Walking a hard line...In the face of ever-brighter business conditions, passing an economic stimulus package finally proved too hard a row for the U.S. Congress to hoe. Unable to reach a compromise among its members that could also pass muster with the White House, the Senate gave up its effort to move a bill as incoming economic data showed a firming tone across a variety of industries and regions.

Inventory management provides one explanation of the quick improvement in economic circumstances. As retail sales plunged in the aftermath of September 11, merchants immediately curtailed their purchases of hard goods and began to discount their prices—zero-percent financing campaigns in the automobile industry being among the most prominent examples of aggressive merchandising. Inventories of capital goods such as computers and telecommunications gear also shrank dramatically. Now, with inventories depleted and sales running at a faster pace than production, factory orders are finally strengthening. The economy seems to be getting traction.

Confidence always plays a key role during hard times, but there are no hard-and-fast rules for maintaining it. The war against terrorism is undoubtedly having a mixed effect. On one hand, had the World Trade Center not been attacked, it is not even clear that the U.S. economy would be in recession at all. To be sure, a number of industries were hard up well before last September and had already scaled back inventories and work hours. But the attacks initially engendered so much fear and uncertainty among the public that the economy was hard put to stay afloat. Now that our government has launched a hard-hitting response, patriotic confidence seems to have returned. Our hard-nosed pursuit of the enemy will also provide economic lift in the form of sharply higher outlays for national defense and homeland security hardware.

In addition to considering various methods for combating terrorism, Congress has its hands full with the Enron scandal. The hard, sad truth about this affair is likely to be how commonplace it turns out to be in kind, if not degree. Press accounts to date suggest that many of the parties involved acted in their own narrow, short-term self-interest. The entire enterprise seems to have been determined, both in size and sphere of influence, by greed and hubris. Though one hopes there will be no more supernovas like Enron in our universe, there is already hard evidence of more than a few fallen stars.

Many people say that the widespread practice of egregiously creative financial accounting did not appear until just recently, and perhaps that is so. But the seeds of inspiration most likely were sown in the years of the stock market boom when investors were taken in by the hard-sell campaign of the New Economy messiahs. Out went the time-honored practices of hardheaded accountants, the hard stares of stock analysts, and the hard-line approach of regulators toward corporate disclosure. In that get-rich-quick world, advocates of hard numbers endured hardship.

Excuse the hard-boiled attitude, but not so long ago we Americans had a hard time getting serious about price stability. What do the incipient economic recovery, accounting high jinks, and price stability have in common? It’s not such a hard line to follow: Hard money, like hard numbers, fosters trust and confidence.

Many analysts still believe that inflation accelerates because labor markets become too tight, in other words, because the unemployment rate dips too low. Since they are certain that current slack in labor markets will suppress inflation, a continuation of today’s low rate is a standard feature of the mainstream outlook these days. Accordingly, some observers predict that the Fed will keep its policy rates steady for quite a long time. In fact, given unsettled equity markets, sluggishness in our trading partners’ economies, and the dollar’s value in foreign exchange markets, some analysts flatly reject any suggestion that the Fed should consider raising the funds rate in the near future.

Inflation accelerates when the central bank persistsently creates more money than people want. This condition usually results when central banks hold their policy rates too far below other, market-determined rates. Avoiding such outcomes can make central bankers appear hardhearted, especially if they see a need to move their policy rates before the economy reaches full throttle. But don’t be too hard on the hard-liners. Recent low inflation statistics notwithstanding, the core CPI measures still register in the 3% range, just as they have during the past five years. With a hard landing unlikely and expansion hard by, the Fed faces some hard calls.