Experts Discuss Economic Crisis

Experts agree: the economy is in dire straits. However, there is light at the end of the tunnel. The following op-eds discuss the current economic situation and detail how and why the world's financial markets will stabilize.

Below are a few of today's op-eds:
New York Times, Warren Buffett: "Buy American. I Am."
New York Times, Paul Krugman: "Let's Get Fiscal"
Washington Post, Prime Minister Gordon Brown: "Out of the Ashes"

New York Times, Warren Buffett: "Buy American. I Am."

The financial world is a mess, both in the United States and abroad. Its problems, moreover, have been leaking into the general economy, and the leaks are now turning into a gusher. In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary.

So ... I've been buying American stocks. This is my personal account I'm talking about, in which I previously owned nothing but United States government bonds. (This description leaves aside my Berkshire Hathaway holdings, which are all committed to philanthropy.) If prices keep looking attractive, my non-Berkshire net worth will soon be 100 percent in United States equities.

Why?

A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. And most certainly, fear is now widespread, gripping even seasoned investors. To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records 5, 10 and 20 years from now.

Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month — or a year — from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over.

A little history here: During the Depression, the Dow hit its low, 41, on July 8, 1932. Economic conditions, though, kept deteriorating until Franklin D. Roosevelt took office in March 1933. By that time, the market had already advanced 30 percent. Or think back to the early days of World

War II, when things were going badly for the United States in Europe and the Pacific. The market hit bottom in April 1942, well before Allied fortunes turned. Again, in the early 1980s, the time to buy stocks was when inflation raged and the economy was in the tank. In short, bad news is an investor's best friend. It lets you buy a slice of America's future at a marked-down price.

Over the long term, the stock market news will be good. In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497.

You might think it would have been impossible for an investor to lose money during a century marked by such an extraordinary gain. But some investors did. The hapless ones bought stocks only when they felt comfort in doing so and then proceeded to sell when the headlines made them queasy.

Today people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value. Indeed, the policies that government will follow in its efforts to alleviate the current crisis will probably prove inflationary and therefore accelerate declines in the real value of cash accounts.

Equities will almost certainly outperform cash over the next decade, probably by a substantial degree. Those investors who cling now to cash are betting they can efficiently time their move away from it later. In waiting for the comfort of good news, they are ignoring Wayne Gretzky's advice: "I skate to where the puck is going to be, not to where it has been."

I don't like to opine on the stock market, and again I emphasize that I have no idea what the market will do in the short term. Nevertheless, I'll follow the lead of a restaurant that opened in an empty bank building and then advertised: "Put your mouth where your money was." Today my money and my mouth both say equities.

New York Times, Paul Krugman: "Let's Get Fiscal"

The Dow is surging! No, it's plunging! No, it's surging! No, it's ...

Nevermind. While the manic-depressive stock market is dominating the headlines, the more important story is the grim news coming in about the real economy. It's now clear that rescuing the banks is just the beginning: the nonfinancial economy is also in desperate need of help.

And to provide that help, we're going to have to put some prejudices aside. It's politically fashionable to rant against government spending and demand fiscal responsibility. But right now, increased government spending is just what the doctor ordered, and concerns about the budget deficit should be put on hold.

Before I get there, let's talk about the economic situation.

Just this week, we learned that retail sales have fallen off a cliff, and so has industrial production. Unemployment claims are at steep-recession levels, and the Philadelphia Fed's manufacturing index is falling at the fastest pace in almost 20 years. All signs point to an economic slump that will be nasty, brutish — and long.

How nasty? The unemployment rate is already above 6 percent (and broader measures of underemployment are in double digits). It's now virtually certain that the unemployment rate will go above 7 percent, and quite possibly above 8 percent, making this the worst recession in a quarter-century.

And how long? It could be very long indeed.

Think about what happened in the last recession, which followed the bursting of the late-1990s technology bubble. On the surface, the policy response to that recession looks like a success story. Although there were widespread fears that the United States would experience a Japanese-style "lost decade," that didn't happen: the Federal Reserve was able to engineer a recovery from that recession by cutting interest rates.

But the truth is that we were looking Japanese for quite a while: the Fed had a hard time getting traction. Despite repeated interest rate cuts, which eventually brought the federal funds rate down to just 1 percent, the unemployment rate just kept on rising; it was more than two years before the job picture started to improve. And when a convincing recovery finally did come, it was only because Alan Greenspan had managed to replace the technology bubble with a housing bubble.

Now the housing bubble has burst in turn, leaving the financial landscape strewn with wreckage. Even if the ongoing efforts to rescue the banking system and unfreeze the credit markets work — and while it's early days yet, the initial results have been disappointing — it's hard to see housing making a comeback any time soon. And if there's another bubble waiting to happen, it's not obvious. So the Fed will find it even harder to get traction this time.

In other words, there's not much Ben Bernanke can do for the economy. He can and should cut interest rates even more — but nobody expects this to do more than provide a slight economic boost.

On the other hand, there's a lot the federal government can do for the economy. It can provide extended benefits to the unemployed, which will both help distressed families cope and put money in the hands of people likely to spend it. It can provide emergency aid to state and local governments, so that they aren't forced into steep spending cuts that both degrade public services and destroy jobs. It can buy up mortgages (but not at face value, as John McCain has proposed) and restructure the terms to help families stay in their homes.

And this is also a good time to engage in some serious infrastructure spending, which the country badly needs in any case. The usual argument against public works as economic stimulus is that they take too long: by the time you get around to repairing that bridge and upgrading that rail line, the slump is over and the stimulus isn't needed. Well, that argument has no force now, since the chances that this slump will be over anytime soon are virtually nil. So let's get those projects rolling.

Will the next administration do what's needed to deal with the economic slump? Not if Mr. McCain pulls off an upset. What we need right now is more government spending — but when Mr. McCain was asked in one of the debates how he would deal with the economic crisis, he answered: "Well, the first thing we have to do is get spending under control."

If Barack Obama becomes president, he won't have the same knee-jerk opposition to spending. But he will face a chorus of inside-the-Beltway types telling him that he has to be responsible, that the big deficits the government will run next year if it does the right thing are unacceptable.

He should ignore that chorus. The responsible thing, right now, is to give the economy the help it needs. Now is not the time to worry about the deficit.

Washington Post, Prime Minister Gordon Brown: "Out of the Ashes"

This is a defining moment for the world economy.

We are living through the first financial crisis of this new global age. And the decisions we make will affect us over not just the next few weeks but for years to come.

The global problems we face require global solutions. At the end of World War II, American and European visionaries built a new international economic order and formed the International Monetary Fund, the World Bank and a world trade body. They acted because they knew that peace and prosperity were indivisible. They knew that for prosperity to be sustained, it had to be shared. Such was the impact of what they did for their day and age that Secretary of State Dean Acheson spoke of being "present at the creation."

Today, the same sort of visionary internationalism is needed to resolve the crises and challenges of a different age. And the greatest of global challenges demands of us the boldest of global cooperation.

The old postwar international financial institutions are out of date. They have to be rebuilt for a wholly new era in which there is global, not national, competition and open, not closed, economies. International flows of capital are so big they can overwhelm individual governments. And trust, the most precious asset of all, has been eroded.

When President Bush met with the Group of Seven finance ministers last weekend, they agreed that we all had to deal with not only the issue of liquidity in the banking system but also the capitalization and funding of banks. It was clear that national action alone would not have been sufficient. We knew we had to send a clear and unambiguous message to the markets that governments across the world were prepared to act in a coordinated manner and do whatever was necessary to stabilize the system and address the fundamental problems.

Confidence about the future is vital to building confidence for today. We must deal with more than the symptoms of the current crisis. We have to tackle the root causes. So the next stage is to rebuild our fractured international financial system.

This week, European leaders came together to propose the guiding principles that we believe should underpin this new Bretton Woods: transparency, sound banking, responsibility, integrity and global governance. We agreed that urgent decisions implementing these principles should be made to root out the irresponsible and often undisclosed lending at the heart of our problems. To do this, we need cross-border supervision of financial institutions; shared global standards for accounting and regulation; a more responsible approach to executive remuneration that rewards hard work, effort and enterprise but not irresponsible risk-taking; and the renewal of our international institutions to make them effective early-warning systems for the world economy.

Tomorrow, French President Nicolas Sarkozy and European Commission President José Manuel Barroso will meet with President Bush to discuss the urgent reforms of the international financial system that are crucial both to preventing another crisis and to restoring confidence, which is necessary to get banks back to their essential purpose -- maintaining the flow of money to individuals and businesses. The reforms I have outlined are vital to ensuring that globalization works not just for some but for all hard-pressed families and businesses in all our communities.

It is important, too, that in the international leaders' meeting that has been proposed we seek a world trade agreement and reject the beggar-thy-neighbor protectionism that has been a feature of past crises.

There are no Britain-only or Europe-only or America-only solutions to today's problems. We are all in this together, and we can only resolve this crisis together. Over the past week, we have shown that with political will it is possible to agree on a global multibillion-dollar package to recapitalize our banks across many continents. In the next few weeks, we need to show the same resolve and spirit of cooperation to create the rules for our new global economy. If we do this, 2008 will be remembered not just as a year of financial crisis but as the year we started to build the world anew.