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Stop the Recession

By Richard W. Rahn
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There is still time to avoid a recession — a recession being technically defined as two quarters of negative economic growth.

What needs to be done, and can be done in the next 60 days, follows. But first, it is important to realize the present economic slowdown was caused by a series of mistakes by the Federal Reserve, the Securities and Exchange Commission (SEC), the administration, and Congress. Many of our government policymakers and politicians still insist it was the other guy's fault and pretend that taking money from one group of taxpayers and giving it to another (a k a, a "stimulus package") will somehow miraculously revive the economy.

The administration is guilty of having both proposed and acquiesced to spending that resulted in more costs than benefits to the economy, which has slowed growth. Even though those in the administration cannot suddenly reverse much of the wasteful spending on their own, they can do several things by presidential directive to make things better immediately.

Energy risk management guru, Jeffrey LeMunyon of Linwood Capital, has correctly noted that the U.S. government could immediately bring down the price of oil by selling near-term oil contracts in the oil futures markets and, at the same time, buying long-term contracts. Currently, the short-term contract price is above the long-term price because of the expectation by some speculators of short-term supply disruptions. If the government did sell "short" and buy "long," the taxpayers would make an automatic profit — by selling high and buying low.

The reason the government can do this without risk, whereas the typical private investor cannot, is that the government owns the Strategic Petroleum Reserve (SPR) so, even if it had to make a short-term delivery from the SPR, an equal amount of oil would be redeposited within a few months, thus having no effect on the nation's oil security. In reality a delivery would be very unlikely because, normally in futures' markets, speculators and hedgers take the other side of the contracts. Once the word got out that the government was doing this, many speculators would sell short-term contracts, thus driving down the price of oil.

Courts have previously ruled it is within the purview of an administration to define terms such as "cost" and "income" for tax purposes. Thus the administration has the power to define these terms properly (unlike what the Internal Revenue

Service has done) so changes in price levels of assets due solely to inflation would not be taxed under the capital-gains provisions.

This indexing of capital gains for inflation (as many good tax economists have long recommended) would give the stock market a very positive push because of the reduction in the cost of capital, which would also have the benefit of restoring the value of pension funds. The only reason this has not been done is because timid people in the administration are afraid of Democrat criticism for not using a legislative corrective. (Such a debate is a political winner for the policy advisers in the administration, if they would only realize it. Would you not love to debate someone who advocates taxing phantom income due solely to inflation?)

Congress and the administration should immediately announce (before spring planting) they are getting rid of the ethanol mandates they just passed. These mandates have driven up the cost of food for not only Americans but everyone else on the planet, including those who are close to starvation.

Senior officials in the United Kingdom and the United Nations have said in recent days that rush toward biofuels puts millions at risk because of the global escalation of food prices. The politicians now have the perfect excuse for the policy reversal. Recently released peer-reviewed scientific studies now show ethanol and other biofuels are actually worse for the environment than are fossil fuels.

Second, new peer-reviewed scientific papers show the feedback mechanism for CO2 in the major climatic models has been incorrectly specified and, as a result, we will not have runaway global warming (a major climatic model builder has acknowledged the error). Third, the Northern Hemisphere had a record cold winter, and recent indications are the planet is not warming according to the projections of the models.

In fact, the record (measured) warmth occurred back in the 1930s, not in recent years. In light of all these new facts, it would be grossly irresponsible to continue the ethanol mandates, given the suffering they cause.

The Securities and Exchange Commission, having loaded businesses with additional unnecessary and costly regulations over the last few years, and having driven some major financial activities (such as IPOs) to London and elsewhere, is still in denial. So far, it has not even admitted the technical mistake of requiring companies to "expense" the noncorporate expense of stock options, which is just one part of the regulatory plaque clogging the arteries of previously healthy companies. The SEC needs to (and can if it so desires) immediately get rid of regulations that don't meet reasonable cost benefit tests. Doing so would give the financial markets an immediate positive jolt.

The open question is: Will our political leaders in both the administration and Congress have the courage to admit they were wrong about many of the laws, regulations and rules they passed that are now causing major hardship? Or will they stay in denial because they are more interested in protecting their own egos, rather than removing unnecessary hardship from their fellow citizens?

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