

THOMAS DIBACCO

Get ready for the next economic bubble.

The first one, in stocks, expanded mightily during the late 1990s, then burst after March 2000. The next one, in housing, is being spurred by Federal Reserve Board Chairman Alan Greenspan's failure to cope successfully with the aftermath of the stock bubble and might also be moving with all deliberate speed toward a reckoning day.

Recall the scenario: The Greenspan-led Fed began cutting interest rates in January 2001 in order to restore some of the lost wealth investors in stocks had sustained. The economic logic, illustrated in some downturns in the past, was that if interest rates were cut, the stock markets would rally.

Yet the markets headed south, even though Mr. Greenspan and company would continue lowering rates, to the tune of 3 percentage points in eight months. Hoping to find a ray of light in an otherwise deteriorating situation, the Fed and some economists began to argue that money investors had lost in stocks was being returned in the rising value of American homes. In other words, the Fed policy of cutting rates really was working because now Americans could acquire, as well as refinance existing, mortgages at lower rates.

The problem with such logic is that it mirrored the earlier bubble in stocks. Instead of trying to stick to traditional yardsticks of assessing prudent value of investments, bankers and homeowners rushed to refinance mortgages at levels well beyond oldtime standards. For example, in the past homeowners were cautioned never to borrow more than 80 percent of the pretty-certain-value of your house (what you paid for it). That way, one

Bracing for burst of a new financial bubble

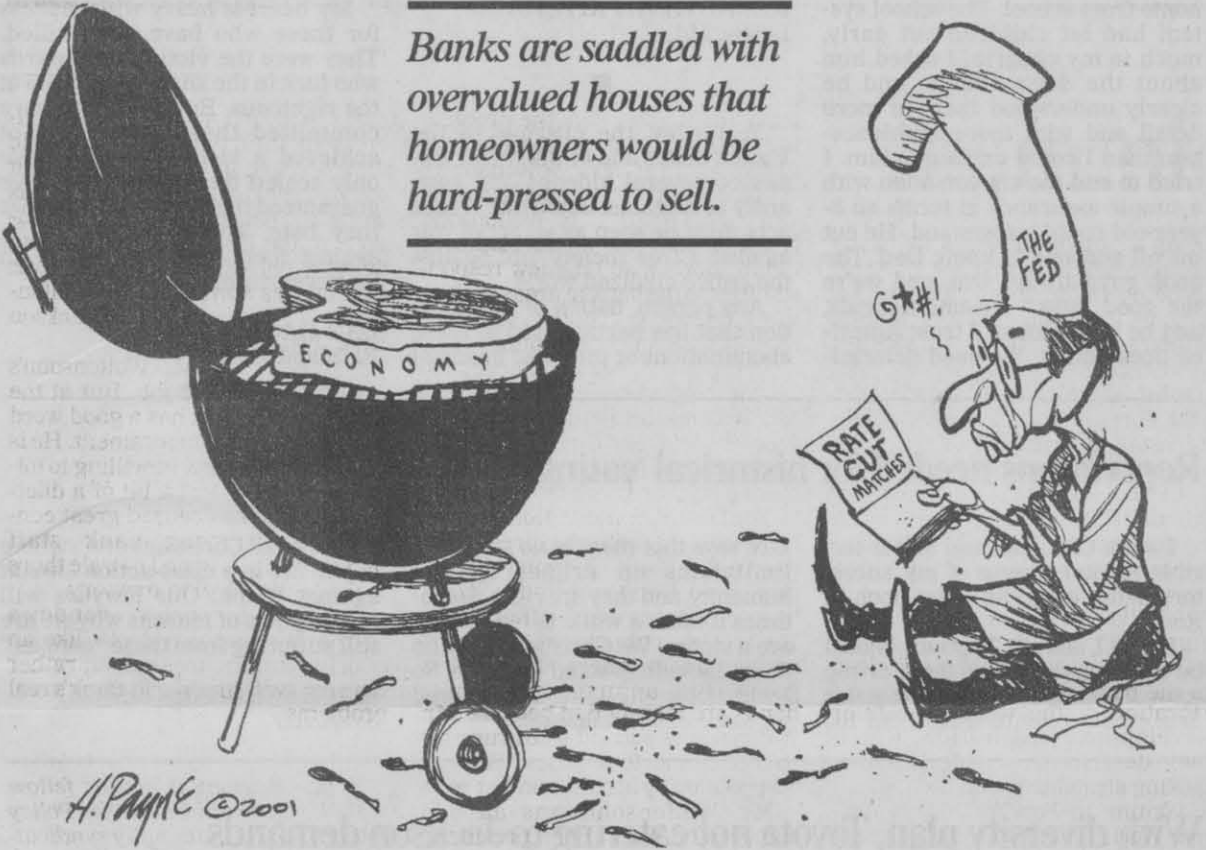
always had a cushion of equity if prices fell.

But many mortgages are near or above fair market value because lenders want the bigger principal on which to profit from interest, and homeowners, whether gaining new loans or financing old ones, want extra money to spend elsewhere. The result is that many banks are saddled with overvalued houses that homeowners would be hard-pressed to sell should the economy really turn sour; that is, should unemployment rise significantly and consumer spending hibernate. Unlike stocks, houses are illiquid: You can't sell a house today and get your money immediately. Nor is the fair market value listed daily, as are stocks, on some ledger. That means a downturn in housing prices would result in a surplus of houses for sale. And banks and S&Ls that exceeded prudent lending limits (remember their fall under similar conditions in the 1980s?) would be hard-hit.

Clear signs of an overpriced housing market abound. Nationwide, housing prices have increased by 8 percent a year. In the District, prices have spiked 18 percent. And in Palm Beach County, Fla., median home prices — half cost more, half cost less — have increased 10 percent since July 2000. Who's to say that much of this rise isn't attributable, as it was for stocks during their heady, speculative days, to bankers and assessors simply agreeing, yeah sure, that the prop-

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JAMES HACKETT



President Bush's vision of a new grand strategy is in two parts. Part 1 is to deploy global defenses against ballistic missiles. Part 2 is to sharply reduce nuclear weapons and the missiles that carry them. The administration's determination to move beyond the ABM Treaty and deploy defenses is now clear to all, though Moscow and Beijing are still in denial.

What is yet to be decided is how low Mr. Bush will reduce U.S. nuclear weapons and missiles. The United States now has some 7,200 strategic nuclear warheads on missiles and bombers, and Russia has about 5,800. All year, Moscow has been pressing Washington to agree to cut to 1,500, but the nuclear posture review is still under way and the number to which the United States can reduce has not yet been decided.

The 1993 START II agreement calls for cuts to 3,000-3,500 warheads, but START II is effectively a dead letter since Russia's Duma added provisions requiring continued adherence to the ABM treaty, which the United States will not accept. The START limits are meaningless anyway, since Russia's nuclear arsenal is aging and most of it will be retired in the next decade. Moscow wants to go down to 1,500 warheads because its economy cannot sustain a larger force.

Mr. Bush sees an opportunity to draw down the huge nuclear arsenals on both sides. It is ridiculous to be maintaining more than 7,000 nuclear warheads, each of which could destroy a city, 10 years after the end of the Cold War. Richard Perle, a major hawk in the Reagan administration, now suggests that fewer than 1,000 is possible. The Joint Chiefs have been reluctant to go lower than 2,000-2,500, in the belief that nuclear weapons are needed to deter adversaries from threatening the use of weapons of mass destruction as a way of preventing the United States from taking actions that are in its national interest.

But the Cold War arsenal of thou-

Bush's vision of new grand strategy

sands of city busters may not deter post-Cold War threats. What is needed now is not weapons of mutual assured destruction, but new ones with lower yields, greater accuracy and deep penetration capability — the kind that can target Saddam Hussein's bunker or an underground nuclear weapons plant. New types of both conventional and nuclear weapons are needed for the new deterrence.

The United States and Russia continue to manufacture small numbers of strategic ballistic missiles. The United States produces 12 D-5 submarine-launched missiles and Russia 10 SS-27 mobile ICBMs each year (although last year Moscow only had enough money to make six). The most useful and survivable ballistic missiles are those that can be moved around. Russia and China are producing mobile ICBMs. The United States has no mobile land-based missiles, since the Air Force chose instead to build big, 10-warhead MX missiles and deploy them in fixed silos.

Mr. Bush now proposes to retire all 50 MX missiles. Next to go should be the aging Minuteman missiles and then the even older B-52 bombers.

The mobile U.S. missile is the D-5, 24 of which are carried on each Trident submarine. Each D-5 can carry one to eight nuclear warheads, though plans call for four in the

future. The present 18 Tridents will be reduced to 14, retiring two and converting two to cruise missile carriers. That will leave 14 submarines as the backbone of the U.S. strategic deterrent. With two being overhauled at any given time, 12 will be deployable with 1,152 nuclear warheads. Quiet and invisible under the sea, these nuclear weapons carriers, together with the 21 stealthy B-2 bombers, would leave the United States with more than enough nuclear power to deter any adversary.

To allow the safe reduction of the huge arsenal of old nuclear weapons, two things are needed. One is to design a few new low-yield nuclear weapons using the most advanced technologies to make them smaller, simpler, more accurate, able to penetrate deep underground, and safer. This probably will require a few underground nuclear tests to assure they work as intended, which shows the wisdom of Congress in refusing Bill Clinton's pressure to accept the Comprehensive Test Ban Treaty.

Also needed is a commitment to extend the life of the 14 Trident submarines and the D-5 missiles they carry from 30 to 44 years, as the Navy has proposed. That will require new nuclear reactors for the subs and at least 50 more D-5 missiles so flight tests can continue over the life span of the weapon system. The D-5 has been a spectacular missile, achieving 94 straight successful launches.

As the administration plans deep cuts in the nuclear deterrent, it should take the steps needed to modernize what will be left. Funds should be requested in the next defense budget to develop a new nuclear warhead and to extend the life of the Trident submarines and their D-5 missiles.

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DEROY MURDOCK

The New York Police Department hosts cops from across the United States and around the world to explain how it successfully slashed crime. Gotham's board of education should launch a similar program to show visiting administrators how not to run a school system.

Judging by press reports of its snafus, the board couldn't teach even that. The Big Apple's government schools epitomize academic failure, fiscal excess, institutional corruption and a wall of excuses that educrats erect whenever anyone demands better. With 1.1 million students, 80,000 teachers and 1,200 schools, New York City boasts of having the nation's largest school system. When it comes to public education, if you can break it there, you can break it anywhere.

- In last spring's citywide tests of third, fifth, sixth and seventh graders, 57.8 percent failed reading. A stunning 69.1 percent flunked math.
- The board's five-year, \$7 billion school construction budget is \$2.8

Rotting Big Apple schools

billion in the red after just two years. Why this 40 percent overage? First, the board double-counted \$220 million as coming from both the mayor's office and the City Council. Second, the board's seven members ignored a special Web site dedicated to construction outlays. "The modem never worked properly," Danica Gallagher, a spokeswoman for former board chief Bill Thompson, told the New York Post's Carl Campanile. Third, some funds just disappeared. KPMG Peat Marwick, a private accountancy, is trying to unravel this mess and recover \$200 million that simply vanished.

- While government school teach-

ers make between \$31,000 and \$70,000 annually, custodians generally make \$58,000 to \$87,000. Through overtime and work at multiple campuses, the board's top 10 custodians each received between \$117,257 and \$126,887 last year. At least five custodians outearn their school principals while supervising janitors and operating boilers.

- The board employs people who shouldn't be near children. Psychiatrist Franklin Simon was hired to teach high school biology even though, officials say, he twice lost his medical license for propositioning patients, flashing a female physician and discharging a gun in his office.

The board tried to terminate 322 teachers and administrators since 1997, but sacked only 23, the New York Daily News discovered.

Jean Stabinsky survived, even though she yelled "Fight, fight" as two of her kindergartners punched and kicked a third boy lying on the ground.

"While she let them fight for a few minutes and provoked them into continuing it," hearing officer Howard Edelman ruled, "her actions were

not so egregious as to justify her discharge."

- In one respect, New York's schools stand at the top of the heap: segregation. "New York is the most segregated state in the nation in terms of public schools," said Gary Orfield, author of a recent Harvard study. "It leads the pack in intense segregation of both black and Hispanic students." This statewide phenomenon exists largely because Gotham's whites have flocked to private and suburban schools and left non-whites behind in less racially diverse classrooms.

Not even New York's no-nonsense mayor has tamed this city's schools.

Like an octopus squirting ink at a predator, the board has escaped Rudy Giuliani's attempts to wrap his arms around it. He has advocated vouchers, higher standards and accountability. The recalcitrant board has eluded his every advance.

Of course, this tragicomedy's victims are the students, many of them lower-income, minority children with limited life chances. Challenging their minds would lift them from the streets. Instead, government

schools leave them intellectually stunted, often for life. That seems the board's last concern, however. "Up with people?" Try "Up with budgets, payrolls and union contracts."

Why can't children learn? "It's not working because there's not enough money," Schools Chancellor Harold Levy recently bellowed. He lamented the board's \$12.3 billion "shoestring" budget. The money never is enough for educrats like Mr. Levy, whose children attend the elite, private Dalton School. In fiscal year 2000, New York spent \$9,739 per pupil.

That financed an on-time high school graduation rate of 49.9 percent of seniors, of whom 62.6 percent entered college. Fully 19.3 percent of the Class of 2000 dropped out altogether.

In contrast, the Catholic Archdiocese of New York (covering Manhattan, the Bronx and Staten Island) graduated 98 percent of its 12th graders on time, 89 percent of whom proceeded to college. Fewer than 1 percent dropped out. Per-pupil cost:



\$5,500 for secondary and \$3,200 for primary schools.

While New York's board of education teaches its students very little, it clearly offers one lesson to any outsider willing to listen: Don't try this at home.

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LLOYD CUTLER / MICKEY EDWARDS

Long before the president's first list of nominees to the federal courts arrived in the Senate, Senate Republicans and Democrats and liberal and conservative organizations were already at their battle stations. And it appears they will remain there for the foreseeable future.

What used to be a fairly straightforward process — the nomination and confirmation of federal judges — has become more contested, acrimonious and time-consuming in recent years. According to research by the Constitution Project, the length of time from vacancy to confirmation has increased in every administration since President Ford's. It took the 105th Congress (1997-98) an average of 201 days to act on Clinton nominees. Consider that in 1922, when President Harding nominated George Sutherland, the Senate confirmed him within hours. In 1953, the Senate confirmed Earl Warren as chief justice without even questioning him.

A case of the judgeless benches

The reasons for the change are not that complex. The number of federal judges has increased. The federal courts have been called upon to decide controversial social issues in such areas as school prayer, abortion and affirmative action. This has, in turn, brought about increasing political pressure from interest groups that have proliferated dramatically in the last 20 years.

Two recent developments have further roiled partisan waters swirling around nominations. The first is the feeling of Democrats that Senate Republicans kept President Clinton's court nominees bottled up in committee, sometimes for years, for ideological reasons. Republicans reply that Mr. Clinton was slow in getting nominations to the Senate. Both are right. It is also true that when a Republican holds the White

House and the Democrats hold the Senate majority, the Democrats hold up judicial confirmations in presidential election years.

If Democratic senators hold to the principle of "an eye for an eye" and the Republicans hold to an absolute and exclusive presidential right to choose federal judges, the result will be an accelerating cycle of stalemate and polarization. In this scenario, the courts themselves cannot avoid being painted with accusations of partisanship. That would corrode popular belief in impartial justice and hence respect for the law.

Options are open to both sides to defuse the situation. First, they could agree upon a few principles based upon the recommendations of the Constitution Project:

- One, candidates for judgeships should be committed to deciding

cases based upon law and the facts of the case and should renounce ideological commitments.

- Two, candidates should be nominated and confirmed based upon experience, qualifications, temperament, character and general views of the law and the judicial role.

Three, the president and the Senate must not ask for, and the candidate not offer or consent to give, any pre-commitments about unresolved cases or issues that may come before them as judges.

Four, all parties to the nomination and confirmation process should conduct themselves only in ways that reinforce the principle of judicial independence.

Five, diversity on the federal bench is consistent with judicial independence and should be a goal of the appointment process.

Six, the country is entitled to a viable and efficient federal court system. Candidates, therefore, should move through nomination, Senate hearings and floor vote expeditiously and fairly.

For the good of the country and the integrity of the courts, the president should seek the meaningful counsel of all parties before deciding on nominees. This he can certainly do without relinquishing his exclusive constitutional authority to nominate judicial candidates. For their part, Democrats should participate in such consultations with the sole condition that the nominee satisfy the broad judicial criteria enumerated above.

Finally, we would call upon various interest groups not to decide in advance that they will oppose or support all nominees that come from the White House. We should not demand pro-life or pro-choice judges but independent judges. We should not demand judges that are friendly to labor or business, but

judges who are manifestly unbiased in either direction. We should not demand pro-environment or pro-development judges, but those who will look at the facts of the case and decide in favor of the law, the Constitution and thus all the people of the United States.

Above all, we should seek agreement on nominees who can win confirmation under the existing political conditions. Unwavering dedication to the principle of judicial independence should be the legacy of the Bush administration and the 107th Congress. The public interest demands no less.

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