

The many economic paradoxes of our time

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The more you read and listen to, the more you realize that there are as many differing opinions as there are experts on the economy, real estate, and the future in general. If you watch CNBC, there are probably 50 people on their network in any one day, all of whom disagree. While this is understandable, in these times, because the issues are complex in a way that we've never experienced, it is still unnerving.

What strikes me is the paradoxical nature of many of the issues; that is, both extremes of a given issue seem to be equally correct or justifiable. Let me give you some examples.

The "savings versus spending" paradox: Someone has said that when one person saves, it is good for that person and society, but if everybody saves is it a disaster for the economy. We have long chastised ourselves for not saving enough money, the U.S. traditionally being one of the lowest saving nations in the world. All of a sudden, however, with fear gripping our lives, we start to "horde" money (notice the change in word from save to horde), and our savings rate goes up over 3%. Unfortunately, this savings is now seen as one of the major factors that is stifling growth. In other words, it is savings that has decreased our spending, which in turn severely impacts gross domestic product (GDP) since GDP is comprised of almost 70% consumer spending. So last year, wanton spending was the problem, and this year, scrooge-like hoarding is the problem. Which is it, anyway? Tied to this is "the interest rate paradox." It is generally agreed that artificially low interest rates, caused by Greenspan as chairman of the Federal Reserve, helped bring on the housing bubble. Now credit has tightened, rates are up, and the bubble has burst. Home prices have been falling, causing upside down mortgages and foreclosures. If interest rates were to stay higher, it would help settle housing value in a range that is more commensurate with income and inflation. However, now with the problem in full bloom, some are attempting to lower interest rates further, to make housing more affordable and encourage refinancing. Thus, we will postpone the problem, and apparently we can't decide whether tight credit or difficult credit is the solution.

Next comes the "too big to fail paradox." Corporations like GM and of course many of the financial institutions are failing because people are not spending, credit is tight, or they simply may have been mismanaged. Under the old system, they would fail, and things would correct over time. However, these potential failures are "too big," and we artificially support the companies. Yet, ultimately, they may not succeed. So once again, depending upon your perspective, both failure and support are both good and bad.

"The paradox of reorganization of companies:" The paradox here is that some companies have trimmed their budgets, i.e. let people go. It is perceived that, while it is painful for the individuals, it is good for the company and therefore the nation. On the other hand, some companies have decided

not to let people go and would rather decrease their profit margins, a noteworthy social move. These companies are acting on behalf of the individual, and not necessarily on behalf of the economy. Thus, the paradox of whether to save the individual to the potential detriment of the collective group, or vice versa.

Finally there is "the moral hazard paradox." This is whether to forgive people's poor judgment (or perhaps fraudulent behavior) or teach them a lesson. Those people who have "behaved" well during this downturn are against forgiving and bailing out those who have not. This is understandable, but others warn that this "teaching them a lesson" will do much more harm in the economy. They liken it to letting your neighbors house burn down, to teach them a lesson of not smoking in bed. But the fire spreads to your house, and so on.

As I started with this article, there are no answers yet -- only the concept of paradox. We are in uncharted waters, and until we get some more mileage under us, we do not know what lies below or ahead. Hopefully the course we are taking is in the right direction.

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