

Answers to solve the economy as we move into this last quarter

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So the third quarter is now over. Wow! What a summer of uncertainty. I had many questions in June about the second half of 2011. So what have I learned as we move into this last quarter:

1. I had concerns about the end of QE2 on June 30th and the potential rise of interest rates. There was much talk about another QE3. Conclusion: Nothing happened. There was no massive impact from QE2 and there will be no massive rise in interest rates. The Feds announced two more years of low interest rates. But the low interest rates aren't sparking the economy either. It has not helped spur investments.
2. I had concerns about high inflation for the second half of 2011. Conclusion: There is no mass hysteria of inflation and no increase for now of interest rates. Maybe Dr. Shilling was right about this deleveraging phenomenon. I only observe consumers, companies and governments working hard to pay off old bills. Moving forward the U.S. could be stuck in a rut of deflation like Japan.
3. I was concerned in June about the transformation of our accounting system from GAAP to IFRS and the impact on real estate leases. After speaking with over 60 public companies this summer, no one seems to be too concerned or focused on the transformation.
4. My big global concern was Greece and the ability of other countries to pay back their debt. I was never convinced that if you spend more than you make that you can quickly pay back debt if at all. It's still a problem.
5. I had concerns of commercial loan defaults and the housing market. The reality is that it will take 4-7 years to clean up this mess.
6. More jobs are not right around the corner. It is probably another 4-6 years away if at all. We need a revolutionary invention or industry discovery or demand that will drive a massive employment burst.
7. Finally, my last idea which is the craziest thought I have had all summer. If we want to fix this global finance issue and move on to a stronger economy, I believe that the debt hole is perhaps too deep. It could take generations to clean up.

So, here we go....have these governments file for bankruptcy, wipe out the debt, then remove the leaders from office, replaced by real leaders and be forced to start over with a balanced budget and new rules. If GM can file for bankruptcy then why not government? GM is stronger than ever in a short period of time of recovery. Are they too big to fail? I understand the pain would be enormous, it would probably collapse the entire world short-term, global investors would be wiped out and probably never buy government bonds again. But think how easy it would be to solve the problem. Wipe out debt, start fresh with a balanced budget, reduce government and spending and start fresh on the way to recovery. But it is just a thought.

Robert Nahigian, FRICS, CRE, MCR, is the 2011 CRE chairman of CRE/NE and president of Auburndale Realty, Co., Newton, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540