M A C R O E C O N O M I C S

Markets in Crisis

January 2, 2009

History has not dealt kindly with investors in the aftermath of protracted periods of low risk premia.

Former Fed chairman Alan Greenspan warned us about this. It's not only the risks in the financial sector but also the unacknowledged risks that characterize our society, things like our trade deficit and our underfunded liabilities to Social Security and Medicare. We've underestimated and understated our budget deficit. We've taken on this huge expenditure of $1 trillion, at least, in wars in Iraq and Afghanistan.

And we have the threat of global warming. Those kinds of things are real in terms of how our economy and markets perform but are often unacknowledged, and the same thing is true of this truly unfettered, global competition that we've been facing.

Other risks are even more subtle. Just think about our political system: Never more apparent than today, it is dominated by money and vested interests, with the U.S. Congress and the administration focused so heavily on the short term. Their actions in the mortgage crisis may be a little improvement on that, but not enough.

Another kind of big risk that I see in the economy is the vast chasm between the wealthiest — the upper crust of our society; if you will, the top 1% — and the lower part of our society. Something like 20% of Manhattan residents earn less than $8,900 a year. That's not a formula for national success and national growth.

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