Our political leaders must summon the courage to pull up their socks and deal with our fiscal predicament in a way that corrects for the mismatch between future income streams and liabilities.

Texas has received its share of good press recently. While many states continue to shed jobs, the Lone Star state has added 158,300 since the beginning of the year, accounting for 18 percent of U.S. job growth in 2010. The pace of recovery is stronger here than in the nation so far, but unemployment is stubbornly high and employers remain reluctant to hire.

This hesitancy to add personnel partly reflects a still-uncertain economic environment that we, at the Dallas Fed, are closely monitoring. Anecdotal evidence suggests business decisions are being deferred in the absence of clarity, or as one Texas banker recently noted, “Our bank is flush with cash; people are sitting on the sidelines because of the uncertainty and are putting more money in our bank.”

In recent speeches, I have argued that if there were greater certainty about future governmental policies, businesses would be more likely to take advantage of current record low interest rates the Federal Reserve has engineered, release the liquidity they are hoarding and invest in hiring and training a workforce that will propel the nation toward the steady job growth that would bring down the unemployment rate.

Fiscal problems around the country don’t help. When the economy deteriorates and enters recession—as it did in late 2007—local, state and national governments typically face budget shortfalls. Over the past two years, Texas stood out because it appeared to encounter only modest fiscal imbalances after entering the recession later than most other states. Today, Texas confronts budgetary headwinds and a two-year shortfall of $21 billion, senior research economist Jason Saving notes in this issue of Southwest Economy.

The financial squeeze is a familiar tale around the country: declining tax revenue from slumping sales, property, business and income taxes, coinciding with increasing demand for state aid, most notably health and social services.

Our political leaders must summon the courage to pull up their socks and deal with our fiscal predicament in a way that corrects for the mismatch between future income streams and liabilities. This should simultaneously incentivize businesses to hire American workers while expanding production of goods and services.

When contemplating our situation, I am reminded of what one of the most respected presidential advisers of the last half-century—Jody Powell—once said. When asked why he and others in the Carter administration had taken up bowling, he replied, “Well, it’s just too expensive to keep polo ponies.” There are limits to what we can afford. No amount of monetary policy accommodation can counter that truism.