Databases selected: ProQuest Newspapers, ProQuest Central

10 ways the new economy will look different

Peter Grier. **The Christian Science Monitor**. Boston, Mass.: Apr 10, 2009. pg. 13

Abstract (Summary)
Less noticed was his reminder that in the 20th century alone the US survived great wars, a dozen or so panics and recessions, the Great Depression of the 1930s, and the Great Inflation of the 1980s, when interest rates topped 20 percent. In the old days of two years ago, the thrill was in the extras - the heated steering wheel or the size of the second shower in the master bedroom suite.

Full Text (3064 words)

Copyright The Christian Science Monitor Apr 10, 2009

On Sept. 18, 1873, weakened by investments in the ill-conceived Northern Pacific Railway, the big Philadelphia banking firm Jay Cooke & Co. went bankrupt. A national economic crisis followed - one with eerie parallels to the grinding recession of today. Cooke & Co. was the Bear Stearns of its time, a pillar of national finance. If it could fail, anyone could, and the US stock market collapsed that awful autumn. The price of real estate, railroads, and other hard assets crashed, too. Banks fell like wheat before a reaper. Deprived of credit, Main Street commerce suffered. Unemployment reached 25 percent in big cities. The Panic of 1873 eventually led to 18,000 business bankruptcies. National production shrank for six years. Yet a new and stronger US economy emerged from the wreckage. The builders of railroads and canals had gone bust, but they left a transportation infrastructure that in time bound regions together. Commodities - kerosene from Eastern coal, wheat from Western fields, canned fruit from Southern orchards - flowed down this web to the great ports of the US seaboard. Ton by ton, America remade itself into an export powerhouse, the China of the day. "These goods helped pull the US out of recession," says Scott Reynolds Nelson, a historian at the College of William and Mary in Williamsburg, Va. The point here may be a simple one: This will end. When it does, things will be different. It's possible the US economy will be transformed. Right now that's hard to see. A downturn that some people call the Great Recession shows little sign of breaking. Millions of Americans remain out of work. Trillions of dollars of household wealth has vaporized in the slump of stock and home prices. But it's not Panglossian to predict that today's fear will break, eventually, and rational economic exuberance will return. Consumers will spend again, particularly on things they think have value. Banks will lend again, perhaps with more care. Companies will expand again, though not until a recovery is well under way. Warren Buffett - the Albus Dumbledore of capitalism - recently wrote in his annual letter to shareholders that the economy would be "in shambles" through 2009, and perhaps beyond. Less noticed was his reminder that in the 20th century alone the US survived great wars, a dozen or so panics and recessions, the Great Depression of the 1930s, and the Great Inflation of the 1980s, when interest rates topped 20 percent. In the face of those obstacles, and many others, the real standard of living for Americans improved nearly seven-fold during the 1900s, according to Mr. Buffett. "Though the path has not been smooth, our economic system has worked extraordinarily well over time," he wrote. "It has unleashed human potential as no other system has, and it will continue to do so." 1 VALUE AS THE NEW VIRTUE This is a given: the BC economy (the one we had Before the Crash) had too much of many important things. Too much debt. Too much consumption. Too much speculation in complicated financial instruments by bankers blind to the bubble inflating around them. That's not coming back. Housing prices are not going to rebound 20 percent soon. The Dow is not getting back to 14,000 this decade, and maybe not the next. Circuit City, Linens 'n Things, Lehman Brothers - they're all extinct, like Studebaker. "We are never going back to the way we were," says Paco Underhill, chief executive officer of the retail consulting firm Envirosell. You don't have to be a futurist to foresee that in the coming new economy just about everyone in the private sector, from consumers to financiers, will be looking to get the most they can for their dollars. You can sum the situation up in two words: "value rules." In the old days of two years ago, the thrill was in the extras - the heated steering wheel or the size of the second shower in the master bedroom suite. Now it's in the percentage discount from the previous list price. This change in economic attitudes could mark a shift in America's very way of life. Look at the Great Depression: It was a scarring experience that taught a generation to practice such acts of thrift as washing out plastic bags, to the puzzlement of their baby boomer kids. "The era of 'bling' is coming to a close," says Mr. Underhill. 2 RETURN OF THE TIGHTWAD The new value rules have been reflected for months in that most sensitive of indicators of consumer attitudes - marketing. The sign of the times is a sign in the mall advertising "65 Percent Off!" Those placards are going to be up for a while. Many retailers are desperate for cash as

Databases selected: ProQuest Newspapers, ProQuest Central

much as profit, just to pay their suppliers - and buy the next season's line of goods so they can stay in business. Having experienced those deep discounts since last November, consumers may now expect them as a matter of course, says Stephen Hoch, a professor of marketing at the University of Pennsylvania's Wharton School of Business. He thinks a new logic now pervades the US marketplace. Remember those advertising campaigns that preached entitlement? They featured sailboats crashing through surf, or a team of climbers standing triumphantly atop K2. The people looked impossibly handsome and successful, as if they'd taken time off from modeling to run Google. "You work hard, so you deserve this [auto or watch or necklace or power bar]!" the ads said. "Sure, it costs about the same as the GDP of Senegal. But aren't you worth it?" Those pitches have all but disappeared. "That kind of theme doesn't fit the mood of the country right now," says Mr. Hoch. Consumers realize they have been wasting money on products that weren't actually better, but were pitched as items that could improve their status. Now they find status in being discerning shoppers. Ellen Frost wanders the narrow aisles of the Bargain Store in Northport, Ala., pushing past shelves where teddy bears share space with Gatorade, and faux china gathers dust. Six months ago, thrift-store shopping was only an occasional foray for her. These days, she's a frequent visitor, buying everything from household essentials to food. She grabs a 50-cent spiral notebook. "These would be $2 to $3 at WalMart," she says. 3 EBAY AMERICA One quality that almost by definition reflects value is the state of being second-hand. And in the economy to come, the sale of used goods may increase as secondary markets surge in importance. This means Goodwill and Value Village will become more and more peoples' idea of places to shop for vintage fashion. People who previously preferred new cars now might buy used. At Twice as Nice, a consignment shop in downtown Tuscaloosa, Ala., Leslie Stallings stares up at wedding dresses hanging from the ceiling. She and her mother, Debbie Stallings, drove nearly an hour in torrential rain to find the perfect dress at a reasonable price. The dress she really likes, the one she can imagine shimmering in the candlelight as she says her vows, is $1,200 at a local bridal boutique. This one is only $300. Still, they decide to keep looking. One reason eBay and similar outlets will take on greater importance in the future is the nervousness of consumers. About one-third of US residents feel at immediate risk of downward mobility. One-third know someone else who is threatened. One-third is fairly secure but understand conspicuous consumption at the moment seems like bad manners. Another will be the shrinkage of the full-price marketplace. Underhill figures that the US has more stores than it will need in the future. During the Great Depression, a pants pocket turned inside-out to show it was empty was called a "Hoover flag," after President Herbert Hoover. Today's Hoover flag might be a "For Lease" sign in a strip mall. "We are going to see a 20 to 30 percent [retail] vacancy rate," predicts Underhill. 4 MONEY IN THE MATTRESSES Right now, wallets are shut tight all across America. But consumers will begin spending again - probably fairly soon. That doesn't mean they'll be spending as much as they used to. In part, that's because they have less money than they did. The fourth quarter of last year alone saw a record 9 percent decline in US household wealth, according to the Federal Reserve. Borrowing has propelled consumer spending in recent years, but that will be constrained, too. Lower house prices mean fewer lines of home equity. Banks, with their profitability in question, are lowering credit-card limits. Menzie Chinn, an economist at the University of Wisconsin, thinks consumers won't spend freely again for five years. "Basically, it'll take a long time for households to rebuild their balance sheets, i.e., wealth, in the form of housing and equities," says Mr. Chinn. The problem is, this nonspending trend has gotten out of hand. Sales of cars, appliances, and other durable goods have fallen below the rate at which they are typically replaced. Over the past year or so, the US savings rate has gone from essentially zero to 5 percent. That's a lot of money going into the mattress. Christine Romer, chair of President Obama's Council of Economic Advisors, thinks consumer spending will soon rise. "You can get some of that normal bounce-back that you'd get from a severe recession even in the situation that we're starting from," she said at a recent appearance at the Brookings Institution. "There is a kind of a historical pattern - the biggest postwar recessions had the biggest GDP growth in the quarters following those recessions." 5 THE NEW BIG THREE Crises can accelerate trends that were already remaking a nation's economic order. The Panic of 1873, for instance, helped propel the US into the modern Industrial Age. This recession is likely to be no different. If nothing else, it may help the rise of three sectors likely to be big job producers in the future: government, healthcare, and education. At this point, we should take a moment to mourn the state of the old Big Three. The traditional Detroit-based US auto firms appear to have reached a turning point in their storied history. GM, Ford, and Chrysler put the world on wheels, and in the dark hour of World War II served as democracy's arsenal. But that was then. After the current recession passes, there may not be three of them. In relative terms, they won't all be big. Whatever the Obama administration decides about further government bailouts for GM and Chrysler, more automakers are going to lose jobs. Bankruptcy isn't out of the question. "The three Detroit automakers have the possibility of

becoming competitive and profitable firms. But ... they will be a fraction of their former size," says Harley Shaiken, a labor expert at the University of California, Berkeley. By contrast, government employment has continued to rise throughout the downturn. So have jobs in healthcare and education, which remain perhaps the two strongest US economic sectors. "This suggests a change in the composition of the job market and economy," writes John Silvia, chief economist of the Wachovia Economics Group, in a recent analysis. 6 THE MOVABLE RESUME Millions of Americans will be rehired in the coming new economy. Some day - though it might take a few years - unemployment will drop back to around 5 percent, the level at which economists generally judge that the US is fully back to work. But even then, labor markets will remain volatile. Job insecurity has been rising for years, and that's a trend that may become more pronounced even as prosperity returns. "People will continue to have a very different relationship to the work force," says Mr. Shaiken. "It will be a far more fluid labor market." One reason is that layoffs have become a more common management tool. Companies now will cut staff in anticipation of a possible glitch in cash flow, as opposed to after things begin to get tight. The other is that we may see a new age of employees moving in and out of jobs due to personal circumstances. Tighter credit and hammered asset values mean it's likely to be harder for students to pay for college; they may need to take intermittent semesters off and work full time to make ends meet. Similarly, retirees may have to dip in and out of the work force, especially if their retirement funds were too heavily invested in stocks. Workers 55 and over may have to work longer than they had planned, as they see the date at which they can afford to retire recede before them. 7 'GREEN NEW DEAL' The environmental and renewable-energy sector could be the computer industry of the early 21st century: a powerful engine pulling much of the rest of the US economy behind it. According to the Obama administration, the just-passed stimulus bill will fund 5 million new green jobs in wind and solar power, clean coal, and fuel-efficient vehicles, with a $45 billion investment over three years. One of the most articulate proponents of this sort of revolution is the influential New York Times columnist, Tom Friedman, who insists that perhaps the most important thing the US can do is make itself into the world leader in energy-efficient products and clean power systems. The huge challenge of trying to build an emissions-free power grid "could be the biggest transformative concept that's come along in a long time," Mr. Friedman says in a video posted on the New York Times website. The effort might equal "a green New Deal to not only reconnect us with the world and to reconnect us at home, but to really propel us forward economically, scientifically, educationally, industrially, into the 21st century," he says. Not everyone buys this broad vision, however. In particular, critics see problems in the transition to this new plug-in world. Sure, jobs will be created by green industries, but jobs will be destroyed as well, says Michael Levi, director of the Program on Energy Security and Climate Change at the Council on Foreign Relations. Employment in the wind-farm industry may go up, for instance, while employment at petroleum refineries, or coal mines, goes down. In addition, government subsidies may result in more wearing of the green than on St. Patrick's Day, as all sorts of existing industries try to define themselves as environmentally friendly. "I have trouble seeing how this becomes the central driver of the economy," says Mr. Levi. 8 STODGY IS CHIC For years prior to the recent crash, Wall Street celebrated complexity. Securitized subprime mortgages and credit default swaps were seen as the quadruple toe loops of finance - fancy jumps that guaranteed success. Now banks just want to skate around upright in a circle. Stodgy is good. Using borrowed money to do stuff nobody really understood turned out to be very, very bad. There's no better indication of the rise of boring than the move last September by Goldman Sachs and Morgan Stanley to change their status from high-flying investment banks to traditional bank holding companies. That gave the storied pair of Wall Street firms easier access to credit to help them ride out the worst of the financial crisis. But it also subjects them to greater supervision by bank regulators and almost ensures they won't come close to their astounding profits of past years, even after the economy recovers. One possible side effect: more Nobel Prizes for the US. Or, at least, there may be more competition for tenure at elite universities, as "quants," the math and physics experts who have helped create some of Wall Street's most exotic investment formulas, return to the more secure environs of academia. 9 D.I.Y. INVESTING Another side effect of Wall Street's fall may be an aversion to listening to financial industry advice. Brokers, mutual fund managers, financial personalities on cable news - few of them predicted that the Dow Jones Industrial Average would lose half its value in a year. So why should we believe them now? The decline of the expert may mean that, even more than in the past, average Americans will have to take their investment planning into their own hands. At the least, small investors may become less interested in paying the fees for the experts who run managed mutual funds. Index funds - which just follow a set formula and aren't controlled by highly paid people who consider themselves Masters of the Universe - may be on the rise. In years ahead, the actively managed fund industry "will shrink pretty dramatically" as more investors decide its fees aren't worth it, says Darrell Duffie, a finance professor at Stanford

Databases selected: ProQuest Newspapers, ProQuest Central

University. 10 BUST OF THE BOOMTOWNS In the past, deep recessions often led to historic reordering of US economic geography. The Panic of 1873 accelerated the exodus of Americans from farms to cities. Growth in suburbs was explosive after the end of the Great Depression. This time, the end of an era of lax lending and rising home prices may result in the bust of boomtowns, those largely Southern and Western areas that have been the fastest-growing parts of the US. "Bust" is relative in this case. What it means is that Phoenix, Las Vegas, and other sand-castle metro areas may grow less rapidly than before. Older Northern cities - particularly New York, Boston, and Chicago - may lose residents more slowly, or even grow. There's some evidence that this trend has been under way since housing markets began to flounder almost two years ago. "The migration bubble of the middle of this decade, fueled by easy credit and superheated housing growth in newer parts of the Sun Belt and exurbs throughout the country, seems to have popped," writes William Frey, a senior fellow at the Metropolitan Policy Program of the Brookings Institution, in a March 20 analysis. In the 12 months ending in July 2008, greater New York lost only 144,000 residents, its lowest such outflow since at least 1990. At the same time, Phoenix attracted only about half as many new residents as before. Tampa and Orlando attracted fewer migrants than at any time in almost 20 years. * Sarah McCann in Boston and Carmen K. Sisson in Tuscaloosa, Ala., contributed to this report.(c) Copyright 2009. The Christian Science Monitor

Credit: Peter Grier Staff writer of The Christian Science Monitor