THE WALL STREET JOURNAL.
WSJ.com

MAY 17, 2010, 11:34 AM ET

Secondary Sources: Double Dip, Public Debt, Underground Economy

A roundup of economic news from around the Web.

Double Dip: **Robert Shiller** says that the fear of a double dip recession could cause one. "There is still a real risk of a double-dip recession, though it can't be quantified by the statistical models that economists use for forecasts. Instead, the danger stems from the weakness and vulnerability of confidence — whose decline could bring markets down, further stress balance sheets and cause cuts in consumption, investment and local government expenditures. Ultimately, the risk resides largely in social psychology. It is the fear of fear itself, of which Franklin D. Roosevelt famously spoke."

Public Debt: **Nouriel Roubini** is worried about public debt. "While such fiscal stimulus and bailouts may have been necessary to prevent the Great Recession from turning into Great Depression II, piling public debt on top of private debt carries a high cost. Eventually those large deficits and debts need to be reduced through higher taxes and lower spending, and such austerity — necessary to avoid a fiscal crisis — tends to slow economic recovery in the short run. If fiscal imbalances are not addressed through spending cuts and revenue increases, only two options remain: inflation for countries that borrow in their own currency and can monetize their deficits; or default for countries that borrow in a foreign currency or can't print their own. Thus, the recent events in Greece, Portugal, Ireland, Italy, and Spain are but the second stage of the recent global financial crisis. The socialization of private losses and fiscal laxity aimed at stimulating economies in a slump have led to a dangerous build-up of public budget deficits and debt. So the recent global financial crisis is not over; it has, instead, reached a new and more dangerous stage.ts, and investors are skeptical about whether those cuts will actually happen."

Shadow Economy: **Jim Hamilton** muses on the underground economy and inflation. "[University of Maryland Professor Boragan] Aruoba 's interpretation is that the weaker a country's institutions, the greater the attractiveness of the informal sector, and the more the government is likely to rely on inflation rather than standard taxes to raise revenue. I was thinking about these correlations as we all ponder the storm clouds over Europe. Joining a common currency unit means losing the ability to adapt monetary policy to your own country's cyclical conditions. But it also means surrendering to your neighbors' long-run mix of formal-sector taxes rather than inflation as a source of government revenue."

Compiled by Phil Izzo