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# A Different Recession



The Old Remedies Won't Work This Time

By Harold Meyerson
Wednesday, January 16, 2008; A15

In a normal recession, the to-do list is clear. Copies of Keynes are dusted off, the Fed lowers interest rates, the president and Congress cut taxes and hike spending. In time, purchasing, production and loans perk up, and Keynes is placed back on the shelf. No larger alterations to the economy are made, because our economy, but for the occasional bump in the road, is fundamentally sound.

This has been the drill in every recession since World War II.

Republicans and Democrats argue over whose taxes should be cut the most and which projects should be funded, but, under public pressure to do something, they usually find some mutually acceptable midpoint and enact a stimulus package. Even in today's hyperpartisan Washington, the odds still favor such a deal.

This time, though, don't expect that to be the end of the story -- because the coming recession will not be normal, and our economy is not fundamentally sound. This time around, the nation will have to craft new versions of some of the reforms that Franklin Roosevelt created to steer the nation out of the Great Depression -- not because anything like a major depression looms but because we face an economy that's been warped by two developments we've not seen since FDR's time.

The first of these is the stagnation of ordinary Americans' incomes, a phenomenon that began back in the 1970s and that American families have offset by having both spouses work and by drawing on the rising value of their homes. With housing values toppling, no more spouses to send into the workplace, and prices of gas, college and health care continuing to rise, consumers are played out. December was the cruelest month that American retailers have seen in many years, and, as Michael Barbaro and Louis Uchitelle reported in Monday's New York Times, delinquency rates on credit cards, auto loans and mortgages have all been rising steeply for the past year.

What's alarming is that this slump in purchasing power doesn't appear to be merely cyclical. Wages have been flat-lining for a long time now, the housing bubble isn't going to be reinflated anytime soon, and the upward pressure on oil prices is only going to mount. As in Roosevelt's time, we need a policy that boosts incomes and finds new solutions for our energy needs.

FDR's long-term income remedies included Social Security, the Wagner Act (which made it possible for many workers to join unions) and public works projects -- including a massive electrification of rural America. A comparable set of solutions today would include the passage of the Employee Free Choice Act, which would enable workers in nonexportable service-sector jobs to unionize without fear of being fired. It would include a massive, federally financed program to retrofit America, creating several million "green jobs" in the process.

On these issues, there's a clear difference between the two parties.

Barack Obama, Hillary Clinton, John Edwards and the congressional Democrats favor these measures; the Republicans oppose them (though John McCain at least has begun speaking about creating green jobs).

What Republicans favor is simply more tax cuts, which will do nothing to address our deeper problems of income distribution and energy dependence.

The second way in which the current downturn echoes the Depression is the role played by our deregulated financial sector. Now, as then, the financial foundations of our leading banks and other lending institutions have turned out to be made of mush. Now, as then, this news has come as an appalling surprise not just to consumers but to many of the banks themselves. Now, as then, the banks created such complex and deliberately opaque financial vehicles -- all devised to make them a buck every time they swapped some paper -- that they long ago lost track of the paper's true value.

In his time, Roosevelt, through the Securities and Exchange Act and other legislation, compelled banks to be both more prudent and transparent. Over the past 30 years, however, Wall Street has created a host of new, unregulated institutions (such as private equity companies) and devices (such as the bundled, and bungled, resale of mortgages into ever-larger investment pools). Now it's time to enforce some transparency and prudence regarding financial institutions that have been gambling with other people's money and lives.

When it comes to reining in Wall Street, however, the Democrats have been AWOL almost as much as the Republicans have been -- not least because their presidential candidates get so much money from Wall Street. By refusing to take on the Street, however, they forfeit what could be a potent issue this fall and lay the groundwork for yet another recession.

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