Killing the doctors to cure the disease

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In the 1970s, Americans joked about the Soviet leader who ordered the execution of doctors for causing a mysterious disease in a particular region. The reason given was the strong correlation between the number of patients afflicted with the disease and the number of doctors in the region. We recognized that doctors had come to the region to treat the disease so that their greater numbers were the effect and not the cause of the problem.

Strikingly, decades later, many Americans are making the same mistake by again confusing cause and effect and, this time, trying to kill government deficits. In the midst of a major recession, government deficits have expanded greatly as tax revenues have declined and required government outlays have increased. The latter includes not only expanded unemployment insurance and other needed social services but also short-term subsidies required by industries such as autos and banking. Such factors are the effect of the recession which led to the deficits, and not their cause. Indeed, automatic expansions in social welfare payments have long been considered a desired form of economic policy-making, which falls under the category of automatic stabilizers. No less a conservative spokesman as Professor John Taylor of Stanford has taken this position.

Just as with our earlier example of the mysterious disease where more doctors rather than fewer ones were actually needed, so it is with tax cuts and government expenditures. The private sector is not yet up to the task of providing sufficient demand for goods and services to put the unemployed back to work, although there are strong signals that this private deficit may soon end. Household and business balance sheets are improving, and recent expansions in the nation's housing markets can make a real difference in expenditures.

In these circumstances, the essential task of government is not to make matters worse, which ominously is a threat on the horizon. As others have noted, the economy is facing a "Fiscal Cliff" which could derail whatever economic improvements are now appearing. It would be 1937 all over again. Unless legislative actions are taken, taxes will rise and government expenditures will decline at the start of the next year. By all accounts, the cliff will be much too large for the economy to navigate and a double-dip recession will appear. Economic growth will decline and with it, we will see lower tax revenues and greater automatic government outlays. The direct effects of permitting this combination of higher taxes and lower expenditures to occur are not lower deficits but rather higher ones. Even on its own terms, this is a strikingly self-defeating policy.

What of course is needed is a political agreement not to make things worse and to put off the approaching Fiscal Cliff until the economy can navigate its contours. Both the impending tax increases and budget cuts must be averted, at least for now. At this point, we need not to kill the doctors but instead follow the old medical adage: "First, Do No Harm."