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By David R. Henderson

President-elect Obama has appointed Lawrence Summers, former President Clinton's last Treasury secretary, to head his National Economic Council. In making the announcement, Obama stated that Summers would be "playing the critical role of coordinating my administration's economic policy in the White House."

Obama mentioned Summers' intellect, as did many of the reporters who wrote about his appointment. Indeed, one of the words people use most often in talking about Summers is "brilliant." As someone who worked with Summers under his mentor, Martin Feldstein, when Feldstein headed President Reagan's Council of Economic Advisers (CEA), I can attest to his sharp mind. What concerns me more, though, is his understanding of the economy and of economic policy. One can be brilliant and still make bad forecasts and huge mistakes in judgment. And that matters when you're coordinating a president's economic policy.

Consider one of his earliest mistaken forecasts, one that he made with Paul Krugman when we all worked for Ronald Reagan. In September 1982, the August consumer price index showed that inflation had dropped to an annual rate of 2.4%, down from the 13% inflation rate that Reagan had inherited. But in a Sept. 9, 1982, memo to Feldstein and CEA member William Poole, Krugman and Summers wrote:

We believe that it is reasonable to expect a significant reacceleration of inflation in the near future. Much of the apparent progress against inflation has resulted from the temporary side effects of tight money and high real interest rates. These side effects must be expected to reverse themselves as real interest rates decline and the economy expands (underlining in original).

Krugman and Summers went on to write, "Our very rough guess is that correction of these distorted relative prices will add five percentage points to future increases in consumer prices."

How good was their prediction? The December-to-December inflation rate, measured by the consumer price index, stayed under 4% for the next four years, certainly a long enough period to include "the near future." In short, the inflation rate rose by only about 1.5 percentage points, not the five percentage points that Krugman and Summers predicted. They were wildly off.

Of course, as Yogi Berra said, "It's tough to make predictions, especially about the future." So let's consider Larry Summers' judgment. He is about to start working for a president who wants to "stimulate" the economy by increasing the budget deficit by hundreds of billions of dollars. We're not starting from a budget surplus. In July, the Bush administration's Office of Management and Budget projected a deficit for fiscal year 2009 of $482 billion, which it projected to be 3.3% of its assumed gross domestic product for fiscal year 2009. This was two months before the bailout, which will almost certainly make the budget deficit much higher.

Yet, in early September, Summers called for a second stimulus package, with increased government spending on unemployment insurance, welfare programs and "infrastructure." As Summers well knows, the increased unemployment insurance benefits, by increasing the incentive to search for a job rather than take one immediately, will increase the unemployment rate by a few tenths of a percentage point. But even if we put aside that one misjudgment, there are other reasons for questioning Summers' judgment.

To see why, let's take a trip down memory lane. The date: Jan. 7, 1993, just 13 days before President-elect Clinton is to take office. The place: Little Rock, Ark.

The event: a briefing of President-elect Clinton by his top advisers on the economy. Larry Summers, about to be appointed Undersecretary of the Treasury for International Affairs, agrees with what many of Clinton's advisers say: It is important to reduce the U.S. government budget's deficit, even in the short run.

What's striking about this is that the budget deficit at the time was about the same, as a percent of GDP, as it is now. In fiscal year 1993, the deficit was 3.9% of GDP, and for this fiscal year, as noted, it will be at least 3.3% of GDP. Yet, virtually all of Clinton's advisers, including Summers, wanted to cut the deficit, not increase it. Perhaps the difference is that the unemployment rate was so low then that increasing the deficit would have, in their Keynesian way of looking at things, "overheated the economy." Well, no, not quite. In fact, the unemployment rate in November 1992, the latest month for which they would have had data, was 7.4%. The most-recent unemployment rate for the current U.S. economy, by contrast, was 6.5%, almost one whole percentage point lower.

Why the difference? The main one, I believe, was political. President-elect Clinton had just won a tight election in a three-way race with then-President Bush and Ross Perot. Perot's major issue had been the importance of reducing the budget deficit, and he had touched a nerve in the American voting public. Perot had emerged with 19% of the vote, even after having suspended his campaign briefly, and he had even received more votes than Clinton in one state, Utah. Obama, by contrast, had no credible opposition that was talking about the budget deficit. Even if John McCain was a critic of budget deficits, he never presented a credible plan for reducing them. So a reasonable question to ask is this: How much will Larry Summers use his brilliance and how much will he simply twist with the political winds?

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