

## The Upside of Economic Downturns

When the year ends and news organizations compile their top ten Stories of the Year, the “economic crisis” will undoubtedly be at or near the top of every respectable list. (I use “economic crisis” in quotes because I think it’s a bit misleading phrase, all considered. Perhaps “a crisis of government intervention into the economy” should be used in its stead.) And to be certain, there have been some negative economic realities that can not be overlooked. Unemployment is rising. Short-term credit markets for businesses are not as liquid as before. The stock market has taken a significant hit. Most news outlets like stories they can frame as harbingers of the end of the world, and the current state of the United States economy gives them no shortage of opportunities.

But highlighting only the negative outcomes of economic downturns belies the cyclical nature of the economy. There are a number of economic outcomes that, due to a slowing global economy, generate favorable circumstances for consumers. And it’s no coincidence that these upsides tend to be the reverse of the exact issues that alarmists enjoy bemoaning during good times.

There may be no better example of a beneficial outcome for consumers in the current economic environment than gasoline prices. After peaking at nearly \$150 per barrel in July, crude oil currently trades for less than half that. Personally, I recall the peak gas price in Morgantown at \$4.28 per gallon; at the same station, gas currently sells for \$2.46 per gallon. That’s a 43% drop in price from the recent high—an event many were quick to signal as a sign that gas-guzzling America would be at the absolute political and economic mercy of Middle East oil suppliers.

The drop in price is largely, if not entirely, due to a reduction in global demand. This complements the fact that a large portion of the rise in the price of oil could be attributed to an increase in global demand, and that a significant portion of the increase in global demand was due to the emergence of the Chinese economy. Now that global demand has receded for the time being, the price of oil has adjusted accordingly.

Gasoline prices, of course, are not arbitrarily set by profit-maximizing gasoline manufacturers; they are determined by the interaction of both consumer demand and producer supply. The gasoline industry itself is remarkably competitive, and the profit margins of the companies within this market are well within the range of a typical business or industry. Do not mistake the headlines complaining about record oil company revenues for their implication that profit levels are unacceptably high.

Another popular economic complaint is that the dollar is weak—namely, that the exchange rate with other currencies is not in our favor, or at least not as much in our favor as it once was. This last July, one euro cost nearly \$1.60, the highest such rate since the Euro began trading on foreign exchange markets in 1999. For Americans, this leads to costlier imports from companies doing business in euros. But consider the necessary reverse of this scenario—American exports to Euro-area nations are now

correspondingly cheaper, which reduces the politically-popular trade deficit. (Though trade deficits are a column unto themselves, anyone that complains about an American trade deficit is also, by matter of accounting, complaining about a capital account surplus. So if we choose to forego foreign investment in our economy, then by all means, let's eliminate the trade deficit.) Even in the supposedly worrisome scenario of a poor exchange rate, those who cry wolf must counter their own previous shrieks.

Nonetheless, the dollar has staged a remarkable gain against the euro since July—euros now cost less than \$1.30. The dollar has made similar gains against the British pound over the same time period, though the Japanese yen has trumped all over the last three months. If a weakened currency is lamentable, so too should its advancement be commended—but there hasn't been a peep of such an occurrence with the American currency.

What about housing prices? Not long ago, complaints of the typical American family not being able to afford a house dominated the evening newscasts. As we are all aware, housing prices have receded in recent months, but there has been little celebration. No—it is those who are looking to sell their house that now get the headlines, forced to swallow lower gains or even losses on their transactions.

That news outlets search out pessimism of is no new idea; but given the cyclical nature of the economy, today's worries will likely to be tomorrow's reason for optimism. Just don't expect to hear about it.

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