

ECONOMIC NEWS UPDATE

IRWIN M. STELZER

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You've probably spent the past weeks sorting through the hourly fluctuations in share prices and interest rates, expert guesses on what the Federal Reserve Board's monetary policy committee would do to short-term interest rates, who's in and who's out at Merrill Lynch, Citigroup, and other troubled banks and brokerages, the ups and downs -- well, mostly downs -- of the dollar, and the other stuff of the daily financial press. So just for a change, let's look at the trends that will be more enduring, and will affect the world's economies long after the current ups and downs are forgotten.

Perhaps most important is the massive shift in the world's wealth to the developing economies of Asia and the Middle East. China and India have finally integrated their massive work forces into the globalized economy, and have become export engines -- the new workshops of the world. Meanwhile, Russia and Middle Eastern nations that float on a sea of oil are parlaying \$90 per barrel prices into massive accumulations of wealth.

These funds are under the control of governments, which have created state-funded entities to invest them in pursuit not only of profits, but influence. Which profoundly changes the nature of the world trading economy. The very underpinning of the argument in favor of free trade -- that it directs resources to their most efficient use -- is undermined when non-economic, non-market considerations dictate the international flow of capital. And make no mistake: these funds will be invested with what Merrill Lynch calls "national strategic interests" as well as profits in mind.

Moreover, the balance of power between Western capitalists and government investment vehicles that hold huge piles of dollars and other currencies has been altered, witness the hat-in-hand trek of Wall Street deal makers to China and the Middle East in search not of silks, spices or oil, but capital.

We are not talking about a minor reallocation of the world's wealth. Some experts are predicting that the so-called Sovereign Wealth Funds -- the

government investment vehicles -- will have \$10 trillion in assets in a decade. At that size, "they are the global financial system," says Ken Rogoff, former chief economist of the International Monetary Fund. That will be grist for the mill of protectionists, already flexing their muscles. For proof look no further than Hillary Clinton's attacks on the NAFTA trade pact, considered by her husband one of the major accomplishments of his presidency.

That is only one way in which the world of business is changing. Another is the consequence of the current problems in the credit and mortgage markets, a consequence that will endure long after things have settled down in the housing market. Banks have in the past traditionally demonstrated an inability to learn from their mistakes. But in this crunch the consequences are up close and personal: bank CEOs get fired. That is a lesson their successors are likely to remember for some time. The result will be more expensive mortgages, and a continued decline in home ownership.

In 1994 some 64 percent of American families owned their homes; that rose to 69 percent in 2004. But the home ownership rate has since declined to 68 percent, and is headed down. The Federal Reserve Bank of Atlanta estimates that somewhere between 56 percent and 70 percent of the increase in the home ownership rate in the 1990s was due to the new, exotic mortgages that are now in disrepute, and therefore unlikely to be resurrected. So renting is likely to rise and home ownership to fall for a good long while. That means that many Americans will have to find a new vehicle to accumulate wealth. My guess is that the rate of saving from current

income will begin to inch up, and that the political pressure to put the social security system on a sound basis will become irresistible.

Adding to that pressure will be the increase in longevity, in turn a result of a new emphasis on what is called "wellness". There can be no denying the propensity of the smoking and food police to extend their reach. That process will accelerate when a Democratic-controlled White House and congress -- almost a certainty -- make government an increasingly important player in health care markets. When an obese person has to pay for his own gluttony, there is little moral case for denying him the sustenance he feels he needs. When the cost of his care is borne by taxpayers -- which would be the case under most of the Democratic plans -- society has a good case for developing programs that will induce him to replace his burgers with salads. So look for a long-term trend toward less satisfying, healthier eating, the sale of more gym equipment, and good years for sneaker manufacturers.

Then there is the green revolution, which has been with us for some time, to little effect. But now the nation's -- indeed the world's -- politicians have decided that global warming is enough of a threat, or at least has captured the imagination of a sufficient number of voters, to warrant their attention and very vigorous action affecting many aspects of life. So, too, corporate chieftains, who no longer see green only as in "greenback", but as in greener operating policies demanded by customers, investors, their work force, and regulators. In short, this green will not fade as quickly as have past environmental fads.

Which is both and good bad news. Good because the hunt for more efficient, cost-effective ways to use energy is accelerating; bad because hare-brained schemes such as ethanol-from-corn are leading to deforestation and higher food prices, with no appreciable net reduction of carbon emissions.

So we may be on the way to a world in which non-democratic government dominate capital markets, protectionists interfere with the free flow of capital and goods, the dream of home ownership becomes more difficult to realize, bureaucrats decide what it is permissible to eat, and the greening of the world shoehorns us into smaller cars and dimly lit rooms. Unless, of course, America decides to rely less on government intervention, and more on economic growth to propel its living standard ever upward. We'll know the answer when the next election rolls around.

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