

ECONOMIC NEWS UPDATE

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The Democrats' America vs. The Real Thing

Today is that day that we all realize that summer's lease has all too short a date. The Labor Day weekend starts tomorrow -- the last long, lazy weekend of summer. Fewer Americans than usual have taken to the road because gasoline prices, although easing (hurricane Gustav permitting), remain high by historic standards. But whether at home or on the road, we know that there won't be another long weekend until Thanksgiving rolls around late in November, and that holiday is more likely to witness snow flurries than warming sunshine in most parts of the country.

Americans who were glued to their television sets watching the Democratic convention that ended last night with Obama's acceptance speech, might not be in a mood to relax with their last gin-and-tonic of the season. The picture of America they got from Denver, the mile-high host city -- mile-high as in altitude, not the stuff that contributed to making the Democrats' 1968 convention in Chicago such a riotous affair -- is of a nation in serious economic trouble and shunned by its former allies. Only 18% of Americans believe the nation is on the right track, we were reminded by an Obama-loving media.

As the Democrats see it, America circa. 2008 consists largely of uninsured people struggling to pay the health-care bills of their sick kids, people whose homes have been snatched from them by hard-hearted bankers, a massive army of the unemployed, women discriminated against in the workplace, greedy rich people unwilling to pay their fair share of taxes, and returning veterans denied benefits by none other than, war hero John McCain. And of unionized teachers, who say they are eager to do their best for our kids, but remain adamantly opposed to allowing parents to pick the schools that are best for their children, and to merit-based pay to reward excellent teaching.

To the Democrats, and to about half of Americans who have made up their minds, the solution is to elect Barack Obama president of the United States. With the exception of an undetermined number of angry Hillary Clinton fans, Obama's supporters are notable for their enthusiasm. Their man, they believe, will bring justice to the downtrodden, heal the sick, feed the poor, save the planet, and end war. This will be accomplished by raising income, estate, capital gains and dividend taxes paid by the rich, and freeing up funds by ending the war in Iraq

“responsibly”. Throw in taxes on polluters, the withdrawal of some tax advantages enjoyed by the big oil companies, and you have a sort of anti-Keynesian fiscal policy: higher taxes as the economy weakens, although not, we are promised, for middle- and lower-income families.

Fortunately for America, the state of the nation is not quite as described by the Democrats. Yes, the health care system is not what it should be, in part because government regulations have intervened between doctor and patient to convert what once was a respectful relationship into an adversarial one. Yes, health care costs are escalating, in part because new technologies and medicines that improve the quality of life are costly to develop. And, yes, things would be a lot better if Americans who do not get insurance from their employers were treated equally for tax purposes with those who do, as John McCain suggests.

But in the end, 85% of Americans do have health insurance coverage. Of the 45.7 million people who are uninsured, many receive health care at no cost to themselves from the non-profit hospitals that account for about 90% of all such institutions in the US. And, according to The Wall Street Journal, 25% of the uninsured are eligible for

government-funded Medicaid, but have not signed up, and 54% are between the ages of 18 and 34, a group heavily weighted with people who, right or wrong, probably see little need for coverage. Can things get better with sensible policies? Sure. But experience in other countries suggests that massive government intervention in the health care system just might not be the answer. Canadian fugitives from government health care slip across the border to avoid long delays by getting their ills attended to here; there is no traffic in the other direction.

Then there is housing. Again, there is no doubt that foreclosures are all-too common, and a tragedy for displaced families. But the vast majority of Americans are paying their mortgages regularly, and living in houses worth far more than when they were purchased, even though prices are down from their peak of a few years ago. And thanks to some sensible bipartisan work by Treasury Secretary Hank Paulson and Democratic chairman of the House Financial Services Committee Barney Frank, the government is doing a good bit to ease the plight of some who are caught in the credit crunch. The sort of bipartisan work in which John McCain has specialized for

decades and in which Barack Obama has never engaged.

There is no question that the job market has weakened, but neither is there any question that it has not sunk to the levels of past recessions. There is also no question that inflation in food and energy prices is hurting American consumers, but price increases are nothing like those unleashed in the late 1970s by then-President Jimmy Carter, a smiling, warmly greeted Democratic superdelegate in Denver last week. Much will turn on whether the Fed is right in guessing that the worldwide economic slowdown will ease pressures on commodity prices and bring inflation down to acceptable levels.

Karlyn Bowman, the American Enterprise poll analyst who has her finger on the pulse of America, tells me that "Job satisfaction remains very high. Most workers don't fear losing their jobs nor do they think their job is about to be sent overseas....Seventy-six percent in a new Harris poll said things are on the right track in their personal lives."

But the number of Americans who say their employer has laid off workers in the past six months is up, which must produce some anxiety, and even though 76% feel things are on the right track in their personal lives, only

18% think that of the nation. Which gives Obama an opportunity to persuade the undecideds, some 30% of all voters, that he is the agent-of-change for whom they have been waiting.

McCain's chances, which are proving to be better than anyone imagined they would be, will depend heavily on two things: continued progress of "the surge" in Iraq, and the state of the economy. Fortunately for him, the economy continues to grow, at the quite satisfactory rate of 3.3 percent in the last quarter, powered by the exports that Obama would cut into were he to go ahead with his plans to crack down on free trade.

And there are signs that the housing market is finding a bottom, as Wall Street types put. Faint signs, but signs nevertheless. The fall in prices is slowing, nine of the twenty metropolitan areas tracked by the much-watched S&P/Case-Shiller index posted price gains in June, new-home sales ticked up in July, and the inventory of unsold homes, although still high, declined for the second consecutive month. Nigel Gault, economist with forecasting firm Global Insights, told The Wall Street Journal, "We're starting to see some hopeful signs in parts of the country." And on a recent visit

to Phoenix, arguably the hardest hit and over-stocked housing market in the country, one builder told me that sales of homes priced under \$350,000 are picking up, and another that he is now buying building sites in anticipation of a pick-up early in the new year.

That might not be the beginning of the end of the housing crisis, or even the end of the beginning. After all, mortgage rates are creeping up; the banks face the enormous task of refunding almost \$800 billion of their debt by the end of next year - - \$95 billion next month; the list of troubled banks is growing; and Freddie Mac and Fannie Mae may face tougher terms from lenders and be forced to curtail their support for the mortgage market.

But the majority of Americans are comfortable with their own circumstances as they fire up their barbecues for the last time this summer, or stretch out on their couches to watch some great tennis at the U.S. Open in New York, or subject themselves to the start of the Minneapolis-St.Paul shindig at which the Republicans will anoint their champion.

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