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New leaders must improve infrastructure, tax rate

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Today the Free Press begins a new feature, Ask the Economists, in which readers and Free Press staff will pose timely questions to a rotating roster of economic experts.

For our first question, we turned to Charles Ballard, an economist at Michigan State University, and Patrick Anderson, founder of the Anderson Economic Group, an East Lansing-based consulting firm.

QUESTION: What type of economic stimulus should President-elect Barack Obama and the new Congress pass in January?

BALLARD: The economy is struggling on many fronts. Thus, the ideal stimulus package should have many facets. I would include loans for the auto companies. I would also include assistance to state governments, many of which are in desperate financial shape. This would help the states to minimize painful cuts to education and other vital programs.

Infrastructure investment should be given top priority. When the I-35 bridge in Minneapolis collapsed last year, we learned the deadly consequences of allowing our infrastructure to deteriorate. Most construction jobs can't be outsourced, and most of the jobs will go to the low- and middle-income workers who need them most.

Tax cuts could be a part of the stimulus package. If so, however, they should be targeted toward low- and middle-income Americans. Under no circumstances should we renew the Bush tax cuts, with their extraordinary tilt in favor of the most affluent.

ANDERSON: The ability of the government to stimulate the economy by forcing people to work and spend is very limited because workers think of their own interest more than the government's, and taxpayers also observe what the government is doing and take action accordingly.

For example, the stimulus checks that were sent to some Americans earlier this year obviously did not prevent the U.S. from sliding into a recession. Over a long time period, the incentives workers and investors face are much more important than any rebate checks they receive from the government.

Thus, the most effective strategy is to improve the conditions and incentives that workers and employers face, and that means tax rates, regulations, infrastructure and property rights are much more important than onetime incentives, rebates or programs.

That doesn't mean there is no room for intervention in unusual circumstances -- and the current crisis in the auto industry is an example of that -- but it does mean that government efforts at fine tuning the economy are bound to fail.

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