

July 2010

The Perils of Pauline

Conflicting agendas, harsh arguments, personal attacks—all part of politics in our time, all obstacles to serious decision-making, just when there are many serious decisions waiting to be made, in our country and abroad. Maybe what the world needs now, as the song says, is love, sweet love, but without worldwide economic growth, love's hard to find, tension and anger everywhere. If only the US or only Europe were stuck in the economic mud, that would be bad enough. But this time, the mudslide caught everybody. China might seem an exception; it has no end of cash and no massive budget deficits. But China has its own problems associated with growth—laborers in the street, for example, wanting a fair share. And as a creditor nation, it can take little comfort from the weakness of its debtors.

The conflicting agendas are particularly obvious in the political arena. Political leaders want to keep their jobs. No surprise there. Prime Minister Brown did not survive in the UK. President Obama wants to survive the midterm elections while his Republican opponents want him to crash and burn. Others who seemed strong, Merkel in Germany, for instance, are in trouble. One result is that such decisions as do get made—health care, financial reform—are diluted, delayed, corrupted or made for the wrong reasons. As I type this letter, Congress debates the extension of unemployment benefits, not out of compassion for the jobless but to kick the can down the road once more, hoping recovery will take hold, forestalling bad news and further outrage among the electorate in the run-up to the mid-terms.

Adjacent to the political circus tent, we watch, perplexed or stunned, as the experts issue opinions and loud harumphs in deep conflict with one another. Consider just two areas of concern: bank regulation and deficit spending.

The banks, and the entire financial system of which they are a part, need new operational parameters. We want banks to be both stronger and less adventuresome. The adventures that came with deregulation brought great risk and a great calamity. Risk-takers see a different world than more cautious types do. It's proving difficult to get the gamblers to scale back. Increasing the strength and stability of the banks seems easier: require them to maintain more capital. In brief, however, the higher percentage of capital reserved, the lower the amount available for lending. That, in turn, has a negative impact on economic growth, a path we don't want to take. A conundrum for sure, and not one that politicians are likely to solve, given their propensity toward short-term answers.

As to spending: Shall we spend and spend still more, hoping the economy gets some traction, or do we stop the madness? Last week, two articles written by very smart people crossed my desk. They advocate utterly opposite positions. a) if you don't keep pumping money into this sick economy (most of the stimulus spending is now over), it will wither and collapse into a double-dip recession or (gulp) depression. b) if you keep printing money and piling up more and more debt, Big Trouble will result. Again, a knotty problem that demands a smart, not a politically opportunistic, approach.

Any readers of this letter remember The Perils of Pauline? Old-time movie serial in which Pauline just goes from one deeply threatening situation to another. With these intractable problems, indeed dilemmas, one might reasonably feel like Pauline now and then. Like it or not, we live in interesting times. We need some interesting solutions and we need them soon.