

The Economy — *Romneyland* vs. **Reality**

Remarks by Bill Dauster*

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[posted with permission]

Thank you for that kind introduction, and for the opportunity to speak with you this morning.

Joyce asked me to talk about the end game —how it will all come together, or not — for economic policy.

As I think about what to say about the end of the year, I think of Pancho Villa's famous last words: "Don't let it end like this. Tell them I said something."

And I think of George Burns's good advice: "The secret of a good sermon is to have a good beginning and a good ending, then having the two as close together as possible."

So let's start with the beginning. The Bureau of Economic Research says that the Great Recession began in December 2007.

Thereafter, there are two competing narratives. Let's call the first narrative "*Romneyland*." And let's call the second narrative "**reality**."

In *Romneyland*, the Great Recession — which I noted began in 2007 — is all President Obama's fault. In **reality**, 2007 was during the Presidential administration of one George W. Bush.

In *Romneyland*, the Great Recession resulted from the government impeding the free market. In **reality**, the Great Recession resulted from a financial crisis. And a good deal of that financial crisis can be attributed to overly lax regulation.

In **reality**, after the Great Recession began, the private sector lost 5.3 million jobs before President Bush left office. In *Romneyland*, this too was President Obama's fault.

In **reality**, private sector job loss hit bottom right at the end of the Bush Administration. Thereafter, job losses steadily declined. But the economy continued to lose another 3½ million jobs from February 2009 to February 2010.

In **reality**, the recovery was aided by one of the first pieces of legislation that Congress enacted during the Obama Administration in 2009, the Recovery Act. In *Romneyland*, the Recovery Act made things worse.

In **reality**, the economy has now added private sector jobs for 25 straight months {UPDATE} Through August 2012 that is now 29 months}. That's the strongest performance since the mid 1990s. That's 4.1 million private sector jobs.

The CBO will tell you that the Recovery Act helped to create those jobs. The vast majority of the economists in the economics departments of your universities will tell you that the Recovery Act helped to create those jobs. In *Romneyland*, they think differently.

In *Romneyland*, they say we need to rapidly cut back on government spending. They say that doing so will free up the private sector to create jobs.

In **reality**, they tried that in a country called the United Kingdom, in 2010, under a Prime Minister named David Cameron. In reality, the United Kingdom has just dipped back into recession.

I don't have to tell you that the Great Recession has affected universities. You will have seen that because of the recession, an April 19 New York Times/CBS News poll found that 4 in 10 parents say they have had to alter expectations for the type of college they can afford for their children.

Now think what the numbers would be in *Romneyland*, if the United States dipped back into recession.

And in *Romneyland*, where would they have us cut back government?

The Wall Street Journal reported that Mr. Romney, the foremost spokesman of *Romneyland*, gave some hints at a private April 15 fundraising event. Mr. Romney discussed his plans while speaking to high-dollar donors at a private estate in Palm Beach, Florida.

During the backyard event, which could be heard by reporters outside on a public sidewalk, Mr. Romney told the moneyed contributors that he would look to the Education Department and the Department of Housing and Urban Development for cuts. Mr. Romney said he would either consolidate the Education Department with another agency or make it (quote) "a heck of a lot smaller." "I'm not going to get rid of it entirely," he said.

In *Romneyland*, I'm sure they will say that these changes would be good for education.

In **reality**, on July 1, student loan interest rates are scheduled to increase from 3.4 percent to 6.8 percent — doubling rates for more than 7 million students. In his budget in February, President Obama included a 1-year extension of the current rate. In the budget resolution that the Republican House of Representatives passed on March 29 — the budget that Mr. Romney called "marvelous" — they did not extend the lower rate at all.

But then the word arrived in *Romneyland*, and then Mr. Romney said he was for it. Alas, the putative candidate's desire for the extension has not trickled down to Republican legislative drafters to the extent that they are willing to employ an acceptable offset to pay for it. I guess we'll stay tuned.

So that about brings us up to date. Plainly, a lot is riding on the election, and that's just in economic policy alone.

In *Romneyland*, we need immediate retrenchment in government spending, coupled with permanent tax cuts for the wealthy. In **reality**, we need just the opposite. Most economists will tell you we need investment in the short term to protect the nascent recovery, followed by deliberate steps to restore fiscal responsibility over the long run. And that is precisely the policy that President Obama and Democrats have been pursuing.

When I look at the contrast between *Romneyland* and **reality**, I just cannot understand how some folks continue to say that there's no difference between the two parties.

Now, about the end game — or how it will all come together, or not — for economic policy.

In the first tractate of the Talmud, called Berachot, on the fourth page, a Master counsels: “Teach your tongue to say, ‘I do not know.’” So the real answer is: I don’t know.

As the former President of Radcliffe, Martina Horner, once said, “What is important is to keep learning, to enjoy challenge, and to tolerate ambiguity. In the end there are no certain answers.”

Many smart folks in Leadership and at the White House are working through the options. And of course much will be informed by how the year plays out.

What is fairly clear is that the President seems pretty darn insistent that the rich need to share some responsibility in any budget agreement. Congressional Democrats are with him. Just as clearly, Congressional Republicans, egged on by Grover Norquist and his Tea Party friends, are pretty darn insistent that taxes cannot go up for anyone.

Thus, there are pretty strongly-held views on both sides of the **reality-Romneyland** divide. And folks appear quite willing to hold out for their point of view. As former Prime Minister Margaret Thatcher said, “I am extraordinarily patient, provided I get my own way in the end.”

Many news writers and talking heads are warning of the coming Taxageddon. They practically carry signs saying, “The End Is Near!” They appear to have bought into the Mayan Calendar story that the world will come to an end on December 21, 2012. I guess we can expect even more of that as the end the year gets closer.

But I am reminded of what Peanuts creator Charles Schulz said: “Don’t worry about the world coming to an end today. It’s already tomorrow in Australia.”

It is foreseeable that sometime, say in September, House Republicans will pass a bill to extend the Bush tax cuts for everyone, including the rich. And it is just as foreseeable that Democrats will force a vote on extending the tax cuts for all middle-income folks — just not the rich. And one can feel highly confident that neither of these two measures will become law before the election.

But as author Mitch Albom wrote, “All endings are also beginnings. We just don’t know it at the time.” And so the end of the campaign will mean the beginning of the Lame Duck, that magical period into which much of Washington pours its greatest, fondest hopes.

On the subject of ducks, I am randomly reminded that Eric Sevareid said that “Dealing with network executives is like being nibbled to death by ducks.” And we might come to have a similar feeling about the post-election session.

With regard to the lame duck, let me give a shout-out to the good, if dour, analysis of Andy Laperriere at the International Strategy and Investment group. Notwithstanding the widespread Washington expectation that everything comes together in the lame duck, Andy points out that

(quote) “many election outcomes would produce dynamics not conducive to getting a deal in the lame-duck session.”

And Andy also posits that there is a fairly high probability that “any deal in December would be short-term in nature and set up another summer deadline like the debt ceiling battle last August.”

As food for thought, if not encouragement, let me do a few more riffs off of Andy’s song sheet to give you a feeling for why he believes as he does.

Case 1: Democratic sweep: Full disclosure, I’m rearranging the order of Andy’s scenarios, because I like this one better. Here, Andy says, “Speaker Boehner will have little sway over an angry group of House Republicans It could be that disillusioned Republicans roll over . . . , but more likely they will be defiant and there won’t be a deal in the lame-duck session”

Case 2: GOP sweep: Andy says, “Under this scenario, Republicans will be in no mood to compromise on the Bush tax cuts in the lame-duck session, and there is little reason to believe Obama will sign a one-year extension.”

Case 3: Status Quo: Andy says, “A deal would probably be reached in December under this scenario, but it would be likely to be closer to Obama’s terms But it’s very possible a deal would not be reached right away. House Republicans who wouldn’t consider voting for Obama’s position today may not do so in December either. Emboldened by the election victory, . . . Obama may be unwilling to compromise much.”

I think there’s a lot of sense to what Andy says. And thus I think the probability of a temporary expiration of the Bush tax cuts is higher than people generally think. And I also think that the probability of a short-term, kick-the-can-down-the-road deal is also higher than people think.

In sum, as Irwin Corey said, “If we don’t change direction soon, we’ll end up where we’re going.”

Or maybe — and this is a different thought — as the inventor of the Peter Principle, Laurence J. Peter, said, “If you don’t know where you are going, you will probably end up somewhere else.”

Once again, remember what the Talmud says: “Teach your tongue to say, ‘I do not know.’” Just to lift your spirits, let me remind you that everything will change between now and the end of the year. People will see the world differently after the election from how they do today. And they don’t recognize today that they will.

Other things will also change. As the ill-fated Herbert Hoover said, “About the time we think we can make ends meet, somebody moves the ends.”

But there’s the end of my talk. As Douglas Adams, the author of The Hitchhiker’s Guide to the Galaxy, said, “I may not have gone where I intended to go, but I think I have ended up where I needed to be.”

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