

# Economics for presidential contenders

By Thomas I. Palley,  
Special to PAI

MEMO

TO: Progressive Presidential Candidates

RE: Framing A Winning Economic Policy

FROM: Thomas I. Palley

The unbalanced U.S. boom that followed what was officially the 2001 recession (for workers it lasted a lot longer) provides a real window of opportunity for progressive Democrats to reverse the *laissez-faire* economic extremism of the last 30 years.

This window may open still wider if the economy suffers a recession in the next two years. If progressives are to take full advantage of this opportunity, they will need a new economic policy frame. Here's a suggested road map.

•**The roots of past failure.** As a rule, progressive economic policies played well in slumps, but their traction tended to weaken with recovery, and it became more difficult to argue for change of direction. This pattern has been a recurrent problem over the last 25 years, especially since the so-called good times have often not been that good for many working families.

Once recessions ended, policy quickly reverted to the pro-business *laissez-faire* model. The result: Globalization without standards, persistent erosion of worker bargaining power, and expansion of the economic power of corporate and financial elites.

Behind this political failure lies a progressive economic policy framed in terms of unemployment, fairness, and, more recently, budget deficits. This triptych is deeply flawed: It lacks staying power, rests on an essentially negative message that clashes

with America's economic optimism, and is prone to economic confusion.

Though unemployment resonates deeply in recessions, it loses traction once the economy moves into recovery. That means the progressive critique can sound off-key.

Economic fairness has more lasting appeal. But it seems to be secondary for many Americans and is usually trumped by concerns with efficiency, enterprise, and growth. This

public attitude is reinforced by *laissez-faire* economists who regard a trade-off between equity and economic efficiency as unavoidable—and they come down on the side of efficiency, and against equity and fairness.

Finally, focusing on budget deficits makes it look as if government itself is the problem—the conservative position—as is “lack of saving.” That, in turn, pushes tax policies that privilege profits and increase both the deficit and inequality. Additionally, focusing on the deficit confuses the economic message.

Budget deficits can be desirable to counter recessions or finance public investment in such things as roads and schools. That means you must distinguish “good” deficits from “bad” deficits: The good deficits are for such investments, while the bad ones are due to tax cuts for the wealthy and wasteful spending.