

Comment sent to WSJ Forum "America will remain the superpower, by Bret Stephens"

Dear Sir,

Has it occurred to you that the present crisis is no crisis after all, once you extinguish this unreasonable panic among financial actors? It turns out that even though the US economy is decelerating, it still grows whether a recession is called for or not, and general liquidity has not been permanently impaired and will not be, if we are to believe Fed Chairman Bernanke and his firm monetary decision.

Moreover, all these financial loses and the consequent capital increase policies amid chaotic circumstances seem to come more from erroneous accounting practices and less from real economic facts. Or can you reasonably explain how you get to US\$ 1,4 trillion loses (IMF estimates) related to mortgage assets when the total residential and commercial mortgage stock is worth almost US\$ 14,8 trillion and delinquencies are close to 6,5% ? If you allow for a 30% fall in housing values, the total financial loses that the system would have are close to US\$ 288 billion ($14.800 \times 0.065 \times 0.3$), or 20% of IMF figures. Furthermore, when financial companies give loans, they expect to have a percentage of loans to be delinquent. It turns out that the historic delinquency rate for mortgages in the US is close to 4,9%. In other words, the excess delinquency for which the system was "not prepared" amounts to US\$ 71 billion, or 5% of IMF catastrophic numbers.

It is really a pity that the whole system has accepted as given US\$ trillions in mortgage related loses, because the consequent policies and market swings have those in mind. Ignorance is the least you could say; irresponsibility would be the most common adjective; politically and tactically manipulated numbers have been many times the real stuff.

There is no doubt that this episode will have a negative impact in GDP growth numbers in the short term. But there is also no doubt that when you replace the cold numbers with spurious or definitely wrong figures close to an election day, you can get into a real mess that will enable huge transfers of wealth but which will leave almost everything - the wealth (with different owners) and the capacity to generate it - as it was before, unless real changes in economic policies appear as a result, once the dust rests again.

Best regards,
Manuel Cruzat Valdes
Santiago, Chile
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