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The New Normal

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The "new normal" is a term coined by the brain trust at giant bond fund PIMCO suggesting that 2% annual growth in GDP is likely to be the standard in the near term, versus a 3% average growth for the U.S. during last half-century. This difference between 2% and 3% is of major importance and has significant implications for the U.S. economy. At the heart of the problem is job creation.

Consider the following:

• Unemployment is 9.1% with 25 million people unemployed, underemployed or given up looking for work;

• A 3% growth rate would create an extra 1.6 million jobs per year, whereas a 2% growth will produce 700,000 jobs, not enough to absorb the increase in the labor force causing unemployment to rise;

• Gross Domestic Product has slowed to an average of less than 1% for the first two quarters of 2011. Most projections for GDP growth for 2012 range from 2% to 2.5%;

• Personal consumption declined -.2% in July, the first negative reading in 11 months. Continued weak employment will cause additional consumption shortfalls;

• Total U. S. debt exceeds $17 trillion dollars, almost 100% of our gross domestic product; and,

• Total yearly expenditures of $4.0 trillion exceed $2.4 trillion in tax revenues, a $1.6 trillion shortfall.

It is obvious that current U.S. monetary and fiscal policies are not producing a sufficient number of private sector jobs to maximize the economic growth potential of the U.S. economy. What is needed is a return to basic economics; i.e. the recognition that:

• Demand curves are downwards sloping, and if you tax something, you get less of it;

• Solutions to economic problems start with removing impediments to supply, not demand; and,

• Price, not government, is the best allocator of scarce resources, which by definition, leads to the highest standard of living.

F.A. Hayek said it best in his book, *The Road to Serfdom* (University of Chicago Press, Routledge, London 2007. Original text 1944).

> "And as it regards competition as superior not only because it is in most circumstances the most efficient method known but even more because it is the only method by which our activities can be adjusted to each other without coercive or arbitrary intervention of authority. Indeed one of the main arguments in favor of competition is that it dispenses with the need for "conscious control" and it gives the individuals a chance to decide whether the prospects of a particular occupation are sufficient to compensate for the disadvantages and risks connected with it". (p.86)

He goes on to say:

> "Any attempt to control prices or quantities of particular commodities deprives competition of its power of bringing about an effective coordination of individual efforts, because price changes then cease to register all of the relevant changes in circumstances and no longer provide a reliable guide for the individual's actions" (p.86)

Actions to reverse the recent trend toward more central planning and diminution of private enterprise include:

- A commitment to balance the budget over the next decade, favoring spending cuts over tax increases;

- Cuts in Social Security, Medicare and other retire programs which represent 50% of federal spending;

- Elimination of the crippling regulations of Dodd-Frank and Environmental Protection Agency which impose anti-growth regulatory constraints on American business;

- Lower income tax rates in a revenue neutral manner by reducing tax breaks, to spur economic growth;

- Reduction of the corporate income tax to make U.S. companies more competitive in a global economy; and,

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- Repeal of Obama Care which increases costs for businesses with 50 or more employees which serves as a disincentive to hire more workers beyond the minimum requirement.

The "new normal" does not have to become the "new long term reality". However, as George Will wrote recently, "Mr. Obama's 2012 problem is that he dare not run as a liberal, but he cannot run from his liberalism" (*Washington Post,* August 2, 2011). Consequently the country is at the mercy of policies and events he has set in motion, which are not likely to change. It is, therefore, my belief that slow growth and market uncertainty will prevail until at least November 2012 when the American electorate will render judgment regarding the efficacy of current economic policies.