**THE LESSONS OF HISTORY AND THE PERILS OF DEJA VU: MODERN CHALLENGES TO OUR NATION, OUR INDUSTRY, OUR LIVES**
**by J. Robert Eckley**

Suicide bombers, decimated skyscrapers, international market crashes, the Fortune 100 cooking it's books in dark accounting alley ways, the desertion of old allies, war and finally, a cautious peace that seems to most of us (by that "funny feeling in the back of the neck") like the portending lull before the next turmoil...the red sky before the catastrophic "perfect storm" looming just over the next horizon. Internationally and nationally, it's been a cacophony of horror since 911. Certainly not the kind of climate that would encourage anyone in their right mind to "rebuild" by taking what's left of their money from the safety of their mattress and putting it and their welfare defenselessly at risk in a sociopolitical "calm" that looks more and more like the eye of an economic hurricane.

Is it really so amazing that no one is emerging from the financial bunkers to which they retreated with their families and money after 911 even when the political "all clear" sirens (low interest rates, accounting clean-ups, CEO liability laws) have been howling lonesomely to do so for the past two years? The long and short of the matter is that the public simply doesn't believe it. Nor after the myriad of false signals so far dominating the 2000s--where nothing turns out as it seems and where even a war is started on what is proving to be a false premise--should they.

Is anyone here old enough to remember the Gulf of Tonkin Resolution... or the monumental, earth-shaking social revolution the exposure of it's false premises finally generated after the waste of a half-million dead or maimed young Americans in a war and it's foreign occupation? Or, more to our professional application, does anyone recall the market crashes of 1982 and 1987 that deep-sixed real estate, destroyed millions of hard-earned real state fortunes, taking with it important professional livelihoods and dependent families? I do. I was there. And I see frightening parallels to it that I suspect are once again coming to affect all of us in real estate, construction and general commerce in addition to the affect as citizens. As a survivor of those former national meltdowns, I would like to refresh memories, emphasize a deja vu to them with current and coming trends and perhaps at least avoid a repeat for lack of historical insight.

**THE DEJA VU OF LOW INTEREST RATES AND EASY UNDERWRITING FALSELY SUSTAINING REAL ESTATE DEMAND:** An era of artificially low interest rates mandated by usury law and easy borrower loan qualification spawned a housing demand that inflated real estate and sustained the market far ahead of the economic reality that few buyers could actually afford the purchase if it were not for the politically-sustained low rates. No. I'm not talking about 2003. This was 1981. And rates did go up when the Monetary Liberization Act--lifting the legal ceiling from interest rates--passed into federal law in March, 1981. Mortgage rates went from 9% to 20% in little more than a year, triggering a waive of real estate foreclosures and bankruptcies 100 times larger than the Great Depression. Real estate and construction plummeted south at nose-bleed speeds and dimensions. That federal Act is still alive and well. There is no ceiling to which rates cannot rise after the Fed takes it's political foot off the interest brakes. And the Fed will inevitably do that because it is going to need money to feed the deficit that is currently building to shore up the economic collapse and feed foreign wars and occupations.

**THE DEJA VU OF THE "GUNS AND BUTTER MIRAGE" COLLAPSING FINALLY INTO THE RIPOFF INTEREST RATE COMPETITION NEEDED TO FEED THE RESULTING DEBT:** Because of the deficit, the Treasury will have to borrow to pay for it and it will have to pay investors better than the banks to do to attract them. It will increase the interest it pays on T-bills and bonds--the rates that a lot of adjustable mortgages are directly tied to. The banks will fear deposits leaving to go to the Treasury and so they will have to pay more interest to keep the deposits there. They will have to crank up new mortgage rates in order to pay higher rates for the deposits that fund them and in order to sell the resulting CMOs. Each competitive interest-increase go-around between private and public debt predicates another and each round increases mortgage rates which in turn decrease real estate returns and equity. That was 1982. Is it that difficult to see it coming again soon when the deficit now sits at $3 trillion, precisely where it was the last time when the Fed slipped the high interest-clutch into the economy and drove the country to the largest historical wave of bankruptcies since.....since today?

**THE DEJA VU OF FAILING BANKS AND THE FALSITY OF RAISING RATES TO SAVE THEM:** Remember those thrifts and banks that increased mortgage interest rates in order to get a yield high enough to be profitable for what they had to pay for deposits to compete with the voracious borrowing for the public debt? If you are in your 20s or 30s, probably not. Remember those thrifts and banks that foreclosed when the borrower could not pay those higher rates and ended up with repossessed property worth about 60% of the loan they lost? If you cannot remember Reagan as president, probably not. Moreover, there is nothing left of them to jog your recollection, either, as the banks all finally gobbled up so much real estate made so worthless by their own high mortgage rates that they went as bust as their borrowers. There is now of them but an ash of dim recall. I don't mean your dim recall. I mean the present recall of the current banks and the government. So here we are: Variable and even fixed mortgage rates of 3%, 4.5% feeding real estate returns and appreciation...forever? When everyone is losing their job? Bank rates of 1.7% on savings...forever? When the Treasury has a bill for $3 trillion and growing? You can't see where, by the sheer rule of income-and-outgo this has to meet Armageddon? Armageddon, that is, unless the Treasury starts cooking the books as much as Wall Street did to make spending in excess of income some kind of Orwellian "profit center."

**THE DEJA VU OF RAISING TAXES AND THE FALSITY OF DEMONIZING REAL ESTATE AS THE TAX CHEAT FROM WHICH TO RECOVER THEM:** If the Treasury is not permitted to quench the debt with interest rates or accounting magic, it has to do it with taxes. Higher ones and levied on the usual suspects, i.e. real estate, the economic element so inflated by artificially low interest rates that it can be taken to the taxation wood shed to be knocked down a few notches with no economic sympathy after the boom years it was politically granted. This is precisely what happened in 1986 with the Tax Reform Act, which, under a subtitle stating it was an "Act to simplify and reduce taxes" actually increased taxes by eliminating real estate investment incentives such as the tax deductibility of excess operational costs over income which is often what attracts long term, low-income investment. The Tax Reform philosophy favored income over equity, the quick real estate flip, and undermined the economic value of long term, stable, patient, equity growth which built the most successful and beneficial American empires of the past. By changing the tax rules overnight for existing investments, making what was once "good" now "bad" with no honeymoon period to bail out, the second massive wave of bankruptcies hit the nation and the industry starting in 1988 and lasting until March, 1991. Fast forward to 2003: So what's this with the President's current "reduction" of taxes (by an average of $90 a person)? It's smoke to make you conclude that the economic sun has arisen once more, to unstitch your mattress, take out the money, put the $90 with it and spend or invest it like mad in a marketplace that is meandering from brink to brink like a stumbling drunk. It's that siren blaring again and the question is whether you are going to believe it this time, either. Is that really what you are going to do with your money and this $90 fortune? Do you really think anyone else of any consequence is going to? I think I made my point.

There is an old adage: "History unlearned is doomed to repeat itself." In an era in which we have learned that nothing is as it first appears and that genuine tragedy can, indeed, happen right in your front yard (the loss of your pension, your job, your investments, the tragic deaths of family members by acts of terrorism) we would do well to keep that in mind as we go forward in this marketplace and in this world both as professionals and as citizens. It can happen again and, with the waning use of the insights granted by experience, it is likely rebirthing at this very moment. Conservatism, skepticism, political and financial caution in our careers, investments and in our acts of political citizenship is without doubt the watch word of the moment.

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