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There's no quick fix for this mess

More time and work needed for American economy to recover from present woes

SUMMING IT UP

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In the past I have written in this column that it was going to take time and work to solve our present economic problems. We are in the midst of that process now. Still more time and work are needed.

After a slow start the Federal Reserve has found new energy, with some exceptions like their May and June exhortations regarding inflation that spooked the markets. Then it of course had to bail out Fannie Mae and Freddie Mac before the housing roof fell in. At its July meeting the Fed moved the prospect of rising interest rates further into the future, and managed to offend nearly everyone. At its recent August meeting, the Fed seemed to push interest rate increases even further into the future.

In the meantime, Congress and the Executive branch offered up a "stimulus" package that was swamped by the continuing high price of oil and falling house prices, and barely caused a ripple. Now both branches are back with a housing package that will have little impact.

As I said before, we cannot mount a recovery until the housing crisis is solved. The markets seem to understand this fact even if the deep thinkers in Washington and bank boardrooms do not. All the talk by the Federal speakers in May and June spooked the markets, which sold off sharply with the broad market index, the S&P, dropping 8.4 percent. The drop was led by financials that lost nearly 20 percent in the month. So much for the bounce from Bear Stearns and Freddie and Fannie. Barron's thought it was a good time to buy General Motors, which fell for the month and reached a 50-year low. For the quarter the market was down 2.7 percent, bringing the year's loss year to 11.9 percent. Global and emerging markets also suffered. Trailing 12 months, the average U.S. stock fund is down 12.5 percent. The average growth fund is down 6.8 percent, while bonds returned a positive 2.6 percent.

A new wave of mortgages are about to reset just as banks are tightening their lending standards, so it is harder to refinance or buy a home. As more adjustable rate mortgages are resetting, a new wave of foreclosures is expected. Barclay's Capital suggests that the shock when these loans reset will be far more than the subprime adjustments. Banks have already written off $300 billion – more than during the Savings and Loan crisis – but forecasters estimate the final number may be as high as $2 trillion. Predictions are that housing prices will fall even further.

After the government revised GDP downward for the fourth quarter of 2007 to a negative number and confirmed what everyone knew, that we were in the midst of a recession, even Alan Greenspan emerged from the shadows to forecast a recession. Forecasting was never Greenspan's forte; it looks like he is behind the curve again. He further said that this financial crisis is a "once or twice a century event…"; he should know because he was the architect of both.

In spite of the Fed, under Greenspan, trying to inflate its way out of the crash of 2000, most Americans missed out. They did take on the debt that the Fed offered them with teasingly low interest rates, but their incomes rose barely 1 percent per year.

Eighty percent of Americans think their country is moving in the wrong direction. The hapless George Bush has approval ratings below those of Richard Nixon at his worst, but the ratings of Congress are even lower. This is why the cover line of the July 26 edition of the Economist was "Unhappy America."

In the meantime, our future leaders offer little hope. John McCain says he doesn't really understand the economy and doesn't know how to use a computer. Barack Obama travels to Europe and the Middle East to demonstrate that he knows about foreign policy. But while Obama offers American workers charcuterie, those workers want meat and potatoes.

Once again it will be up to the American people and American businesses to lead the country out of its morass. This is not the first time Americans have had to stand up. In the 1950s we had Sputnik. Vietnam, Watergate and oil shocks followed. Then came the shocks of 1987, 1991, 1994, the emerging markets, Russian default, long-term credit, and the longest recession since the Great Depression. Each time business reacted, and each time policy makers recovered. There are some positive signs out there, but we need more time and more work. We do not need dangerous reactions such as xenophobia, trade restraints or finger pointing. We simply need to promptly find the solutions and do the work.

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