Geithner, Summers have eye for stimulus, restraint

By JIM KUHNHENN , 11.24.08, 07:01 PM EST

Barack Obama will spend billions on the economy. Barack Obama will exercise fiscal restraint.

In the president-elect's new economic team, these are not mutually exclusive views of the world.

The leadership of the economic team Obama introduced Monday embraces a view that an economic crisis of the proportion now seizing the country requires a massive injection of money into a teetering system.

But Timothy Geithner and Lawrence Summers also are pragmatic centrists who share a distaste for large government deficits and have warned about serious long-term problems with fiscal policy even before the baby boom retirements hit their stride.

The result is that Geithner, Obama's selection for secretary of the treasury, and Summers, who will lead Obama's National Economic Council, would be reassuring economic and political voices for the incoming Obama administration.

"No one can accuse these guys of being particularly reckless," said Jared Bernstein, a senior economist at the liberal Economic Policy Institute and an informal economic adviser to the Obama campaign. "When it comes to proposing fairly significant government intervention, I suspect these guys will have lots of credibility."

A key third member of Obama's economic team, Peter Orszag, is expected to be introduced by Obama on Tuesday as his new director of the White House Office of Management and Budget. Orszag has been the director of the Congressional Budget Office since January 2007. Like Summers and Geithner, Orszag is closely linked to former Clinton administration Treasury Secretary Robert Rubin, known for his emphasis on fiscal responsibility.

The stock market surged on Friday when word of Geithner's appointment first became news. Key congressional Republicans also reacted positively to Obama's selections on Monday.

Sen. Judd Gregg, R-N.H., the top Republican on the Senate Budget Committee, said Geithner and Summers mean "we will continue to see a clear commitment by the federal government and the new administration to do whatever is needed to ensure the solvency and orderly functioning of the credit markets and key institutions that underwrite and energize businesses across the nation, from Wall Street to Main Street."

As proteges of Rubin, the key figures of Obama's team do not hew to the liberal- or labor-driven wing of the party. It was Rubin who pushed President Bill Clinton to put off middle-class tax cuts in 1997 in favor of balancing the budget.

Indeed, in January, Summers had deficits in mind when he encouraged passage of a targeted and temporary economic stimulus.

But Summers, considered a brilliant economic mind, has been showing broad flexibility as the economy tanks further, jobless claims rise and credit markets show little sign of thawing. Last week he updated his call for an economic package that was "speedy, substantial and sustained."

That is the essence of the plan Obama unveiled over the weekend - a huge two-year spending and tax-cutting plan aimed at creating or preserving 2.5 million jobs. The package would be far bigger than the $175 billion stimulus that Obama proposed late in the presidential campaign.

Neither Obama nor his advisers would discuss a specific size for the plan. But economists from across the ideological spectrum have begun seriously discussing a recovery package of as much as $700 billion over two years.

"Seven-hundred billion dollars is plausible and probably even desirable because the economy's prospects are eroding very rapidly," said Mark Zandi, chief economist at **Moody's** (nyse: MCO - news - people) Economy.com and an informal adviser to Republican John McCain's presidential campaign.

If Obama embraces a plan of that size, he said, he would expect Geithner's and Summer's deficit worries to also show through.

"I would be surprised if they don't make a commitment to long-term fiscal discipline," Zandi said.

In fact, Obama is scheduled to address the belt-tightening side of his economic plan on Tuesday, spelling out changes in the budget, including his promise to pore through the federal budget line by line, his spokesman Robert Gibbs said Monday.

The federal government reported a record deficit of $237.2 billion in October, which reflected only a portion of the $700 billion Congress approved last month to rescue the financial markets. The government's red ink has been rising over the past eight years, reversing a surplus achieved during the Clinton administration.

Leonard Burman, director of the nonpartisan Tax Policy center, said Geithner and Summers reflect both the need for a large scale stimulus to the economy and for fiscal restraint once the economy shows signs of improvement.

"What's good about the appointments that Obama has made is that it suggests, in ways that his campaign never did, that he really understands this," Burman said.

To be sure, tackling deficits in the long-term could be just as important a factor in economic sustainability as the stimulus itself.

"If bond investors are spooked in any way thinking that this is going to result in huge deficits into the future, then rates will be higher and it will clearly offset any benefit of the stimulus," Zandi said.

Rob Shapiro, an economist who was a top official in Clinton's Commerce Department, said Obama's selection of Geithner and Summers, as well as his wooing of Hillary Rodham Clinton as secretary of state, reflect Obama's interest in attracting expertise and people of strong will.

"It tells you that not only does President-elect Obama have respect for expertise, but that he is very comfortable in an administration with very major figures," said Shapiro, now an official with NDN, a think tank formerly known as the New Democratic Network.