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In Search of Clouds

Economists look for something to go with the spate of silver linings.

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THE ORDINARY NERVOUSNESS of investors and market watchers has been converted into advanced paranoia by the business media's preference for bad news. Consider this headline in the *Wall Street Journal*: "Economy's Surge Stirs Questions About When Slowdown May Come".

Share prices are driven to a six-year high by rising corporate profits and commentators trot out stories about bubbles and irrational exuberance, the latter a phrase used by then-chairman of the Federal Reserve Board Alan Greenspan to describe share prices--after which they doubled. Germany and Japan finally shake off their decades-long economic lethargy and show signs of recovery, and all talk is that, like rising share prices, this will force a recession-inducing rise in world interest rates.

There is worse. New home sales rose 13.8 percent in March from the previous month, bad news for pessimists who moan that this will prompt the Fed to keep raising interest rates. Indeed, read beneath the somewhat gloomy *Wall Street Journal* headline cited above, and you can dig out these facts: "The economy surged in the first quarter . . . , The housing market is holding up better than many skeptics predicted and consumer confidence remains surprisingly strong . . . , Solid job creation and wage gains are providing a cushion for consumer spending . . . , Orders for capital equipment are picking up . . . , Business spending broke out of a recent slump . . ." Oh, woe.

Then there is the dollar, which is weakening. That, say the fearful, will trigger inflation. Never mind that a weaker dollar is required if the trade imbalances that have seen America's deficit soar to 7 percent of GDP are to be corrected gradually, rather than with a disruptive heave.

THIS SPIN ON FINANCIAL NEWS is only one reason 77 percent of Americans tell pollsters they are uneasy about the economy. The other is the surge of gasoline prices to and through the \$3 per gallon level. That naturally troubles Americans every time they fill their tanks, which for many is at least once a week. But their irritation is increased by the political posturing of both the president and Congress.

Instead of talking to the voters "as if they are grown-ups," as William Kristol has urged, politicians of both parties have joined forces to demand an investigation to uncover any conspiracy of oil industry executives to gouge consumers. If only President Bush would use the "bully pulpit" of the presidency to explain that the price of oil is being driven up by two factors.

The first is the fear of a supply interruption. Iran is threatening to attack shipping routes, Nigeria is in turmoil, Russia is using its oil and gas to bring the West into line with its new geopolitical ambitions, and Venezuela's Hugo Chavez has begun to nationalize his country's oil industry. These moves have built a risk premium into crude oil prices. As BP chief Lord Browne has been trying to explain, there is