

Managing Expectations and Understanding the Economic Crisis

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Management of expectations is a key part of all aspects of politics. During a presidential campaign, a candidate can be viewed as having done poorly in a particular primary even if he or she wins, if he or she does not win by as large a margin as expected. Most famously, Lyndon Johnson's reelection bid in 1968 never recovered from his narrower than expected victory in the New Hampshire Democratic primary that year. In a statewide campaign, a candidate can be buoyed by poll numbers which show the race closer than expected. Mayors, governors and presidents are measured as much by whether or not they live up to expectations as by what they are able to do as executives.

Rarely, however, has the expectation game been as complicated as it is for President Obama. Presidents are, still, to a substantial extent, judged by the performance of the economy during their term in office; and Obama is unlikely to be an exception. It would seem, therefore, that Obama has every reason to reduce hopes for an economic recovery in the immediate future because this would make it possible for voters to reward any economic recovery by supporting the Democrats in congress in 2010 and Obama himself during his 2012 reelection bid.

The expectations calculation is not so simple for Obama because the tone coming from the White House is viewed as having an effect on the country's economic performance. So, if the economy only improves slightly in the next 18-20 months, during a period when Obama carefully reduces expectations for a recovery, many will undoubtedly blame the tepid recovery on the failure of Obama to instill confidence in markets or consumers, leading to reduced support for Obama which will make it increasingly difficult for the administration to pass additional legislation. If Obama becomes a cheerleader for the economy, there is a chance that this will have some short term impact on confidence of investors and consumers and begin a short term economic recovery, but it will also have the added effect of raising expectations to a level which the recovery will almost certainly not meet. So, from a partisan strategic angle, it is not clear what the best course for the president should be.

Reducing expectations for an immediate recovery is also a key strategic component of any efforts to pass major economic legislation. If the administration suggests that we are in a crisis that is far bigger than just another cyclical downturn, which will force us to change the way our economy functions and that our future prosperity rests on a very different model than the one to which we have become accustomed, broad government action will be required to refashion the American economy so that it is healthy, strong and able to compete in a new economic environment. In that case, downplaying expectations is important.

The administration's strategy regarding managing expectations will almost certainly frame their success or failure both legislatively and politically, but legislative and political considerations

yield no easy answers regarding how the administration should approach the question of handling expectations. The partisan strategic angle should, of course, be secondary to the broader policy question of how best to address the economic crisis facing our country, and most of the globe. Thus the handling of expectations, and almost everything else the administration does with regards to the economy, ultimately needs to be guided by an assessment of this recession. If the administration views this as just another, although, somewhat worse than usual cyclical downturn, beginning to raise expectations for a turnaround in 2010 or so might contribute to that turnaround and help the administration pass its agenda and help the Democrats do well in November of 2010. However, if they believe, as I do, that this is not just a cyclical downturn, than raising expectations will have no effect on the economy and will make it harder to pass the legislation needed to address this paradigm shifting economic crisis.

If we are in the midst of an economic event that will remake the world and its institutions, than the administration needs to both prepare for a longer and perhaps deeper recession, but also to begin to think through what our post-recession economy will look like. This is something we all should be thinking about as well. While the government cannot, and should not, directly create that new economy, it can, and frankly always does, play a role in facilitating the evolution of our economy. Accordingly, the enormous challenge facing the administration is not just getting us out of this economic mess, but facilitating the development of a post-recession economy that is more rational, just and environmentally responsible than the economy which seems to be crashing around us every day. Ironically, to achieve that extraordinary goal, the administration may have to keep expectations very low.