

“The idea that somehow we’ve grown away from being cyclical is not right.”

Simon Johnson, a former chief economist for the International Monetary Fund, currently is a professor at MIT’s Sloan School of Management and a senior fellow at the Peterson Institute for International Economics.

Johnson co-authored two popular books on economics. “White House Burning: The Founding Fathers, Our National Debt, and Why It Matters to You,” was published in April. His earlier book, “13 Bankers: The Wall Street Takeover and the Next Financial Melt-down,” was published in 2011. Both were written with James Kwak.

State Legislatures: What do you see as the greatest risks to the economic recovery in the United States?

Johnson: I think the European situation remains fragile, and they could have a big blowup. That would really damage us. That’s the No. 1 risk.

SL: How specifically would the crisis in Europe affect the U.S. economy?

Johnson: It will be through exposure of our banks to their banks primarily. They have some very large banks and our banks don’t have much capital so they’re vulnerable to losses.

SL: What do you see as the single, most important thing Congress could do to get the country on the right fiscal track?

Johnson: I don’t think they should extend the Bush-era tax cuts due to expire at the end of this year. That would provide not all the revenue needed to make fiscal adjustments, but a lot of it. And it’s true the economy might be weak at the end of this year. But you could eliminate the tax cuts and then do a temporary payroll tax cut tied to employment relative to the population. So as the economy recovers that payroll tax cut would fade away. That combination would give you the fiscal adjustment we need to make in the next two decades, combined with enough support for the economy so you don’t have a double dip.

SL: What do you think are the best economic ideas coming out of each party?

Johnson: I don’t see a lot of economic ideas coming from either side. On the one hand, the GOP wants to cut taxes. This is just not a good time to cut taxes. You have budgets and shortfalls projected so you need to strengthen the revenue base. The Democratic side really doesn’t want to engage people on what the government does. The federal government mostly manages Social Security, Medicare and the military. But if you don’t have a lot of engagement with people you can’t explain that cutting discretionary spending is really quite small and not enough to make a difference.



SL: What do you think the unemployment rate will settle over the next several years?

Johnson: I think it’s to be determined. I think we could well go back to the way we were before, but it is true that the longer people are unemployed, the harder it is for them to get and keep a job. You lose skills and you lose a pro-work attitude so. Some of the damage will be lasting.

SL: How can state legislators sustain employment with this economic recovery?

Johnson: I think it is difficult because the states are really much more affected by what happens at the federal level. I think the key thing is to buffer the adjustment. If you feel spending needs to come down or taxes need to go up, do that gradually rather than doing something that is too difficult for the local economy to absorb. At least at the federal level, we think there is time to make a fiscal adjustment. We are saying it isn’t a major crisis. No one should panic, but we should get started and we should make ourselves credible.

SL: Are there lessons we should take from the Great Recession?

Johnson: We should have learned booms are transitory and we shouldn’t overspend. But that’s very hard to tell people when they can get re-elected by cutting taxes or raising spending. I think we have to approach good times with suspicion and bad times with as much buffering as we can

provide. The idea that somehow we've grown away from being cyclical is not right.

SL: State governments face a lot of challenges. Which are the toughest to solve?

Johnson: I think health costs are a problem for all of us. Both the private sector and the government struggle with that. It is hard for any individuals in the government to tackle that conclusively.

SL: What are the real-world effects on government and individuals if the deficit isn't meaningfully reduced in the next decade?

Johnson: It's the risk of a fiscal crisis down the road when interest rates go up sharply because investors prefer not to hold as much U.S. Treasury debt as they currently do or they want a higher interest rate for doing so. No one can say when that event might happen. It doesn't take a lot to get the fiscal house sufficiently in order to dramatically reduce that risk. It's really a federal-level decision. People at the state level should be lobbying for fiscal responsibility and really bringing the deficit and the debt under control.

Editor's note: These interviews are part of a series of conversations with opinion leaders. They have been edited for length and clarity. The opinions expressed are those of the interviewees, and not of NCSL.

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