

Weathering the Perfect Storm: An Approach to the Economic Crisis

STUDENT PERSPECTIVE *Philip McDonald '09*

In order to put this recession into perspective, loose comparisons have been made to historic crises, especially to The Great Depression. In comparison to previous downturns, this event provides not only an economic education but also an unprecedented opportunity to implement lasting reforms. We have learned the interdependence of real estate, capital markets, financial services, availability of credit, interest rates, unemployment, and general price levels during the last 24 months. We also now have the opportunity to identify ex ante individual behavior and systemic weaknesses that contributed to our current state of affairs. This information should be used to modify both.

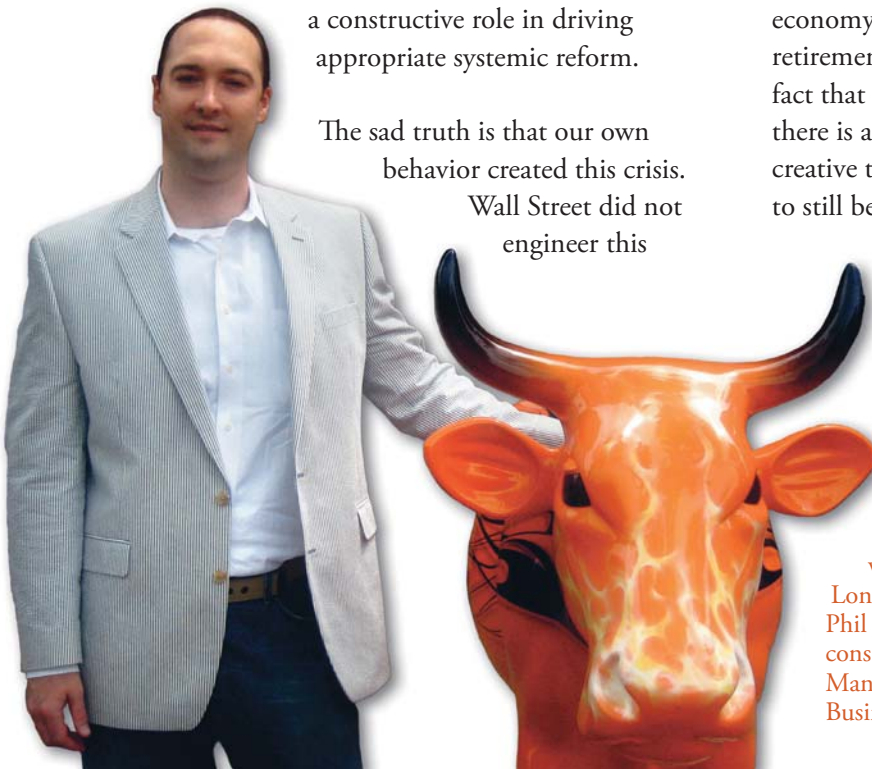
However, change is neither universally positive nor successful in meeting its goal. In attempting to expedite a recovery, we risk forcing the metaphoric pendulum to swing too far from the exuberant excess of our recent past toward the asphyxiating effects of fearful retrenchment and misguided reform. An appropriate program will recognize that our responsibility is two-fold: to engage in more responsible individual behavior and to take a constructive role in driving appropriate systemic reform.

The sad truth is that our own behavior created this crisis. Wall Street did not engineer this

meltdown without our assistance. Our spending, saving, and investing habits tested the limit of our ability to earn and the system's ability to transparently allocate risk. We contributed to the untenable increase in real estate values, financed discretionary spending with temporarily cheap credit, and spent our incentive compensation before it was earned. Unfortunately, these decisions were based on unrealistic expectations, and the bill has come due. The price stability, full employment, and easy credit of our recent past are unlikely to reappear. Since markets are comprised of individuals, their psychological state plays a major role in their decision making. As a result, the road to recovery begins with appropriate individual perspective and personal financial accountability.

But to keep that pendulum from swinging too far in the wrong direction, we as individuals must decipher the appropriate level of spending, saving, and risk-taking; everything cannot be reduced to zero. Responsible spending to keep the neighborhood restaurant or store in business and continuing to contribute to our 401k will help our local economy and will allow us to finance a healthy and leisurely retirement. Similarly, our decisions at work must reflect the fact that our companies are, in fact, going concerns. Since there is an eye-watering amount of qualified, educated, creative talent on the sidelines, those of us fortunate enough to still be employed should embrace the opportunity to cherry-pick the next generation of leadership at

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a bargain. Many of these talented job-seekers hold degrees from UConn.

On a larger scale, each of us has the responsibility to prevent overzealous regulation from pushing the pendulum from swinging so far as to choke off American enterprising spirit and stable economic growth. A repeat of the Sarbanes-Oxley legislation should be avoided, as its good intentions have been eclipsed by additional, costly bureaucracy and reduced US competitiveness. After all, the primary goal of a bureaucracy is to justify and perpetuate its own existence, not to consider its own irrelevance. Individual intervention and oversight is imperative. Admittedly, there have been incredible frauds and failures that could have been mitigated by effective regulation. Our regulatory system, with its foundations in 1930s legislation, certainly reached its limits in managing the negative externalities of certain financial innovations. Reform is required. That said, the march of financial innovation must be allowed to continue. Over time, it has improved economic efficiency and our quality of life through consumption timing, risk management, and price discovery.

The global economy is more complex and interdependent than ever before. However, all markets are comprised of individuals whose behavior and decisions have an impact on the aggregate. This economic crisis amounts to a perfect storm that formed through a confluence of previously uncorrelated developments. The way we spend, save, and invest, how the government regulates these activities, and private sector financial services will likely change forever. Navigating this tempest as an individual is a frightening proposition. Through the aggregate benefit of constructive individual efforts, however, we will emerge more intelligent and stronger than before. In this quest, I cannot help but reflect on my grandparents' generation, which rose up to conquer seemingly insurmountable challenges during the 1930s and 1940s. Time is of the essence, so let us please join together to slow the momentum of that pendulum. If successful we may eventually earn our grandchildren's reverence as America's Second Greatest Generation. *B*