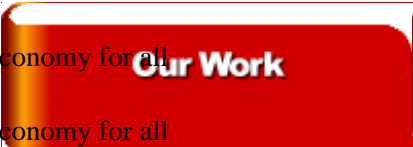




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It's the Recession, Stupid



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CAF STAFF

By [Robert Borosage](#)

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It ain't sexy, I know, but a word about the economy and the presidential debate.

Wall Street banks are holding a fire sale; employment is down, holiday sales tanked. Burdened with record debt and stagnant incomes, homeowners are about to reckon with declining home values, their largest investments, with a projected \$2 trillion in assets evaporating in the course of the year. Even clueless George — “the fundamentals are strong” — Bush admitted a little stimulus might be needed.

So finally, the r word — recession — hit the presidential campaign trail. In the January Myrtle Beach Republican debate, the candidates were asked what they would do to get the economy going in the event of recession. The answers expose just how preposterous conservatism has become.

John McCain, who at least admits he doesn't know much about economics, said the first thing we need to do is” stop the out-of-control spending.... As president, I know how to do it. I'll wield that veto pen, and I won't let another pork-barrel earmark spending bill cross my desk without vetoing it. I'm called the sheriff by my friends in the Senate who are the appropriators, and I didn't win Miss Congeniality.”

Charming, but completely wrong-headed. A recession is caused by lack of demand. The squeeze on working families has them tightening their belts. Companies lay off workers. State and local governments, mandated to balance their budgets, choose between deep cuts in spending on education and health care or increased taxes. Only the federal government is able to act – by spending money or cutting taxes, adding to a short term deficit to get the economy moving.

(The Federal Reserve can also try to lower interest rates, but with the dollar sinking and credit markets shattered flooding the market with money may just feed inflation without much effect. And, in fact, the Fed's previous interventions under Alan Greenspan helped blow up the bubble that triggered this mess)

Rudy Giuliani just released a big tax cut plan, so you'd expect him to take McCain apart. Nope, the Mayor was as clueless as McCain: “You also have to cut spending as significantly as you cut taxes. You have to be willing to impose cutbacks on each one of the federal agencies, the civilian agencies. The main things you have to guard against are overtaxing, overspending, over-regulating and over-suing.”

“Over-regulating?” We're suffering a credit and housing collapse that derives directly from the LACK of sensible regulation to hold lenders to basic standards like

reviewing borrowers' ability to pay.

Mike Huckabee showed that he could feel people's pain, and then suggested he'd increase it, calling once more for his "fair tax" that would cut taxes on the wealthy and increase them on working and poor people. Not exactly a remedy for the economy, no matter what condition it is in.

Libertarian Ron Paul at least was true to his principles, which he stated as unintelligibly as possible. After ruling out monetary or fiscal relief, he called for attacking this with the "Austrian theory of the business cycle. For the few of you not familiar with Austrian economists, the Austrian theory of the business cycle is simply to let her rip. ...The longer you delay the recession, the worse the recession is," said Paul.

In this crowd, only former Governor Mitt Romney offered a passing glance at common sense. Before lurching into his requisite pander about fighting for every job in Michigan, he urged that we "stop the housing crisis (without telling us how), and "immediately cut taxes" on middle-income Americans. He then argued that we get "gas prices under control" by becoming energy independent and invest in research and development, good ideas that would take far too long to have any effect on turning around a recession.

The contrast with the Democratic field is stark. Once more John Edwards drove the debate, releasing a serious short-term stimulus plan, mixing tax rebates for low income people with direct spending and aid to the states. Hillary followed with the largest plan, with a good mix mirroring that of Edwards. Obama's plan relied almost entirely on tax cuts, quicker but less effective than direct spending.

Democrats on the Hill seem more muddled. The conservative Blue Dog Democrats are reported as demanding that the tax cuts and spending of any stimulus "be paid for," which would, of course, eliminate their stimulus effect. This preposterous proposition has led Pelosi and Reid to seek pre-emptive agreement with Bush on a plan. That virtually ensures that what emerges will be too small to make a difference, and weighted towards tax cuts. (The President suggested that repealing the estate tax permanently would be a stimulus. Other than exciting the Paris Hiltons of the world, it isn't clear what he had in mind.)

This debate has just begun, but it's got to get a lot bolder. This is a \$13 trillion economy wounded by successive body blows. It will take a lot to get it turned around. Consider the last recession after the collapse of the dot-com bubble and the shock of 9/11. The Fed lowered interest rates to the lowest levels in memory; Bush racked up record deficits with massive top-end tax cuts and increased spending on the military and homeland security; Chinese and Japanese central bankers lent the money needed to prop up the dollar and limit inflation – and still we witnessed a slow recovery in which employment as a percentage of the population and income never returned to pre-recession levels.

Now the economy is weaker, the damage more serious, and the Chinese and Japanese more sober. It is going to take heavy lifting to get this economy moving again.

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