Talking Points Memo

http://tpmcafe.talkingpointsmemo.com/2009/02/26/stiglitz_is_correct_dont_bow_to_dow/

Stiglitz is Correct: Don't Bow to the Dow

By Peter Dreier - February 26, 2009, 4:02PM

In nine short words, Joseph Stiglitz summarized much of what's wrong with most economic reporting and pundritry these days: "The stock market is not a good metric here."

The Columbia University economist, a Nobel Prize winner, was engaged in a conversation with Stephen Moore, a conservative Wall Street Journal editorial writer, moderated by CNN's Anderson Cooper following President Obama's Tuesday night speech.

Stiglitz was saying that a major government stimulus was required to revitalize the economy. With some caveats about bailing-out banks without a clear way to guarantee whether or how they'll lend the money, Stiglitz praised the President's initiative. Investment in infrastructure, he said, offers the most bang for the buck.

Stiglitz said: "The good part of that bill were these investments; these investments are investments that we need. We lost so much money by not investing in infrastructure."

Moore disagreed: " Yes, but Joe why is the stock market down by...

Stiglitz interrupted: "Those are good investments."

Moore repeated his mantra: "The stock market certainly doesn't agree with that."

Stiglitz responsed: "The stock market is not a good metric here."

Moore wasn't buying it: "It's a pretty good..."

Stiglitz explained: " If we give money to the banks, the stocks will go up. That's not what we're concerned about."

Political talk shows on TV are usually just shouting matches among journalists, academics, former politicians and others. Their "debate" is usually filled with clichés, not substance. This is especially true when discussing the economy, which "experts" tend to mystify rather than clarify, as though the economy operates on supply-and-demand auto-pilot, instead of being shaped by the decisions of corporate leaders, large-scale investors, and government officials.

But the debate between Stiglitz and Moore about the stock market -- brief as it was -- was important. And Stiglitz nailed it. The stock market is not a good indicator of the effectiveness of public policy, especially in response to announcements by government officials about new initiatives. The reliance by TV and radio newscasters, newspaper reporters and columnists, and quick-with-a-conclusion pundits on the stock market to assess the merits of a policy prescription, or even the health of the economy, is incredibly misleading.

Yet every night on the evening TV news, on National Public Radio, and elsewhere, we get reports on how the Dow Jones, S&P 500 and NASDAQ indices are doing -- as though that tells us something about the strength of the economy. All it tells us is how stock traders and speculators are reacting to something they haven't had time or inclination to find out about. It's no accident that, according to the thesaurus, "speculation" is just another word for "rumor" and "gossip."

The obsession with the stock market as an indicator of economic health reflects the problem that Obama identified in his speech to Congress:

"We have lived through an era where too often, short-term gains were prized over long-term prosperity; where we failed to look beyond the next payment, the next quarter, or the next election."

On CNN Tuesday night, Stiglitz pointed out what should be obvious to everyone: "If we had spent a few billion dollars (repairing the levees around New Orleans before Katrina hit) we would have saved over $100 billion" in damage.

Public and private investment in the right things - energy saving technology, medical research and health care, schools and universities, industries that don't pollute the environment and create good jobs, and infrastructure -- grows the economy in ways that are sustainable over the long-term. They lay the foundation for prosperity that can be widely shared. Making those long-term investments requires politicians, pension funds, business people, and others to look beyond the horizon.

That's the lesson that Obama was offering Tuesday night when he said:

"History reminds us that at every moment of economic upheaval and transformation, this nation has responded with bold action and big ideas. In the midst of civil war, we laid railroad tracks from one coast to another that spurred commerce and industry. From the turmoil of the Industrial Revolution came a system of public high schools that prepared our citizens for a new age. In the wake of war and depression, the GI Bill sent a generation to college and created the largest middle-class in history. And a twilight struggle for freedom led to a nation of highways, an American on the moon, and an explosion of technology that still shapes our world. In each case, government didn't supplant private enterprise; it catalyzed private enterprise. It created the conditions for thousands of entrepreneurs and new businesses to adapt and to thrive. "

That is a lesson that the news media (and most Republican leaders) still need to learn. The media's over-reliance on short-term fluctuations in stock prices to evaluate policy initiatives or the strength of the economy is a symptom of that kind of the mindless short-term thinking that Obama complained about.

It doesn't tell us anything about what we need to be looking at to assess our economic well-being: productivity growth, purchasing power, the unemployment and poverty rates, the level of inequality, the savings rate. These yardsticks -- as well as those that measure the consequences of the economy's condition on our daily lives, such as the real cost of pollution on public health, the safety of workplaces, the opportunities available to maintain a middle-class standard of living or move out of poverty - are what reporters and pundits should focus on.

Conservatives like Moore, however, think that "the market" - particularly the stock market - tells all. Moore is a one-man right-wing echo chamber. He has moved in and out of almost every prominent conservative institution over the past two decades, promoting the misleading and now-discredited view (except by Bobby Jindal, Rush Limbaugh, Sean Hannity and a their ilk) that giving tax cuts for the rich and allowing big business to regulate itself will bring prosperity. In the 1980s, Moore worked at the conservative Heritage Foundation and the libertarian Cato Institute. Then he served as Congressman Dick Armey's economic advisor when that neanderthal Republican chaired the Joint Economic Committee and pushed for a flat tax and an end to government oversight of the financial services industry. Moore was president of the Club for Growth from 1999 to 2004 and has served as a contributing editor to the right-wing National Review. Now he's a member of the editorial board of the Wall Street Journal, where he writes op-eds about the economy.

Until the 1980s, views like Moore's on the divinity of the stock market - as well as his views on almost everything else about the economy - reflected the extreme conservative wing of American thinking. But in that decade, thanks to idea entrepreneurs like Moore, the rise of a network of conservative publications, think tanks, and talk shows, and sympathetic politicians like Ronald Reagan, Phil Gramm, Dick Armey, Newt Gingrich, Jack Kemp, and others, these ideas took over the Republican Party. They even began to shape the way the mainstream press framed economic reporting. They made heroes of corporate raiders, merger maniacs, and real estate speculators and their lavish lifestyles, epitomized in the 1987 movie, "Wall Street" and its famous line, "Greed is good."

You'd think that the current state of the economy would have humbled some of these ideological zealots, but the speech on behalf of the GOP by Gov. Bobby Jindal, supposedly a rising Republican star, and its defense by the pundits in the conservative echo chamber (with the notable exception of David Brooks) reveals that these out-of-touch ideas now represent the party's mainstream.

One of these ideas is that the ups-and-downs of the stock market represent a good yardstick for measuring the nation's economic pulse. Yet there was Stephen Moore, repeating the blather.

Thanks to Professor Stiglitz for trying to teach Moore - no doubt a reluctant learner - the economic realities.