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Nail down some deficit remedies

By Mark Zandi

The elements of a better economy are falling into place. U.S. businesses are profitable as a group, and our banks are well capitalized. The question is no longer whether firms can invest and hire, but whether they are willing to. Those animal spirits so vital to a healthy economy remain tethered. Policymakers' immediate priority should be to boost the collective psyche and let those spirits loose.

Nothing impedes this process more than uncertainty about next year's taxes. Without action from Congress and the White House, we will all be paying more in 2011. Policymakers should quickly nail down a decision about the expiring tax code provisions, assuring that no one pays more in taxes next year.

At the same time, 15 million unemployed Americans face the frightening prospect of a cutoff in unemployment insurance benefits. If policymakers don't act within a few weeks, families all over the country will run out of cash right before Christmas.

The federal government's record budget deficits have us rightly spooked. The long-term consequences are dire if legislators cannot agree on the necessary spending cuts and tax increases. The fiscal commission convened to deal with these hard choices will soon make their recommendations. Instead of reflexively bashing their ideas to gain a negotiating advantage, policymakers should focus on those proposals they can agree on. Political vitriol will only increase the uncertainty, freezing firms and households in place.

It is hard to see how the next Congress will come to terms on major economic policy decisions. But that's OK: If legislators can only dot the i's and cross the t's on the epic policy changes made in the last Congress, and prepare the intellectual groundwork for deciding our fiscal future in the next one, confidence will revive and the economy will be off and running. The tough choices will then become a bit easier to make.

Mark Zandi is chief economist at Moody's Analytics. His latest book is "Financial Shock."