U.S. economy as tragic victim of circumstance?

Press Criticism | By Greg Marx | Economy

February 26, 2011 — The American economy is kind of a loser: a forlorn, sad-sack figure buffeted by the tides, visited by one indignity after another, with little means to fight back or improve its sorry state.

That, at least, is the message of a [front-page article in Friday's New York Times], which declares in its lede, "The American economy just can't catch a break." The story is a chronicle of various pressures on the economy today — debt problems in Europe, budget crises in the states, the risk of a government shutdown, a soft housing market, and, most recently, rising oil prices. And to give credit where it's due, the article does a fair job of explaining how these factors have kept a lid on the economic recovery.

> Many of the burdens that the Times story identifies could have been addressed. They have not, because our policy-makers chose not to address them.

But by presenting these pressures as a tragicomic parade of calamities — like something from the Book of Job or the plays of Euripides, rather than, at least in part, a consequence of past and present policy choices — the Times misleads its readers. More importantly, it lets the leaders who have responsibility for those choices off the hook.

Let's start with the article's main contention, that rising oil prices brought about by the uprising in Libya are the latest plague being visited upon the economy, and that the prospects for further unrest in the Middle East carry serious economic risk. It would first of all have been worth noting, as [a recent Boston Globe article did], that some economists believe "oil shocks" generally have a much smaller effect on the U.S. than is commonly believed.

Accept for the sake of argument, though, that high oil prices do pose the risk the Times's sources say they do. In that case, it is unfortunate that prices are spiking even as our economic picture remains bleak.

But it has been apparent for a long time that the political arrangements in many oil-producing regions are not stable. It has been similarly apparent that global oil production cannot indefinitely keep up with rising global demand for energy. Against these two bits of information — which make long-run oil price increases a certainty, and sudden spikes likely — the U.S. has made only halting progress toward efficiency gains or shifts to alternative fuel sources, and basically no progress toward broad-based shifts in land use that would reduce demand for energy.

All those failures represent choices. If you know your car is about to break down but do nothing, and the engine fails while you're driving your pregnant wife to the hospital, it's not a stroke of bad luck. It's your own fault.

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There's more in this vein. The Times story runs through in some detail the projected dampening effect of higher oil prices on economic growth, which in turn may lead to weaker hiring. Not mentioned at all are other factors that may offset dampers on employment growth, such as active supports for the labor market. Those policies have been credited with helping Germany reduce unemployment below pre-crisis levels despite sluggish overall growth — but they have been rejected on a bipartisan basis in the U.S.

A similar neglect of the role that political choices play in shaping economic outcomes pervades the article. Consider this passage:

> Budget and debt problems at all levels of American government also threaten to crimp the domestic recovery. Struggling state and local governments may dismiss more workers this year as many face their deepest shortfalls since the economic downturn began, and a Congressional stalemate over the country's budget could even lead to a federal government shutdown.

Those state and local layoffs are coming, and with private sector hiring still sluggish, they will likely drive the unemployment rate back up and depress overall demand. But they're not inevitable: additional federal stimulus (perhaps coupled with strict budgetary guidelines to restrict some of the accounting chicanery we've seen at the state level) could preserve those jobs, if lawmakers chose to provide it. A federal shutdown, meanwhile, isn't an act of God, nor is it even the necessary result of Congressional stalemate: if it happens, it will be because federal lawmakers (in this case, House Republicans) made choices that allowed it to happen.

Or consider this statement, near the end of the article:

> Even without the Middle East, the domestic economy has a number of weaknesses that have proved hard to overcome. The recession was provoked by housing and worsened by housing, and housing is likely to remain frail in parts of the country until the end of the decade.

The continuing fallout from the housing bubble — which was, of course, partly a consequence of policy choices — is a real challenge. But it's not one that policy-makers must regard passively. For one thing, rather than simply discarding ineffective programs, we could make the first serious effort to limit foreclosures, even in the face of declining home values.

But more broadly, just as it would be wrong to expect the housing sector to fix the economy — we can't achieve prosperity by re-inflating the bubble — it's wrong to see the weakness in housing as a curse that can't be remedied. Home values, and the balance sheets that depend on them, will only stabilize when people have money to buy them. That's just another reason to focus even more urgently on income growth and employment gains, through stimulus if needed.

Not every problem can be solved by the right policy response, and not every economic trial admits of a political solution. Business cycles go bust; bubbles form and pop; events conspire to create new obstacles.

But many of the burdens that the Times story identifies could have been addressed. They have not, because our policy-makers chose not to address them. Among its catalogue of factors weighing down the economy, that's the key one that the Times left out.

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