Asinus Muses

Rating the Raters

August was a cruel month. Rather than sit back and enjoy their holidays like sensible folk, ratings agency Standard & Poor's took the radical step of downgrading US government debt. But what looked like a bad moment for the US government quickly became an embarrassing one for the ratings agencies. Readers may recall the role of these agencies in the financial crisis, stamping the most toxic subprime mortgage derivatives with the sure-thing AAA label, and rating Lehman Brothers A or better right up until it declared bankruptcy in September 2009. Investors now take the agencies so seriously that they do precisely the opposite of what they recommend, responding to the downgrading by buying so heavily that US long-run interest rates collapsed to levels seen in late 2008, their lowest since Asinus's data source started counting in 1962.

Stock markets, correspondingly, took a nosedive, with the S&P 500 losing fully one-sixth of its value from early July to early August. Oil prices followed suit with WTI dropping 20 percent from peak to trough. While Brent held up a little better, otherwise the story on this side of the Atlantic was virtually identical: the FTSE 100 followed the S&P 500, and UK government bonds have followed exactly the trajectory of their US counterparts, with interest rates plummeting to historical lows. Indeed, bonds all the way up to seven-year maturities don't even keep up with the 2 percent inflation target. Given the reverse-psychology of Standard and Poor's in US debt markets, Asinus is dubious of Chancellor of the Exchequer George Osborne's argument that the agency's positive outlook on UK policy is something to be proud of.

Cuts: Investment and Power

Politicians love to use the metaphor of household finances for government finances, at least when it suits them. To a macroeconomist (and Asinus has some such pretensions) this feels a bit like an astronomer would feel hearing the government Chief Scientist base space exploration policy on astrology. But they are not even consistent in their illogic: if a household's roof is leaking or, let's say, their electrics don't work, then a period of miniscule interest rates seems the obvious time to borrow for investment. Yet in both the US and the UK government investment is being cut back. Asinus has just read that Disney is making the most of the situation by issuing over $1 billion of long-term bonds at record low interest rates. Apparently Mickey Mouse has a better grasp of basic economics than our political leaders.

If what passes for the political class in the US cannot think of any public investments that offer at least a 2 percent return, Asinus would like to humbly propose the power sector. According to Professor Massoud Amin, the US electrical grid has been suffering more and ever-worse blackouts over the past 15 years, now averaging 92 minutes per year in the Midwest and 214 minutes in the Northeast. Japan, known to all conventional wisdom as an economic basket case for the last 20 years, loses an average of only 4 minutes of power each year.

Lone Star Miracle

Take Texas, whose laissez-faire governor and presidential aspirant Rick Perry claims to have performed a 'miracle' with his state's economic recovery, achieving an unemployment rate only a bit worse than in New York (and considerably worse than in Massachusetts). Texas has declared its fifth 'energy emergency' this year, announcing rolling blackouts as its power infrastructure fails to keep up with the great state's great demands.

Rebels Without a Cause

In contrast to Texas's power outages we in the UK seem to have experienced an excess of another kind of energy, with an explosion of rioting and looting in major cities. Were they protesting at economic turmoil? Did they chant slogans demanding government action on high unemployment and inflation? Not quite. Asinus has been comparing the English Summer with the Arab Spring. Arabs took to the streets to fight for democracy and human rights, while the English took to the streets to fight for their right to Nike trainers and G-Star jeans. It was not so much banks or public buildings that suffered their ire, but shops selling consumer goods, to the point that someone coined the elegant term *shopping with violence* to describe events. But before we over-romanticize their lot and under-romanticize our lot, Asinus would remind readers of two things. The Arab protests started over the right to sell vegetables in the street; and it seems doubtful that the English rioters would have displayed so much aggressive exuberance had not the erstwhile irrational exuberance of the financial world left so many of them out of work and with nothing better to do.

Warming Thoughts

As the rich world slides into decadence, middle-income countries have been raising investments in renewable energy. China leads the world at $49 billion in 2010, with other emerging economies posting large rises. None too soon, since the Carbon Tracker Initiative has argued that current proven reserves of fossil fuels represent carbon emissions equalling five times the limit that climate change scientists have set the world all the way up to 2050. Asinus hopes that the current cooling of the economy may at least slow the warming of the planet.

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