**It’s the Big Questions That Slow Growth**

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**Published: December 4, 2010, *The New York Times***

UNCERTAINTY is frequently blamed for the sorry state of the economy — for why businesses are not investing strongly in new equipment or hiring more workers, and for why consumers are not spending freely. On Wall Street, it’s even said that government meddling is the main culprit and that political gridlock is the cure.

This is a serious misreading of the situation. Uncertainty *is* likely holding back the recovery. But its sources are far more fundamental than the tax and environmental issues that typically top the list of complaints. And the solution is certainly not for the government to do less. Rather, it needs to do much more.

Despite all of the hand-wringing over the future of the [Bush tax cuts](http://topics.nytimes.com/top/reference/timestopics/subjects/t/taxation/bush_tax_cuts/index.html?inline=nyt-classifier), it is just not plausible that they are a major source of uncertainty. At a meeting on Tuesday with Congressional leaders, [President Obama](http://topics.nytimes.com/top/reference/timestopics/people/o/barack_obama/index.html?inline=nyt-per) indicated, as he had done frequently before, that he was eager to reach a compromise.

Both political parties have clearly stated their intention to extend the tax cuts on incomes less than $250,000. The biggest question is whether the top tax rate will be 35 or 39.6 percent. That is not the degree or kind of uncertainty that is likely to cause businesses and consumers to put hiring and spending decisions on hold.

The more genuine source of tax uncertainty is related to the government’s long-run budget deficits. [Congressional Budget Office](http://topics.nytimes.com/top/reference/timestopics/organizations/c/congressional_budget_office/index.html?inline=nyt-org) [projections](http://www.cbo.gov/ftpdocs/115xx/doc11579/06-30-LTBO.pdf) show that the current budget trajectory is grossly unsustainable. The tax changes required to balance the budget in the future could be modest or enormous, depending on what happens to spending.

Simply promising not to raise taxes wouldn’t be helpful. The American people are wise enough to understand that wishing won’t make the problem go away. The only way to resolve this fundamental uncertainty is to enact a credible long-run deficit reduction plan that shows what spending will be cut and what taxes will be raised, once the economy returns to full employment.

The release of the report of the president’s bipartisan [deficit commission](http://topics.nytimes.com/top/reference/timestopics/organizations/n/national_commission_on_fiscal_responsibility_and_reform/index.html?inline=nyt-org) on Wednesday was an important step, but it is unclear whether the administration and Congress will embrace the recommendations.

Wall Street analysts often cite possible government regulations on the environment as another source of damaging uncertainty. But as with the deficit, inaction could be far more damaging than action. [Climate change](http://topics.nytimes.com/top/news/science/topics/globalwarming/index.html?inline=nyt-classifier) and dependence on foreign [oil](http://topics.nytimes.com/top/news/business/energy-environment/oil-petroleum-and-gasoline/index.html?inline=nyt-classifier) are problems that won’t go away on their own. Tabling plans to deal with them doesn’t make it easier for companies to plan and invest; it makes it harder.

Until businesses and communities know the costs and incentives for developing renewable energy, nuclear power and natural gas — and whether we will address climate change through prices or direct regulation — it will be very hard to invest in new power sources and related industrial technologies.

The deepest and most destructive uncertainty we face centers on the overall health of the economy and its prospects for growth. Unlike other postwar recessions that were caused by tight monetary policy and high interest rates, the recent downturn resulted from the bursting of a housing bubble and a financial crisis. Because we are in largely uncharted territory, figuring out how and when the economy will recover is much harder than usual.

Some forecasters say that consumer spending is on the rebound and that housing construction will bounce back as the normal demographic determinants of housing demand reassert themselves. Others say that the process of deleveraging — getting debt burdens back down to normal levels — will continue to inhibit the growth of consumer spending and business investment, and that the oversupply of housing and commercial real estate built up during the bubble will continue to depress construction and real estate prices.

One sign of heightened macroeconomic uncertainty is that the forecasts of respected analysts are all over the map. According to the [Survey of Professional Forecasters](http://www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters) conducted by the Federal Reserve Bank of Philadelphia, the difference between the highest and the lowest forecasts of unemployment a year from now is about twice as large as it was before the crisis. And forecasters’ reported uncertainty about their longer-run forecasts has shown no sign of improving over the last year. If professional forecasters are unsure of the future, businesses and consumers certainly are as well.

Such uncertainty about future economic conditions can make people hold off on any spending that is difficult to undo. Companies may hesitate to build factories or hire permanent employees until they have a better sense of whether the markets for their products will be strong or weak. Consumers may not buy new cars or build additions to their homes until they are more certain about future employment.

In [a paper](http://emlab.berkeley.edu/users/cromer/CRomerQJE1990.pdf) I wrote many years ago, I found that such macroeconomic uncertainty helped start [the Great Depression](http://topics.nytimes.com/top/reference/timestopics/subjects/g/great_depression_1930s/index.html?inline=nyt-classifier). The stock market crash in October 1929 didn’t destroy a particularly large amount of wealth or make people highly pessimistic. Rather, it made companies and consumers very unsure about future income, and so led them to stop spending as they waited for more information.

How do we resolve uncertainty about future growth? The Federal Reserve, Congress and the president need to reaffirm that they will do whatever it takes to restore the economy to full health. They could take a lesson from President [Franklin D. Roosevelt](http://topics.nytimes.com/top/reference/timestopics/people/r/franklin_delano_roosevelt/index.html?inline=nyt-per), who declared in his [1933 inaugural address](http://www.archives.gov/education/lessons/fdr-inaugural/) that he would treat the task of putting people back to work “as we would treat the emergency of a war.”

They should follow up with powerful fiscal and monetary actions to create jobs — coupled with a concrete plan for tackling our long-run budget problems. We are at a critical moment. With many in Congress opposed to further jobs measures and tax increases of any kind, the chances of prolonged gridlock are high.

BUT such policy paralysis would be a disaster. It would make uncertainty more acute by leaving us to the unpredictable forces of natural recovery and with no prospect of resolving our unsustainable deficits. Aggressive action to restore growth and face up to our long-run challenges is the only true and lasting solution.

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