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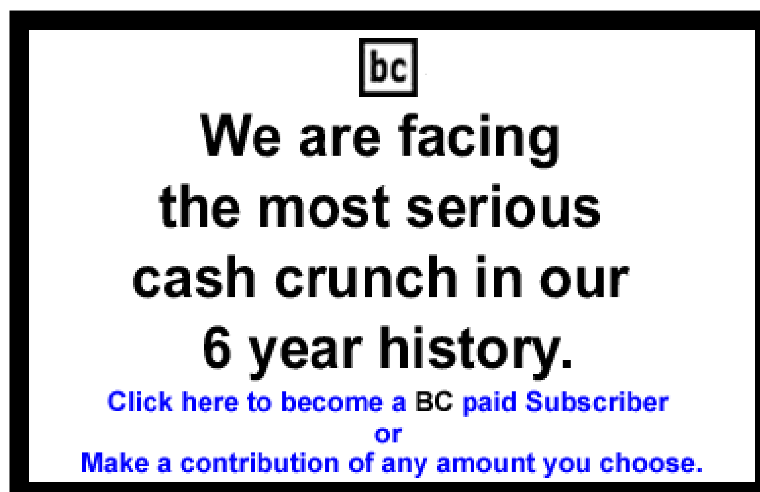

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More Happy Talk From This Administration
Smoke and Mirrors
By Lloyd Wynn
Black**C**ommentator.com **Columnist**

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A soft labor market is truly a mischaracterization of the conditions which exists. The world's biggest banks and securities firms cut 83,000 jobs from their payroll since August of last year as U.S. sub-prime mortgage delinquencies seized up the global credit market, according to data compiled by Bloomberg. Bank America announced it will not absorb thousands of Countrywide employees into its labor force after the acquisition. Citigroup, Merrill Lynch, and others stated they will significantly reduce payrolls over the next 12 months. Another downside to job loss is that former employees are added to the burgeoning lists of unemployed seeking opportunities in a labor market that is losing jobs. Businesses do not escape the casualty list. Sales will be impacted by the lost wages, triggering fewer orders to wholesalers and up through the supply-chain. Once this process is repeated over multiple segments of the economy, the downward spiral is reinforced and jobs are eliminated at a substantial rate each month.

June, 2008 was the worst June in the stock market since June, 1930. The upheaval is almost beyond comprehension. But not to worry, the Administration will find a way to spin this and convince you there are a few hiccups in the economy. Contrary to what others are saying, our reality points to disaster. The Dow was very close to growing claws the last week of June. Wall Street analysts agree many of the earnings estimates

are too optimistic and must reflect what is occurring in the marketplace, signaling a rocky third and fourth quarter in 2008. Other investments in the stock market such as pension funds have been exposed to the downside risks of the equities and now imperil millions of Americans' retirement income. Additionally, the financial sector is beyond what Federal Reserve Chairman Ben Bernanke described as considerable stress. One large investment bank is toast, one has write downs and loan related losses in excess of $40 billion and another is taking a standing eight count. Regardless of the stress test, the system is broken.

On the subject of financials, the sub-prime crisis has not abated. Before we discuss the demise of the sub-prime industry let us make a mental note, there were many educated consumers and upstanding businesses who appreciated a legitimate financing option. The face of sub-prime lenders today is illustrated in the foreclosures that have added to a bulging housing supply, putting downward pressure on home values. Joining the default list will be prime mortgages. These loans are typically rated higher within the security and when they default, most, if not all, investors in that instrument will lose their investment and those losses are passed on to the bond insurers - triggering lowered ratings. The cycle repeats itself across multiple asset classes. Analysts forecast, given the range of assets being pulled into the cycle, sustained foreclosure activity through 2010. When combined with tepid demand and diminished financing options, the trio will not likely reduce a growing supply of homes on the market, further eroding equity for many Americans.

The futures market is experiencing its bubble now and increased investor activity has attracted a bevy of speculators, sending commodity prices skyrocketing. When consumers go to the service stations, supermarkets, restaurants, dentists, dry-cleaners, etc. they have an intimate experience with inflation. The Administration's assessment of the economy is not consistent with the consumers' reality. Automobile owners are trading in pickups and Mercedes for Saturns, not only because of the dramatic rise in gas prices but a number of auto loan borrowers cannot continue to make the higher auto payment and household expenses. Quick reference; the Commonwealth of Virginia approved a rate hike for utility giant, Dominion Power. Rates in Virginia will increase by 18% just as a Florida utility has been granted a 14% increase. This trend will continue for the jurisdictions that have not increased utility rates. Food prices are soaring, primarily the costs of distribution and speculation.

Our existence is almost surreal. We are experiencing true Reaganomics, on full display. Reagan's domestic agenda of repealing the New Deal unleashed into the marketplace another cabal of financial wizards attached to computer models. Deregulation of interest rates, financial products, and a change in the tax code under Reagan's Administration opened the door to the sub-prime debacle. Clinton followed with a modernization act that deregulated the securities, banking and insurance industries. The results of rescinding banking regulation are seen in today's conditions, a labor market hemorrhaging jobs, foreclosures overburdening a two-year a supply of housing, credit markets restricting activities, commodity prices going through the roof and home utility bills rising dramatically. The bizarre atmosphere you sense is all of these conditions exist simultaneously. Unlike anything many of us have known. But what do we hear from this Administration on the real conditions and what should we do about them? The following is a major statement by the Federal Reserve Chairman.

Recent information indicates that overall economic activity continues to expand, partly reflecting some firming in household spending. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and the rise in energy prices are likely to weigh on

economic growth over the next few quarters (June 25, 2008, as reported by Bloomberg News).

I will conclude by briefly discussing the Congressional response to the above conditions and what one can do under these conditions. Not very much has happened substantively except passage of the stimulus package. The foreclosure rescue bill Congress has been debating likely will not be signed by the President before the fourth quarter and implemented in 2009. I am opposed to most any iteration of the bill Congress passes that overlooks the reasonable assumption that home values will continue to decline over the next two years. Anything less, potentially exposes families rescued by the bill to hardship and foreclosure again if home values continue to decline.

The next issue of what to do under the conditions we face, is slightly more complex and requires skill, tenacity and patience. Blacks who learned from experience and history are aware "when Whites get the sniffles, Blacks get pneumonia" and White folk have the flu right now. So what should we do? To paraphrase Federal Reserve Chairman Ben Bernanke, one should de-leverage, raise good capital and implement quality risk management strategies. These remarks were made to senior officials from the financial sector. However, they will apply to your household as well. The first step is to de-leverage which means to unwind your credit position. Evaluate your household to determine what is absolutely necessary to start saving money and eliminate your debt. There are many details and nuances to the first step so be mindful of your objective.

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