Up and Down Wall Street

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Fire the Janitor

By ALAN ABELSON |

One man's solution to the country's fiscal problem. Why the Levys think we could get a recession next year.

Between burps, and still evincing the glazed and dazed satisfaction that gurgles through your being after digesting a particularly succulent meal, we fervently hope you found a moment or two last Thursday to silently render thanks to Newt Gingrich for his spirited return to the political wars.

After 10 years devoted to the successful pursuit of riches, via the eminently respectable profession of influence-peddling in his old stomping grounds in Washington (it's hard and dirty work, but somebody's got to do it), Newt decided to give something back to the country like, oh, becoming its president.

Wonderful gesture, you have to admit.

In typical Newt style, the old warrior chose to enter the lists by boldly confronting our blessed nation's No. 1 woe—the listless economy, and, more specifically, its horrible fiscal imbalance. Carefully avoiding all the fancy-schmancy mathematical formulas that economists use to becloud the vacuity of their labors, Newt went to the heart of the problem—too many public-school janitors.

By his own description a deep thinker, gimlet-eyed Newt detected what had eluded the ken of conventional pundits—multiple benefits in getting rid of the janitors. It would obviously relieve the taxpayers of the enormous and recurring burden of having to pony up for their salaries. Ever notice how many janitors drive Bentleys?

But it would also entail getting the students to do the classroom cleaning, paying them some nominal amount. The kids, especially those in poor neighborhoods, he insisted, would be thrilled to have a few coins in their pockets and would experience a vast surge of pride in their schools.

Although we haven't had a chance to ask the kids, or for that matter, the janitors, we can't imagine anyone not agreeing it's a great idea. Is it any wonder that, in the warrens and cubbyholes of D.C. where the political elite huddle, they call Newt the thinking man's politician?

The thought did occur to us—and doubtless to Newt, as well—that, given both the huge monetary savings and the invaluable educational lessons it provides, it might be worth getting members of Congress to do the work, since, for the most part, idleness is their principal occupation. But, of course, as the past few years have sorrowfully demonstrated, our beloved solons are good at making messes, not cleaning them up.

And in any case, that would leave the janitors bereft of gainful employment, although they might consider running for Congress, if they didn't feel the job would be too demeaning.

In delivering this modest panegyric to Newt, we don't mean to diminish the intellectual qualifications of the other candidates vying for the GOP nomination.

Take Rick Perry, for example, who's attracted plenty of heat because of his manifest difficulty in thinking on his feet. If only the poor guy would insist on debating sitting down, he'd prove a dynamite fount of brilliant ideas.

We were wowed, by way of illustration, by his proposal that Congress, following the example of the Texas legislature, meet every other year, and be paid a proper pittance—instead of the ample paycheck and big benefits a federal lawmaker now enjoys. As the late Molly Ivins, to her immortal credit, once observed: Another significant plus of such a truncated schedule is that it makes it easy for the residents of the state to tell when the Texas legislature is in session—because every village in the Lone Star State is missing its idiot.

If Rick Perry had his way, the same awareness could be vouchsafed the rest of the nation's population.

The excuse proffered by admirers of contestants for the grand prize in American politics is that their favorites have no choice but to pander to their base. That's true of the aspirants of both parties, no matter how base their so-called base is. Pretty lame excuse, we say.

We're lucky, then, that one of the fortunate idiosyncrasies of our political system is that, while the far-out, noisy fringe of the electorate may occasionally decide who gets to run, it's the unprepossessing, mellower middle that usually decides who gets elected.

What's bothersome now is that rarely has the swollen tide of coincident crises, domestic and foreign, economic, social and political, reached such epic proportions that it may sweep away long-standing precedents and time-tested truisms, including the reassuringly hoary one cited in the preceding paragraph.

IN THE LATEST EDITION OF THEIR admirable Levy Forecast, David and Jay Levy cite the rarity of this spectacular confluence of serious crises as virtually unprecedented in the more than three generations their family has been chronicling the economy and the markets.

As they relate: "We have seen expansions undermine themselves by overshooting on inventory building, capital spending and home building. We have seen bubbles burst, taking down expansions…and seen the domestic and world economies collapse into a great depression."

But they confess to having never seen anything like this before, when "an enormous external crisis is unfolding with sufficiently severe consequences to take out the U.S. expansion." An expansion, they're careful to remind us, that in itself is anything but robust.

The Levys are more than a little aware of the Street's scoffing at the notion that our economy might be stumbling toward recession in the face of solid growth in retail sales, brisk levels of capital investment and domestic indicators that mostly look stronger of late rather than weaker. They take it, in a sense, as confirmation that the crowd (including, alas, the so-called policy makers, who probably deserve to be called something more acerbic) doesn't really have much of a clue as to what's happening.

And they willingly concede this devilishly deceptive economy "will not necessarily show many of the typical signs of heading into recession until increased fiscal drag or the first major international shock wave hits, which might not occur until after the turn of the year."

But in support of their downbeat view, they finger problematic aspects of the domestic economy, including its dependence on a humongous federal deficit, the lag of such critical sectors as residential fixed income, commercial construction and inventory-building, and the likelihood that exports will decelerate sharply in this quarter.

All of which raises the specter, they maintain, that the great boom in corporate earnings will begin to lose its vigor before this year calls it quits. And we aren't disclosing any classified information when we venture that more than any other single factor, what has propelled this market these past three years has been the sterling performance of private-sector profits.

Even so, the Levys hold fast to their belief that if indeed recession rears its ugly head next year, it will do so only if there's a great jolt coming from abroad. As it happens, thanks to the ever-worsening European crisis, just such a great jolt is, they assert, "almost a sure thing." To the Levys, and they are hardly alone in making the analogy, watching Europe in the throes is like watching a horror movie.

"Something scary and destructive is going to emerge," they contend, and until it does, there is gathering anxiety over when it "will jump out" and precisely "from what dark corner." The never-ending shilly-shallying by the European big cheeses in search of a solution only adds to the suspense and hastens the day when the farce begets tears rather than chuckles.

ALMOST ANYONE WITH EVEN A CURSORY interest in the market (including us) had been expecting at least the semblance of a dead-cat bounce last week. Instead, of course, what we got for our eager anticipation was a growing feeling that this cat, unbeknownst to Wall Street, had been given an Osama bin Laden burial. That sound you may have heard was a swoosh, not a bounce.

Even in Friday's abbreviated session, stocks were unable to cling to early modest gains. Trading, as it inevitably is on a compressed day, was meager. Those lucky traders who could still afford it were long gone to some pleasant retreat, rather than standing around and watching their wealth melt. For their part, short sellers did their covering early, the better to have more time to congratulate themselves on their astuteness.

Meaningful news was as sparse as the shares changing hands, and what news there was, we're sorry to report, was heavily tilted to the downside. Having already wrested a 50% haircut on its borrowings from banks, Greece decided to go for a 25% haircut on any new bonds it issues. Do yourself a favor, and don't expect a rush to buy Greek paper.

Nor were the economic dispatches closer to home entirely comforting. In particular, consumer spending in October barely edged higher (the crowds apparently were husbanding their dough for Black Friday, which actually began late Thursday, and this year featured a Los Angeles woman using pepper spray to keep other shoppers from putting their greasy hands on stuff she coveted).

Durable-goods orders slackened, with aircraft demand taking a swan dive. More worrisome, though, if you happen to be the fretful type, was a decline in shipments of nondefense capital goods, stuff like computers and communications equipment, which serve as a proxy for business investment—just the kind of spending that has been one of the reliable pillars of the shaky recovery.

Who knows? Maybe this week's employment report will finally give us cause to cheer. But, then, maybe not.