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REQUIEM FOR AN ECONOMIC RESCUE

As we careen toward the general election, 'tis the season for selective memory – particularly among those running for office. Amidst the fiery and often revisionist rhetoric, there's probably no better time to attempt an objective accounting of our recent past.

With so many contributing factors, the Great Recession was extremely complex in origin. Moreover, to anyone unfamiliar with Keynesian theory, the government's response was somewhere between counterintuitive and utterly insane. Both our banking system and our real estate markets were nearly destroyed by excess credit and, despite our enormous national debt, the cure for the crisis was to borrow and spend trillions more?

Overwhelmed by the complexities and apparent contradictions, we reach for the reassuring analogy.

You've heard the argument: If my family had too much debt, I wouldn't borrow or spend *more*, I'd cut back. The government should too!

If two working parents reduce their household spending they can in fact lower their debt because their income doesn't automatically decrease with their spending. But approximately 65% of the US GDP consists of consumer spending. So when spending decreases, economic activity does as well. In that sense, the country can't recover *without* a recovery in spending.

Naturally, people are not inclined to spend when their savings has evaporated – which is exactly what happened when housing prices collapsed because

For most Americans, residential real estate is the only significant savings they have.

We don't like to save in the US, but we do like to purchase homes with borrowed money. Because they must be repaid, mortgages ultimately function as a benignly coercive form of thrift. Call it *saving at financial gunpoint*. The problem arises when a homeowner with a mortgage and 20% equity in their home sees prices decline by 20%. On paper, they've lost 100% of their quasi-savings.

And prices declined by a lot more than 20% in many places. Here in Palm Beach County, the median home price plunged from above $400,000 in 2005 to below $200,000 in 2011. From the prerecession high to the low point in 2011, the value of home equity in the US overall declined from $13.4 trillion to $6.3 trillion. As a result, many homeowners saw their savings eviscerated.

If the government was going to get those shell-shocked people spending again, it had to restore the savings essentially lost when residential real estate values collapsed.

Was Washington effectively "rewarding speculators" when it took action to spur a recovery in housing values?

Hardly; even at the worst point in the real estate crash almost 90% of all homeowners kept current on their mortgages, honoring their obligations despite being dramatically underwater. Unfortunately, in a $10 trillion real estate market, a 10% default rate equated to a $1 trillion dollar problem, a financial hole of such seismic magnitude that it distracted us from the stunning resilience of the vast majority of homeowners.

None of the foregoing is to suggest that America's indebtedness is not a deadly serious problem – just look at the interest we're paying. But here's how we should view our national debt:

**No matter how much water you've historically wasted,
you don't start conserving it when half your house is on fire.**

With the country's financial plumbing in tatters, our leadership concluded that disaster could only be averted by injecting enormous liquidity into the banks and broader economy. How much taxpayer money was wasted by an inevitably imperfect government response? Without knowing the magnitude of the catastrophe that *didn't* occur, we'll never know. But what we *do* know for certain is that we are intact and on the mend. Which is something of a miracle.

Nobody knows this better than the average Floridian, who had a front-row seat for the Great Recession.

Having succeeded in buying our way out of an apocalypse, who is now going to impose the fiscal constraint we should when times are good? Who do we trust to exercise that political discipline and get our national finances in order?

These are the questions we should be asking ourselves as we reach for the voting-booth levers, the embers of our last crisis still glowing in the background.

Steven Grey is managing principal of Grey Value Management, LLC, on Singer Island, FL (www.greyvm.com)

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