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"Large Bonuses are Big Foolishness". The U.S. President Barack Obama intends to return back \$90 bln for 10 years with the help from the "financial crisis responsibility fee". The new tax will be paid by financial institutions that got support from the government during the crisis. What will happen – The New Times asked a Nobel laureate in Economics, University Professor at University of Chicago Gary Becker

Gary Becker – Dmitry Krylov and Georgy Loginov

Will Obama "refund every single dime the American people are owed" with the help of the new tax?

I do think banks should repay eventually much of the help they got from the government. The main investment banks, such as Citi, JP Morgan Chase or Wells Fargo, had a profit at the end of the year and paid off with the government. Nevertheless, other companies did not return money. And I do think banks were foolish to so immediately start giving such large bonuses. They still interact with some significant support from the government, like in guaranteeing some of the bonds of Goldman Sachs and others. So I think it's possible that a tax would be a good idea, yet you have to be careful. Don't get very angry with the banks over this, but you still need the banks to do the lending and do policies that are important. It would discourage them too high a tax, and that would be a mistake, since we need them as one of the elements in coming out of the recession.

— Continuous uncertainty —

Only the lazy do not talk recently about new "bubbles" blowing in the world economy because key governments injected trillions of dollars as anti-crisis stimulus. Do you share these concerns?

I think there are a lot of reasons for concerns, especially about inflationary risk. In the U.S. we created over a trillion dollars of bank reserves that we're not using, and if they start using those, which is to lend out and so on, this will increase money supply and that will be an inflationary, maybe a serious inflationary risk.

I think the Federal Reserve and other central banks of the leading countries are aware of this and at some point we will have to start raising interest rates partly as a means of cutting it down and that will put some negative pressure on the economy.

And what is your forecast?

I think we'll see a greater growth in the world output in 2010 than in 2009. In some parts of the world we'll do quite well, like Asia, China, India, Brazil, maybe Russia. We went through a serious financial crisis that we're not finished with completely as yet, and so there's going to be a lot of reluctance on banks to lend and get into risky activities, and this reluctance on the part of business, particularly small, but even larger business to borrow and the great uncertainty that

we're facing. Also the uncertainty will increase by lots of governmental policies about how much inflation we'll have, what the interest rates will be you know in the U.S. what the health program will be and how that'll affect business and issues of that types in the U.S. and the world at whole. So I would like to be more confident to think that EU and the USA will have a strong 2010, I think they'll have a better 2010 than they have in 2009, but not as strong as I would like to see.

How would you evaluate the work of Obama's economic team?

Very mixed. I have a lot of doubts about some Obama's proposals. For example, a suggested increase in taxes on people with higher earnings (from 35% to 39,6% for annual income more than \$372.095) is not the best idea in a recession. On the other hand, Obama is reluctant to cut corporate taxes in the U.S. (the average effective corporate tax in the USA is 25,2% now. – *The New Times*), it is a mistake because we need to stimulate production. The uncertainty about the size of the tax on carbon (is proposed to collect 11 cents for a gallon of gasoline and 12 cents – for a gallon of diesel and fuel – *The New Times*), which I think is a dangerous decision for businesses because the carbon tax will create unnecessary load. Or the health care reform – businesses don't know how much it will cost them.

— The puzzle of unemployment —

The U.S. unemployment was more than 10% in 2009. It is one of the highest rates, which was ever recorded by the U.S. Census Bureau. What is the reason?

One of the puzzles in this recession was that employment declined a lot more relative to the decline in output, as it has been traditional in other recessions: in the first and second quarters together the output declined by 4%, in the third quarter it came back by 2%, in the fourth it is going to come back by even more, we need only to see the results.

Overall for the year we are probably going be up, not by a lot, but we are going to be up. Nevertheless unemployment is high. I think that businesses are little concerned about what the future looks like and therefore they are reluctant to make the commitment to hiring more labor when things are uncertain. So what they do instead is expand output and output will expand a lot by increasing amount of overtime workers have. I think we got an unusually large increase in unemployment compared to the change in output.

In your blog you wrote that the U.S. government should reduce taxes on personal income and also on corporate profit to increase employment in the country. The unemployment rate in Russia achieved 6,5%. Is it possible to use the same advice for our reality?

In Russia the income tax is low – 13%. Corporate income tax is a little bit greater, it's 20%. That's good, there's nothing more you can do with that tax. I do not think you need something to change. Lots of Russian problems are different than our problems. I think there's too much government kind of arbitrary intervention in the economy but it should go more on basis of fixed norms and rules and less discretions on the part of the government to favor some companies and to attack other companies. I had several Russian students who wrote doctoral dissertations under me here, in Chicago. One of them did data on the amount of cheating by companies and how favored companies were able to cheat more. In your country rules of the game for business are not clear, so companies can not predict what the will get tomorrow.

Gary Becker is 79 years old. University Professor, Departments of Economics, Graduate School of Business, and Sociology at the University of Chicago (USA). Senior Fellow, Hoover Institution at Stanford University. Was awarded the Nobel Prize in Economics in 1992 for “having extended the domain of microeconomic analysis to a wide range of human behavior and interaction, including nonmarket behavior” and the United States' Presidential Medal of Freedom in 2007. Won the John Bates Clark Medal in 1967. Business Week Columnist (1985-2004). Studied Russian at college. Since 2004 has a blog with Professor at Chicago University Richard Posner. In Russian were translated several fundamental articles in “Human Behavior: economic approach” (2003).
