<u>Recessions, Trade Wars, and Asheville</u>
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Council Member Vijay Kapoor

As kids, we learned that what goes up must come down and, despite what we might wish, that adage also applies to the economy. Nationally, we're in the longest period of economic growth since the end of WWII, but warning signs are flashing. Historical predictors of recessions such as an inverted yield curve and the New York Federal Reserve Board's recession probability tracker point to possible future concerns as central banks have recently cut interest rates world-wide. The Trump Administration has also idiotically started trade wars with other countries by imposing tariffs on their goods which has prompted retaliation and threatened American jobs including those in Asheville. This newsletter will give you my thoughts on what all of this might mean for the Asheville area and what we should be doing now.

<u>A Slowing Economy</u>

There is normally a time lag between when a recession starts and when local government tax revenues drop. That's because property taxes make up most tax revenues, their levels have usually already been set, and they have typically already been collected for the year. A recession takes time to impact real estate prices as well. (For the same reasons, there is usually also a time lag between when the economy improves and when local government tax revenue increases).

During the Great Recession, Asheville tax revenues dropped by $8,176,000 or 12% between FY2009 and FY2010. I've seen few economists predicting that the next recession will be as severe as the Great Recession, but any slowdown in tax revenue growth is cause for concern given that a city's costs – which are largely personnel related – naturally grow faster than revenues.

Knowing that a recession is coming, City government should be doing two things. First, we should be aggressively looking at the programs and services we are providing and asking 1) whether we should be providing them at all and 2) whether we or our partners can do them better at a lower cost. Now is the time to determine whether the programs or services are effective.

Second, we should increase our unrestricted general fund reserves to at least 18% of our expenses. Our general fund balance is similar to a "rainy day" fund for unexpected events. We currently have a general fund balance policy of 15% of expenses – below the Government Finance Officers Association's (GFOA) best practice recommendation of at least 16.7%. While a 15% fund balance is still good (and remember that Asheville does have a AAA bond rating – the highest there is), during good economic times we should build the balance up above that level so that we can draw on it when tougher times come. For example, during the Great Recession, the City's general fund balance dropped from 20% in FY2009 to 13.4% in FY2010. Our alternatives would be to either make big cuts or to raise taxes which should only be done as an absolute last resort during a recession.

I've previously called for implementing a capital improvement plan through a responsible bond financing program. Does this cautionary economic data change my mind? No. Paradoxically, issuing bonds for capital programs during a recession is more often than not a smart move for a city because it comes at a time when borrowing costs are low and the cost to complete projects is also lower so cities can get more bang for their borrowed buck. Right now, though the cost to borrow is still historically low, the cost to complete projects is high (due to so much construction going on). If we plan wisely, and borrow responsibly, we'll be able to get more done at a lower cost.

Idiotic Trade Wars

Now let's turn to the idiotic trade wars that the Trump Administration has started and how they are directly threatening the manufacturing jobs of Asheville area residents.

It's times like these that I wish that I was back in college to hear what my economic professors would have said. I took classes from professors who were part of probably the most pro-free-market economics department in the country. Their theories were routinely cited by fiscal conservatives.

From them, I learned that tariffs were simply taxes on consumers since price increases from tariffs were passed on to consumers like you and me. I learned that they cost American jobs because companies cannot not sell as much due to those price increases and had to scale back production. And I learned that they were stupid and self-defeating since the countries on the receiving ends of them would simply retaliate by imposing tariffs on their own – further increasing costs to consumers. Tariffs are the equivalent of repeatedly punching yourself in the face all while asking "why are you hitting yourself?"

The Trump Administration's idiotic foray into tariffs is hurting local Asheville manufacturing companies and threatening the jobs of their workers. Many people don't realize that Buncombe County has a thriving manufacturing sector. Last year, the Trump Administration put tariffs on aluminum imports – a significant material for manufacturers – resulting in price increases for manufacturers.

Unfortunately, that's not all. The Trump Administration is also considering declaring importing automobiles and auto parts as a national security risk (seriously) which could result in tariffs and quotas that would prompt similar retaliation from other countries. This would have a direct impact on North Carolina manufacturers and almost surely would result in job losses.

Now's the time for local leaders – especially sensible Republicans and Independents – to put pressure on the Trump Administration and Congress to reverse these policies so that more local manufacturing jobs aren't threatened. We hear a lot during election season about wanting to support manufacturing and diversifying our local economy. Here's the chance to do it.

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