

Repairing economy calls for bold moves

COLIN READ, *Everybody's Business*

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— Certainly there are few places quite like New York State.

This is a state where politicians and political-action groups consider politics a full-contact sport. The irony is that New York had historically been a state of innovation and inspiration. Now it seems to be mired in a state of paralysis.

Perhaps political dysfunction is proportional to the stakes in the game. After all, the federal government often takes the bud of good economic policy and runs it through the political sausage maker. By the time it is done, we somehow manage to create less effective policy that rewards the power brokers or the status quo.

For instance, this month we celebrate the annual anniversary of the most significant stock market decline in our history. While stocks have rebounded somewhat from the 50 percent decline, we are still more than 25 percent down. Even the market after the Great Crash of 1929 was all but recovered a year later, only to plunge once again as a consequence of protectionism and bank failures.

We are also nearing the second anniversary of our recession, placing it as the longest recession since the Great Depression.

By this point, I would have hoped for more.

A couple examples demonstrate less than effective monetary and fiscal policy.

The mammoth stimulus bill has, by almost all measures, failed to stimulate the economy to date, even if it has at least prevented the economy from getting worse.

This failure is primarily the result of poor execution. To date, only about 40 percent of the stimulus money has been spent. The federal government ultimately relied too much on the states to direct the spending transfers. Unfortunately, the parties of some states like ours were too busy suing each other to offer effective economic leadership in these critical times. Instead, states used the federal windfall to delay the day of fiscal reckoning. Ultimately, few jobs were created, and instead, the money was used to prevent layoffs, necessary or not.

Meanwhile, some political-action groups continue to ratchet up the rhetoric to protect their lot. Some even used fear tactics that harken back to the days of Willie Horton and Lee Atwater. I recall last summer's ads that tried to avert layoffs of prison workers by asserting that any cutbacks to prison budgets would unleash terror as violent prisoners are thrust into society.

The government is also wrestling with providing effective and affordable health care. The maneuverings to secure the necessary votes seem destined to ensure the result is neither effective in insuring the uninsured, nor affordable. Many experts agree that the most necessary element of a health care package is cost containment.

With a baby-boomer population that is aging, and with the vast majority of health-care costs concentrated in post retirement years, a failure to contain medical costs will cause future federal deficits to spin out of control.

While the din of political rhetoric is scary, the economic consequence of these political failures is scarier yet.

Democracy fails when it devolves to a system where nothing gets done unless everybody is happy. A coalition of those concerned, on the left and the right, can, and typically does, band together to ensure nothing changes. One group may believe change is too rapid, and the other not rapid enough. The antics of both groups ultimately preserve the status quo, no matter how unfortunate it is.

In an economic or business environment that can ill afford the status quo, our penchant for democracy and inclusiveness holds us back. It is obvious that business as usual can get us in to some terrible messes. And business as usual causes us to be mired in this current mess for far too long.

Our economic commander in chief has, unfortunately for us all, become mired in such dysfunction. His economic intuition is good, but his faith in Congress has been his and our Achilles heel. He has been unwilling to make the bold moves a declining economy requires.

Perhaps our economic commander in chief fears using up his political capital too early in his tenure. He, or his advisers, seems to view life in terms of political capital. One would hope we live in a meritocracy that replenishes political capital through success. But if the vast majority of those who benefit from bold leadership are silent, while the minority of those unwilling to change are most vocal, political capital is destroyed rather than created.

Even in this state of heightened dysfunction, the economy appears to be repairing itself. We will probably discover in about six months that this quarter marked the end of the Great Recession. Technically, we define a recession's end when we begin to pull out of our downward spiral. It will take much longer for the economy to return to normal. It will likely be many quarters or years before the economy returns to 4 percent unemployment, a recovered stock market and sustained economic growth of between 2 and 3 percent.

Given that little economic reform has occurred in the last year, it may take years to finally see real reform. The intervening quarters and years may finally offer Congress an opportunity to make the changes necessary. Unfortunately, time also allows opposition to mount, and somehow makes familiar the pain we are currently experiencing.

With this familiarity comes comfort with a new status quo. Just like frogs that remain comfortable in a pot of water that slowly moves from lukewarm to boiling, we become increasingly complacent as we become accustomed to terrible.

Wouldn't it be nice if we could aspire for better and expect more? And wouldn't it be nice if our economic leaders accept their calling on our behalf? Call me naive, but guiding us to a better future is what I thought leadership was all about. I will try to suspend my disbelief, and trust that, somehow, economic reform will emerge from this Congress.

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