

Current Events



Need Game Changers, Not “New Norm”

STOCKS, CORPORATE BONDS AND COMMODITIES ALL REBOUNDED from March lows, a welcome rejection of the winter’s depression talk. Government spenders will claim victory, attributing gains to Washington’s and Beijing’s checkbooks. They shouldn’t. There’s no victory to celebrate, and the public has caught on to the damage that comes from centralized spending.

Unemployment will climb well above 10%, a tragedy for millions and a policy debacle for Washington’s weak-dollar, high-commodity, big-government interventionism. The reigning jobs plan is for Washington to hire workers to take the census, sign union construction contracts in compliant states and tax the shrinking private sector to pay unemployment benefits.

Industrial production has already fallen 13.5%, its sharpest one-year decline since the 1940s. Federal tax receipts for January through May are down 23% from 2008, with outlays up 18% even before nationalized health care and most of the fiscal stimulus have kicked in.

The country’s regulatory structure is rapidly shifting credit from households and small businesses to “safer” government and government-approved borrowers. Jobs and innovation are taking the blow.

China has done better in terms of growth. This is partly the result of massive bank lending—U.S. mark-to-market regulatory policies are dumbly pro-cyclical, worsening a crisis, whereas China’s are countercyclical, causing banks and credit markets to expand, maybe overexpand, when the going gets rough.

Even so, some one-company cities have been idled, highlighting China’s need to diversify. Everyone talks about China laying the groundwork for internal growth, but there hasn’t been much progress toward the concerted liberalization needed to accomplish it. Much of China’s recent growth is still coming from government-guided investment in fixed assets.

New Norm, Bad Norm

With the crisis taking a deep toll on our economy, the expectation is for a “new norm” once recovery kicks in. It’s a dismal prospect: slower growth from a lower base, with higher unemployment and bigger government.

Rather than a healthy frugality, the new norm implies an outright decline in median living standards, a disaster for both prosperity and fairness. For President Obama such economic mediocrity spells extended deficits, a “jobless” recovery and, at best, a stiff reelection fight instead of the cakewalk that his perfect timing—inaugurated at the exact bottom of the crisis—deserves.

The U.S. decline isn’t inevitable. Game changers exist. The

Fed could improve dollar policy to make the tens of trillions of dollars in new U.S. Treasury debt more salable. It should stop buying Treasuries to make it utterly clear that it will not monetize debt. Buying Treasuries is the monetary equivalent of government workers digging a hole, filling it back up and calling it GDP.

To underscore the new commitment to price stability and creditors the Fed has to stop using core inflation for its report card. It’s a loud signal to the world, proclaiming: “The Fed is not serious. Money should flow to Asia. Sell the dollar.”

Dissing the dollar doomed the Bush Administration, cost the U.S. millions of jobs and trillions in capital outflows and pleased only academics and currency traders. President Obama has continued this policy, diminishing the dollar’s reserve-currency status and drawing developing countries into June’s dump-the-dollar summit in Russia. Commodities have levitated to a new Bush-like bubble on the view that the dollar will permanently weaken. The President should break the spiral by adopting a strong and stable dollar.

The budget threat is another real and present danger—and an opportunity for more game changers. There would be a nationwide jobs celebration if Washington canceled the remainder of the spending bill and postponed health care nationalization. Instead of encouraging Congress’ failed pay-as-you-go rules President Obama could fight for a fair and honest budgeting process that restrains Congress’ tax-and-spend establishment.

Entitlement spending has to face up to the rising life expectancy. Washington should reaffirm the promise of retirement benefits but create a new tier of reduced benefits for younger workers, progressively raising the age at which Social Security and Medicare benefits start.

Energy policy is crying out for game changers. Instead, we’re getting ethanol, subsidized cars and thimblefuls of solar and wind power at backbreaking costs to taxpayers. With the price of gasoline spiking again, we have another chance to adopt a countertax that would escalate only if gasoline prices fell. It would encourage alternatives and lower oil and gas consumption when it kicks in and be a politically tolerable policy change, especially if paired with tax cuts elsewhere.

The economic and budget problems are fixable but not under current policies. Stop buying Treasuries, pumping up spending, plotting a value-added tax and an even weaker dollar and dithering on entitlements. Expand nuclear power generation, raise the entitlement age for new workers and tax gasoline if the price drops. Make it clear to ourselves and the world that the U.S. is a serious, growing, job-rich economy that is worthy of new investment and emulation. **F**



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