

The Economy: Where are we headed?

Over a brown-bag lunch at Harvard's Joan Shorenstein Center on the Press, Politics and Public Policy, New York Times Business Columnist Joe Nocera opened his talk on the daunting question, "The Economy: Where Are We Headed?" with a resounding: "I don't know."

He offered background on the current (and future, he predicts) financial crisis, focusing first on the housing foreclosure crisis, and then on the banking industry.

Regarding housing, he suggested that—unfair as it may seem to people who didn't buy into risky mortgages they couldn't afford—we as a nation should bite the bullet and find ways to help those who did hold onto their homes. One suggestion: rather than kick people out of foreclosed homes, banks could rent them to the forfeiters with an option to buy them back in five years with a 10 per cent down payment.

Regarding banking, Nocera said he sees no reason why "shareholder value" should remain the cornerstone of banking industry strategy. He feels little sympathy for those who bet that they'd win big profits—up to 25 per cent—but lost, he said.

In Nocera's view, Washington currently seems paralyzed by indecision over how to proceed.

One option is the "bad bank," in which the government buys all of the bad assets but that option has stalled because no one knows what the assets are worth.

Another is an "RTC" strategy like that used during the Savings and Loan Crisis of the 1980s, in which the government formed the Resolution Trust Corporation to take

over banks. The RTC allowed some to fold, and sold others, without the assets to new owners. The RTC then gradually sold off the assets, with riders assuring that if the new owners made money, the government would receive a portion of the profits. The process took ten years, Nocera said, but it worked.

While President Obama is confident about his ability to make decisions on many topics, the economy isn't one of them, Nocera said. Obama chose Bush holdover Tim Geitner as Treasury Secretary over former Harvard President Larry Summers mainly for personality reasons, but, Nocera predicted, Geitner is not likely to be able to move away from the thinking of the previous administration in order to come up with much needed new options.

Nocera commented wryly that his blog, the *Executive Suite*, has served as a clearing house for ideas on how to solve both the economic crisis—none of which appear to have been taken up by either administration.

Nocera's latest post as of this writing is entitled "Bankers Gone Bonkers." It appeared on January 30, 2009 at <http://executivesuite.blogs.nytimes.com/>.

AMH

New Cambridge Observer is a publication of the [Harris Communications Group](#) of Cambridge, MA.