

The chickens come home to roost

Colin Read: Everybody's Business

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— The other shoe has fallen. Gov. Paterson has proposed mid-year budget cuts to address a rapidly worsening budget picture.

We spoke earlier about the day of reckoning for the New York economy. We noted that the state typically has an unemployment rate a point or two higher than the nation. And Clinton County usually has an unemployment rate higher than the state average.

It seems that both Clinton County and New York State dodged the recessionary bullet. But while Clinton County did so partially on its ability to attract leading-edge businesses like Nova Bus, SpencerARL and B3CG, New York did so by ignoring the symptoms of a chronic disease.

New York is addicted to spending highs, and fuels this addiction by tapping any revenue source it can. Financial deregulation provided New York with a quick and cheap fix, as Wall Street profits rose at a much greater rate than the Dow Jones Industrial Average.

When that house of cards failed miserably, New York had to find another pusher. In this case, the federal government gladly obliged, both by providing troubled and troubling Wall Street firms with bailouts, and by bailing out states with one-time stimulus money to promote infrastructure investment and generate jobs.

Over the last year, New York saw no improvement in infrastructure employment. Construction remained down and the private sector suffered.

However, government grew nicely. This is particularly ironic, given that, just before the crash of 2009, Gov. Paterson was demanding major spending reductions and a rationalization of state government spending as we know it here.

The stimulus package changed all that. Government, education and health-care employment rose in New York State, and all the scrutiny Gov. Paterson demanded was lost in political bickering. New York State had its federal fix, and we avoided the withdrawal pains.

Now our back is to the wall, our head is hurting, there is no quick fix, and the governor is proposing serious mid-year cuts.

Good. It is time to go cold turkey.

You see, the economy is a complex organism. And just like any organism, it responds to external stimuli. If these stimuli are artificial and unsustainable, our economic organism evolves in unfortunate ways. But if the gyrations of the real world impose economic crisis and stress, economic Darwinism can kick in to do precisely what is necessary to survive, and even thrive, in stressful times.

Of course, we should evolve to better withstand the disease. It is against our long-term interest, though, to simply medicate the symptoms.

Instead, we must create the economy now that will sustain us in the future.

It means expanding in some areas and trimming in others.

This phenomenon is well understood by businesses. Indeed, businesses fail if they do not understand this simple tenet.

In 1776, this country evolved, and the British economist Adam Smith showed in "The Wealth of Nations" how economies evolve. In that trifecta year, another English social scientist named Edward Gibbons demonstrated in "The Decline and Fall of the Roman Empire" how political systems devolve. Not long after that, yet another Englishman, Charles Darwin, published "On the Origin of Species."

All were writing about the same phenomenon from different perspectives. Each prophet was pointing out that systems evolve to take advantage of inherent efficiencies, and devolve if they fail to adapt to a changing environment.

Closer to home, rust-belt manufacturing and New York State are entities that failed to respond to emerging realities. When manufacturing was moving abroad, our rust-belt workers demanded better pay and job protections. In the face of declining youth populations, New York expanded school spending. And as population fell in rural New York, we raised property and income taxes.

These decisions that ran counter to common sense or economic Darwinism are a consequence of political forces overpowering economic forces. Our Caesars realized that expanded taxation can allow them to expand the spending that keeps them popular and in power. They did not evolve because their power to tax and spend allowed them to temporarily repeal the laws of supply and demand. Now we are paying the piper.

If the state was run like an economic organism rather than a political organism, our choices would have been different. We would have recognized that changing demographics requires shifts in spending priorities. We would see that some jobs will be in high demand in the future, and that we must take our workers in some areas and retrain them for others. As we see states increasingly compete with each other, we would ensure we too create the environment for businesses to thrive and we would ensure our citizens have all the tools for success.

On the other hand, if we operate like a political organism, we would promise people their jobs are protected. If there are loud and bullying voices in our politics, we appease them to keep them quiet. Because few people truly embrace change, we would insulate the voters from change, at least until we can no longer hold back the mounting tide. And, of course, we would take good care of our Caesars that keep the political machine going and doling out its party favors.

This is not an issue of the status quo versus reforms. At this point, I think almost everybody recognizes that reform is necessary. Gov. Paterson's recent calls for mid-year cuts is but one more piece of evidence.

The test, though, is whether we have moved beyond the surreality that we can accomplish economic evolution only by having everybody else change rather than having to change ourselves. I have spoke in the past to an opportunity lost. I will speak in the future on what I would do to resurrect an economy caught in a downward spiral.

The time for difficult decisions is now upon us. It will be interesting to see if we muster the strength to change by discovering economic heroes and heroines rather than by securing some more political heroin. I just hope the federal pusher does not visit our block in this next round.

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