Just how sound is our economy in this Age of Euphoria?

Is this the dawning of the Age of Euphoria? So it would seem if one puts stock in the reporting and predictions of the business media regarding the US economy.

Business Week, the Wall Street Journal, and the cable news channels among others have been heralding a corporate renaissance. They cite evidence of continuing demand, increased corporate pricing power, strong profits and cash flow, cheap long-term financing and easier lending terms and conditions afforded by banking institutions.

Shall we crack open a bottle of Dom Perignon to celebrate these felicitous tidings or keep it in the back of the fridge and sip, instead, some midprice Chardonnay while we take a deeper and more careful look at the underbelly and internal dynamics of the present economy?

Prudence and common sense would dictate we choose the latter course, for there are several factors and forces that could blot out the sunshine and usher in major storms.

- Monetary policy and the twin deficits. Mix together a Fed chairman who loosens the money supply too early, then tightens too late, a conservative Republican president who spends like a liberal Democrat and an American public hell-bent on unbridled consumption and living beyond its means, and the resulting concoction is a dangerous potion of financial irresponsibility.

- The trade and budget deficits are out of control, with the federal government borrowing nearly $2 billion a day abroad, mainly from Asian central banks. (The current account deficit is close to 6% of GDP, twice as large as in the 1980s and widening still.) More than half the US merchandise trade deficit is being financed by China and Japan. Foreign financing of a consumer spending binge and profligate federal spending rather than the finance of productive investment cannot go on indefinitely.

As Sir Isaac Newton observed 320 years ago, whatever goes up must come down. On Feb. 22, the Bank of Korea indicated it may well diversify its currency holdings away from the dollar. If that happens and other central banks follow suit, nothing short of massive interest rates hikes would halt the sell-off of US treasuries. This, in turn, would trigger a huge recession in the US. Still, a slowdown in US consumption of imports and significant cuts in the federal budget deficit are about as likely as Michael Jackson being elected national Cub Scout leader.

- Social Security and Boomer dissaving. Regardless of the merits or lack thereof of private savings accounts, Social Security is faced with a solvency problem. According to the Congressional Budget Office, retirees will still get 73% of their benefits in 2052.

- What is not debatable is that workers are not saving, pension benefits are being scaled back, 401(k) plans are underutilized and consumer debt is growing exponentially, particularly as homeowners tap into home equity loans to feed their material desires rather than to pay down mortgage principal.

- Add to that the fact that people are living longer, and one can see the golden years for many becoming leaner years. People will have to work longer and retire on less. The deflationary impacts of this trend, not to mention the human ones, have yet to be confronted.

- The real estate asset bubble. To speak the unspeakable, the nation in general and Miami in particular are bound to be smacked by the imminent bursting of the real estate asset bubble.

Two recent Wall Street reports (Raymond James and Credit Suisse First Boston) cautioned that speculators and investors account for as much as 85% of all high-rise condominium sales in downtown Miami. A lethal combination of higher mortgage and interest rates, excess inventory and the absence of economic growth to generate many higher-paying jobs will provide the pinprick to the bubble. Buyers hoping to resell at hefty profits, like those who hoarded tulips in 17th-century Holland, will eventually find few takers. These flippers will be stuck, victims of this high-stakes Ponzi game.

Other troublesome factors, such as rising oil prices, political instability in Latin America, and China’s relentless export tsunami affecting our hemispheric trading partners from Mexico to Tierra del Fuego could also dampen growth prospects.

John Kenneth Galbraith observed that in economics, hope and faith coexist with great scientific pretension. The good economic news being reported lately should not be cavalierly dismissed in light of other disquieting developments but should be taken, like a good margarita, with several grains of salt. To do otherwise would be foolish and costly, to say the least.