping in the wind. The epitome of the free spirit of the risk-loving, rugged American individualist!

Should they take a spill and get badly hurt, they believe to have a moral right to be quickly rescued and brought to the nearest hospital for possibly very expensive, life-saving treatment, even if they are uninsured –they'd rather by a Harley than insurance – and even if they cannot pay for that care. And we have a federal – yes, government! – law called EMTALA to enforce this social contract.

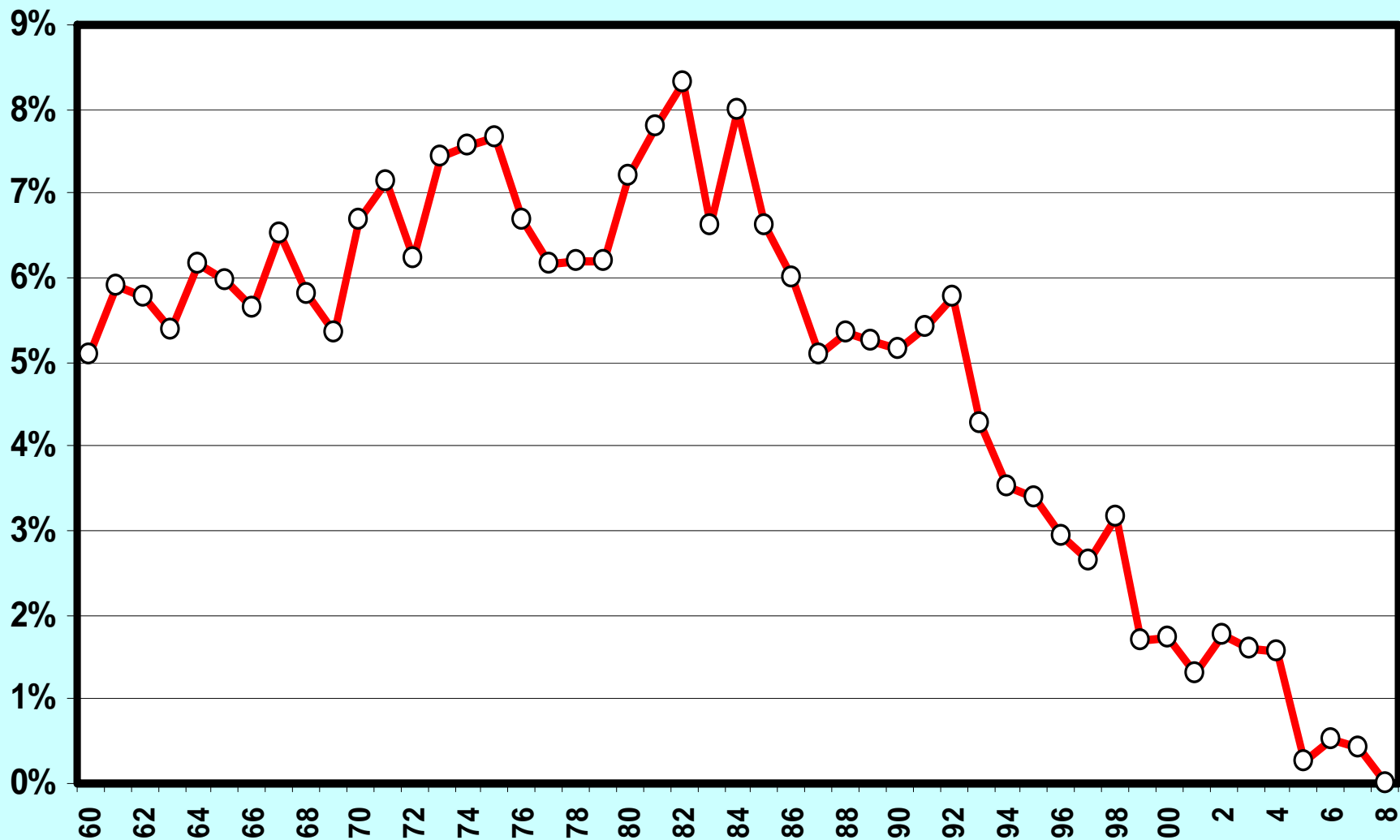
This really is the *New American Deal* – private profit or pleasure at public risk. Not only individuals, but Big Business – bankers prominently among them – are part of this New Deal.

The operative mantra among our rugged individualists:

When the going gets
tough, the tough run to
the government.

Consider the average consumption—savings behavior of American households.

Personal Savings in the U.S. as Percent of GDP 1960-2008



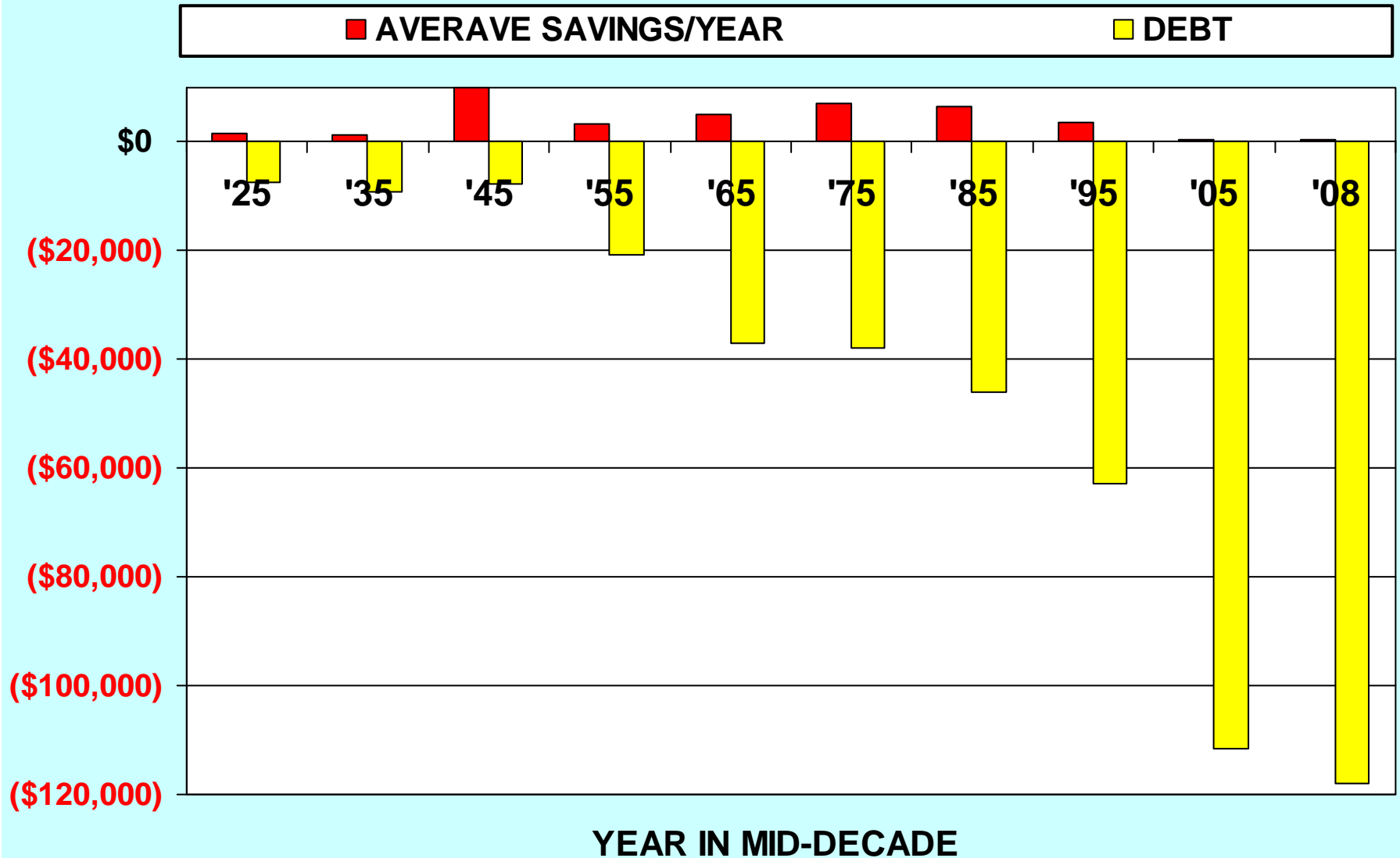
SOURCE: *Economic Report of the President to the Congress*, February, 2009, Tables B-1 and B-32.

The latest data suggest that Americans may, since 2008, have started to reduce their debt and save more of their income, but after almost three decades of profligacy, it comes late in the day.



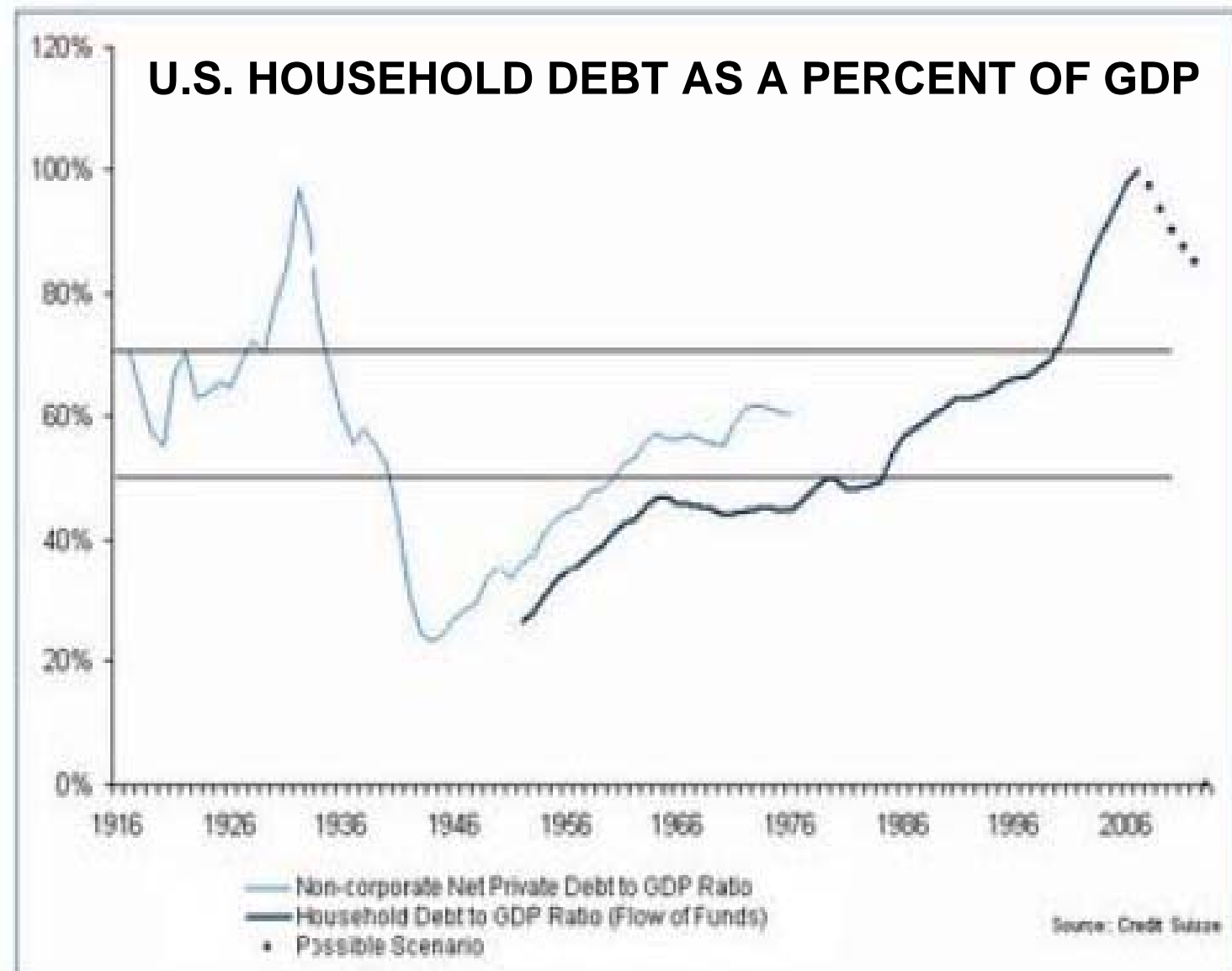
SOURCE: Federal Reserve Bank of San Francisco, Economic Research and Data,
<http://www.frbsf.org/publications/economics/letter/2009/el2009-16.html#3>

AVERAGE SAVINGS PER YEAR PER HOUSEHOLD AND AVERAGE DEBT PER HOUSEHOLD



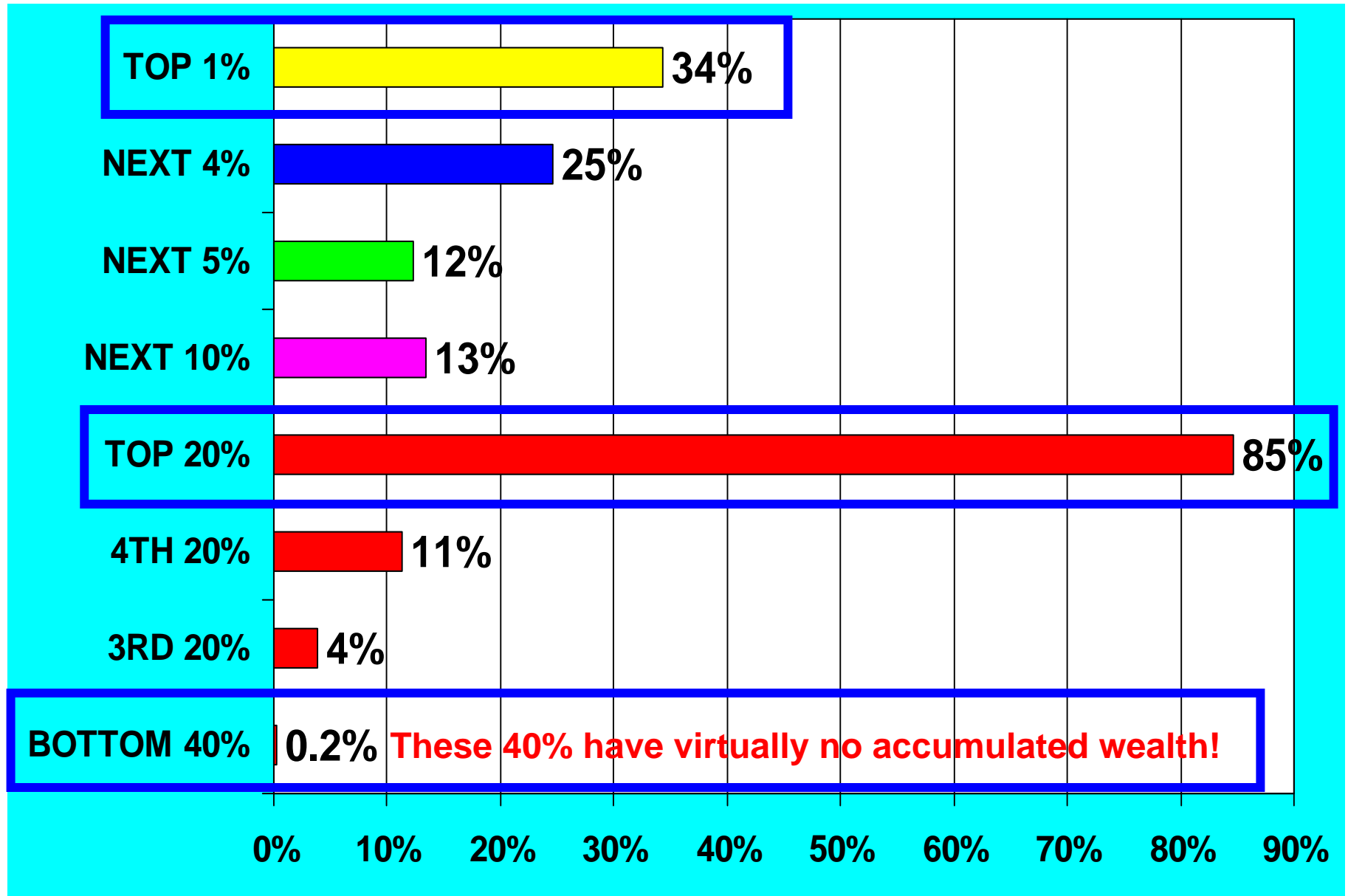
SOURCE: The New York Times, <http://www.nytimes.com/interactive/2008/07/20/business/20debt-trap.html>

U.S. HOUSEHOLD DEBT AS A PERCENT OF GDP



SOURCE: Federal Reserve Bank of San Francisco, Economic Research and Data,
<http://www.frbsf.org/publications/economics/letter/2009/el2009-16.html#3>

FRACTION OF TOTAL WEALTH (NET WORTH) HELD BY INCOME GROUP, 2006



SOURCE: Edward N. Wolff, Recent Trends in Household Wealth and Income (May 2007)

Some thrifty or lucky, or both, Baby Boomers and their successors have adequate savings to finance their retirement, but millions upon millions more Americans will arrive at age 65 with little or no savings at all, having piffled away through second and third equity mortgages even much of the wealth represented by their homes.

Count on them to arrive at government's gate, there to beg for tax- or deficit-financed succor. (Recall the purely deficit-financed *Medicare Modernization Act of 2003* that now heavily subsidizes prescription drugs for the elderly. this act alone will add over \$1 trillion to the federal deficit during 2010-19.)

Get used to the idea that government's role in the economy will grow inexorably and that at some point in the future the Chinese won't be willing to underwrite that U.S. profligacy any more. We may actually have to pay for it ourselves.)

In their manners, America's legendary rugged individualists remind me of enterprising, rambunctious risk-loving teenagers who hate Mom's regulations when things are going well but run to her for succor whenever trouble strikes. I once explained the behavior of **American bankers** to my students with this imagery thus:

THE DAILY PRINCETONIAN

OPINION

I hate mom (and the government, too)

By UWE REINHARDT
COLUMNIST

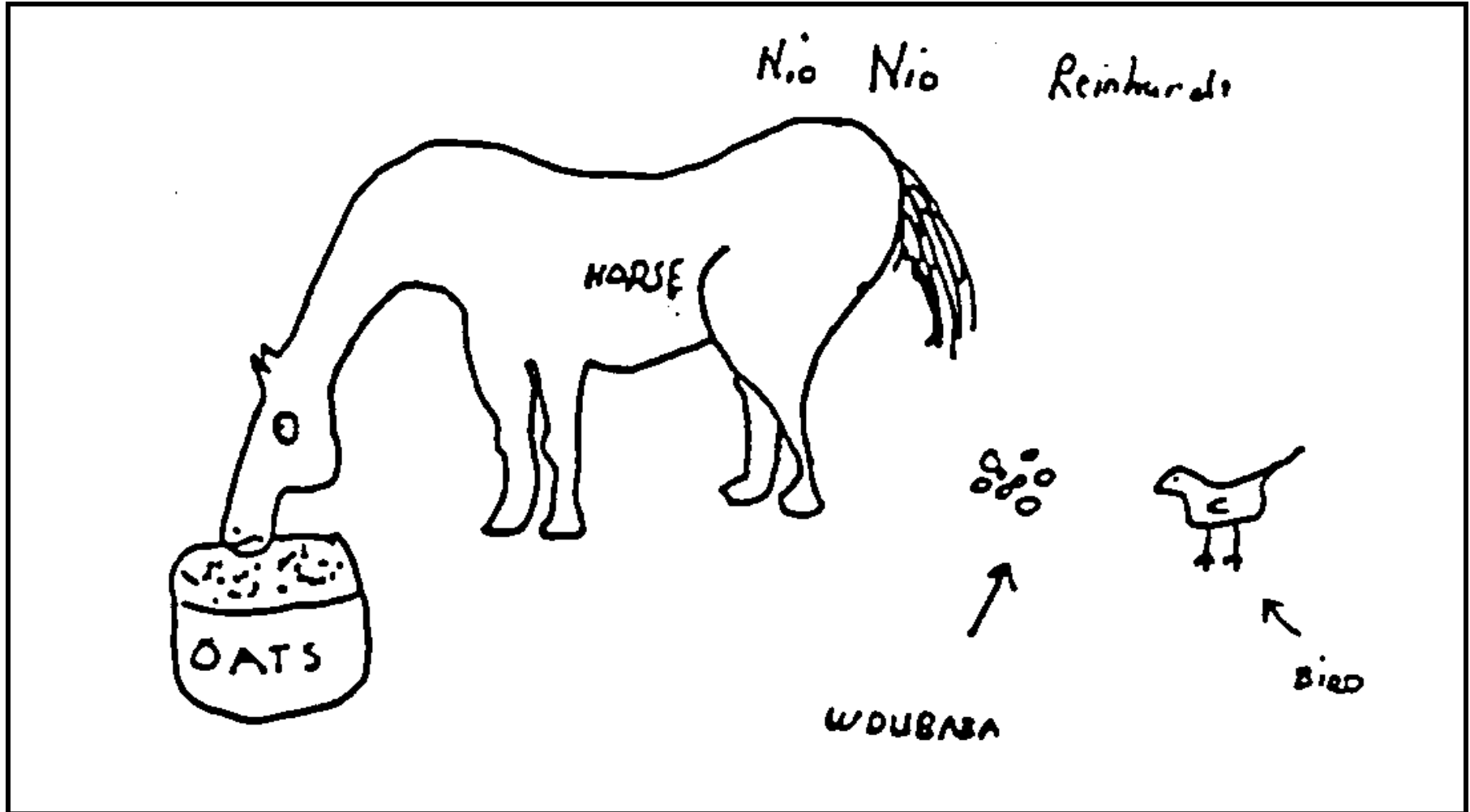
Published: Tuesday, March 25th, 2008

To provide a proper backdrop for my lecture on the government's role in the economy in ECO 100: Introduction to Macroeconomics, I always preface it with the question: "Who in this class has a mother?" In a good year, as much as 25 percent of students raise their hands. The rest won't admit it, probably because, with their gazillion regulations, mothers have been the biggest buzz kills to human ingenuity and innovation through the ages. Presumably the only reason these progress-stifling creatures have survived evolution is that when teenagers get into trouble, it is usually mothers to whom they run for instant succor. (For an illustration, see the video on youtube.com of the teenager accidentally shattering a fish tank with a barbell and immediately screaming, "Mom!")

reprinted in *The Financial Times* at <http://blogs.ft.com/maverecon/2008/03/i-hate-mom-and-the-government-too/>

And Big Business thrives on the – shall we say, “young” – life style of so many Americans and can hardly wait to cater to them with tax-financed benefits in kind.

I have no idea why it all reminds me so of this wonderful artwork:



MAJOR THEMES IN *OBAMANOMICS*

1. Big Business (BB) makes tons of profits off U.S. government spending and therefore favors high government spending.
2. **BB makes profits off government regulation and interference in the free market and therefore favors it.**

True. The author's point here is persuasive.

Virtually all professional licensure originates in some interest group's desire to protect professional turf.

The Medieval guilds survive to this day. Obama, however, did not invent the guild system.

I recall President Reagan reregulating trucking after President Carter had deregulated the industry.

MAJOR THEMES IN OBAMANOMICS

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 - a. legislation that favors BB*
 - b. regulation that favors BB*
 - c. administration that favors BB*

The cost of all elections in this country are rising at very rapid rates – dwarfing, for example, increases in the cost of education or health care.

Directly and indirectly Big Business and the labor unions foot much of the bill – in return for “access”, which is code for “legislative or regulatory favors.”

In Politicians & Elections:

Presidential

List All Candidates

Search Donors

Independent Expenditures

Candidate Comparison ▼

Money Web

Industries ▼

State/Metro Funding

Donor Demographics ▼

Joint Fundraising Committees

Convention Committees ▼

Transition Team

Inauguration Donors

Expenditures

Fundraising Over Time

Bundlers ▼<>

Money Primary


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» **Pres Finances, 1976-2008**

Primary Calendar

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Presidential Fundraising and Spending, 1976 - 2008

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Total Contributions to Presidential Candidates*

Total Receipts

Year	Total
2008	\$1,748.8
2004	\$880.5
2000	\$528.9
1996	\$425.7
1992	\$331.1
1988	\$324.4
1984	\$202.0
1980	\$161.9
1976	\$171.0

 Primary Receipts
 General Election Public Funding
 General Election Private Funding
 Convention Public Funding

Total Spending by Presidential Candidates*

Total Spent

Year	Total
2008	\$1,324.7
2004	\$717.9
2000	\$343.1
1996	\$239.9
1992	\$192.2
1988	\$210.7
1984	\$103.6
1980	\$92.3
1976	\$66.9

* In millions

Numbers are not adjusted for inflation.

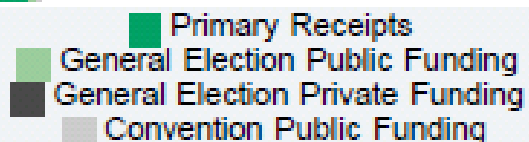
YOUR DEMOCRACY AT WORK!

Presidential Fundraising and Spending, 1976 - 2008

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I recall Dan Rather once waxing mushy during a Presidential Inauguration, remarking that *“Only in America does power change hands so gracefully.”*

Did the man say “gracefully”?

A Presidential inauguration these days can cost some \$40-\$50 million, not counting the even larger cost of providing security.

This money is raised in the new Administration’s first big shakedown of private donors – typically Big Business – who are unlikely to fork over the money just because they are enamored with “graceful” things.

They are buying “access” and influence over public policy.

The U.S. pavilion in Shanghai reportedly is financed with money raised from private parties by America's Secretary of State.

For Shanghai Fair, Famous Fund-Raiser Delivers



Philippe Lopez/Agence France-Presse — Getty Images

Secretary of State Hillary Rodham Clinton in November in Shanghai, site of the next world's fair.

By [MARK LANDLER](#) and [DAVID BARBOZA](#)

Published: January 2, 2010

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**As to buying influence in Washington, relax my friends!
You haven't seen anything yet.**

Congress is likely to become ever more a bazaar that sells legislative favors to moneyed interest groups, because, as noted, the total cost of electing a President keeps rising at a staggering rate.

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 - c. *administration that favors the BB*
- 4. Presidential candidate Obama made statements and promises during his election campaign that are belied by his conduct as President.**

Had Captain Renault of *Casablanca* been told that a U.S. presidential candidate said one thing during an election campaign but did something quite different once elected, he would have exclaimed:



Suppose, for example, Presidential candidate Ronald Reagan had promised voters the following during his campaign:

“I may deploy our U.S. Marines to Lebanon. But if any of them get hurt there, I’ll order them to pull down the flag and hightail out of there.” (President Reagan did just that.)

“President Carter severed diplomatic relations with Saddam Hussein, declaring Iraq a terrorist state. If I am elected President, I will send my trusted friend Donald Rumsfeld to pay court to Saddam Hussein and restore our diplomatic and trade relations with Iraq. (President Reagan did just that).



Reagan White House Middle East Special Envoy **Donald Rumsfeld** shakes hands with Iraqi Dictator **Saddam Hussein** during his visit on December 19-20, 1983. Rumsfeld would visit again on March 24, 1984, the day the U.N. released a report that mustard gas and Tabun nerve gas had been used by Iraq against Iranian troops. The New York Times reported from Baghdad on March 29, 1984, "American diplomats pronounce themselves satisfied with relations between Iraq and the United States and suggest that normal diplomatic ties have been restored in all but name."

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If any of our citizens are held hostage abroad, we can always trade arms with Iran’s mullahs for the hostages to get their release – and throw in a Bible and a cake to boot. (The Reagan Administration did just that, whether or not the President knew it).

Suppose Presidential candidate Ronald Reagan had promised voters the following during his campaign:

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If any of our citizens are held hostage abroad, we can always trade arms with Iran’s mullahs for the hostages to get their release – and throw in a Bible and a cake to boot.

I am going to expand the government-run health-insurance program called Medicare to give the elderly coverage for prescription drugs and call it “Catastrophic Care.” (President Reagan did just that).

If elected, I will introduce administered prices for hospitalized Medicare patients – a Soviet-style system under which the central government sets prices for the whole country. (President Reagan did just that).

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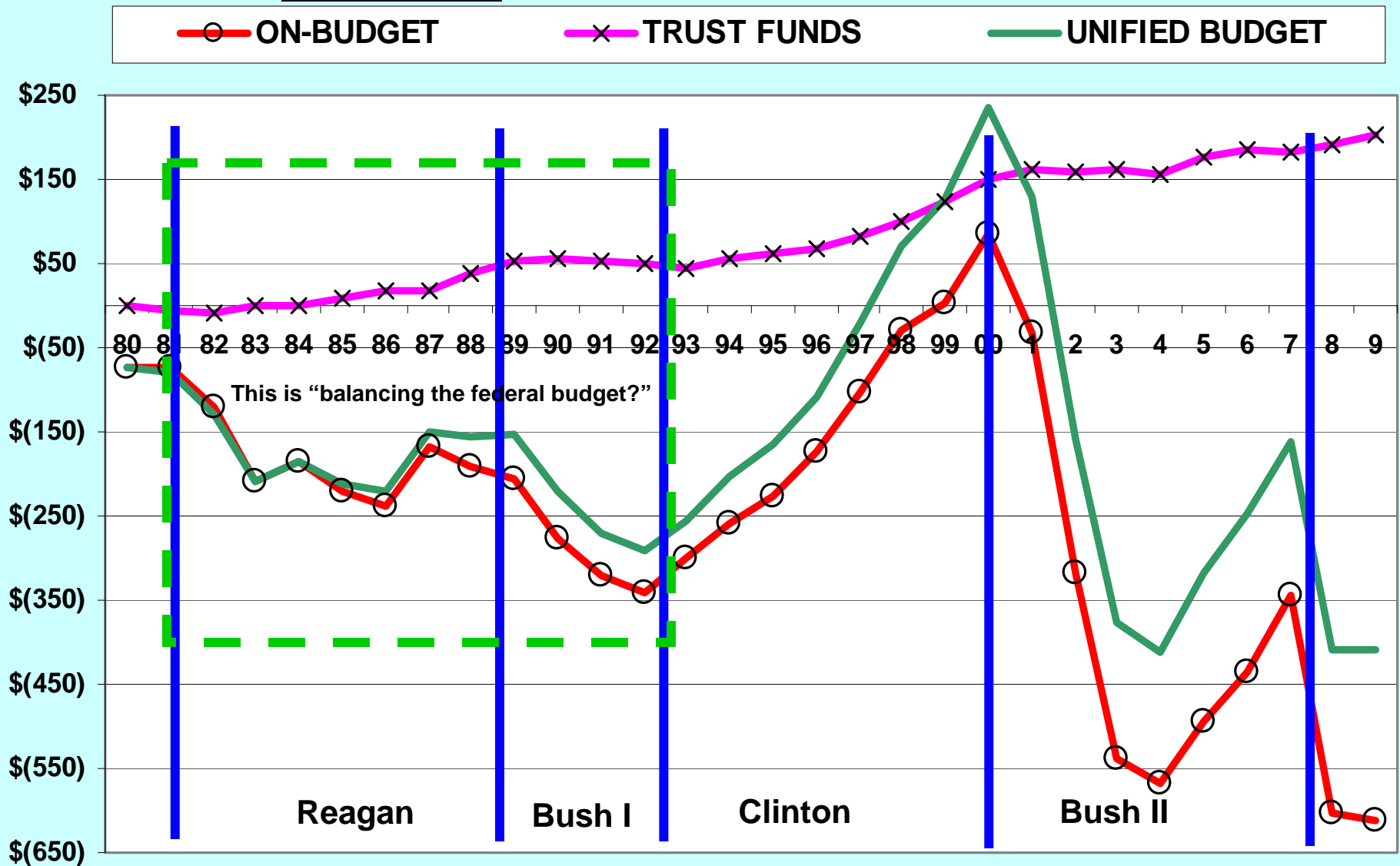
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If elected, I will introduce administered prices for hospitalized Medicare patients – a Soviet-style system under which the central government sets prices for the whole country.

Finally, I want to give Americans a massive tax cut but I don’t want to cut government spending. So I propose to increase the federal deficit throughout my term or terms, and hope that my (hopefully Republican) successor will do the same. (Presidents Reagan and George H. W. Bush did just that even though candidate Reagan had promised to balance the budget by 1984).

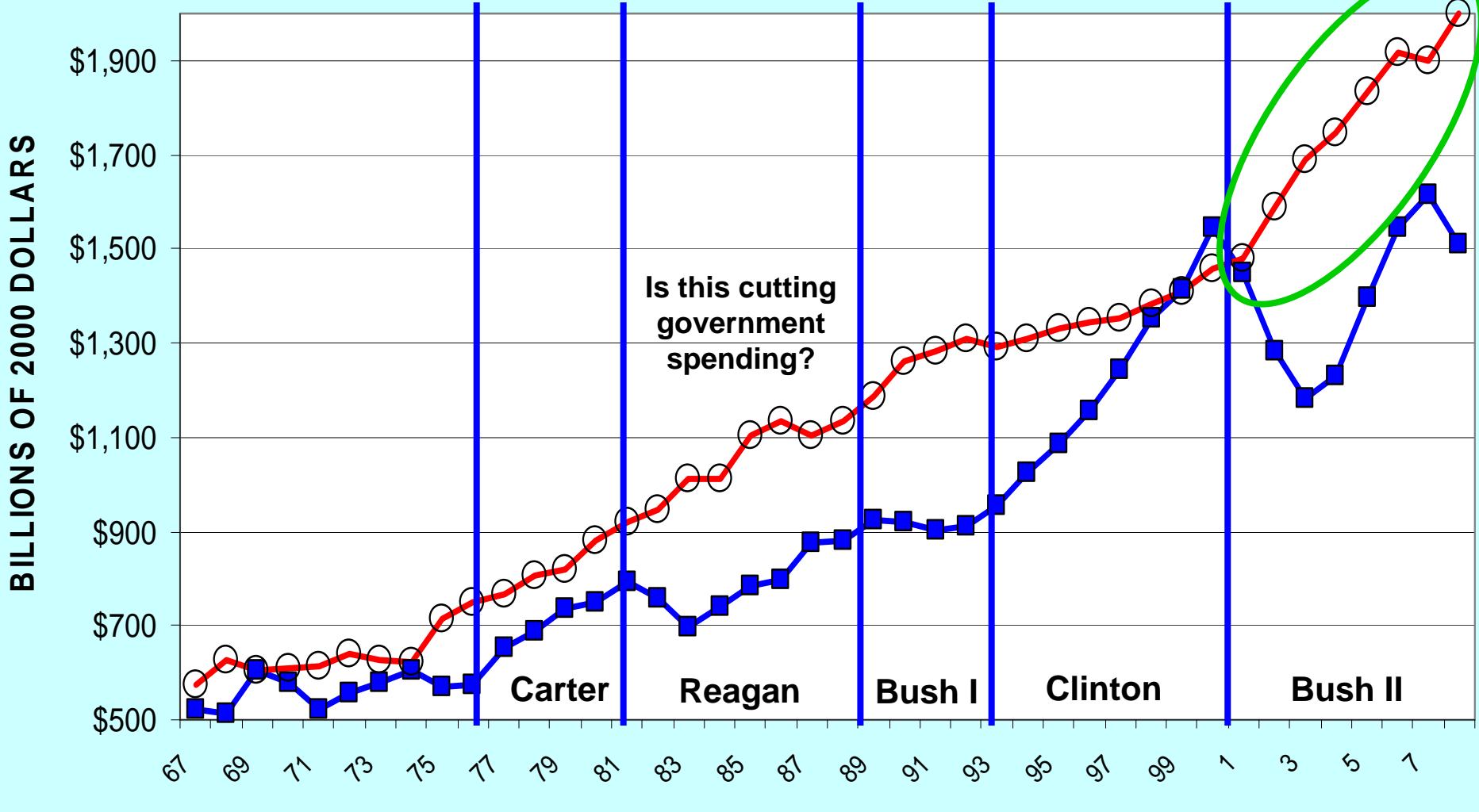
THE FEDERAL SURPLUS (DEFICIT) 1980 - 2009



SOURCE: Economic Report of the President 2008, Table B-78.

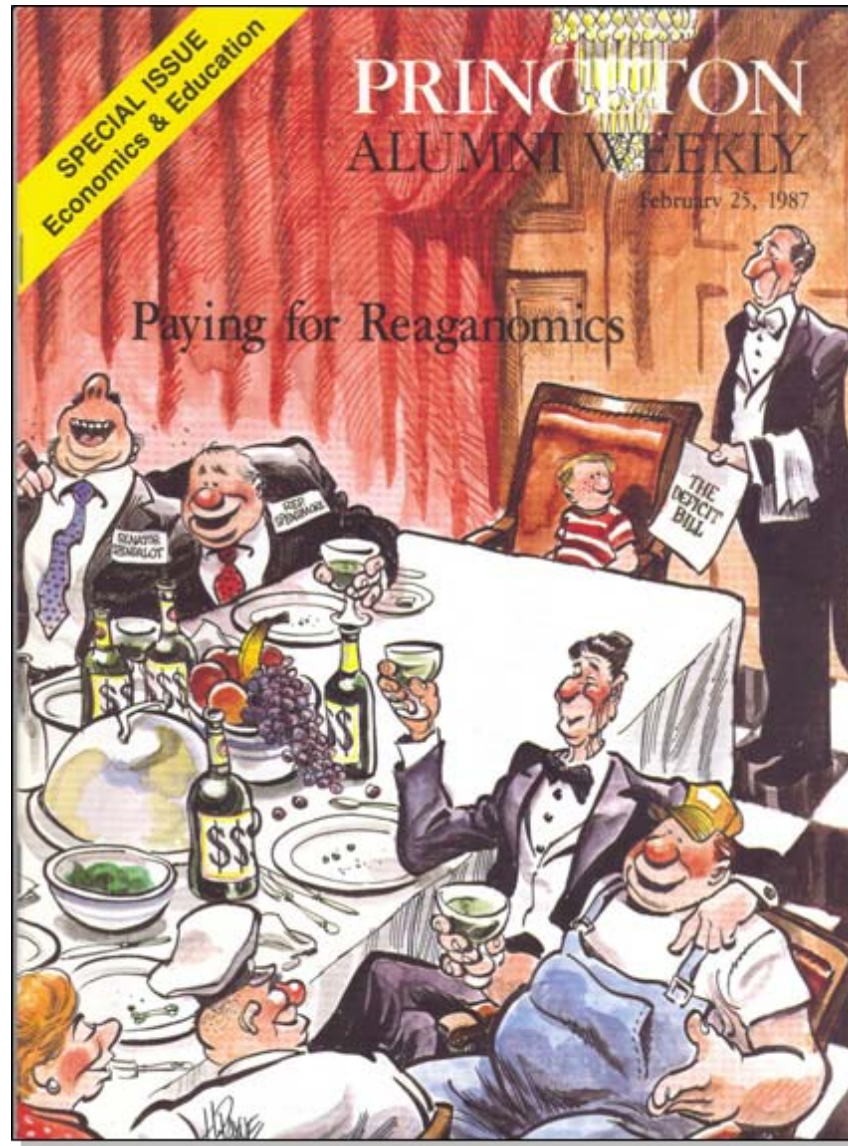
REAL (INFLATION-ADJUSTED) FEDERAL ON-BUDGET RECEIPTS AND OUTLAYS 1967-2008

■ REAL ON-BUDGET RECEIPTS ○ REAL ON-BUDGET OUTLAYS



SOURCE: Economic Report of the President 2008, Table B-78.

I had explored Reaganomics for the Princeton Alumni Weekly in 1987, a tract available for anyone who would like a copy -- reinhard@princeton.edu)



In the article I cite conservative pundit George Will:

Honorable pundits do exist, and one such is Princeton's own George Will *68, quintessential Tory and Reagan's longtime friend. In a column entitled "A Deficit Fit for a King" [*Washington Post*, October 24, 1985], he opined:

Let this be said for the Middle Ages: People understood government. They especially understood that kings (read: Presidents) not parliaments (read: Congress) are the principal impediments to reasonable public finance.

After 500 years of enlightenment, there is less understanding today. Americans think Congress is the big deficit-maker. . . . [N]ever mind that while Reagan has been presiding over the production of more than half of this nation's federal debt, he has not found much to veto on budgeting grounds. This is because Congress has spent about what he has requested. And Congress has enacted as many balanced budgets as he has submitted.

End of George Will's quote.

PROPOSITION

A major tragedy in our democracy is that the American people – and perhaps people in any democracy – do not want to hear the harsh truth during an election campaign.

They want the soothing, mellow message that if the candidate before them wins, everything will be made right quickly and painlessly.

It is the reason why politicians of all stripes say one thing during election campaigns and often do quite the opposite once they govern.

It brings to mind Jack Nicholson outburst, as U.S. Marine Colonel Nathan Jessep in A Few Good Men:



He might as well have said that to the American voter.

Ross Douthat of *The New York Times* has summed up President Obama's style nicely in this commentary:

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OP-ED COLUMNIST

The Obama Way

By **ROSS DOUTHAT**
Published: December 25, 2009

Every presidency is the subject of competing caricatures. But almost a year into his first term, there's something particularly elusive about Barack Obama's political identity. He's a bipartisan bridge-builder — unless he's a polarizing ideologue. He's a crypto-Marxist radical — except when he's a pawn of corporate interests. He's a post-American utopian — or else he's a willing tool of the national security state.



Susan Etheridge for The New York Times

The press has churned out a new theory every week, comparing Obama to John F. Kennedy and Franklin Roosevelt, to George H. W. Bush and Jimmy Carter — to every 20th-century chief executive, it often seems, save poor, dull Gerald Ford. But none of the analogies have stuck. We're well into the Obama era, but neither his allies nor his enemies can quite get a fix on exactly what our 44th president really represents.

Obama baffles observers, I suspect, because he's an

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“Obama baffles observers, I suspect, because he’s an ideologue and a pragmatist all at once. He’s a doctrinaire liberal who’s always willing to cut a deal and grab for half the loaf. He has the policy preferences of a progressive blogger, but the governing style of a seasoned Beltway wheeler-dealer.”

“Seasoned Beltway dealer.” That’s what all successful President must be.

TO SUM UP:

***Obamanomics* is an eye-opening book that should give American citizens pause as they boast to the rest of the world that they have the best government in the world.**

Alas, the book's powerful message is distorted by being unduly and unfairly *ad hominem*.

The problem is not President Obama's style of governing. It is endemic in our whole system of governance.

In fact, I could think of two alternative titles for this book, to wit:

"Obamaomics is conservative muckraking at its best.... [A]n indispensable field guide to the Obama years." — Jonah Goldberg, bestselling author

**IF YOU EVER AGAIN
TRUST A PRESIDENTIAL
CANDIDATE'S WORDS**

**you may want to buy my
ocean-front property in Iowa**

TIMOTHY P. CARNEY

FOREWORD BY RON PAUL

or, better yet,

"Obamaomics is conservative muckraking at its best.... [A]n indispensable field guide to the Obama years." — Jonah Goldberg, bestselling author

WHAT WERE THE FOUNDING FATHERS SMOKING

**when they gave us a
government that sells economic
favors retail?**



TIMOTHY P. CARNEY

FOREWORD BY RON PAUL

Thank you for bearing with me!