Get Fiscal House in Order

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Almost overnight, it seems, the United States has gone from peace and prosperity to war and recession, the terrorist attacks of Sept. 11 having slammed into an already faltering economy.

Now, along with figuring out a new national military and diplomatic strategy over the next few months, we also need to find a new economic one.

Even before Sept. 11, signs of the economic slowdown were all around us: a stock market down about a fifth since the beginning of the year (representing trillions in lost wealth - of course, only on paper), faltering investment despite record low interest rates, a prolonged slump in key cyclical sectors such as manufacturing and construction, slowing job growth and rising unemployment claims, and a slowdown or reversal in wage gains from the late 1990s.

After Sept. 11, we have all this and worse: a deep if maybe short-lived drop in consumer confidence and spending; a spike in new jobless claims, which last week were back to their highest level in nine years; and the devastation of key industries such as airline travel and hospitality. And many are also worried that, given a combination of unpleasant global factors all pushing in the same direction, this recession could turn into something far worse, something not seen since the early 1970s - a serious and prolonged worldwide downturn.

The key reason is that neither Japan nor Europe can be expected to ratchet up its own slow growth anytime soon. Japan has pretty much run the several-year course of trying to do so through increased public spending, with deeper and more structural adjustments now its unwelcome focus. And the European Union countries are constrained by that union from "overstimulating" their economies with deficit spending.

Nor is hope forthcoming from the "emerging markets" of the Third World. They have been at or near depression for years. It's all they can do to avoid falling further behind on their generation-long debt to the United States and other First World commercial banks with the principal already paid off several times over but, through principles known to every home mortgage holder, no end of obligation in sight.

Back in the United States, meanwhile, the weak financial position of most Americans could dramatically deepen the current slowdown. Though largely unremarked at the time - which was spent instead celebrating the marvels of a "new economy" that seemed to produce wealth from air - a large part of the 1990s boom was fueled by a massive run-up in consumer debt. This masked what was, even in those heydays of near full employment, anemic wage growth.

Last year, for the first time in U.S. history, total individual indebtedness exceeded individual worth. That may bring into sight the limits of how far our "Goldilocks" economy can go before facing certain bearish truths.

Nor is it comforting that long-term growth and productivity rates, even before Sept. 11, were busily being revised downward. Correction for a massive mistake in estimating productivity, now admitted by Alan Greenspan among others, makes the 1990s "new economy" numbers look like a mirage.

And that means the alleged surplus, on which a truly ridiculous tax bill was just passed, was already nothing like what had shortly before been projected. Where it will be 10 years out, or if it will be there at all, is more or less anyone's guess.

All we know for certain is that by then, the deepest (and most regressive) revenue cuts in that bill - which awards close to half its cuts to the top 1 percent of Americans - will have already come on line.

Nor, certainly, is much help forthcoming from increased spending by our states. Most are teetering close to or have already fallen into deficits outlawed by their state constitutions. Wisconsin, where reduced bond ratings and unresolved long-term deficits have recently made us a national poster child of state fiscal mismanagement, is a prominent case in point.

Put all this together and it's clear that America needs to get its fiscal house back in order and once again reconsider its social investment priorities. That reconsideration won't be possible without also reconsidering the tax bill just passed, which is one reason we should slow down its implementation before its major giveaways are given.

* But most immediately we face the question, now before Congress, of the components of a federal stimulus package. The idea here of course is that by quickly pumping some more money into a sagging economy, specifically into the hands of those most likely to spend it, we might stop or reverse the current downward spiral of falling spending, falling production, rising unemployment, etc., by artificially increasing spending, and thus lifting production and raising employment, and so on.

It's been so long since America talked in such explicitly Keynesian terms that maybe a little background here might be welcome.
Federal stimulus! After all, isn't this precisely what we've been warned against since infancy - throwing money at problems? Won't it drive our government into deficit, something we dare not do with our household budgets? And who should get the money anyway? Should it all go to the entrepreneurs who we have learned actually drive our economy, or someone else?

Next week, all these answers and more!

Joel Rogers teaches at the University of Wisconsin-Madison and is founder and director of the Center on Wisconsin Strategy (COWS), which administers the Sustaining Wisconsin campaign. This is another in a weekly series of Capital Times columns he’s writing on issues in the campaign. For more information, see www.cows.org and www.sustainingwisconsin.org.

Joel Rogers is director of COWS, the Center on Wisconsin Strategy, at the UW-Madison. On Jan. 29, COWS debuted "Sustaining Wisconsin," a statewide dialogue about the future of Wisconsin. The themes expressed in this view of the state of the state will carry through the next 18 months as COWS uses Sustaining Wisconsin to put the Wisconsin Idea into action.

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