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Stagnation -- Notes for Bill Clinton

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Stagnation

Sixty years ago when Franklyn Roosevelt took office the financial system was in tatters.

The country was in the grip of a debt deflation process.

The period between the containment of the great collapse and the start of World War 2 was an era of stagnation.

Imputation to the closing of the frontier and the exhaustion of investment opportunities

Roosevelt quite quickly succeeded in halting the free fall of the economy, but he was unable to get the economy into a self sustaining expansion pattern until the financial consequences of war finance healed the liability structure of firms.

There is a similarity between the Presidencies that began in March 1933 and that which is to begin in January 1993: Both inherit a grievously wounded financial system.

The implications for Clinton: There is a need to put in place a financial system that can support the emergence of new enterprises as well as the generalized support of the capital development of the economy.

The degeneration of the banking system
The destruction of the S&L's
The Westinghouse impact
The end of Drexel Burnham

Three sets of needed financial institutions:

1 community banks
2 Banks for enterprise and medium credit
3 a new RFC

Efficacy of fiscal measures   A fiscal measure that helps the economy get out of a recession has been likened to jump starting (In earlier days it was called pump priming) this implies that after a start from fiscal expansion, which raises employment, demand and profits, private demand takes over and draws the economy to full employment. But if the battery doesn't take the charge or if the generator is not functioning then the effect of the jump start ends when the engine comes to a halt: the battery cannot turn the engine over.

A fiscal stimulus is effective as it leads to a rash of externally financed investment expenditures. This requires two to tango   The business man to propose and the banker finance to accept.

But the banker has been wounded:
many have disappeared
others have been merged into larger units
the finance companies are now more wary
Business carries the debt burdens of the 80's junk financing days.

Implications
1. An investment tax credit will have less of a kick than the experience from the days with a healthier banking system and without the loan loss experience of the past half decade.
2. A generalized tax cut will have little effect beyond an increase in consumption spending
3. Spending will be better than revenue reductions especially if the spending can be rationalized on its own grounds
   a Infrastructure investment in general
      1 full funding of the transportation act including the gas tax increase phased in behind the spending
      2. The airport trust fund hasn't been spent: spend it
      3. Other infrastructure spending
   b. A generalized NYA/CCC as a permanent program to facilitate the transition from youth to maturity and careers and jobs
   c A permanent WPA as the device that transforms the dole of welfare into an earned income
   d. A program to fight drugs by fighting demand by employment by treatment centers.

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Nobody can deny that the financial system of the United states has suffered serious hits over the years since the mid 1960's. There have been a large number of failures and troubled situations among Savings and Loan associations, commercial banks, finance companies, insurance companies, brokerage houses and pension funds.

Such financial institutions are part of the mechanism that determines the size and timing of the response to potentially profitable business operations. A wounded financial system will attenuate and even prevent any positive response by business to perceived profit opportunities.