The economy: School is in

It might not seem like it, but not all economists are predicting $200 a barrel oil, a real estate crash and worldwide woe.

Tom Cooley, dean of NYU’s Stern School of Business, has been studying the economy long enough to gain some perspective. While he understands the difficulties the nation and New York City face, he has a healthy difference of opinion with the doom and gloomers of his profession, notably bearish facultymate Nouriel Roubini.

“He’s a brilliant guy, and we read the same things, but I guess I’m just more of an optimist in the way I interpret them,” Cooley said.

Cooley sat down with Your Money to help make sense of the challenges facing the local, national and global economies.

Q: How can the government declare inflation is under control when consumers are confronted with rocketing gas and food prices?
A: The government, for the purposes of monetary policy, focuses on core inflation, which leaves out food and energy prices, which are so volatile. Once you take out food and energy, the basic core inflation rate is relatively low, though there is evidence it is creeping up.

Q: Critics say ethanol hasn’t helped reduce demand for oil, but has merely driven up the price of food. Has it been a disaster for American consumers?
A: Ethanol is a reasonable technology, but our ethanol policy is a huge failure. It is something we’ve pushed into, and the consequence has been that a large fraction of corn production has gone into the production of ethanol. That’s raised the price of corn. Corn itself is oil intensive to produce. So it is just a bad policy right now and is having a negative affect on food prices around the world.

Q: Analysts at Goldman Sachs said last week the price of oil could leap to $200 a barrel over the next two years, while their counterparts at Lehman Brothers said it could fall as low as $40. What do you say?
A: If you look at the fundamentals, supply and demand, there are going to be a couple of hiccups such as unrest in Nigeria, but nothing major as we move toward over-demand for heating oil to the driving season. Supply and demand are relatively well-balanced, so it’s hard to understand why you would expect $200 a barrel oil, outside of speculative pressure. I think it is more likely it will go down than go up.

Q: Nationwide, the housing market is getting crushed, yet the local market has been more resilient. Why is that?
A: The New York housing market has been insulated by the fact that the New York economy has remained relatively good, there is a lot of foreign demand, New York is a desirable location and there is still a large concentration of wealth here.

Q: Where do you expect the national real estate market to rebound?
A: Working your way through a housing bubble can be painful. It is different from a stock market bubble. Prices take longer to fall because people and banks are reluctant to realize their losses, but it will happen and I would guess, within the next nine months, we’ll see the bottom of the housing market, and buyers will come back in.

Q: What’s your outlook for the local job market?
A: Unemployment is not high in the U.S. and productivity growth has remained okay. My guess is that it will be a relatively shallow downturn. In the New York economy, we’ll see more significant job losses in the financial sector. We’ve seen significant losses already, but I expect we will see more.

Q: How would you invest $10,000 right now?
A: I would put it in an index fund and hold it for the long term. For the average person it is very hard — unless you have a lot of time to devote to it and a lot of specialized information — to do better than you would do in an index fund.