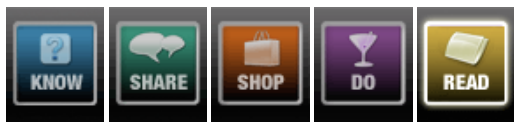


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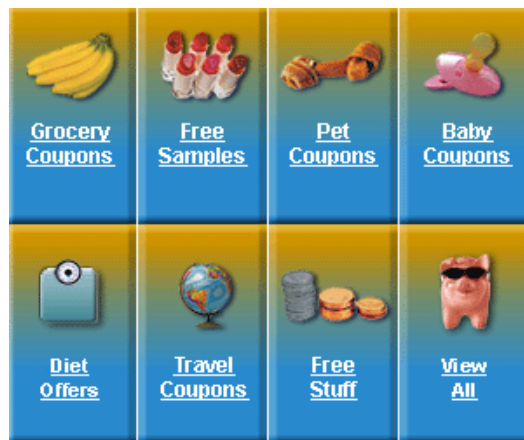
Story



Free Enterprise: Hope that economy-boosting gifts will keep the Grinch at bay

Exchange | free enterprise | Intown

MICHAEL REKSULAK | Saturday, December 22, 2007 at 12:30 am



Christmas came early this year, as did the Grinch preventing the merrymaking.

A concerted action by major central banks promotes a new short-term lending program to inject liquidity into the interbank funding markets.

The Federal Reserve, the European Central Bank, the Bank of England and others agreed to extraordinary measures to forestall a possible money-market crisis caused by commercial banks

tightening lending standards in anticipation of their year-end reports. This week, the ECB alone virtually flooded markets with more than \$500 billion in two-week loans to banks. The Fed had two auctions of \$20 billion each for short-term loans; and the Bank of England threw in \$20 billion for good measure.

While this Las Vegas-style throwing around of money was going on - admittedly, with good intentions and some encouraging initial market reactions - bad news was piling up as well. A broad measure of consumer prices increased eight-tenths of a percent from October to November. The increase in the price of gasoline for the same time period was 9.3 percent, and wheat prices are up 100 percent since January.

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Even optimistic forecasts of home prices for 2008 suggest another 4-5 percent decline, which will put further pressure on already financially troubled homeowners. Falling resale values lower refinance opportunities and increase the likelihood of ending up with negative equity (owning more on a home than it is worth).

Bear Sterns, the fifth-largest [U.S.](#) investment bank, reported its first-ever quarterly loss of \$854 million; and on the consumption side, retailers - faced with sluggish sales despite a consumer spending surge in November - are reported to be desperately hoping for today and Sunday to pull the iron out of the Christmas revenue fire.

A year ago, this column declared the American consumer the economic champion of 2006. For most of 2007, especially during the July-to-September quarter, which saw the economy grow at a 4.9 percent pace, consumer spending held up.

However, the miserliness is spreading. Buffeted by higher costs of living, possibly softening labor markets (see this week's report of unemployment claims) and frozen or falling home-equity, consumers might finally have to reevaluate spending habits.

Economists try to avoid being known as the Ebenezers of the Christmas season. Nevertheless, they have been cautioning that the economy, in early 2008, will finally lose steam. [Alan Greenspan](#), the former Fed Chair, has been widely quoted with his warning of an economy that is getting close to "stall speed."

This would be worrisome for two reasons. First, (here is the dreaded word) a recession would make it harder to work out the credit problems percolating through the economy. In addition, a fall in the gross domestic product might be ill-timed during this period of looser money policies.

### [The Fed](#)

professes that inflation is in check, but if that view is mistaken, then the result could be (here is the really scary word) "stagflation" - a combination of a stagnating economy and inflation. This would put the [Fed](#) in an untenable situation, having already utilized almost its entire arsenal of monetary policy tools.

Thus is the danger of [Santa Claus](#) - as it were - circling the globe while shoveling banknotes out of the sleigh. Even Father Christmas cannot promise a free lunch, and the Grinch might actually prevail this time. Luckily, this is the season of hope.

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