January 11, 2010

Scott Rasmussen analyzes the Massachusetts race.
On the surface, three recent polls on the upcoming Massachusetts special election to fill the Senate seat of the late Edward M. Kennedy seem to tell three different stories. ...

... As always, it's important to look at what the polls have in common to learn the real lessons from the data. A closer look at all three shows a lot of common ground. ...

In Euro Pacific Capital, **Peter Schiff** responds to the Fed chairman's recent speech claiming the Fed had no hand in the mortgage crisis. Schiff asserts that the Fed can claim a hefty share of the blame.
...The biggest issuers and insurers of ARMs were Fannie Mae and Freddie Mac. Both of these Government Sponsored Entities (GSE's) had policies that allowed for borrowers to qualify based solely on their ability to meet the initial loan payments, not the higher payments that would eventually kick in. Why didn't the Fed advise Congress to force the GSE's to adopt more prudent standards? Either they did not recognize these mortgages as problematic, in which case they are incompetent, or they did and remained silent, which is worse. In either case, if they lacked the foresight or political will to prevent this crisis, how can we expect them to protect us from the next?

Furthermore, is it really possible that Bernanke is so clueless that he does not see the relationship between the proliferation of ARMs and interest-only mortgages and the low short-term interest rates that made them so popular? Without the ultra-low interest rates provided by the Fed, the vast majority of these problem mortgages never would have been originated. ARMs and interest-only mortgages existed well before the housing bubble began; however, it wasn't until the Fed cut rates to historically low levels in 2002, and held them there through 2005, that they became so popular.

The only reason so many people were able to overpay for houses was because of the temporarily low "introductory" rates. Had the Fed not set interest rates so low, these options would not have been available, and house prices would have been held in check. In short, by keeping interest rates too low, the Fed inflated the housing bubble by enabling banks to issue mortgages that made overpriced houses seem affordable. ...

In the Atlantic, **Megan McArdle** explains the unfolding commercial real estate crisis.

...In some ways, price declines are a bigger problem for landlords than for homeowners. Unless forced to move, homeowners with long-term mortgages who make enough to cover their payments can sit tight and hope the market recovers. Landlords, however, typically take out commercial loans for shorter terms of three to 10 years. In normal times, landlords coming to the end of a mortgage simply roll the debt over into a new loan. But collapsing asset values have wreaked havoc on this process.

Now, as loans come up for renewal, lenders have to reassess how much credit they're willing to extend. Take a property that was worth $100 million in 2007, when it was financed with a four-year, $70 million mortgage. That's a reasonably conservative 70 percent loan-to-value (LTV) ratio. But if the building is worth only $70 million when it's time to roll the loan over, keeping the LTV at 70 percent means that the owners can now borrow only $49 million, and have to come up with tens of millions to pay off the original loan. Worse, as the markets tighten, lenders tend to want to see a lower LTV in the deals they finance.

That suggests that a lot of commercial loans are going to go bad. According to Joseph Gyourko, a Wharton real-estate professor, at least $250 billion worth of commercial loans are going to roll over in each of the next few years. When they do, many landlords will probably be caught short—and so will their bankers.

Although most U.S. residential mortgages were bundled into mortgage-backed securities, only a fraction of commercial mortgages were securitized. Some bank or finance company still carries the rest on its books and will have to write them down if they can't be rolled over; some of those banks will ultimately have to be taken over by the FDIC. As the banks' loan portfolios are sold off, the write-downs of the underlying collateral will give bank examiners a new, lower reference price for the collateral held by other banks, possibly tipping those banks into insolvency as well. You get the picture. ...

Ed Morrissey comments on an AP unemployment article that pulls no punches.

For a while, the Associated Press seemed determined to make "unexpected" and its variants the most overused term in economic reporting. Today, they give their readers an unexpected shock by dropping the forced sense of optimism normally used in giving bad economic news in their analysis of today's jobless report. Instead, Christopher Rugaber reports the obvious — that the loss of 85,000 more jobs is nothing but bad news, and that the 10.0% figure hides the rot underneath:

"Lack of confidence in the economic recovery led employers to shed a more-than-expected 85,000 net jobs in December even as the unemployment rate held at 10 percent. The rate would have been higher if more people had been looking for work instead of leaving the labor force because they can't find jobs. ...

...When discouraged workers and part-time workers who would prefer full-time jobs are included, the so-called "underemployment" rate in December rose to 17.3 percent, from 17.2 percent in November. That's just below a revised figure of 17.4 percent in October, the highest on records dating from 1994. ..."

...Unemployment has not gotten better; it has gotten worse, and the statistics have hidden the real decline in 2009. Until now, only a few media outlets bothered to highlight the problem. The AP has finally made it clear — and that will mean a lot more attention in 2010 to the failed Porkulus legislation and the fumbled economic strategies of the Obama administration. (via Geoff A) ...

In the Corner, **Stephen Spruiel** gives his forecast on the economy, and what Republicans should do.

...There are other reasons to think that, even with moderate GDP growth, unemployment could remain at 8 or 9 percent for the rest of the year. Home prices are likely to stay flat, i.e. the asset inflation that drove consumer spending during the credit bubble isn't there to drive it now. The stock market has rallied, but an analysis of economy-wide stock prices to corporate earnings indicates that stocks might be overvalued. I tend to think that's the case. Additionally, the number of people dropping out of the workforce is still quite high. As James Pethokoukis noted today, a growing economy will draw these discouraged job-seekers back into the labor force, offsetting jobs created and keeping the unemployment rate elevated.

Second, I think it's fair to blame Obama and the Democrats for creating a climate that is not conducive to job creation. (I think Ramesh probably agrees with that.) I have a piece up today arguing that the administration's agenda has created a deleterious level of regulatory uncertainty, particularly with regard to health-care costs, which has suppressed job growth. I actually think this point ties in well with the larger point of Ramesh's piece, which is that it's time for Republicans to pivot from opposition to Obama-Reid-Pelosi-Care to a positive message on health care. ...

...Republicans should run on the following message: The cost controls in the Democrats' bill are a joke: Obamacare will drive premiums up and expose small businesses to new taxes and regulations. Republicans will repeal Obamacare as their first order of business and replace it with the right reforms, such

as the refundable health-care tax credit that John McCain touted during his presidential campaign. Such a strategy would tie unease over the Democrats' health-care bill to anger over high unemployment.

Robert Samuelson introduces us to the Statistical Abstract.
You may think that the last place to find a portrait of a nation is a book full of numbers. But turn to Page 673 of the Statistical Abstract of the United States, and you find these intriguing figures. About three-quarters of Americans (76.1 percent in 2007, to be exact) get to work by driving alone. Only 10.4 percent carpool, while 4.9 percent use public transportation and 2.8 percent walk. On average, Americans spend 25.3 minutes commuting each way. The state with the longest commuting time is New York, at 31.5 minutes; the states with the shortest are North and South Dakota, at about 16 minutes, followed closely by Montana and Nebraska, at 17.6.

I'm an avid fan of the Stat Abstract, published annually by the Census Bureau, because it tells so much so quickly. The just-out 2010 edition bulges with information. For me, the Stat Abstract is often the place to start a story, because it substitutes evidence for speculation. How do we compare with other countries? Sometimes favorably; sometimes not. ...

Jennifer Rubin notices Maureen Dowd falling out of ObamaLove.
... Not even the grande dame of the Gray Lady can avoid the conclusion that Obama hasn't panned out. The fellow whom she and the entire liberal media swooned over during the campaign and those very qualities the Left punditocracy touted as praiseworthy (e.g., intellectualism, emotional reserve) have proven ill-suited to the job. Obama is neither leading nor seeming to understand state craft.

How could they have gotten it so wrong? Well, they were plainly in love with the "historic" opportunity to elect an African American. And they saw in Obama one of them — elite educated, scornful of gun clinging and Bible thumping Americans, contemptuous of American exceptionalism, skeptical of "hard power," and infatuated with the public sector. It turns out that this was a recipe for disaster when it comes the the presidency. ...

Dale McFeatters, in Central Florida's NewChief, tells us about a new trend in medicine; walk-in labs.

...As Lee Bowman of Scripps Howard News Service reports, a growing number of Americans are bypassing doctors and going directly to online and storefront labs for diagnostic testing. Most often they pay for these tests out of their own pocket. The results may persuade the consumer to pursue the matter further with a personal physician but, in any case, the consumer is in charge of who sees the results.

...The name of one fast-growing chain of walk-in labs encapsulates the field's business model, Any Lab Test Now. The company says it can generally have testing results within 24 hours and at a cost that is as much as 80 percent less than going through a doctor. The lab franchises offer up to 1,500 tests, from a simple cholesterol check to more sophisticated packages of tests that address complex medical issues. ...

...There is no federal oversight over medical testing, other than requiring that the labs that do the actual testing for the storefronts be properly certified. State regulations vary widely. As so often happens, the consumers seem to be far out in front of the lawmakers and regulators.

In the Corner, **Robert Costa** posts that Sarah Palin got it right again.
So this is why Sarah Palin isn't going to CPAC (via Politico):

Palin is declining an invitation to address the Conservative Political Action Conference next month because, a source said, she does not want to be affiliated with the longtime organizer of the traditional movement confab.

At issue is the role of David Keene, head of the American Conservative Union which organizes CPAC. In September, POLITICO reported that Keene asked FedEx for between $2 million and $3 million to get the group's support in a bitter legislative battle with rival UPS.

A source close to the Palin camp says that request led to a decision to stay away from the upcoming CPAC conference, calling it a forum that will place "special interests over core beliefs" and "pocketbook over policy."

"That's not what CPAC should be about and people are tiring," the source said. "Palin is taking a stance against this just as she did in Alaska."

Gerald Warner has more to say about the green fraud and those who are still drinking the cool-aid, in Telegraph Blogs, UK.

Fasten your seat-belt before you read this one. It's a corker. It is a quote from Susan Watts, BBC Science Editor, on Newsnight, as she attempted to explain why the abysmal failure of climate "scientists" to predict current weather conditions does not in any way reduce their credibility in predicting global warming. Watts said: "In fact that seasonal forecast predicting a mild winter wasn't actually wrong, but it left people with the wrong impression."

If you think I am making this up, I cannot honestly blame you. I can only invite you to go to BBC iPlayer and view Newsnight for 7 January, in order to hear this garbage for yourself. So, the prediction of a mild winter "wasn't actually wrong". Does the term "in denial" have any more graphic illustration than that? If you look out the window you might get the impression of Arctic conditions. But please remember, that is only an impression – a wrong impression. In scientific terms, it is baking hot. ...

... Global warming is all around us, only we are too sinful/sceptical/denying to see it. The total, insupportable falsity of the whole AGW scam is so blatant that its apologists' excuses are now not so much infantile as cretinous. ...

Rasmussen Reports
Looking Closer at the Massachusetts Senate Polls
by Scott Rasmussen

On the surface, three recent polls on the upcoming Massachusetts special election to fill the Senate seat of the late Edward M. Kennedy seem to tell three different stories.

A Rasmussen Reports poll, released last week, shows Democrat Martha Coakley leading Republican challenger Scott Brown by nine points. Two new polls released over the weekend show wildly different toplines. A Boston Globe poll puts Coakley up by 17 points, while a survey by the Public Policy Polling (PPP) finds Brown ahead by a single point.

As always, it's important to look at what the polls have in common to learn the real lessons from the data. A closer look at all three shows a lot of common ground.

First, all three surveys show Coakley right around the 50% mark. The Rasmussen poll has her right at 50%, while the Globe shows her three points higher and PPP three points lower. If Coakley is truly right around the 50% mark, then the race is hers to lose, and Brown's best possible scenario is a very narrow victory.

Second, all the polls show that a lower turnout is better for Brown. In the Rasmussen poll, Coakley leads by nine overall, but Brown pulls to within two points among those who are certain to vote. In the Globe poll, Coakley leads by 17 overall, but among those who are "extremely interested" in the election, it's 47% for Brown and 47% for Coakley. PPP shows a toss-up but suggests it's close because of low turnout among Democrats.

Finally, the Globe poll and the Rasmussen poll show identical vote totals for candidates other than Coakley. The Rasmussen poll finds 41% for Brown and did not mention a third-party candidate by name. The Globe shows 36% for Brown and five percent (5%) for independent candidate Joe Kennedy. It's interesting that both polls show 41% of the vote going to a candidate other than Coakley.

That fact becomes even more interesting when you note that third-party candidates generally poll better than they actually perform. True to form, the Globe poll found that only a tiny percentage of voters are committed to actually sticking with the independent candidate. If those voters actually show up on election day, it's quite likely that most will vote for Brown.

One reason the race is a bit closer than expected is that all three polls show Massachusetts voters are divided over the health care plan before Congress. The Rasmussen poll shows a very slight majority of likely voters in favor of the plan. The Globe puts backing for the congressional effort 10 points lower but still enough to muster a plurality of support. The PPP poll suggests that among those likely to show up and vote, a plurality is opposed to the proposed health care legislation.

Still, if this were a regularly scheduled election with other races on the ballot, Coakley would win handily. The turnout questions would not be as challenging for pollsters, and other races would bring Democrats to vote regardless of their enthusiasm about the Senate race.

But in a special election, turnout is typically much lower and always much harder to project. Collectively, the data suggests that Coakley remains the favorite, but Brown has attracted enough support to remain competitive. With just over a week to go, it is possible that a candidate mistake could dramatically shake up the race.

As always, turnout in special elections is very difficult to project, so all projections must be made with caution. Absent a major event, it is still possible to envision a long-shot, low-turnout scenario where Brown pulls out a very narrow victory.

Clearly, his supporters are more enthusiastic about the race and that gives him a chance. But, as they have from the beginning, the dynamics of the race still make it likely that Massachusetts voters on January 19 will send another Democrat to Washington.

EuroPacific Capital

It's Not Our Fault

by Peter Schiff

It seems that the primary qualification needed by any chairman of the Federal Reserve is the ability to never admit error, no matter how damning the evidence. During his tenure on the job, Alan Greenspan set the standard for implausible deniability. But in a speech last weekend in Atlanta, current chairman Ben

Bernanke did the Maestro one better. In a tortured academic dissertation, Bernanke explicitly denied any Fed culpability for inflating the housing bubble and for the financial crisis that began when it burst. Despite his best efforts, no one seemed particularly convinced. By taking such an absurd stand, he has destroyed any credibility he may have had left.

In his presentation to the National Economic Club, Bernanke claimed that ultra-low interest rates in the early in the Bush years were appropriate given the conditions at the time, and that they therefore did not a contribute to the housing bubble. Instead, he laid blame squarely at the feat of an "under-regulated" financial sector which had designed and sold unconventional and exotic mortgage products, such as adjustable-rate and interest-only mortgages. According to Ben, it was these irresponsible lenders (who he now hopes to regulate), not low interest rates, that caused the housing bubble.

There are two huge flaws in this line of reasoning. First, if these mortgages were such a problem, why didn't the Fed do something to rein in their use? When given an opportunity to speak about the widespread use of ARMs in congressional testimony, former chairman Greenspan had nothing but praise for these products. He claimed these offerings allowed savvy homebuyers to save money and better manage their personal balance sheets. At the time that Greenspan made these statements, Bernanke was serving as a Fed governor. From neither that position nor his later role as chairman of President Bush's Council of Economic Advisors did Bernanke ever utter a scornful phrase about the mortgages he now condemns in hindsight.

The biggest issuers and insurers of ARMs were Fannie Mae and Freddie Mac. Both of these Government Sponsored Entities (GSE's) had policies that allowed for borrowers to qualify based solely on their ability to meet the initial loan payments, not the higher payments that would eventually kick in. Why didn't the Fed advise Congress to force the GSE's to adopt more prudent standards? Either they did not recognize these mortgages as problematic, in which case they are incompetent, or they did and remained silent, which is worse. In either case, if they lacked the foresight or political will to prevent this crisis, how can we expect them to protect us from the next?

Furthermore, is it really possible that Bernanke is so clueless that he does not see the relationship between the proliferation of ARMs and interest-only mortgages and the low short-term interest rates that made them so popular? Without the ultra-low interest rates provided by the Fed, the vast majority of these problem mortgages never would have been originated. ARMs and interest-only mortgages existed well before the housing bubble began; however, it wasn't until the Fed cut rates to historically low levels in 2002, and held them there through 2005, that they became so popular.

The only reason so many people were able to overpay for houses was because of the temporarily low "introductory" rates. Had the Fed not set interest rates so low, these options would not have been available, and house prices would have been held in check. In short, by keeping interest rates too low, the Fed inflated the housing bubble by enabling banks to issue mortgages that made overpriced houses seem affordable.

Bernanke also blames lenders for making the false assumption that real estate prices would always rise. However, he neglects to point out that he made the very same mistake. While it is true that many lenders did make this foolish assumption, they did so under the influence of all the cheap money supplied by the Fed. Had they not made so many trips to the Fed's punch bowl, they would have exercised much better judgment. However, the Fed itself can make no such excuse.

As proof that the Fed caused the housing bubble, I offer a commentary that I wrote in May of 2004 and which was published as an opinion piece in the Orange County Register.

You can read the entire commentary here.

However, let me reproduce some key quotes:

That so many are currently opting for ARMs reflects a level of real estate speculation unparalleled in American history. Homebuyers have been lured into this foolish choice by… a Fed chairman desperate to *keep the real estate bubble inflating. Unfortunately, the longer the Fed remains "patient" with regard to raising short-term interest rates to appropriate levels, the more homeowners that will be lured into the ARM time bomb.*

The real losers in this whole fiasco are likely to be those who did not even participate in the mania. As over-leveraged borrowers walk away from properties in which they have no equity, the Fed will most likely attempt to bail out both debtors and bank depositors (and the government sponsored enterprises that insured the loans) with the most inflationary monetary policy ever undertaken in the history of central banking. The savings of an entire generation will be wiped out, as it will have been squandered to perpetuate the biggest real estate and consumer debt bubbles of all time.

Now if I could have seen that coming as early as May 2004, why couldn't the Fed? Even with the full benefit of hindsight, Bernanke still cannot recognize the Fed's mistakes. Of course, as there is a campaign underway to expand the Fed's regulatory authority, anyone expecting an honest assessment from its chairman and chief lobbyist simply does not understand politics.

While denying the obvious, Bernanke is now pursuing an even more reckless monetary policy than the one that created the housing bubble. The consequences this time will be even more devastating, and you can take that to the bank.

The Atlantic

Capitalist Fools

Commercial real estate is dominated by financial professionals, not hustlers looking for a quick flip. So why is the market about to melt down?

by Megan McArdle

FEW PLACES IN New York are less likely to inspire grand dreams than Stuyvesant Town and Peter Cooper Village, the twin housing projects that sprawl across 80 acres of the Lower East Side. Built by MetLife in the 1940s, the project encompasses block after block of boxy brick apartment buildings and stolid public spaces, entirely barren of inviting corners or eye-catching detail. The critic Lewis Mumford dubbed it “the architecture of the Police State”; a slightly kinder motto might have been “What do you expect for $68.50 a month?”

Yet when MetLife spruced up the complex and put it on the market in 2006, real-estate moguls jetted in for the sale. A joint venture put together by Tishman Speyer and BlackRock carried the day through its willingness to, as *The New York Times* noted, “pay up—way up—to unlock future profits in the sprawling Manhattan properties.” At $5.4billion, their winning bid made the sale the most expensive real-estate deal of all time.

Three years later, however, those profits were still securely locked inside the property’s 11,232 apartments—many of which remained rent-controlled, despite strenuous efforts to convert them to upscale market-rate rentals. With net income well under projections, the partnership started spending down its reserves. Then, in October 2009, a court ruled that the partnership had improperly decontrolled the rent for thousands of apartments, and would have to return them to their original status. As of this writing, analysts are predicting default in a matter of months unless the partnership’s debt of $4.4billion can be restructured—a shaky prospect, given that the owners may owe tenants of formerly rent-stabilized apartments as much as $200million in rent overcharges and damages. Stuyvesant Town might soon set another record: the biggest real-estate default in history.

That default would be one of the first tremors of an earthquake about to roil financial markets: a commercial real-estate crisis mirroring the catastrophe in the residential market. October brought both the Stuy Town deal’s first death rattle and the bankruptcy of the real-estate financier Capmark. As annual bank failures topped 100 for the first time in almost two decades, Federal Deposit Insurance Corporation Chair Sheila Bair fretted over the threat posed to lenders by losses linked to hotels, malls, and condominiums. But even as this new impending crisis unsettles commercial lenders and borrowers, the story of its origins can shed new light on how we got into this larger financial mess in the first place.

Commercial mortgage lenders basically have to worry about two kinds of default risk: cash-flow risk, and asset-price risk. Cash-flow risk is what happens to homeowners when the primary breadwinner becomes unemployed, and to landlords or hotel owners when rental prices plummet. Since commercial tenants typically sign relatively long leases, this problem tends to grow slowly except in hotels—and, apparently, in rent-controlled properties with litigious tenants.

But the risk posed by falling asset prices is a big problem for commercial landlords, and for their bankers. The value of much commercial real estate is tightly linked to employment—if employers don’t have bodies to put at desks, they don’t need more rooms to put the desks in. With unemployment north of 10percent, and retail suffering, the nation’s stock of commercial real estate is suddenly less valuable than it used to be.

In some ways, price declines are a bigger problem for landlords than for homeowners. Unless forced to move, homeowners with long-term mortgages who make enough to cover their payments can sit tight and hope the market recovers. Landlords, however, typically take out commercial loans for shorter terms of three to 10 years. In normal times, landlords coming to the end of a mortgage simply roll the debt over into a new loan. But collapsing asset values have wreaked havoc on this process.

Now, as loans come up for renewal, lenders have to reassess how much credit they’re willing to extend. Take a property that was worth $100million in 2007, when it was financed with a four-year, $70million mortgage. That’s a reasonably conservative 70percent loan-to-value (LTV) ratio. But if the building is worth only $70million when it’s time to roll the loan over, keeping the LTV at 70percent means that the owners can now borrow only $49million, and have to come up with tens of millions to pay off the original loan. Worse, as the markets tighten, lenders tend to want to see a lower LTV in the deals they finance.

That suggests that a lot of commercial loans are going to go bad. According to Joseph Gyourko, a Wharton real-estate professor, at least $250billion worth of commercial loans are going to roll over in each of the next few years. When they do, many landlords will probably be caught short—and so will their bankers. Although most U.S. residential mortgages were bundled into mortgage-backed securities, only a fraction of commercial mortgages were securitized. Some bank or finance company still carries the rest on its books and will have to write them down if they can't be rolled over; some of those banks will ultimately have to be taken over by the FDIC. As the banks' loan portfolios are sold off, the write-downs of the underlying collateral will give bank examiners a new, lower reference price for the collateral held by other banks, possibly tipping those banks into insolvency as well. You get the picture.

That said, the repercussions from the commercial collapse will not be as great as those from the housing sector. The commercial market is considerably smaller than the residential market. The existing FDIC system can handle the decline, which will likely hit smaller banks harder than those in the "too big to fail" bracket. Moreover, fraud was probably much more prevalent in the residential than the commercial market, where even the newbie investors tend to be financial professionals or established businesspeople, not hustlers looking for a quick flip.

But given how experienced those investors were, why are our problems now as bad as they are? Fraud aside, Gyourko notes that at the height of its bubble, the commercial real-estate market displayed most of the pathologies that characterized the residential side. Only 50percent of the increase in prices between 2003 and 2008 resulted from rising rents, he says; the rest was just inflated optimism about the rents landlords would be able to charge sometime in the future. And just as in housing, banks joined the folly, increasing the LTVs and requiring less amortization over the life of the loan.

Take the Stuyvesant Town deal. The investors aren't shady subprime lenders or naive kids. Tishman Speyer has been in the real-estate business for decades, and the investors who trusted the firm with their money are sober institutions like the Hartford Financial Services Group and the California Public Employees' Retirement System. Yet according to *TheWall Street Journal*, when Stuyvesant Town was sold, lenders were projecting that the Tishman Speyer–BlackRock partnership would be able to triple its net income in five years through building upgrades and decontrol. That's why the principals paid a premium for the property, and financed the purchase with loans totaling more than 80percent of the price.

Even before the financial crisis sapped demand in the rental market, this plan was questionable. The buildings simply weren't built as deluxe rentals—the mosaic tile in the public areas has been replaced by marble, but in the cramped vestibules and narrow hallways, the effect isn't luxurious; the buildings just look like they're dressed up for Halloween. With mostly tiny kitchens, and no room in the lobbies for a doorman, these apartments were never going to command the kind of rents that would justify the partnership's bid. Even though many of the apartments have been decontrolled, net income has barely risen.

Besides, anyone who's been in New York long enough to find Zabar's without a map knows that rent-controlled tenants like to sue, and New York's housing law is notoriously tenant-friendly. Even if the new owners had found tenants willing to pay top dollar, there was a good chance they would never have been allowed to charge it. Game theorists often speak of the "winner's curse": the tendency of auctions to be won by the people who are the most delusionally overoptimistic. It's an apt description of what seems to have happened. Not just to the Tishman group, but to America.

One of the most persistent narratives of the recent crisis portrays a nation of unsophisticated home buyers led astray by greedy bankers. Supposedly those bankers were willing to write risky loans because they intended to pass them on to some unwary investor. But this explanation falters in the face of a legion of failing commercial deals. Prospective landlords had all the expertise they should have needed to put a fair price on properties—and the majority of lenders who were originating loans for their own portfolios had ample incentive to perform careful due diligence.

The best explanation for the calamity that has overtaken us may simply be that cheap money makes us all stupid. The massive inflows of international capital, which Ben Bernanke has called the "global savings glut," poured into our loan markets, driving interest rates lower—and, since most real estate is purchased with borrowed funds, pushing up the price of property in both the commercial and residential sectors. Rising prices, in turn, disguised any potential problems with the borrowers, because if they ran into cash-flow problems, they could always refinance, or sell. Everyone was getting bad signals from the market, and outlandish purchases looked almost rational.

That answer isn't quite satisfying, especially in the face of another financial meltdown. We don't want ambiguity and complex systems; we want heroes, villains, and a happy ending. But by now we should all know that real-estate markets are rarely the stuff of fairy tales.

Hot Air

Unexpectedly, AP hammers Obama administration on jobless report

by Ed Morrissey

For a while, the Associated Press seemed determined to make "unexpected" and its variants the most overused term in economic reporting. Today, they give their readers an unexpected shock by dropping the forced sense of optimism normally used in giving bad economic news in their analysis of today's jobless report. Instead, Christopher Rugaber reports the obvious — that the loss of 85,000 more jobs is nothing but bad news, and that the 10.0% figure hides the rot underneath:

Lack of confidence in the economic recovery led employers to shed a more-than-expected 85,000 net jobs in December even as the unemployment rate held at 10 percent. The rate would have been higher if more people had been looking for work instead of leaving the labor force because they can't find jobs.

The sharp drop in the work force — 661,000 fewer people — showed that more of the jobless are giving up. Once people stop looking for jobs, they're no longer counted among the unemployed.

When discouraged workers and part-time workers who would prefer full-time jobs are included, the so-called "underemployment" rate in December rose to 17.3 percent, from 17.2 percent in November. That's just below a revised figure of 17.4 percent in October, the highest on records dating from 1994.

Despite the sunny spin coming from the White House, the situation got worse as the year wore on:

The participation rate in the labor force — the portion of adults either working or looking for work — fell in December to 64.6 percent, the lowest since August 1985.

The drop was particularly steep in the second half of last year. That suggested that people were becoming discouraged about their job prospects even as layoffs slowed. The reason is that job openings remain far too few.

And Rugaber supplies some historical context as well:

Friday's report caps a disastrous year for U.S. workers. Employers cut 4.2 million jobs in 2009. And the unemployment rate averaged 9.3 percent. That compares with an average of 5.8 percent in 2008 and 4.6 percent in 2007. Nearly 15.3 million people are unemployed, an increase of 3.9 million during 2009.

The reaction today from the White House suggests that they know the spin won't hold. In the earlier report, Reuters finally admitted that the rise of temp workers may not be a leading indicator of recovery, but a shift in approach by employers spooked by ObamaCare and heavier taxes and energy costs. Labor Secretary Hilda Solis also suggested that companies may be sitting on the sidelines looking for more incentives to hire — a signal that the administration has been giving for months.

Unemployment has not gotten better; it has gotten worse, and the statistics have hidden the real decline in 2009. Until now, only a few media outlets bothered to highlight the problem. The AP has finally made it clear — and that will mean a lot more attention in 2010 to the failed Porkulus legislation and the fumbled economic strategies of the Obama administration. (via Geoff A)

Update: Inn0cent Bystanders is known for producing the amended Romer charts on unemployment rates each month, but this chart is more on point. It shows the decline of jobs and the steep rate that hasn't changed at all this year:

There was a slight incline in March and another in November, but the trend is otherwise a straight line downward all year. This underscores the AP point made today.

The Corner

Spinning the Jobs Report [Stephen Spruiell]

The RNC reacted to December's weak employment report with a press release blaming President Obama for "single handily preventing [*sic*]" a recovery in the job market. Is that really wise? In the last issue of NR, Ramesh Ponnuru answered: probably not.

Ramesh's caution springs from his optimism about the resilience of the U.S. economy. "The conventional wisdom has been that this recovery will conform to the pattern of slow job growth set by the early stages of the last two, which started in 1991 and 2001," he wrote. "But there is some reason to think that sharp recessions tend to be followed by strong recoveries (as happened soon after those 1982 elections)."

"The dangers for Republicans should be obvious," he continued. "Their message now is that Obama's policies are failing because unemployment is high. If unemployment starts to fall rapidly, Obama will, as president, naturally reap some of the credit. But he will reap an extra share because the Republican message will be discredited."

It is wise to be cautious — and the RNC is certainly overstating the extent to which Obama is to blame for lingering high unemployment — but unlike Ramesh, I think a strong, jobs-full recovery is unlikely, and I think it's fair to lay some of the blame at Obama's feet.

First, why I'm not as optimistic as Ramesh: Among other reasons, I find this chart persuasive:

TABLE 1: WHY THIS IS NOT THE ONSET OF A NEW SECULAR BULL MARKET — A COMPARISON WITH AUGUST 1982

United States	1982	2009
Fed funds rate	18% and only one way to go (down)	0% and only one way to go — up
10-year bond yield	15% and falling	3.8% and rising
Monetary base	$170 billion and rising	$2.2 trillion and stable to falling
Budget deficit-to-GDP ratio	-3% and moving towards a surplus	-10% and steady or falling from here
Household debt-to-personal disposable income ratio	62% and rising	123% and falling
Inflation rate	10% and falling	0% and rising
Savings rate	10% and falling	4% and rising
Unemployment rate	10.8% and falling	10% and rising
Misery index	At 16 and falling	At 12 and rising
Labour force participation rate	64% and rising	65% and falling
Tax rates (highest marginal)	69% and falling	35% and rising
Union share of the job market	20% and falling	12% and rising
Global trade barriers	High and falling	Low and rising
Profit margins (room for expansion?)	6.0%	10.0%
S&P 500 P/E ratio (1-year trailing)	8.0x	20.0x
P/E ratio (10-year normalized in real terms)	7.0x	23.0x
S&P 500 price-to-book ratio	1.0x	2.2x
S&P 500 dividend yield	6.0%	2.0%
Investor sentiment	10% bullish	88% bullish
UofM opinion on government policy	80% and rising	80% and falling
Baby boomer population	Median age is 25, peak spending and investing years ahead (capital gains)	Median age is 52, retirement focus ahead (capital preservation)

Source: Haver Analytics, Gluskin Sheff

There are other reasons to think that, even with moderate GDP growth, unemployment could remain at 8 or 9 percent for the rest of the year. Home prices are likely to stay flat, i.e. the asset inflation that drove consumer spending during the credit bubble isn't there to drive it now. The stock market has rallied, but an analysis of economy-wide stock prices to corporate earnings indicates that stocks might be overvalued. I tend to think that's the case. Additionally, the number of people dropping out of the workforce is still quite high. As James Pethokoukis noted today, a growing economy will draw these discouraged job-seekers back into the labor force, offsetting jobs created and keeping the unemployment rate elevated.

Second, I think it's fair to blame Obama and the Democrats for creating a climate that is not conducive to job creation. (I think Ramesh probably agrees with that.) I have a piece up today arguing that the administration's agenda has created a deleterious level of regulatory uncertainty, particularly with regard to health-care costs, which has suppressed job growth. I actually think this point ties in well with the larger point of Ramesh's piece, which is that it's time for Republicans to pivot from opposition to Obama-Reid-Pelosi-Care to a positive message on health care.

Ramesh argues that it's not enough for Republicans to champion typical pro-growth policies like low taxes and free trade, because out-of-control health-care costs impose real burdens on small and medium-sized businesses and eat into everyone's wages. But health-care reform is simultaneously a jobs issue. The burden of high health-care costs falls disproportionately on the small and medium-sized businesses that drive job creation — and so would Obamacare's taxes and penalties.

Republicans should run on the following message: The cost controls in the Democrats' bill are a joke: Obamacare will drive premiums up and expose small businesses to new taxes and regulations. Republicans will repeal Obamacare as their first order of business and replace it with the right reforms, such as the refundable health-care tax credit that John McCain touted during his presidential campaign. Such a strategy would tie unease over the Democrats' health-care bill to anger over high unemployment.

Washington Post

The numbers behind Americans' everyday lives

by Robert J. Samuelson

You may think that the last place to find a portrait of a nation is a book full of numbers. But turn to Page 673 of the Statistical Abstract of the United States, and you find these intriguing figures. About three-quarters of Americans (76.1 percent in 2007, to be exact) get to work by driving alone. Only 10.4 percent carpool, while 4.9 percent use public transportation and 2.8 percent walk. On average, Americans spend 25.3 minutes commuting each way. The state with the longest commuting time is New York, at 31.5 minutes; the states with the shortest are North and South Dakota, at about 16 minutes, followed closely by Montana and Nebraska, at 17.6.

I'm an avid fan of the Stat Abstract, published annually by the Census Bureau, because it tells so much so quickly. The just-out 2010 edition bulges with information. For me, the Stat Abstract is often the place to start a story, because it substitutes evidence for speculation. How do we compare with other countries? Sometimes favorably; sometimes not.

Being optimistic, Americans commit suicide at fairly low rates, 10.2 for every 100,000 people in 2004, less than the 11.9 average for all industrial countries or Japan's 20.3 and France's 15.1. Food is cheaper here than almost anywhere else. In 2007, only about 6.9 percent of U.S. consumer spending went for food at home; Germans spent more (11.4 percent), as did Italians (14.5 percent) and Mexicans (24.2 percent). On the other hand, low food prices may contribute to Americans' obesity. In 2006, about 34 percent of U.S. adults were judged obese, triple France's rate (10.5 percent) and four times that of Switzerland (7.7 percent).

The United States may be the birthplace of feminism, but that's not obvious from global figures. In 2009, women were 16.8 percent of the U.S. House of Representatives. In other national legislatures, women did better. For Canada, the comparable figure was 22.1 percent; for the Netherlands, 41.3 percent. The United States was nearly on a par with Uzbekistan's 17.5 percent.

Considering today's economic slump, America may seem a land where progress has died. Not so. The Stat Abstract offers many counterexamples. Crime is one.

Two decades ago, governments seemed helpless against a rising tide of murders, assaults and drug deals. Then crime began to subside. From 1993 to 2007, murders dropped from 25,000 to 17,000 and robberies from 660,000 to 445,000. Crime rates per 100,000 declined more, because the population rose 16 percent over the same period. There is no consensus as to why. Possibilities include better policing techniques and tougher sentencing (the incarcerated population doubled from 1.15 million in 1990 to 2.29 million in 2007). But crime still remains serious, especially for the young: In 2007, 18 percent of high school students reported carrying a weapon sometime in the previous year.

There are other signs of progress. Smoking continues to decline, from 25.3 percent of adults in 1990 to 19.7 percent in 2007. Five-year survival rates for cancer are up: from 62.4 percent in 1990-92 to 69.1 percent in 1999-2005 for whites; and from 48.2 percent to 59.4 percent for blacks. Voting is also up; the 57.1 percent turnout in 2008 was the highest since 1968. Garbage per person has stabilized; it was 4.5 pounds per day in 1990 and 4.6 pounds in 2007. Among young adults (18 to 29), Internet usage is virtually universal: 92 percent in 2009, up from 72 percent in 2000.

But bad news abounds, too. In 2007, nearly two-fifths of all U.S. births were to unmarried women, double the share in 1980. Since 1970, the student-teacher ratio in schools has declined dramatically, from 22 to 1 to 15 to 1 in 2007, with little effect on test results. The share of children under the federal poverty line in 2007 (17.6 percent) was virtually the same as in 1980 (17.9 percent).

Mostly, we learn how we're living and changing. By 2050, the U.S. population is projected at almost 440 million, up from 304 million in 2008. Almost one-quarter of elementary and high school students are immigrants or have immigrant parents. In 2007, the average American spent 1,613 hours watching TV, the equivalent of 67 days. From 1980 to 2007, the number of pickup trucks, vans and SUVs almost quadrupled, to 101.5 million, while the number of cars rose only 12 percent, to 135.9 million.

And sex? The Stat Abstract has that, too. Among men ages 15 to 44, the median number of sexual partners in their lifetimes is 5.4. Almost a quarter of men (22.6 percent) say they've had 15 or more partners. Among women, the median number of partners is 3.3, and almost a tenth (9.2 percent) say they've had 15 or more partners.

The Stat Abstract provides multitudes of facts. How we discuss, interpret and debate them is the stuff of democracy.

Contentions

One of Theirs Doesn’t Pan Out

by Jennifer Rubin

Maureen Dowd is a woman scorned, it seems. Candidate Dreamy has become Captain Obvious. She hisses:

'“We must do better,” Captain Obvious said Thursday at the White House, “in keeping dangerous people off airplanes while still facilitating air travel.” John Brennan, the deputy national security adviser, was equally illuminating. “The intelligence,” he informed us, “fell through the cracks.” He also offered this: “Al-Qaeda is just determined to carry out attacks here against the homeland.” That rings a bell. The president and his intelligence officials stressed that these were not the same mistakes made before 9/11. “Rather than a failure to collect or share intelligence,” President Obama said, “this was a failure to connect and understand the intelligence that we already had.” Wow. That makes me feel that all those billions spent on upgrading the intelligence system were well spent.'

And like many a conservative pundit, she’s had quite enough of the “President Cool” routine and of the insistence “on staying aloof and setting his own deliberate pace for responding.” She fumes: “He’s so sure of himself and his actions that he fails to see that he misses the moment to be president — to be the strong father who protects the home from invaders, who reassures and instructs the public at traumatic moments.”

Not even the grande dame of the Gray Lady can avoid the conclusion that Obama hasn’t panned out. The fellow whom she and the entire liberal media swooned over during the campaign and those very qualities the Left punditocracy touted as praiseworthy (e.g., intellecutalism, emotional reserve) have proven ill-suited to the job. Obama is neither leading nor seeming to understand state craft.

How could they have gotten it so wrong? Well, they were plainly in love with the “historic” opportunity to elect an African American. And they saw in Obama one of them — elite educated, scornful of gun clinging and Bible thumping Americans, contemptuous of American exceptionalism, skeptical of “hard power,” and infatuated with the public sector. It turns out that this was a recipe for disaster when it comes the the presidency.

And Obama’s background has proved, if anything, to be a hindrance. Obama’s oversight of the Harvard Law Review didn’t prepare him for the Oval Office. To the contrary, his preference for government by seminar made for an excruciating war-planning process. His cool persona doesn’t instill confidence in voters. It frightens them that their president is disengaged (emotionally and otherwise).

Dowd and her colleagues complain now — but he was their kind of guy. Perhaps we shouldn’t put in the White House someone better suited to edit a liberal publication.

Central FL's NewsChief

Many bypass the the doctor and go straight to the lab

by Dale McFeatters

While Washington is deep in the throes of trying to overhaul the nation's health-care system, another development is fast gathering momentum that shows the lawmakers in many ways are pursuing a moving target.

As Lee Bowman of Scripps Howard News Service reports, a growing number of Americans are bypassing doctors and going directly to online and storefront labs for diagnostic testing. Most often they pay for these tests out of their own pocket. The results may persuade the consumer to pursue the matter further with a personal physician but, in any case, the consumer is in charge of who sees the results.

So far, the testing is generally basic stuff - sex, drugs and cholesterol - with sensitive privacy issues. The labs can test for STDs and paternity. Job seekers can find out whether they'll pass the pre-employment drug test many companies demand. And the labs can test the DNA of evidence brought in by a suspicious spouse.

The name of one fast-growing chain of walk-in labs encapsulates the field's business model, Any Lab Test Now. The company says it can generally have testing results within 24 hours and at a cost that is as much as 80 percent less than going through a doctor. The lab franchises offer up to 1,500 tests, from a simple cholesterol check to more sophisticated packages of tests that address complex medical issues.

Medical testing is a $55 billion-a-year business and lab testing sold directly to consumers accounts for only $100 million of that market, but it is set for rapid expansion because of cost, convenience and a growing sense that people need to be their own health advocates.

The medical profession views this development with some skepticism, fearing that consumers will order the wrong kinds of tests or misdiagnose the results. Major physicians organizations like the American Medical Association have cautioned against any kind of clinical or genetic testing done without a doctor's consultation.

There is no federal oversight over medical testing, other than requiring that the labs that do the actual testing for the storefronts be properly certified. State regulations vary widely. As so often happens, the consumers seem to be far out in front of the lawmakers and regulators.

The Corner

Ouch [Robert Costa]

So this is why Sarah Palin isn't going to CPAC (via *Politico*):

Palin is declining an invitation to address the Conservative Political Action Conference next month because, a source said, she does not want to be affiliated with the longtime organizer of the traditional movement confab.

At issue is the role of David Keene, head of the American Conservative Union which organizes CPAC. In September, POLITICO reported that Keene asked FedEx for between $2 million and $3 million to get the group's support in a bitter legislative battle with rival UPS.

A source close to the Palin camp says that request led to a decision to stay away from the upcoming CPAC conference, calling it a forum that will place "special interests over core beliefs" and "pocketbook over policy."

"That's not what CPAC should be about and people are tiring," the source said. "Palin is taking a stance against this just as she did in Alaska."

Telegraph Blogs, UK

BBC: forecast of a mild winter 'wasn't actually wrong'. And they called climate sceptics 'deniers'

by Gerald Warner

Fasten your seat-belt before you read this one. It's a corker. It is a quote from Susan Watts, BBC Science Editor, on *Newsnight*, as she attempted to explain why the abysmal failure of climate "scientists" to predict current weather conditions does not in any way reduce their credibility in predicting global warming. Watts said: "In fact that seasonal forecast predicting a mild winter wasn't actually wrong, but it left people with the wrong impression."

If you think I am making this up, I cannot honestly blame you. I can only invite you to go to BBC iPlayer and view Newsnight for 7 January, in order to hear this garbage for yourself. So, the prediction of a mild winter "wasn't actually wrong". Does the term "in denial" have any more graphic illustration than that? If you look out the window you might get the impression of Arctic conditions. But please remember, that is only an impression – a wrong impression. In scientific terms, it is baking hot.

In Evelyn Waugh's *Brideshead Revisited* there is an entertaining passage in which Rex Mottram, an adventurer, is taking instruction in the Catholic faith, in order to marry an heiress. Devoid of belief, he is anxious to conform. Asked by the priest, if the Pope predicted rain would it be bound to happen, he says yes. And if it didn't rain, persists the priest? "I suppose it would be sort of raining spiritually, only we were too sinful to see it."

That is the territory we are now in with climate change. Global warming is all around us, only we are too sinful/sceptical/denying to see it. The total, insupportable falsity of the whole AGW scam is so blatant that its apologists' excuses are now not so much infantile as cretinous. A week ago we had the Gulf Stream Guff, but that could hardly account for conditions in Beijing, so that has faded from the radar. Now we are urged, imperiously and superciliously, to distinguish between "weather" and "climate".

Aha! Another ploy calculated to appeal to the "sophisticates". "If you knew the first thing about it, you would not make the basic mistake of confusing weather with climate…" Zzzz… Coming from a bunch of clowns who have confused heat with cold, drought with snow, and fact with fiction – that is rich. If you need some light relief in these grim conditions, turn to the Met Office website.

There, under the heading "How our forecasts have improved", you will read: "Through continual investment in research, supercomputing and observations, Met Office scientists have steadily improved the accuracy of our forecasts. All of the forecasts we produce are stored and their accuracy assessed, so that we can learn from what went wrong with inaccurate forecasts and make sure that they keep getting better."

Not since Soviet reports, circa 1952, of record tractor production figures for the Ukraine have the claims of any government agency, anywhere on earth, displayed such detachment from reality. The same applies to the BBC, which must be broken up and sold off by the government that replaces Dave in 2015. It is now churning out lies on a scale that would have made the commissar in charge of Radio Moscow under Stalin blench. The breathtaking words of Watts were followed by a studio debate involving two supporters of climate change orthodoxy. (What did you expect – Monckton, Delingpole, some revisionist deviationist from the party line?)

When confronted with the fact that the map published by the Met Office early last month still shows Britain in orange (the warmest category), Keith Groves, Met Office director of operations, responded: “I think you have to be very careful about how you use this information.” I’d go along with that. The Met Office predicted a “mild winter”. The definition of a mild winter is temperatures above 4.3C. While Newsnight was broadcasting this twaddle, temperatures were plunging to as low as – 22.3C.

The line being taken among climate alchemists now is: “We admit we cannot predict whether a season will be hot or cold; we are lousy at forecasting the weather over a week, a month, a quarter or a year. But when it comes to forecasting conditions in 2030, we are infallible.”

The references above to the Soviet Union are deliberate. I employ them because of the very real parallel with the present situation. The global warming frauds always had Plan A and Plan B in preparation. Plan A was to brainwash the population of Britain, America and the rest of the developed world into believing in man-made global warming. That was the preferred option; but it has failed.

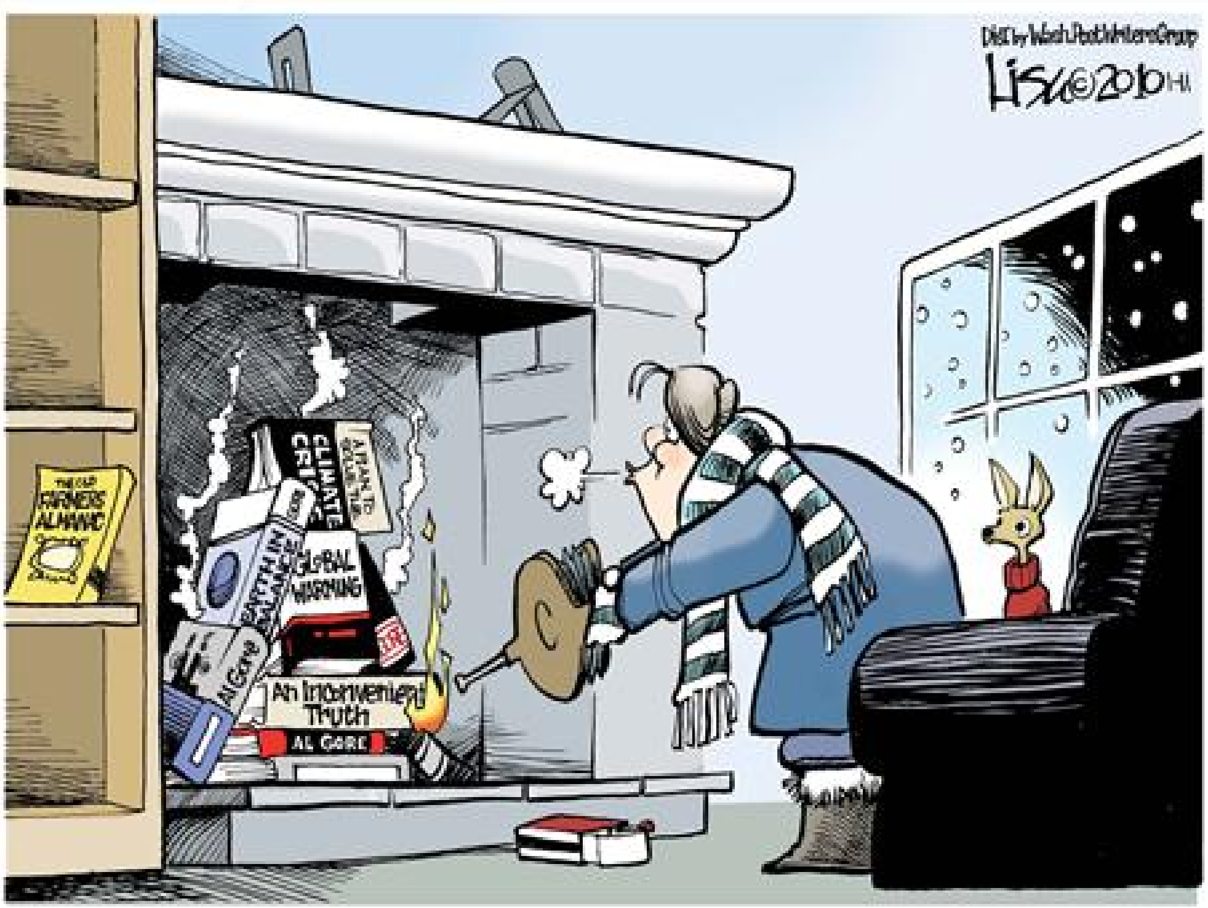
Plan B, which will now come into operation, is to replicate what happened in the Soviet Union in the 1980s. Nobody believed in the economic illiteracy that was Marxism-Leninism any more; but jobs, promotion, status, even retaining one’s liberty depended on paying lip service to it. Those are the terms on which the ideology of Global Warming will now be imposed on a sceptical population: by bribery, coercion, brainwashing of children, employment and promotion blackmail.

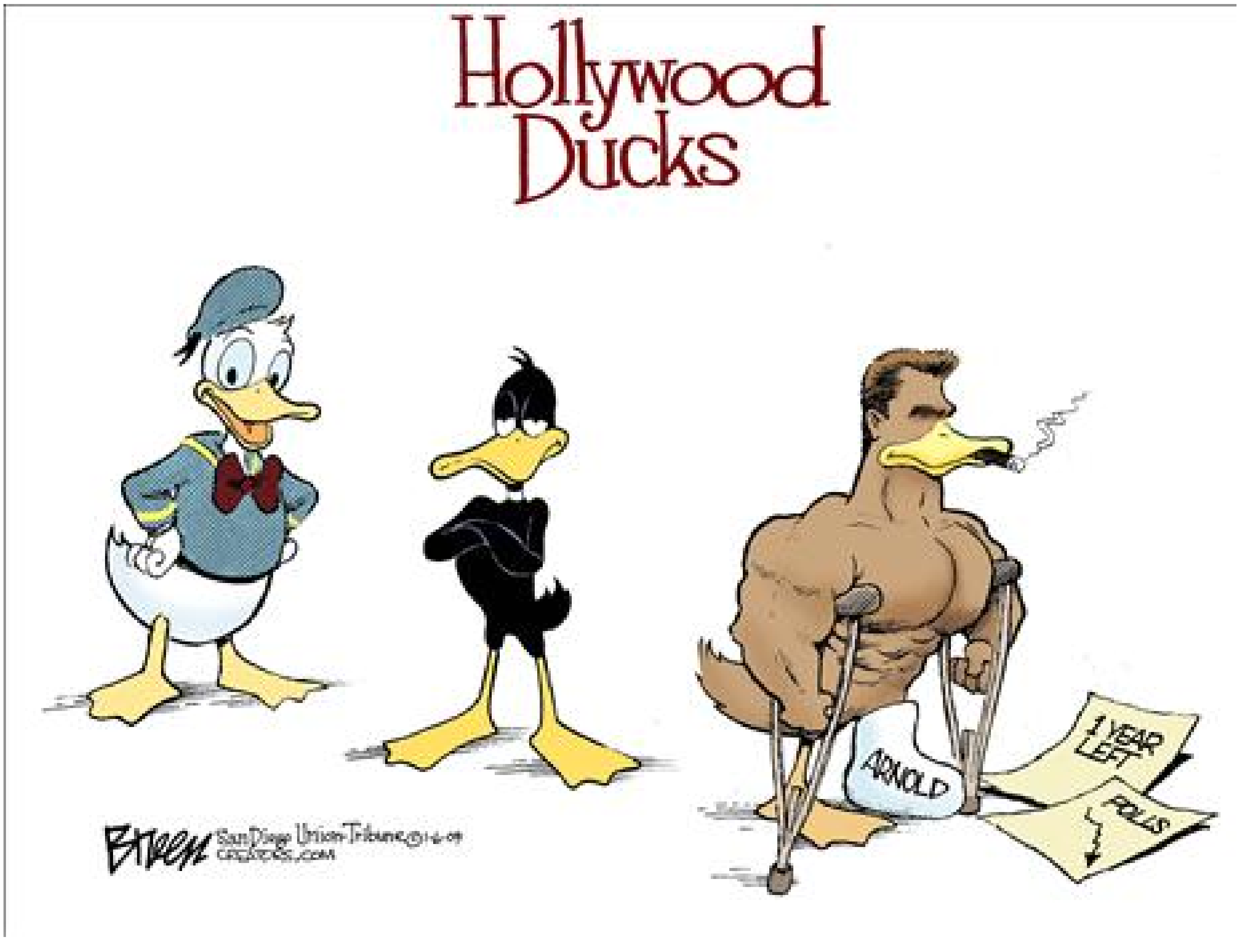
That is the agenda. Unless, of course, we do something firm, decisive and possibly very nasty about it.


HEALTH 'COVERAGE'
C-SPAN
HEALTH BILL NEGOTIATIONS
San Diego Union-Tribune © 1-8-09


LEFT
CENTER
LEFT
I HAVE NO IDEA WHAT I'M DOING.
WHAT THE BODY SCAN DOES NOT REVEAL.


I'M SHUTTING DOWN GITMO BECAUSE IT'S A PROPAGANDA TOOL FOR AL QAEDA.
I THOUGHT OUR FREEDOM AND WEALTH WERE PROPAGANDA TOOLS FOR AL QAEDA?
CREATORS.COM ©10
I'M WORKING ON THAT TOO.
ROKBLUSTER.COM


FARMERS ALMANAC
GLOBAL WARMING
An Inconvenient Truth
AL GORE
Al Gore


Hollywood Ducks
ARNOLD
1 YEAR LEFT
POLLS


Calif.
SPENDING
AB32
PANDERING
PENSIONS
UNIONS