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ECONOMIC NEWS UPDATE

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**“Don’t worry, be happy.
In every life we have some trouble
But when you worry you make it double
Don’t worry, be happy.”**

Bobby Mc Ferrin

I always worry that our readers will be exposed only to large doses of the sort of bad-news stories that seem to dominate the media. So I thought it might be useful to look at the good news lurking in the bad-news headlines.

House prices are falling: True, but if you bought your home long ago, or even only a few years ago, you are still wealthier than you were then, even without counting the approximate 8% gain in your 401(k) this year. And if you have been wanting to buy a home, but have been priced out of the market, that market is coming back to you.

The dollar is falling: True, which means that those of you planning to take an overseas vacation this summer will find it costs more than you had planned – especially in London, where it now takes more than \$2 to buy £1. That

means that fewer American tourists will head for the UK and Europe, or spend less while they are here, while British tourists, clutching their almighty pounds, head for New York, Washington and other cities to deplete the shops, fill the hotels and enjoy the restaurants. It also means that made-in-the-USA goods are now cheaper for foreigners to buy, which explains the boom in US exports. The net result is a shrinking US trade deficit, just the adjustment of an “imbalance” that economists have been saying is needed if the world economy is to stay on its current growth path.

The subprime mortgage market is imploding, making all lenders skittish: True, and about time. The days in which lenders fell all over themselves to make credit available to people with only marginal prospects of repaying those loans are over. That might be tough on

some potential homebuyers or mortgagees in America, and make it somewhat more costly for private equity entrepreneurs to borrow the funds they need to complete their highly leveraged purchases, but private pain should not obscure public gain. Marginal, but far from all private equity deals just won't happen, and that capital will now be allocated to places in which it can more efficiently be employed, a plus for productivity growth. We might even be seeing the end of the era of excess liquidity that has had lenders going cash-in-hand to borrowers, waiving the usual protective covenants, and charging interest rates somewhere between generous and foolhardy. Result: the risk profile of lenders will be brought more into line with sanity, and borrowers who had no business seeking credit will do without it and the inevitable distress when payments come due. Fortunately, this adjustment is likely to occur without triggering a systemic collapse, although it might cut into the growth rate.

The globe is warming: This may or may not be true, but if it is, take heart. The consequences will be nowhere near as Gorey as some predict. There will be winners as well as losers. Shipping time between America's Atlantic and Pacific coasts will plummet as lanes open through the melting Arctic; alternative energy firms will prosper; agriculture in Russia and Canada will boom; and maple syrup is already flowing in upstate New York in January, according to *The Economist*. Think of a winter vacation on the beach at Ocean City, or Coney Island, or even cavorting in the warm December sun of Kennebunkport with a pair of former Presidents.

The rich are getting richer: True, but that is not a problem so long as the

money is fairly earned and equitably taxed. And the most visible of the new rich, the private equity deal-makers, meet the first criterion: they are performing a real service by taking over badly run companies, whipping them into shape, and returning them to the public markets. But it is not clear that taxing part of the entrepreneurs' earnings at relatively low capital gains rates is equitable. Again there is good news: in some countries there would be challenges to the entire economic system by the disgruntled masses, here there will be careful consideration of needed adjustments by a democratically elected congress. Another excess will, as the young people like to say, be history, but with luck sufficient incentives to needed corporate restructuring will remain.

Airlines and airports are overcrowded: True, which is why travel this summer was doomed to be a nightmare of overbookings and delays even before any heightened security measures stemming from the recent terrorist attacks in Britain. But remember, this is true only because deregulation makes it possible for so many people to afford air travel, a mode once reserved for the affluent. Some of us are old enough to remember when suits and ties were considered the only appropriate attire for an airline passenger.

One billion dollars is being spent on the presidential campaign in the US: It is true that the multiple candidates seeking their parties' nominations, and the eventual winners who will face off in the general election, will spend about \$1 billion in the two years between the campaigns' start and the time we go to the polls in November of 2008. But the good news is that America is rich

enough to afford the rough-and-tumble of political debate that, given the size of the country, has to take place on television or after expensive jetting from state to state. As Washington Post columnist George Will has pointed out, in those two years we Americans will spend just as much on Easter candy.

The US government is incompetent: It could not provide adequate relief to the victims of Katrina or of the postwar chaos in Iraq; it cannot control the nation's borders, or develop a policy to reduce American dependence on foreign oil, or figure out how to save the middle class from the deprecation of a tax structure containing a feature – the Alternative Minimum Tax (AMT) – originally aimed at millionaires, but now biting into the budgets of middle class families. No silver lining to this dark cloud.

But most other bad news is really not as worrying as it as first seems.



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