BARRON'S

Congress, Forecasters Have Much to Atone for

Not trying to avert a fiscal crisis is one of the legislators' many sins.

By GENE EPSTEIN - SATURDAY, SEPTEMBER 22, 2012

Yom Kippur, the Jewish day of atonement, generally falls around the end of the federal government's Oct. 1-Sept. 30 fiscal year, as Cato Institute fellow Chris Edwards reminds us. So Edwards, who is also the editor of www.DownsizingGovernment.org, mischievously proposes that to do penance for the sin of sipping—or in some cases, supping—at the government trough, we all try a fiscal fast.

"Let's see if we can go a day," he suggests, "in which we live without the federal government's welfare and services." More seriously, Edwards proposes that "Congress institute a day of atonement during which members go to the floor of the House and Senate and apologize to the American people for making no effort to avert the fiscal train wreck that threatens the well-being of future generations."

Blame it on heightened passions just before a presidential election. But my annual Yom Kippur poll of analysts on economic sins that should be atoned for has provoked an unusual degree of Old-Testament-style anger at both the state of the economy and statements about the economy by the two main presidential candidates.

NOBEL LAUREATE ECONOMIST Edmund Phelps charges both candidates with what he calls the "worst sin of all"—"taking it as given that tax rates on low and middle incomes may not be increased, no matter what."

While I believe Phelps' harsh judgment goes for both candidates, I would apply it especially to President Obama's proposed budget. Congressional Budget Office figures make it clear that the only way to afford the explosion in spending that budget calls for is to hike taxes on all income classes, even the lower half. Otherwise, accumulated deficits will pile up so much debt that the U.S. will turn into another Greece.

Across-the-board tax hikes could, of course, be avoided with spending cuts. Independent Institute fellow Ivan Eland charges Republicans, rather than Democrats, with the greater sin of "crass hypocrisy" on that issue, given the wider divergence between their record and their rhetoric. "Cuts in spending have always been hard for the GOP," observes Eland, "because, contrary to Mitt

Romney's rhetoric, its constituents' share of government welfare is at least as great."

In a similar vein, Cato Institute fellow Brink Lindsey faults the "supposedly free-market party" for candidate Romney's recent China-bashing TV spot. According to Romney, China has been guilty of "cheating" because it has managed to improve its share of manufacturing in the global market. Comments Lindsey, "It's hard to recall a more nakedly mercantilist-protectionist ad by a major presidential candidate since Ross Perot's campaign against" the North American Free Trade Agreement. He adds, "I guess that means there is no major free-market party in the U.S.—although of course, I knew that already."

On the sins of those currently in power, Blue Chip Economic Indicators editor Randell Moore faults Congress and the White House for "continuing to dither" in the face of the looming fiscal cliff. "Even if a last-minute agreement is reached to avoid the scheduled tax increases and spending cuts," observes Moore, "uncertainty associated with the fiscal cliff is surely depressing capital spending and hiring through the end of this year."

SINNERS, SINNERS EVERYWHERE: Mises Institute adjunct scholar Robert P. Murphy admits to having erred in predicting a heat-up in consumer price inflation, which hasn't occurred.

Renaissance Macro Research U.S. Economist Neil Dutta owns up to having mistakenly predicted a slowdown about now in the housing market. "I expected an increase in foreclosures to weigh on the market, which hasn't happened," explains Dutta. "As a result, housing inventories have declined, boosting prices and stimulating housing activity. I still expect foreclosures to slow the pace of the recovery, but I admit I've been way too early."

On the insidious relationship between stock analysts' earnings forecasts and profit performance, New York University finance professor Baruch Lev charges publicly traded companies with the sin of gamesmanship. "Last year," comments Lev, "almost 70% of U.S. public companies beat analysts' consensus earnings forecast, most of them by a few pennies—a game that obviously makes a mockery of the consensus forecast as a reliable performance gauge. Indeed, recent research shows that beating the consensus, which used to trigger a price boost, is now largely ignored by investors." How to punish the perpetrators? "If I were an analyst concerned with restoring the relevance of the consensus forecast," explains Lev, "I would exact an 'honesty price' from companies: Whenever they beat the consensus by a few pennies, I would raise next quarter's forecast by that amount. Then let's see how long companies play this game."

For my own breast-beating on poorly timed forecasts, I reach no further back than a recent column on the euro ("More Downside for the Euro," Sept. 3). Since it was written, the common currency has risen, not fallen. But unrepentantly, I still think it has more downside, just not right now.