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Editorial

The Economy and the New Year

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As 2008 begins, house prices are still skidding, bank losses are still mounting, oil is again flirting with \$100 a barrel and consumers are buying less as prices rise. To many, the wheels appear to be coming off the economy. To others, including President Bush and his aides, the economy is fundamentally sound and resilient.

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Obviously, both camps cannot be right. Unfortunately, the preponderance of evidence is grim.

When Mr. Bush says the economy is strong, he is generally referring to rising wages, low unemployment and what he calls healthy economic growth. But wages have either fallen or failed to outpace inflation during most of his tenure. Job creation is now slowing from a pace that has long been subpar. Economic growth is also braking, if not contracting. In any event, growth during the Bush years has not been healthy; rather, it has been abnormally lopsided. Corporate profits have soared (until recently) and the rich have become richer, while most Americans have treaded water or lost ground, their troubling circumstances masked by an unprecedented borrowing binge, now exacting its toll.

The other presumed economic bright spots — business investment and exports — are less bright upon closer inspection. According to a new government report, orders for big-

ticket commercial goods rose a spare 0.1 percent in November.

As for exports, they have surged lately, but the growth has not yet led to more manufacturing jobs or inflation-beating pay raises for existing factory workers. The relative health of exporters is also obscuring the fact that to be more competitive in the long term, corporate America needs health care reform and tax reform, two fronts on which the Bush administration has made no progress. Instead, much if not most of recent export growth is due to the weakening dollar, which makes American products more affordable elsewhere.

While the boost is welcome, relying solely on a weaker currency to correct America's trade imbalance has downsides. For one, a falling dollar interacts with global money flows in a way that complicates the job of the Federal Reserve to steer the economy. That was made clear again last week, when a top Chinese bank official warned of a destabilizing sell-off in dollar-based assets if the Fed continued to cut rates.

Hoping for the best is facile if not paired with preparation for the worst. Perhaps more than anything, a lack of preparation makes it hard to believe Mr. Bush's assurances that all will be well. The administration has operated in a state of economic denial for years: conducting wars while cutting taxes, piling up debt, neglecting to regulate the financial sector even as it went on a lending binge, and ignoring the pain that was sure to come when consumers, bankers and investors sobered up.

Given that record, it is no surprise that Mr. Bush is now refusing to acknowledge the seriousness of the problems he has helped create. Americans don't need more denial. They need an unvarnished appraisal of the nation's economy — including the politics and ideology that has driven it to this point. That is the only real hope for starting to turn things around.

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