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Recession headed our way, experts predict at UA forum

By Dale Quinn

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Local economists painted a grim picture of the United States' financial condition Wednesday night with one saying that we're headed either into a recession or a "really bad recession."

The forum, featuring experts from the University of Arizona's Eller College of Management, occurred just after the Senate passed a revised version of the \$700 billion bailout plan. An earlier version of the plan was rejected by the House on Monday, and stock values plunged.

Spectators curious about the state of our economy and financial markets packed McLelland Hall's Berger Auditorium and several overflow rooms.

A major part of the problem, said author and economist Gerald Swanson, was that the government and others in power have done a poor job informing the public about what's going on.

"Our financial system is built on confidence," he said, holding up a \$20 bill. The only reason money works, he said, is that consumers have confidence that they will be able to exchange the money for something that has value.

The country is experiencing a crisis of confidence in the economy and government, he said. And the credit crisis hit as the economy was in a downturn.

Chris Lamoureux, the head of the UA's finance department, wasn't any more optimistic as he laid out the circumstances that led up to the turmoil.

"This past month is one of almost unparalleled activities in financing," he said. "It is a dizzying time."

Eller College Dean Paul Portney also fielded questions from the audience after speaking briefly. Here are some highlights of the discussion:

Can't the government just step aside and let the market work it out?

A: That could work, Swanson said, but the consequences would be long and painful. A dysfunctional financial system could plunge the economy into a deep, prolonged recession, he said.

Will the banking system survive?

Yes, Swanson said. But banks will continue to consolidate as smaller banks are absorbed into the larger ones, he said.

"The worst thing you can do is take out your money," Swanson said. "You may precipitate the collapse."

Should some individuals on Wall Street face criminal charges?

If they clearly violated existing laws and regulations, then yes, they should, Portney said.

But he said while the collapse may have been ignited by people making risky investments and then shifting those to others, that doesn't mean rules were violated.

When banks such as Washington Mutual fail, what happens to their assets?

Bank failures are worked out by the Federal Deposit Insurance Corp., Lamoureux said. When one bank fails, another takes on its liabilities and assets, he said. The FDIC is in position so the new bank isn't responsible for any bad loans made by the one that collapsed.

What was the role of deregulation in the meltdown?

It's had some role, Portney said, but not as much as some critics of deregulation have made out.

The explosion of technology that allows investors to instantly move money around the globe has likely played a larger role, Portney said.

How do we prevent this from happening again?

This problem, Swanson said, which started in the mortgage industry as the housing bubble burst, was precipitated by people living outside their means.

"We all brought this on," he said.

And a key tip: "Learn to save," he said.

- *Contact reporter Dale Quinn at 573-4197 or dquinn@azstarnet.com.*

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