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CELEBRATING 55 YEARS

Perhaps we have learned our lesson, but probably not

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The real estate industry comprises just one piece of a very complex economic puzzle. Other pieces include financial and business services, the construction industry, manufacturing, retail, agriculture, transportation, communication, labor, trade, just to name but a few. These puzzle pieces are dynamic and very interconnected whereby an event in any one sector can have far reaching impacts and unintended consequences within the other sectors. The economy, as an entity created and perpetuated by people, may be characterized as organic having its own unique pulse, rhythms, and cycles.

Although founded in human activity, the economy is not entirely under the control of its human participants. Weather and other natural events are huge influences. Hurricane Katrina and the tsunami that struck Japan are extreme examples. However, even relatively minor weather events can have significant sway on the economy. A rainy Memorial Day weekend or an unusually snowy winter impacts the cash flow in areas dependent on tourism. A dry spring can impact the quantity and quality of the fall harvest and cause a fluctuation in food prices which in turn has the ability to impact the Consumer Price Index and the amount of disposable income for other goods and services.

Technology also creates far reaching effects on the economy. One only has to be aware of the impact of the industrial revolution on the course of human history to grasp an understanding of how technology has changed our lives. Today's technology involves the widespread use of computers and the internet which has resulted in almost instant communication and availability of information.

While we do not have direct control over many of the influences on the economy, what is important to understand as active participants is to realize what control we do have and how to properly exercise that control. From most indications, the economy is finally rebounding from the throes of the Great Recession that has plagued us since at least 2007. The causes of the Great Recession are many and quite complex. However, one of the major contributing factors was the abuses of the mortgage backed securities debacle and the frenzy generated by all too easily available mortgage funds. These abuses in turn created a real estate bubble that was most certainly going to burst and did.

A sizable number of people made a great deal of money leading up to the Great Recession, and an even greater number lost a great deal of money as a result. Some will never fully recover. In retrospect, it is important to ask the questions of how did this all happen and what can be done to prevent it from ever happening again.

During the January 27, 2012 interview by Bill Moyers of John S. Reed, the former Citigroup chairman during the late 1990s merger of Citicorp and Travelers Group, a potential answer emerged. To provide some background, that merger led to the 1999 repeal of the Glass-Steagall Act also known as the Banking Act of 1933 which served as a firewall between banks and investment firms. The repeal created the opportunity for banks to make some very risky investment decisions. During that interview John Reed stated that if making money is the only motivation for economic activity we are headed for disaster. The prime motivation must be providing a product or a service to the best of one's ability and the profit will follow.

As philosopher, essayist, poet and novelist George Santayana (1863-1952) said, "Those who cannot remember the past are condemned to repeat it." Perhaps this time around we have learned our lesson, but probably not.

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