



Straight Talk

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Business Cycle Curiosities

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Greetings, Gentle Reader,

A curious cycle repeats itself in nations' economies. When an economy is booming, workers relax. They become less productive, making more demands of their employers, including pay raises. They want time off, but don't want it reflected in their paychecks.

In a robust economy, there are more jobs than qualified workers. Employers sponsor job fairs, recruiting high school and college seniors. Workers become overly secure and some slack off, no longer giving their employer a full day's work for a day's pay.

Governments at all levels increase spending and raise taxes, eagerly skimming the gravy train. They expand restrictive and destructive regulations on businesses, in a quest for voter approval.

Then the next phase kicks in. With lower productivity and higher taxes, businesses can't make ends meet (California is the poster child for this phenomenon.), so, in a struggle for survival, they cut expenses. At first, they trim fiscal fat, but shortly they're down to muscle, laying off their most expendable, least productive workers.

Next phase: The economy contracts, companies reduce inventories, lessening tax burdens and freeing up desperately needed capital. They order nothing until they need it, implementing the "just in time" principle to the nth degree.

The economic downturn becomes more deeply entrenched, under-capitalized businesses go under. Companies try to borrow money, but venture capitalists may demand that they reduce payrolls to improve their expense-to-income ratio, costing more employees their jobs. Some investors require that companies cut a specific number of their highest-paid employees, irrespective of company need and employee productivity level.

In this stage, tax revenues dip so dramatically that politicians panic. They have been spending giddily, and now they can't pay the bills.

If they raise taxes, they trigger increased business failures, deepening the recession in direct proportion to the increases. Businesses lose customers, triggering more failures and job losses. Opposition politicians and union leaders harangue presidents and legislatures, eager to deflect the

portion of responsibility that genuinely accrues to them. Why accept blame for destructive actions if you can convince a gullible public it's not your fault?

If taxes are cut, rather than raised, allowing businesses to recover, permitting fewer job losses, the recession lessens, again, in direct proportion to the cut. When recessions lessen - and they do if businesses are allowed to survive - employers remain uneasy and unwilling to increase inventories or payrolls. Therefore, in lessening recessions, a "lagging indicator" is continued unemployment of willing workers.

A secondary effect on unemployment is that benefit extensions delay full employment. Some workers are unwilling to go back to work until they have exhausted all sources of income.

One curious effect of recession: Since there are more potential workers than jobs, employees become more productive and less demanding. They know they don't dare make expensive demands of employers. If their demands imperil their company's survival, something will give, and that something will be their jobs.

After a recession ends and the economy becomes robust, it is only a matter of time before tax-raising politicians revert to their economy-busting ways, taxing the more productive and giving to the less productive, thereby buying votes. It is the nature of some politicians. They can't help themselves.

When they do that, they sow the seeds of the next recession. When those seeds come to full fruition and the next recession begins, warning flags don't immediately become visible. It may take a year or more before they can no longer be ignored. When that happens, tax-cutting politicians fight to cut taxes to stimulate the economy. Tax-raising politicians fight to raise them to increase revenues. If the "raisers" win, the economic downturn continues and the cycle proceeds apace.