Jonathan Schechter – "Corpus Callosum" Column
Jackson Hole News&Guide – September 24, 2008

In mid-August, I left for a three week trip abroad.

Before leaving, I jotted down some topics to write about when I returned:

- The vigorous public policy debates that would flow from the presidential nominating conventions;
- The future of the nation's anemic-but-stable economy; and
- The cratering Teton County, Idaho real estate market.

Unbelievably, five weeks later, the only topic that hasn't fundamentally changed is Teton Valley real estate.

Sadly, the substantive policy debate I and many others had hoped for has not emerged.

I came back to the U.S. to find that Sen. McCain had chosen for his running mate someone who, in the words of this week's *Economist* magazine, "...demonstrably knows very little about international affairs or the economy." Why? Because, as the *Economist* further notes, it was a cynically brilliant political move, a way for Sen. McCain to greatly improve his chances of being elected. Unfortunately, to make this strategy work, his campaign needed to shift the focus from issues to character, from debating the many serious and inter-connected challenges facing the nation to arguing whether "lipstick on a pig" is sexist. Worse still, Democrats being Democrats, the ploy completely goofy-footed Sen. Obama's campaign. So much for America being a substantive place; so much for America being a meritocracy.

Equally depressing is not just the meltdown on Wall Street, but the proposed $700 billion bailout currently being debated in Congress.

A quick tangent. Running down the center of the street I grew up on was a row of huge eucalyptus trees. One night, my family was awakened by a loud crash – a local kid from a wealthy family had been drinking and ran into one of the trees, totaling the brand new Camaro he'd just been given for his 16th birthday. Three days later, he had a replacement – no consequences, no lessons learned by either him or his parents.

The genius of Wall Street is that it so closely resembles this kid; the genius of Washington is that it so closely resembles his parents. Over the last decade, Wall Street has successfully bullied, lied, intimidated, whined, and lobbied to create a business environment based on its world view of extreme entitlement: "Don't tax me, don't regulate me, and don't challenge anything I say or do, because markets are infallible, government is bad, and I am so much smarter and better than you."

Now that things have gone bad, Wall Street – unwilling to own up to the consequences of its own behavior – has come running to daddy to bail it out. And daddy will. Best of all from the Wall Street perspective, daddy will do so without fundamentally changing any rules of the game, even going so far as to hire folks on Wall Street to clean up the mess they themselves made. And should anyone dare challenge the deal, they will be dismissed – bullied, lied to, intimidated, whined at, and lobbied, just as before – as not being smart enough to understand finance, or how things should work, or how good markets are and how bad government is. The principle at work: Socialism for the well-to-do, social Darwinism for everyone else, and let those who are not well-connected pay for the mess made by Wall Street and its DC enablers. So much for America being the land of personal responsibility; so much for accepting the consequences for one's actions.

With my first two column ideas blown to bits, all I'm left with is the crashing Teton Valley real estate market.

When I wrote about that market a couple of months ago, things were in bad shape; it's only gotten worse. The number of real estate transactions in the Teton Valley peaked in August 2007; since then, they've fallen over 70 percent, a compounded rate of over 9 percent per month. Nearly as dramatic has been the decline in the total dollar value of transactions, down over 60 percent in 16 months. With more than five years' of supply on the market and an increasingly tight credit environment, things are clearly going to get worse in the Teton Valley before they get better.

The situation in Jackson Hole is not nearly so bad. It's not great, but unlike the Teton Valley, it's certainly not dire.

The data I use for these analyses come from the weekly Art Hazen Real Estate ad, and go back to June 2006. Since then, the number of real estate transactions in Jackson Hole has fallen in half, a compounded decline of around 3 percent per month. (Graph 1) Since peaking last August, the total value of sales in Jackson Hole has dropped by about a third, a similar 3 percent monthly decline. (Graph 2) Curiously, just as in the Teton Valley, mean and median prices continue to rise,. Why? Likely because the wealthy are still able to buy, while those less fortunate are finding it increasingly difficult.

Other indicators re-enforce how Jackson Hole's real estate market is slowing:

- We now have a two year supply of properties on the market, triple that of a year ago.
- After falling over the summer, "days on market" has spiked sharply in the last month.
- "Rentals" classified ad column inches in last week's *News&Guide* were nearly 50 percent higher than a year ago.

Combined, the data suggest the huge housing supply-demand imbalance of the last few years is starting to level out. In part this is due to a slowing economy; in part it's due to a lot of supply being added in the last few years, especially in Jackson Hole's de facto bedroom communities of the Star and Teton valleys.

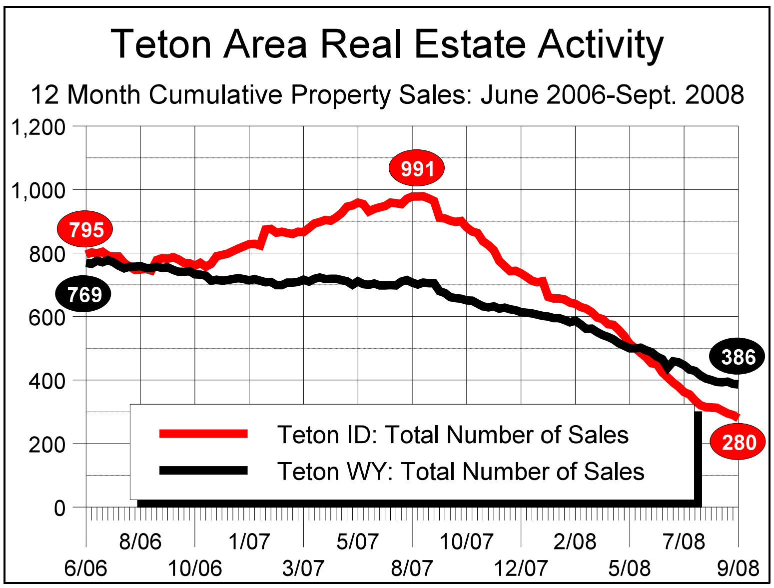
Over the past decade or so, the local economy has expanded well beyond the boundaries of the Jackson Hole valley to include our neighbors to the south and west. As it has, real estate, construction, and development – always an important part of our economy – have become increasingly important to our neighbors. But because their land use policies have allowed tremendous over-development, the economic slowdown now starting to show itself in Jackson Hole will be far, far more serious in the Star and Teton valleys. To use the tired cliche, we're coming down with a cold, they're facing pneumonia.

At its core, the over-development of the Star and Teton valleys is the result of the same anti-regulation, anti-government zealotry that has brought down Wall Street. Unfortunately, this same philosophy has also resulted in policies that have severely crippled the federal government's balance sheet, a legacy that will haunt this nation for decades to come. (Weird fact. On the day George Bush was inaugurated in 2001, the federal debt totaled $5.727 trillion dollars. As I write, it totals $9.727 trillion, exactly $4 trillion more, and an increase of 70 percent in fewer than eight years.)

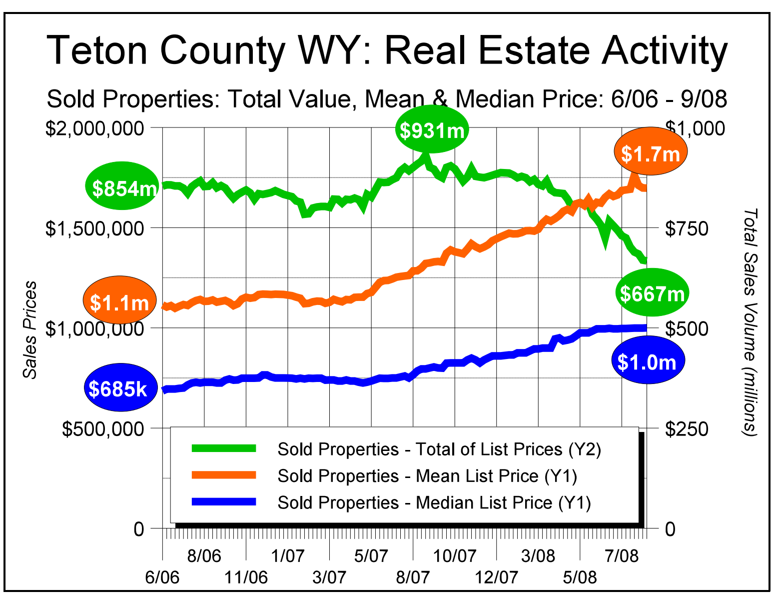
As a result of this profligacy, as our economy becomes increasingly weak, government's ability to help will be severely limited. It may be imperative to add another trillion to the national debt to bail out Wall Street, but that's a trillion dollars we could otherwise use to re-build infrastructure, improve education, provide health care, or simply not spend.

These economic realities will shape our nation for the foreseeable future, and should be the issues we're debating during this presidential campaign. Yet somehow we're not. Worse still, at a meta level, the proposed Wall Street bailout represents a fundamental shift in America's economic philosophy; in the precedent it's setting, it arguably represents the most profound shift in our history. Yet apparently this shift will be conceived of and ratified in less time than separated the two parties' nominating conventions. If such a transformation isn't worthy of thoughtful debate, what is? Yet, sadly, such substance seems beyond the ability of our political system.

I ache for my country.



Graph 1



Graph 2