

America's Resilient Economy: What Happens When Things Go Wrong

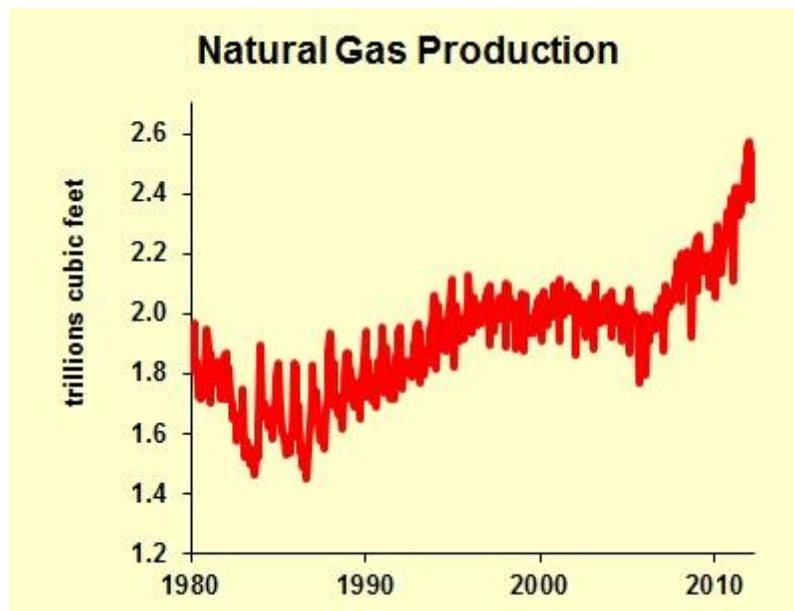
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[The Economist](#) makes a good point:

America's economy is certainly in a tender state. But the pessimism of the presidential slanging-match misses something vital. Led by its inventive private sector, the economy is remaking itself (see [article](#)). Old weaknesses are being remedied and new strengths discovered, with an agility that has much to teach stagnant Europe and dirigiste Asia.

The point that *The Economist* is close to—but does not quite reach—is that the measure of an economy is not whether they get the decisions right. Those important decisions are about how to use their resources, what to make, in what methods, and for what markets. The measure of an economy is what happens when they get their decisions *wrong*.



As an example, we got housing wrong a few years back. The private sector believed that housing prices would rise steadily, and thus that loans backed by housing could not go wrong, even if the borrowers had poor credit. Having learned a lesson, we reacted.

The Economist notes that we have a huge natural gas production increase. Our private, profit-motivated energy sector reacts quickly to opportunities. One reason the world is not awash in petroleum is that in many countries, governments have taken over oil and natural gas production. Decisions are slow and politically motivated.

A profit-motivated economy adjusts quickly. Who would have thought that the iPhone would revolutionize communications? What did our economy do after the iPhone? [Google](#) developed the Android operating system, [Microsoft](#) developed smart phone software, and Blackberry improved their Internet capabilities.

These decisions were not all correct. However, they are part of a self-correcting system. In contrast, the most politicized parts of our economy are the least self-correcting. For example, even though private sector lenders are now cautious about home buyers with bad credit, the Federal Housing Administration has increased its role in helping people who don't qualify for conventional financing. When the price of oil and natural gas was highly regulated, back in the 1970s, petroleum production failed to respond to rising prices.

Europe's high unemployment rates are not resulting in substantial adjustment—lower wage and benefit rates that would equate supply and demand. For this reason, among others, the European recession will be long and tedious.

This is not a personal advice column, but the best advice for economies is also good advice for people: it's not whether you get every decision right, but what how you react when you are wrong.

(For more on private sector errors versus public sector errors in housing, see my post [New Financial Regulations: Trying to Fix Self-Correcting Problems.](#))