
Obama's first 100 days in office: a personal view



Jagdish Bhagwati, Professor of Economics and Law at Columbia University on President Obama's first 100 days in office.

President Barack Obama has performed “pretty well so far” in his first 100 days in office, notwithstanding criticism that he’s doing too much too soon.

For a start, President Obama has shown “pretty good judgement” in selecting his team of economic advisers, says economist **Jagdish Bhagwati**.



Speaking to INSEAD Knowledge at the European Business Summit held recently in Brussels, Bhagwati, a professor of economics and law at Columbia University and a senior fellow in international economics at the Council on Foreign Relations, compares the challenges facing Obama to those faced by President Franklin Delano Roosevelt in the 1930s in the wake of the Great Depression.

Despite challenges such as the current deep recession and the wars in Iraq and Afghanistan, the new President “shows enormous energy and he seems

undaunted,” says Bhagwati. “An ordinary president would be overwhelmed”.

Bhagwati also praises Obama for being “extremely pragmatic” in addressing America’s domestic problems.

“When he’s doing something like healthcare reform, educational reform, he sees that as part of what needs to be done to make the system work, so he’s really like (economist John Maynard) Keynes – fixing the system, because America doesn’t have the institutions necessary to run a modern economy.”

Even so, Obama may be being too ambitious in trying to tackle too many problems all at once.

“The only thing one can quarrel with Obama about is that maybe he should wait a couple of years before he does these things.

“First get the economy under control – that’s Warren Buffett’s criticism of him, and I tend to share it actually because the most important thing is to get the economy going.

“Once you’ve done that, there’s no question that everybody’s going to vote for all the structural reforms that he wants,”

“If he fixes (the economy), we’ll see a much more robust style of American capitalism.”

Although the US economy is in a for “tough slough”, Bhagwati says he’s “reasonably optimistic” that the economy will turn around in due course, but Federal Reserve chief Ben Bernanke’s expectation of an economic recovery by year end may be “a bit too optimistic”.

Bhagwati’s comments came ahead of recent signs of economic improvement, particularly in housing, consumer spending, and new vehicle sales data.

In any case, there is still widespread distrust of the financial integrity of financial institutions, notes Bhagwati. Also, the public “sniping” by economists against the Obama administration’s plans to revive the economy could undermine the confidence of consumers and the market.

“Whether we will begin to turn the corner is anybody’s guess, a lot depends on macroeconomics such as people’s expectations - will they spend more when required, will they save more when required?”

To be sure, there would be a delay in the economy's recovery if consumers and businesses don't spend, says Bhagwati.

"If they feel confident, they will begin to spend money rather than hold on to it. Like even tax refunds - if I think things will get worse, I'm going to hold on to the money because the social safety net in the United States is so thin."

Nevertheless, there is a glimmer of hope because home purchases are rising, as prices of foreclosed houses are "going for a song".

"I think if the confidence spreads just a tiny bit, people are going to go for the bargains and this seems to be happening now,"

This points to a "virtuous cycle", says Bhagwati, because people are buying properties as prices are starting to rise, while others are purchasing properties to avoid missing out on bargains.

"At some stage, people are going to start investing simply because (of) the terms you get, the prospects of pay-off are so much improved now that I think there's some indication that equity investors are also coming in under the newly announced scheme under ... the public private partnership,"

"The public sector's putting in tons of money, the equity investors - the private ones - are putting in real fractions but they are promised basically a large pay-off."

Turning to the causes of the financial crisis and economic slump in the US, Bhagwati argues that the current recession was the result of overly lax regulation, the government's ideological support for a "home-owning democracy" and greed, which enabled Wall Street's disastrous financial overleveraging.

Furthermore, the pressure on financial regulators to loosen their oversight was based on the argument that business would flow to places with less regulation. This led to what Bhagwati terms as the "race to the bottom". As such, some coordination between financial regulators is necessary to prevent that in the future, he says.



Bhagwati also decries the lack of scepticism about financial innovation, as well as the optimistic ‘group-think’ of people in the “Wall Street treasury complex” who were all “caught up in the same optimistic assumptions” in creating new financial instruments such as complex mortgage-backed securities, with the result that financial innovation led to “destructive creation” instead.

And as the lax oversight by Congress was partly to blame for the current financial crisis, Bhagwati says there should be a new independent body to examine financial instruments and investigate the risks that could devastate the financial system.

The proposed body should not report to Congress, and its members should comprise people with financial expertise - such as Ken Rogoff, former chief economist of the International Monetary Fund - but they should not be from Wall Street firms, says Bhagwati.

“We should have an independent group of real experts who will actually try to reduce the range of the unknown. That’s all we can do, we can never

really guess what's going to happen in the future.”

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