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ECONOMIC NEWS UPDATE

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If we needed any reminding that our world can change with nerve-rattling speed, we got it last week when the security services uncovered a plot by Islamofascists to slaughter innocent air travelers. Suddenly, a cup of coffee looks suspiciously like a terror weapon, an iPod like an explosives device, and a plane trip becomes even more of a hassle than it has been.

Other changes, less potentially lethal than the latest scare, are in store, fortunately of a less potentially lethal sort. The most obvious one underlies the decision of the Federal Reserve Board's monetary policy gurus to pause in their two-year program of ratcheting up interest rates.

Now, a decision by the Fed to wait for incoming data before deciding whether to continue tightening, taken alone, is hardly earth-shaking. But the reasons underlying the Fed's move mean that the lives of many Americans, and by extension many workers and consumers in other countries, are about to change. Uppermost in the Fed's mind is the fact that the US housing market is coming off the boil. Not collapsing, but

cooling sufficiently to deprive American consumers of one source of funding for their trips to the malls.

Until now, Americans have been able to cash out the rising value of their homes, and use the proceeds to fund a life of low savings and high living. That has created high levels of demand for all sorts of domestic goods, and kept millions of Chinese, Central Americans and other foreigners happily at work turning out the stuff Americans have been buying in such quantities that the US trade deficit has reached record levels.

If the Fed is right that the more normal housing market will combine with high gasoline prices to discourage consumers from visiting the malls as often as they have been in the past, and from loading their SUVs with furniture from Ikea, flat-screen TVs from Korea, and trainers from China, America's sneeze will give the world a bit of a cold. But keep in mind that big "if" -- retail sales in recent weeks have remained buoyant in the face of higher interest rates, higher gasoline prices, and the

gloom-creating effect of the current terror scare.

None of those drags on growth is likely to produce anything resembling a recession. It's just that after a long period of above-trend growth, a slowdown to more sustainable levels is going to feel worse than it actually is, especially to panicky politicians hoping that an economic feel-good factor will offset war weariness.

Add to the effect of the Fed's policy shift another change that is likely to affect Americans more than they now realize. Something has been happening to the way the benefits of economic growth are being distributed in the United States. For reasons not fully understood, America's highest earners are garnering the largest share of the rise in the nation's income. At the same time, the relatively benign overall inflation figures mask the fact that the cost of living is rising more rapidly for the elderly (the price of drugs), than for the affluent young (think computers and flat-screen television sets). Result: a middle class that is beginning to question the American Dream that has done so much to ensure social stability, and that has typically rejected appeals of leftist class warriors.

Finally, if someone woke up after a two-year nap, he would not recognize the American political landscape. Al Gore, a political has-been a few years ago, is now astride the environmental movement like a movie star, taking his apocalyptic greenhouse-gas film from town to town. In the process, he has turned himself into one of the left's hopes to nip in its incipiency the presidential bid of that famous right-wing warmonger, Hillary Rodham Clinton.

Meanwhile, enough Connecticut Democrat voters -- led by super high-

earners in Greenwich, where hedge fund moguls prowl the leafy lanes in their Maseratis -- decided that the party's 2000 vice presidential candidate and long-serving senator, Joe Lieberman, is too pro-war, too inclined to support President Bush on some issues, just not viciously partisan enough to suit the tastes of the left-militants who dominate the web. So, by a narrow margin they replaced him with a self-styled, self-made millionaire -- if a scion of a former chairman of the investment banking house of J.P. Morgan can properly be termed self-made. Ned Lamont will now be the Democrats' standard bearer in November's election.

The fact that Connecticut is a small state cannot detract from the change the decision of its Democrat voters portends. Every congressman up for reelection in November who voted to support the war in Iraq is wondering whether he should be looking for a post with one of the many Washington lobbying firms that provide post-congressional employment for those with no desire to give up the town's posh eateries -- on display in all their glory during this "Restaurant Week" -- for the hominy-and-grits served in the hometown diner. The net result, Republicans privately admit, is likely to be Democrat control of the House of Representatives and, possibly, of the Senate.

That would have a profound effect on domestic policy. Antiwar candidates lean left on domestic policy issues. They are unlikely to support Republicans' efforts to repeal the inheritance tax, or to contain domestic spending. They are more likely to support a tightening of environmental rules, and less inclined to allow drilling

for oil and gas in offshore and Arctic areas. They are more likely to blame high gasoline prices on oil company conspiracies, and less likely to favor relaxation of statutes setting corporate governance standards.

Bush and his Republican advisers have one hope: that last week's terror scare will awaken Americans to the fact that the nation is indeed engaged in what the President and Prime Minister Tony Blair quite correctly have been calling a war to preserve Western civilization. If that happens, the President will find himself blessed with a more conservative congress, which would be good news for corporate America, desperate to have its research and development tax credit renewed, and the provisions of Sarbanes-Oxley relaxed.



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