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EVERYBODY'S BUSINESS

Chicken Little's Brethren, on the Trading Floor

By [BEN STEIN](#)

THE job of an economist, among many other duties, is to put things into perspective. So, because I am an economist, among other duties, here is a little perspective on the recent turmoil in the stock and bond markets.

First, when the story of this turbulence is reported, the usual explanation mainly has to do with some new loss in the subprime mortgage world — the universe of mortgages and mortgage-backed instruments related to buyers with poor credit histories or none at all.

Here is the first instance in which proportion tells us that something is out of whack:

The total mortgage market in the United States is roughly \$10.4 trillion. Of that, a little over 13 percent, or about \$1.35 trillion, is subprime — certainly a large sum. Of this, nearly 14 percent is delinquent, meaning late in payment or in foreclosure. Of this amount, about 5 percent is actually in foreclosure, or about \$67 billion. Of this amount, according to my friends in real estate, at least about half will be recovered in foreclosure. So now we are down to losses of about \$33 billion to \$34 billion.

The rate of loss in subprime mortgages keeps climbing. In time, perhaps it will double, maybe back to \$67 billion. This is a large sum by absolute standards, and I would sure like to have it in my bank account.

But by the metrics of a large economy, it is nothing. The total wealth of the United States is about \$70 trillion. The value of the stocks listed in the United States is very roughly \$15 trillion to \$20 trillion. The bond market is even larger.

Much more to the point, the fears and terrors about subprime mortgages have helped knock off 6.7 percent of the stock market's value in recent weeks. This amounts to about \$1.1 trillion, or more than 30 times the losses so far in the subprime market. In other words, these subprime losses are wildly out of all proportion to the likely damage to the economy from the subprime problems.

The disconnect goes even further. The Dow Jones industrial average has been heavily moved by fears about the subprime market. But how are most of the Dow 30 affected by subprime mortgages in any meaningful way? No Dow company is short of liquidity, and consumer spending is still strong.

Foreign stocks, especially in developing countries, have been hard hit, and this is supposedly connected with a "repricing of risk," which in turn is connected with subprime mortgages. But how are the risks in Thailand or Brazil or Indonesia intrinsically related to problems in a housing tract in Las Vegas? The developing countries are fantastically strong and liquid. Why should problems at a mortgage company in Long Island have anything to do with them?

European stocks have also been hard hit, and this has to do with relatively small amounts of subprime in some European banks. On a global scale, the numbers in Germany and France are minuscule for subprime exposure. For European markets to fall on subprime issues makes no sense.

News last Thursday that a small amount of unpriceable subprime mortgages was in a [BNP Paribas](#) fund in France sent the markets in Europe and the United States sharply lower. Why? The losses in France are at most in the single billions, while the losses in United States markets alone were in the hundreds of billions on the BNP news.

Then there is the supposed "drying up" of credit for private equity deals because of fears of risk. But this is also puzzling. I can't think of a single recent major private equity deal in which the bonds have defaulted.

More to the point, suppose that all private equity deals were stalled for a year. Why should this affect the Dow? None of companies in the Dow 30 is having trouble raising cash. And suppose that all private equity deals went away for good. Taken together, they are not all that big a piece of the United States economy. Why should they put the markets of the richest nation in the world, as well as all of the world's other markets, into turmoil?

Then let's take a peek at [Bear Stearns](#). This venerable and clever financial house has taken some major hits on subprime mortgages lately. That is sad for the stockholders (I am a very small stockholder), and the price of Bear Stearns stock has tumbled.

A little over a week ago, news about Bear Stearns' liquidity issues lowered the its market value by about more than \$1 billion in one day. That is a big hit to a single company, to be sure, but then came the shocker: that news also helped wipe out hundreds of billions off the total value of United States stocks.

MY point is this: I don't know where the bottom is on subprime. I don't know how bad the problems are at Bear. Yet I do know that the market reactions are wildly out of proportion to the real problems that have been revealed. Maybe there is some giant thing hiding in the closet that might rationalize the market's fears. But if it's hidden, how can the market be reacting to it in the first place?

More will be revealed, as the saying goes. But recently, investors have been selling out of all relation to what we know. Reassurances in word and deed from [Ben Bernanke](#), chairman of the Federal Reserve, helped calm the markets on Friday. But recent events are a disturbing commentary on the power of fear.

This economy is extremely strong. Profits are superb. The world economy is exploding with growth. To be sure, terrible problems lurk in the future: a slow-motion dollar crisis, huge Medicare deficits and energy shortages. But for now, the sell-off seems extreme, not to say nutty.

Some smart, brave people will make a fortune buying in these days, and then we'll all wonder what the scare was about.

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