The Daily Spin

"Putting the Economy in Perspective" *May 15, 2001*

Mother Nature

Town Loses Bet on Bridge

GAMBLER'S FALLS, OHIO—Gambler's Falls just lost a big wager, and it's likely to be a long time before the town bets against Mother Nature again.

Last spring, after three consecutive years of earthquake tremors and minor damage, the town council rejected a proposal to strengthen the bridge spanning the Wattasuccor River. Erected by the town fathers in 1907, Bettor's Bridge has been the gateway to Gambler's Falls for nearly a century. Many tremors threatened to drop the bridge into the Wattasuccor over the years, but the structure always held.

Nevertheless, state officials repeatedly warned that Bettor's Bridge was showing its age and that the time had come to rebuild. They feared that the next big tremor would topple the trestle. The city council, however, rejected the project because the state's new infrastructure program would have required the town to pay half the cost, in this case about $25 million. Mayor Dewey Cheatum thought he could get the state and private developers to foot the entire bill as part of a riverfront casino and professional sports complex that he planned to pitch to the state legislature.

State Superintendent of Public Works A. Bert Aynstine said that the town's refusal to bolster the elevated structure "was like playing Lincoln Logs with the universe." Mayor Cheatum retorted that "the risk of quake damage is being exaggerated by my enemies, who refuse to recognize that times have changed. Gambler's Falls is now a service-based economy without heavy truck traffic. Besides, higher speed limits minimize the danger because cars cross over so quickly."

Needless to say, yesterday's 5.5 quake and 4.0 aftershock provided ample proof for Superintendent Aynstine's prediction. Fortunately, no one was injured, but the loss of Bettor's Bridge means severe economic losses for the town. While the bridge is being rebuilt, traffic will be routed through the neighboring village of Cold Comfort.

Fed Blasted by Civic Group

WASHINGTON, D.C.—The Federal Reserve has been receiving sharp reprimands from several big-business CEOs and a few former U.S. Congressmen for its decision to increase a key interest rate by ¼ percentage point.

The complaints, lodged by a group calling itself Genuine Americans for a Fast Forward Economy (GAFFE), stem from a belief that the Fed's monetary policy action will prevent inflation at the expense of economic growth. GAFFE's criticism comes at a time when the U.S. economy is thriving. The nation has been expanding for 18 of the last 19 years. Unemployment rates have been between 4.5% and 5% for several years, with inflation in the 2.5% to 3% zone.

Most private economists point to considerable historical evidence that boom conditions are associated with rapid money growth, higher inflation, and speculation in housing, gold, art, and farm land. Eventually, spending becomes so distorted and speculative that the economy turns weak and recession-prone. Inflation becomes costly to unwind.

Nevertheless, the FOMC's last action does not sit well with some. "The Fed's fighting the last war," howled GAFFE chief Rhett Orick. "They can't seem to recognize that the U.S. economy has changed." Other angry words came from former Representative Betsy Rantche, who declared that "people want faster growth, and they know the economy can do better."

For their part, Federal Reserve officials are surprised and delighted with the economy's performance. However, resource utilization levels are extremely high by historic measures, and money growth has been accelerating. According to most Fedwatchers, by traditional standards the FOMC should have reacted sooner and more aggressively to these trends than it has so far. Commenting on the Fed's recent rate hike, Tawkin Hedd, chief economist for Zed Bank, said that "the FOMC was merely trying to take a modest, prudent step in the right direction."

Finance

New Wave Bank Capsizes

NEW YORK—In a stunning blow that shook financial markets, New Wave Bank announced yesterday that its capital had been wiped out by the massive foreign real estate loans it made during the past two years. The $80 billion giant, touted as a strong buy as late as yesterday by Wall Street gurus, has been taken into receivership by the Federal Deposit Insurance Corporation and is receiving emergency liquidity support from the Federal Reserve. Although insured depositors will be made whole, the outlook for other creditors appears bleak.

New Wave, which only five years ago was a $20 billion regional retail bank, grew rapidly through acquisitions and plunged into several new enterprises. Foreign commercial real estate lending became a lucrative profit center, accounting for nearly one-third of the bank's profits last year. This new activity meant more risk for New Wave, but bank managers exuded confidence.

At a meeting with security analysts last November, some investors questioned New Wave's ability to manage the risks associated with overseas property lending. However, Knute D. Versified, chairman of the bank's Risk Management Committee, boasted that analysts were "too hung up on the past. Banking is about risk management, and we're about banking. We didn't get where we are by not knowing how to manage risk. Banks today are more sophisticated than they were 25 years ago. It's a big, global world and there are many opportunities overseas to ride the New Wave."

Conversations with senior banking officials confirmed that New Wave's collapse could be traced to a huge concentration of real estate loans in Shardul, which was overrun last week by rebel forces. "Nothing ever changes," said FDIC Chairman Shel N. Outcash. "Someone always goes too far, thinking they've discovered a new formula for eliminating risk and refusing to believe anything bad could happen on their watch," Outcash lamented. "Then we have to go in and clean up their mess."