Romney's business logic racks up zeroes

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Mitt Romney constantly tells us that we need someone with business experience in the White House, someone who has actually created jobs. Is it true? Does business experience actually prepare someone for the important economic policy choices that must be made as president?

In many situations, the answer is actually a surprising "no."

To be fair, a few ideas from business do transfer appropriately to the public sector. Governments, like firms, should try to operate efficiently. Wringing efficiencies out of the budget is always worth thinking about, although most politicians find that easier to promise than deliver.

But what makes good sense in business is often exactly wrong for economic policy. Here are three important examples where Gov. Romney's business background would likely lead him astray.

The biggest error involves economic policy during a recession. When firms find their revenues declining and their profits falling, they quite rightly and necessarily seek to trim their costs. They "tighten their belts" as they really don't have any other choice.

Gov. Romney often talks about how government should do the same. In large letters, his website proclaims: "We have a moral responsibility not to spend more than we take in." He has criticized the 2009 stimulus plan as bad economic policy and endorsed a balanced-budget amendment. Are his business instincts right?

Absolutely not. In fact, they are 180 degrees wrong. Here's why.

During the recession of 2009, government tax revenues fell and government expenditures on assistance like unemployment compensation and food stamps rose. As a result, the government ran a huge deficit.

But in a situation like that, rather than cutting spending, the government has to step in to replace some of the lost private market demand through a program exactly like the 2009 stimulus. Economists have understood the importance of counter-cyclical government spending to stabilize the economy since the 1930s. Once the recession is over -- but only then -- the government should cut spending.

Businesses quite appropriately ignore the macroeconomic impacts of their spending decisions, but the government cannot. When "business is bad," businesses may need to spend less, but the federal government needs to spend more. Score 0 for Gov. Romney's business logic.

As a second example, consider taxes. To a business, taxes are always and everywhere a negative. They raise costs and reduce profits. If asked, most businesses would probably say that the best taxes are none at all, except perhaps those that raise the costs of their competitors. Gov. Romney talks the hard-core
anti-tax talk so popular now in the Republican Party. He has told us that he will cut taxes across the
board.

Of course, no one likes to pay taxes. But they are the necessary evil that allows government to provide
the goods and services that the private sector can't produce. As Oliver Wendell Holmes famously wrote,
"Taxes are the price we pay for a civilized society." So taxes certainly aren't all bad. Despite what you
may hear, individual taxes in the United States are relatively low compared with the rest of the
developed world.

A business person’s natural animosity for taxes of any kind would be a huge impediment in solving one
of the major long-run economic problems facing the next president -- the growing federal debt. We are
not in the position of Greece, but the arithmetic of rising health care costs and Social Security benefits
clearly requires a serious change in policy.

Every serious policy analyst understands that some combination of benefit reductions and tax increases
are necessary to reduce the debt. We can't rely on just one side alone. A leader with a knee-jerk
reaction against taxes isn't going to provide the leadership we need on this. Again, score 0 for Gov.
Romney’s business logic.

Finally, consider regulations that limit what firms can do, like the Dodd-Frank bill to control the financial
system and prevent a repeat of the Wall Street fiasco that brought the economy to its knees in 2009 or
EPA regulations on offshore drilling that protect the environment. Just as with taxes, businesses hate
regulations that tell them what they can and can't do. But where the actions of firms can imperil the
economy, our environment or our public health, we need a government prepared to impose regulations
that lead to better outcomes, even if that makes particular businesses worse off. Score another 0 for
Gov. Romney’s business logic.

There is no question that market economies are powerful engines of economic growth and long-run
prosperity. We absolutely need business to do what business does best.

But great business skill does not necessarily make great economic policy and sometimes it does just the
opposite. Policymakers need to take a much broader perspective, viewing things from the standpoint of
the economy as a whole. They need to think not like business persons, but like public citizens.

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