Obama Running Out of Scapegoats
By [Jack Kinsella](#)

The Wall Street Journal noted in an editorial that the public is getting tired of listening to the administration blame the Bush administration and is waiting to see results.

As 2009 opened, three weeks before Barack Obama took office, the Dow Jones Industrial Average closed at 9034 on January 2, its highest level since the autumn panic. Yesterday the Dow fell another 4.24% to 6763, for an overall decline of 25% in two months and to its lowest level since 1997. The dismaying message here is that President Obama's policies have become part of the economy's problem.

Americans have welcomed the Obama era in the same spirit of hope the President campaigned on. But after five weeks in office, it's become clear that Mr. Obama's policies are slowing, if not stopping, what would otherwise be the normal process of economic recovery. From punishing business to squandering scarce national public resources, Team Obama is creating more uncertainty and less confidence — and thus a longer period of recession or subpar growth.

The Democrats who now run Washington don't want to hear this, because they benefit from blaming all bad economic news on President Bush. And Mr. Obama has inherited an unusual recession deepened by credit problems, both of which will take time to climb out of. But it's also true that the economy has fallen far enough, and long enough, that much of the excess that led to recession is being worked off. Already 15 months old, the current recession will soon match the average length — and average job loss — of the last three postwar downturns. What goes down will come up — unless destructive policies interfere with the sources of potential recovery.

And those sources have been forming for some time. The price of oil and other commodities have fallen by two-thirds since their 2008 summer peak, which has the effect of a major tax cut. The world is awash in liquidity, thanks to monetary ease by the Federal Reserve and other central banks. Monetary policy operates with a lag, but last year's easing will eventually stir economic activity.

Housing prices have fallen 27% from their Case-Shiller peak, or some two-thirds of the way back to their historical trend. While still high, credit spreads are far from their peaks during the panic, and corporate borrowers are again able to tap the credit markets. As equities were signaling with their late 2008 rally and January top, growth should under normal circumstances begin to appear in the second half of this year.

So what has happened in the last two months? The economy has received no great new outside shock. Exchange rates and other prices have been stable, and there are no security crises of note. The reality of a sharp recession has been known and built into stock prices since last year's fourth quarter.

What is new is the unveiling of Mr. Obama's agenda and his approach to governance. Every new President has a finite stock of capital — financial and political — to deploy, and amid recession Mr. Obama has more than most. But one negative revelation has been the way he has chosen to spend his scarce resources on income transfers rather than growth promotion. Most of his "stimulus" spending was devoted to social programs, rather than public works, and nearly all of the tax cuts were devoted to income maintenance rather than to improving incentives to work or invest.

His Treasury has been making a similar mistake with its financial bailout plans. The banking system needs to work through its losses, and one necessary use of public capital is to assist in burning down those bad assets as fast as possible. Yet most of Team Obama's ministrations so far have gone toward triage and life support, rather than repair and recovery.

AIG yesterday received its fourth "rescue," including $70 billion in Troubled Asset Relief Program cash, without any clear business direction. (See here.) Citigroup's restructuring last week added not a dollar of new capital, and also no clear direction. Perhaps the imminent Treasury "stress tests" will clear the decks, but until they do the banks are all living in fear of becoming the next AIG. All of this squanders public money that could better go toward burning down bank debt.

The market has notably plunged since Mr. Obama introduced his budget last week, and that should be no surprise. The document was a declaration of hostility toward capitalists across the economy. Health-care stocks have dived on fears of new government mandates and price controls. Private lenders to students have been told they're no longer wanted. Anyone who uses carbon energy has been warned to expect a huge tax increase from cap and trade. And every risk-taker and investor now knows that another tax increase will slam the economy in 2011, unless Mr. Obama lets Speaker Nancy Pelosi impose one even earlier.

Meanwhile, Congress demands more bank lending even as it assails lenders and threatens to let judges rewrite mortgage contracts. The powers in Congress — unrebuked by Mr. Obama — are ridiculing and punishing the very capitalists who are essential to a sustainable recovery. The result has been a capital strike, and the return of the fear from last year that we could face a far deeper downturn. This is no way to nurture a wounded economy back to health.

Listening to Mr. Obama and his chief of staff, Rahm Emanuel, on the weekend, we couldn't help but wonder if they appreciate any of this. They seem preoccupied with going to the barricades against Republicans who wield little power, or picking a fight with Rush Limbaugh, as if this is the kind of economic leadership Americans want.

Perhaps they’re reading the polls and figure they have two or three years before voters stop blaming Republicans and Mr. Bush for the economy. Even if that’s right in the long run, in the meantime their assault on business and investors is delaying a recovery and ensuring that the expansion will be weaker than it should be when it finally does arrive.