

# The New York Times

## Business Day

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### Same Data, Conflicting Forecasts

So where were we?

In the month since I last wrote in this space, there has been a surge of financial optimism.

Banks that are supposed to be in deep trouble have reported profits (though there were a few too many accounting gimmicks for my taste). Some of them, like Goldman Sachs and JPMorgan Chase, are talking about wanting to give back their government bailout money. Bank stocks, moribund not so long ago, have been rising a bit. Other economic indicators suggest that, if the economy hasn't exactly turned around, at least the pace of decline is slowing. There has been talk of "green shoots" from the Federal Reserve chairman, Ben Bernanke, and "glimmers of hope" from President Obama.

So perhaps the better question to ask this week is where *are* we? Can we come out of our financial fallout shelters yet, or are there more economic bombs still to drop? Will the results of the stress tests, due out next week, make things better or worse? Have the Obama administration and the Federal Reserve managed to stop the bleeding? Can we start breathing a little easier?

Because Wednesday was the 100th day of the Obama presidency, you could scarcely turn around without bumping into people at a conference or symposium asking, more or less, those same questions. This week, I dropped in on a few of them.

Wednesday morning, the Regency Hotel, New York. A liberal group called the Franklin and Eleanor Roosevelt Institute is holding a breakfast in which the featured speakers are the Columbia University economist (and Nobel laureate) Joseph Stiglitz, the M.I.T. economist (and Nobel laureate) Robert Solow, and the for-

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# Reading Same Data, Giving Conflicting Forecasts

From First Business Page

mer Senate Banking Committee chief economist, Robert Johnson.

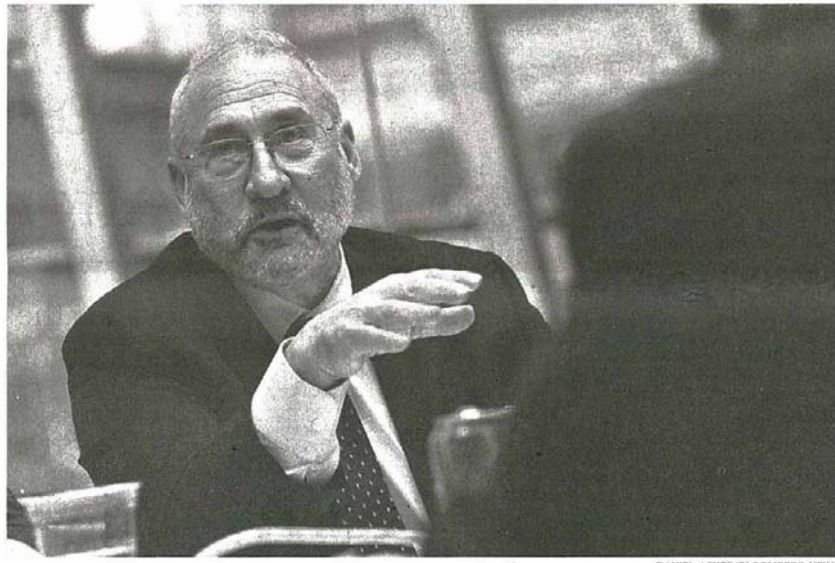
Mr. Stiglitz, though a supporter of the president, has been a vocal critic of the administration's response to the banking crisis, and he doesn't let up here. "Obviously, I think there is a better way to deal with the crisis," he says. "Banks made bad loans, and the question is: who is going to pay for those losses? It is almost a zero-sum game: the government or the bondholders?"

He goes on to suggest that the government should stop trying to protect bondholders and instead force them to convert their debt into equity. This would help bolster the banks' capital without tapping any further into taxpayers' funds. It is also an idea that the Treasury Department stiffly opposes, fearing that it will create a new round of bank panic, and make it even harder for banks to raise private capital.

Mr. Solow, meanwhile, criticizes the stimulus package as too small. "The drop in consumer spending was too big, and probably couldn't be filled with a good \$800 billion package, and this one was festooned with things that weren't going to stimulate spending soon."

Later, at a brief press conference, I ask Mr. Stiglitz how he would grade the new administration's efforts. To my surprise, he says, "Compared to what went before, I would say it's an A plus plus." Then he lapses back into his complaint about the administration's coddling of bondholders. I then put the same question to Mr. Solow, who says he thinks the administration has done "extraordinarily well" — and then complains that it should be doing more for individual homeowners. Do they really mean it? Or is that "A plus plus" a form of political grade inflation?

Wednesday afternoon, the Princeton Club, New York. The American Society of Magazine Editors is holding a luncheon panel on the financial crisis, with Allan Sloan of Fortune, Mark Zandi of Moody's Economy.com, and, er, me. Mr. Zandi is practically overflowing with optimism. "I think the totality of the policy response has been excellent," he tells me after our panel has finished. "Aggressive. Creative. With a few tweaks it will ultimately work." He predicts that the stimulus will kick in this summer — though he says that he would have favored a tax holiday. ("If they had eliminated the payroll tax for the second half of 2009," he says, "it would have been a tremendous boost for both employers and employees.") He sees a "massive refinancing boom" under way, which will save homeowners \$25 billion on mortgage costs, and might prevent a few foreclosures. He thinks the stress test results — according to news accounts, six banks will require more capital — will bring about renewed confidence in the banking system because we'll finally be able to see what the truth is. He thinks Treasury Secretary Timothy



DANIEL ACKER/BLOOMBERG NEWS

Joseph Stiglitz gives the administration "an A plus plus" in its economic efforts, with caveats.

Geithner "has found his footing."

On the way home, I pick up the latest copy of *The Economist*. It warns against "the perils of optimism," and suggests that if we become too complacent about the prospect of better times, it will "hinder recovery and block policies to protect against a further plunge into the depths." Sigh.

Thursday morning, Drexel University, Philadelphia. A group called the Global Interdependence Center is holding a half-day conference on the financial crisis. First up, Christopher Whalen of Institutional Risk Analytics. He has been a scathing critic of the banks. "My friends are all telling their clients the worst is over, it is time to buy," he says. "My response is: what are you buying?"

He adds that bondholders need to take some pain, and echoes Mr. Stiglitz's proposal to make the bondholders convert their debt to equity. A month ago, nobody was talking about this. Now it has become the idea du jour.

Nancy A. Bush, a longtime bank analyst, says that the Troubled Asset Relief Program is "the most destructive thing I have ever seen. The government has ensured mediocrity in the banking industry. It has done enormous damage in the eyes of investors, who are no longer sure that a bank is a safe investment anymore." She calls it the TARP Trap.

Just then, the moderator takes the stage to announce that Chrysler has filed for bankruptcy. So much for optimism.

Next panel: Robert A. Eisenbeis of Cumberland Advisors gives a talk titled "Are things really that bad?" His answer is, no. "We are far from the Great Depression," he declares, and he has the charts to prove it. When measures like gross domestic product and corporate profits are charted against other recessions, this one looks pretty bad. But when they are charted against the Great Depression, they look like a piffle. In the depths of the Depression, for instance, G.D.P.

## ONLINE: READER COMMENTS

Comments on this column can be posted on Joe Nocera's blog, *Executive Suite*: [nytimes.com/executivesuite](http://nytimes.com/executivesuite)

dropped by a staggering 50 percent, compared with the current drop of 2 percent or so. "The people who are fear-mongering are not looking at the data," Mr. Eisenbeis concludes.

He is followed by a funny, fast-talking woman named Diane Swonk, the chief economist at Mesirow Financial. "We've gone from a sense of free fall in the fourth quarter of 2008 to a point where we have pulled the ripcord and the parachute has opened. But we don't know where we are going to land, or whether it is going to be in enemy territory," she says. "There are three areas where consumer spending has increased," she remarks at another point. "Guns. Condoms. And alcohol." In between jokes, she says the deleveraging of America is going to be a painful process.

Finally, the former St. Louis Federal Reserve president William Poole, now a senior fellow at the Cato Institute, gives a keynote speech arguing "too big too fail" is a concept that has done enormous harm. He wants to see some market discipline imposed on the banks — so that if they mess up again, we won't have to come to their rescue. Who can disagree?

Thursday evening, the Metropolitan Museum, New York. The big guns are out tonight, on a panel sponsored by The New York Review of Books and PEN World Voices: Niall Ferguson of Harvard, Paul Krugman of Princeton (and *The New York Times*), Nouriel Roubini of New York University, former Senator Bill Bradley and George Soros, among others. The Met's big auditorium is packed.

This is doom-and-gloom central. Lots of talk about zombie banks, failures to understand his-

tory, regulatory foolishness. Mr. Bradley, who speaks first, suggests that if the government's plan to save the banks doesn't work, it should simply buy Citibank — "its current market cap is about \$17 billion," he said — clean it up, and spin it off to the American people in a rights offering. Mr. Ferguson, a provocative historian, keeps saying that the United States is becoming akin to a Latin American economy: "At what point do people stop believing in the dollar as a reserve currency?" he asks ominously.

"The scale of the crisis has overwhelmed the response," Mr. Krugman says. To the extent there are green shoots, he added, "it means that things are getting worse more slowly." Mr. Roubini practically scoffs at the notion that we might see positive economic growth in the second half of the year. Mr. Soros says that "we are currently facing a deflationary situation. But when credit restarts, the fear of deflation will be replaced by fear of inflation, and there will be pressure for interest rates to rise." Something to look forward to, I suppose.

I can't say that I left the Metropolitan Museum with any more clarity than when I began my little symposia tour. I'd heard some good ideas, and cheery news among the dire forecasts. What it did cause me to realize is that all these smart economists and forecasters are looking at the same set of data, and coming to radically different conclusions based on their politics, their temperament and their idiosyncratic reading of history. Just like the rest of us.

Next week, the results of the stress tests will be unveiled, and we'll see it all over again. Some of the same people I saw on stage this week will say the tests are a whitewash, while others will claim that they're an important step on the road to recovery. Both sides will marshal persuasive data and strong arguments, providing plenty of fodder for the next round of conferences.

At least that much is certain.