



Insight

All-Night Laundromat Blues

DOUGLAS HOLTZ-EAKIN | JUNE 30, 2010

I learned about being marked to market in my misbegotten youth when I was besotted with a Joe Walsh blues wail. My increasingly unreliable memory says it went like this:

I got the all night laundromat blues

Washin' everything I own except my shoes

Got ring around the collar and it smells like sweat

Gotta dollar in the dryer but it ain't dry yet

If you wear clothes you got to pay the dues

I got the all night laundromat blues

The lesson I thought I learned (along with a basic inability to embrace a nudist lifestyle) was that there were some things that just came with the turf. And you paid for them.

The U.S. consumer has a major case of the all night laundromat blues. And financial markets are figuring it out. Over the past three days, four interesting pieces of data appeared. First, the Commerce Department announced that in May the saving rate rose from 3.8 percent to 4.0 percent. Households are not in the mood to head to the mall, in part because of the debt they carry.

The housing bubble was a central element of the downdraft that turned into the Great Depression. So one might think that it was good news that the Case-Shiller housing price index suggested that the U.S. housing market had finally hit bottom. Housing prices rose in 18 out of the 20 major metropolitan areas. Most significantly, they rose in precisely those areas that were ground zero for the U.S. real estate bubble.

Instead, on the same day we learned that consumer confidence plummeted. The Conference Board announced that overall confidence was down from 62.7 to 52.9, with the assessment of both the present and the future marked down. What is going on? The U.S. consumer knows that it has ring around the collar; in this case it smells like debt. They are dead set on working to reduce this burden on their lives and their futures.

Unfortunately they have an unreliable partner in current U.S. economic policy. At a time when jobs to provide the income to reduce debt should be the top priority, the Administration is preaching about new health care entitlements, new regulatory initiatives, and the evils of the private enterprise. At a time when a clear path to the future is paramount, the Administration is larding it up with debt – a Treasury-issued promise of higher taxes or higher interest rates or both.

The economic recovery is tenuous because consumers understand they are in the laundromat. They ran up the

debt and are paying the price. They are looking to the business sector to innovate, invest, hire and carry the economy while they take care of their dirty laundry. Unfortunately, the Administration's plans do not include business. Their basic philosophy is to replace business with a government that is increasingly in trouble (see: Ring Around the Collar and it Smells Like Debt).

The smart money always takes the pulse of the consumer. It understands that the American family is putting its quarters in the dryer and praying it has a job in the morning. Small wonder that the market fell nearly 300 points yesterday.

Today the ADP Employment Report indicated that the private sector created 13,000 jobs in June – essentially a labor market stall. Small business employment fell – hardly the recipe for a robust recovery.

The American family needs more quarters to get through the blues. It is time for the Administration to change course.