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## **How to Stop the Downturn**

By JOSEPH E. STIGLITZ.

Joseph E. Stiglitz, a professor of economics at Columbia and the author, most recently, of "Making Globalization Work," was awarded the Nobel in economic science in 2001.

**SECTION:** Section A; Column 0; Editorial Desk; OP-ED CONTRIBUTOR; Pg. 25

AMERICA'S economy is headed for a major slowdown. Whether there is a recession (two quarters of negative growth) is less important than the fact that the economy will operate well below its potential, and unemployment will grow. The country needs a stimulus, but anything we do will add to our soaring deficit, so it is important to get as much bang for the buck as possible. The optimal package would contain one fast-acting measure along with others that could lead to increased spending if and only if the economy goes into a steep downturn.

We should begin by strengthening the unemployment insurance system, because money received by the unemployed would be spent immediately.

The federal government should also provide some assistance to states and localities, which are already beginning to feel the pinch, as property values have fallen. Typically, they respond by cutting spending, and this acts as an automatic destabilizer. Federal assistance should come in the form of support for rebuilding crucial infrastructure.

More federal support for state education budgets would also strengthen the economy in the short run and promote growth in the long run, as would spending to promote energy conservation and lower emissions. It may take some time to put these kinds of well-designed expenditure programs into place, but this slowdown looks as if it will last longer than some of the other downturns in recent memory. Housing prices have a long way to fall to return to more normal levels, and if Americans start saving more than they have been, consumption could remain low for some time.

The Bush administration has long taken the view that tax cuts (especially permanent tax cuts for the rich) are the solution to every problem. This is wrong. Tax cuts in general perpetuate the excessive consumption that has marked the American economy. But middle- and lower-income Americans have been suffering for the last seven years --

median family income is lower today than it was in 2000. A tax rebate aimed at lower- and middle-income households makes sense, especially since it would be fast-acting.

Something should be done about foreclosures, and appropriately designed legislation allowing those who have been victims of predatory lending to stay in their homes would stimulate the economy. But we should not spend too much on this. If we do, we'll wind up bailing out investors, and they are not the ones who need help from taxpayers.

In 2001, the Bush administration used the impending recession as an excuse to cut taxes for upper-income Americans -- the very group that had done so well over the preceding quarter-century. The cuts were not intended to stimulate the economy, and they did so only to a limited extent. To keep the economy going, the Federal Reserve was forced to lower interest rates to an unprecedented extent and then look the other way as America engaged in reckless lending. The economy was sustained on borrowed money and borrowed time.

The day of reckoning has come. This time we need a stimulus that stimulates. The question is, will the president and Congress put aside politics to get the job done?