

# The Struggling Economy

## LOOKING AT THE WORLD FROM AFAR

We are seeing historical changes in the world at this moment if we look at the earth from a distance. The Euro zone countries have long been building up generous pensions, extensive public healthcare, and other progressive social programs. In the process, they accumulated great national debts and unsustainable government deficits. The recent Greek debt crisis proves to be an awakening event; suddenly all the EU governments are racing to cut the deficits and shrink the debts. Their austerity programs and deleveraging will keep the Euro economy anemic for many years to come. We may see a 1.5% or so growth rate in the next five years. But their future may have been brightened with their efforts. America also has seriously overstretched federal, state and local governments that come with a weak economy. Instead of fixing all the problems, we just added our first universal healthcare system, a government-expanding financial regulatory bill and a series of huge spending bills. America suddenly became a lot more Euro-like and loaded up with debts and deficits even faster than the Euro nations did. This newly minted American progressive state is not sustainable. It too will have to be reversed in the next few years. Unfortunately, all the deleveraging may lead to a decade long, anemic economy, weighted down with debts, deficits, layoffs, foreclosures, high taxes, shrinking dollars, broken entitlement programs and so forth. Fortunately, the private sector is likely to step up. Americans are likely to manufacture more and export more in the next decade if the governments stop strangling the private sector. Beyond Europe and America, many developing countries, such as China, India, and Brazil, are doing well. The success of these nations is making both the Euro Zone and America "less rich" every year. Some people start to talk about the timeline for China to overtake America as the world's largest economy. That will not happen anytime soon, however. The growth of China's export industries will slow considerably in the coming years. The limited available resources, such as iron ore, oil and copper, will also put a brake on the country's high speed expansion. China's growth rate may go down to around 7% yearly within 5 years. On the other hand, their workers will make twice as much at that time. Chinese consumers may slowly become the new hero in the growth of the world economy in the future. Expect American companies in China to do well. Manufacturers in America may export more. Manufacturing more and exporting more are what America absolutely has to do. This is the only long term cure of our economical ills.

### **A Closer Look at America: the Next three years.**

America has been recovering from a very long and deep recession. The growth should be rather strong in 2009 and beyond because we began from a very low level. Businesses needed to replenish their low inventory and consumers had to spend on pent up demands. Economists generally expected a strong recovery in late 2009 and 2010, with good job increases starting in the first half of 2010. More Jobs would give the necessary legs for a good recovery. We've had a decent 5% growth in the last quarter of 2009. Most experts expected a 3-4% growth rate throughout 2010 at that time. But the anticipated job growth did not happen and the unemployment shot up to 9.6%. The economy took a nose dive to an anemic 1.6%

rate in the second quarter of 2010. Suddenly the optimism among experts was gone. One by one, they raced to downgrade their projections for this year and beyond. What had gone terribly wrong in such a short time? This author's answer is that the economists could not have anticipated the devastating consequences of the breakdown of America's political system.

Our political system is designed to have two (or more) parties with opposing or competing values. They check and balance each other and reach compromises that will serve the interests of the majority in the middle. The more extreme values of any party are unlikely to prevail. This system breaks down when one single party gains the absolute control of both houses and the Presidency. That party may enjoy its absolute power a little too much. The passing of this country's new universal healthcare bill is a good illustration. It has been one of the Democrats' core programs for 75 years, but it never has gained the majority support in this country. Democrats with absolute power in Washington just rammed through a 2000 page healthcare reform bill in record time. The representatives in congress didn't even have time to read the bill before they passed it. This bill will cost businesses much more to hire new employees and keep the old ones. It also drives up the cost of premiums for every single policy. This bill not only angers businesses, but also ignores the majority of the people. If the Democratic leaders took a little time and seriously attacked the run-away costs of American healthcare, before they make the businesses and tax payers pay the premiums for 30 million more people, they could have won stronger support. Passing the huge healthcare bill was not the only thing the party in power had done. They also pushed through a 2,300 page financial reform bill and a number of huge spending bills in a very fast pace. These bills have little in favor of businesses and tax payers. The whole private sector was shocked, angered, stunted, and anxiously waited for more bad news to come. They just stopped new investment and hiring. In the meantime, the overstretched state and local governments continue to lay off workers by the thousands. Our economy will be in bad shape until things drastically improve.

Will there be a recession again in the next two three years? The answer is "no." Most likely the opposition parties will gain enough seats in the house and the senate in the November elections to add a pair of new brakes to our run-away political system. That alone will boost the confidence of the businesses and many tax payers. We will see the private sector began to invest more and hire more in 2011. That will be enough to keep us out of another recession. America will slowly bounce back from this shocking experience. Most likely, the economy will continue to grow above 1% in 2011 and 2012. There is not enough growth to make American feel better, however. We all should get use to working harder for less.

Two to three years down the road, we need to pay attention to a possible sharp increase in inflation. The Federal Reserve Bank is likely to use "quantitative easing" (or printing more money or electronically increase the money supply) to perk up the economy (because they cannot lower the interest rates more). This is a double edged sword, without any certainty about which edge is sharper. The immediate consequence would be cheaper dollars. That will help American Exports and slow down imports. It also makes a hair cut off of all foreign debts. On the negative side, all Americans will have less value in the dollars they have, and their living standards will suffer. It will be the lower income American that will suffer most. More worrisome still is that that people around the world may be selling instead of buying American treasury bonds after they lose so much in their dollar reserve. A number of

governments are also working hard on shifting away from dollar in international trade. That will force the Federal Reserve Bank to print more dollars to pay for government deficits and drive up inflation in not just this country, but around the world. Older Americans may remember the days of double digit inflation. There is a chance that we will see that again unless America starts to attack the government debts and deficits and to grow the manufacturing sector as quick as possible.

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