Photo courtesy of Gloria Duffy

Mending Our Economy

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There is plenty of blame to go around for the current economic crisis, from overconfident consumers to greedy Wall Street manipulators. Much of the media discussion centers on what the major institutions of our society will do to right the economy. Bailouts, stimulus plans, life support for the dollar. Our expectation seems to be that someone "out there" – the president, the treasury secretary, heads of large banks – will fix the problem.

Effective macroeconomic policies will, of course, be essential to any plan for reinvigorating the economy. But if we peel back the layers of the problem and ask why the crisis persists today despite the large bailouts and stimulus plans already tried, it's clear that more fundamental factors in our society have brought our economy to the point that some analysts are now using the "d-word"; that is, if not depression, at least deflation.

Not all of the solutions to the economic situation are "out there."

Chief among these causes is the lack of good judgment our public officials have shown, engaging in short-term thinking and pursuing policies that deplete the public treasury and sometimes enrich themselves. Among the recent policy mistakes has been continuing the expensive war in Iraq long after Saddam Hussein was toppled, with lasting repercussions for the economy. Having no prudent energy policy for the past 30 years has also weakened our economy, since the first round in the current downturn was caused by spiraling fuel prices. Pork-barrel projects that are payback for campaign donations or other favors and downright corruption have become all too common in our political system, and they take resources away from productive investment.

Some producers also seem disconnected from their markets. With exceptions like the technology industry, many of our businesses are not making what domestic or foreign customers want to buy. Detroit has lost the market for automobiles because our carmakers are not producing energy-efficient, appealing cars. But the phenomenon goes much deeper. I opened my *Sunset* magazine last month to find a featured list of products including a $699 pair of "double-tipped" skis, capable of skiing forwards and backwards. That would presumably be for the large market of skiers who ski backwards? One must ask, what are these producers thinking?

A third phenomenon is the loss of a rational relationship between productivity and compensation. Executives of failing companies looting corporate bank accounts (and the public treasury) through huge bonuses have captured the headlines. But the practice goes deeper, shaping expectations throughout our economy. In the past few months, I have paid $1,250 for the labor to install a couple of on-demand water-heaters at home and $850 to have my car's brake pads replaced. I have been quoted $12,000 to paint my small one-bedroom apartment in San Francisco, an estimate that actually made me laugh. That represents hundreds of dollars per hour for this work. These prices are based on an inflated, boom economy, and unrealistic expectations about the value of goods and services. No wonder consumers have locked down their wallets.

Some Americans have also lost the sense of prudent conservatism through which earlier generations built our economy. The prime example is, of course, the homebuyers who financed a spending spree with expected home appreciation. To my mind, home mortgages are to be paid off as soon as possible, not used to finance one's lifestyle. A good approach to personal finance is to keep enough money in reserve to pay off all debts. To the amusement of some of my friends, I always buy used cars, take the train to work, comparison shop, do home renovations on a lean budget and don't own a plasma TV. It's a more cautious mentality than betting on the come.

Many Americans lack simple financial literacy, and are unskilled in how to calculate their net worth or design a family budget.

Given these factors, I don't expect a magic bullet – throwing out money from the Treasury, for example – to entirely solve the economic crisis. I believe we will experience a sluggish economy until we address some of these fundamental weaknesses in our society. We need a different breed of elected officials, who are released from the tyranny of campaign fundraising to be able to think long term and serve the public interest. Industry needs to get back in touch with its markets in order to respond to consumer desires. Compensation must track to performance. Schools should be teaching basic financial literacy. Prices must be based on value of goods and services.

Not all of the solutions to the economic situation are "out there." Many of them are "in here," in the way we behave in this society. You and I will have to take many of the steps and make the individual decisions that will help to even out the boom and bust cycles so destructive for our economy in recent years. Ω