The Times that Try Men's Souls

Greensboro *Business Journal*, January 23-9, 2009

We live in difficult economic and uncertain political times. Bank failures are with us again, as in the 1930s. Credit is illusive. Retail sales are down. The housing market is stalled. Stock prices are in free fall, as are pensions and savings. . Firms are closing, or staying afloat by shedding labor and cutting wages. Unemployment and home foreclosures stalk the land. A new administration is finding its feet in Washington.

What then to ask and to expect of the newcomers? Certainly not miracles: even with one party in control of both Congress and the White House policy-making is bound to be messy – it always is in Washington. It is also likely to be inconsistent. We are, after all, in uncharted waters. No one really knows how to stop the rot. Trial and error is going to be the order of the day. The impact of policy will also be slow. Recovery from a recession of this severity will inevitably take time.

As we wait, for what should we ask? We should ask for long term policies addressed to the underlying causes of our present difficulties. We should ask for a short term stimulus package designed to reverse the credit crunch's immediate effects. We should ask that long-term policy and short-term fix be mutually reinforcing but entirely distinct.

Any short-term stimulus package should be timely, targeted, temporary and tax neutral: timely – addressed to the remedying of immediate hardships; targeted – directed at things that will give a big bang for the buck; temporary – designed to taper off as growth returns; and tax-neutral, self-financing from the revenues generated by growth.

We need "shovel ready" policy galvanizing banks, consumption and infrastructure development. To that end, public works programs are a better stimulus than tax cuts. Direct refinancing of mortgages is more effective than voluntary bank refinancing. One-off grants to plug shortfalls in state and local budgets have a faster impact than any new federal programs. A "bad bank" in which to quarantine toxic assets is more potent than a general recapitalization of the entire banking system. Money to the unemployed is more readily spent than money to the rich.

Any long term policy needs to address the underlying causes of the crisis – the unholy alliance of a deregulated banking system and an overheated housing market; the stagnation of middle class wages and the rise of credit card debt; and the erosion of American industrial strength by artificially cheapened imports. Long term we need a new social contract between government, business and the American consumer: tighter regulation of the financial system, industrial policy to facilitate small business growth, the retraining of US labor to enhance international competitiveness, and public policy to strengthen pensions, savings and wages. We have to find our way back to a world free of personal and international debt, because if we do not, this credit crunch will inevitably be followed by others, each more deadly than the last. There is a lot to do.