

Northwood University's Monthly Economic Outlook

August 2014

Introduction

The U.S. economy continues to show mixed signs relative to economic growth and decline. First quarter GDP came in at a revised negative 2.1 percent with second quarter U.S. GDP growing at an impressive 4 percent. While GDP growth has improved in the second quarter, year-to-date U.S. GDP is still growing at an annualized rate below 1 percent. The Conference Board recently reduced its 2014 forecast for the U.S. economy to just 2 percent on an annualized basis...probably optimistic. The U.S. economy has averaged less than 2 percent GDP growth the last three years well below the yearly average of 3.1 percent for the U.S. economy since the end of World War II. We continue to be guardedly optimistic on the U.S. economy, due to strong corporate balance sheets, economic reforms at the state level, and general increases in U.S. labor productivity. We remain concerned relative to the view held by many in Washington that taxes on business are too low, the rich do not pay enough in taxes and that business needs to be regulated at a higher level than is currently the case. We conclude this edition of the Northwood University Monthly Economic Outlook with a segment from an interview Northwood President Keith Pretty and I conducted with Whole Foods founder and CEO, John Mackey. Mackey's message is something all in government and business should ponder.

Key July/August Data

Positive and Negative Signs

As of August 15th, the Dow Jones Industrial Average (DJIA) closed at 16,662.91, up 0.05% for the year, while the S&P 500 closed at 1955.06, up 5.8% for the year. With 70% of 2014 elapsed, the DJIA is far behind its 26.5% pace for growth in 2013 which also saw the S&P 500 up 29.6% for the year. The U.S. economy created 209,000 jobs in July, making it the sixth

consecutive month where job creation surpassed 200,000 jobs...the best six month job growth period since 1997. Yet, U.S. unemployment increased from 6.1 to 6.2% from June 2014 to July 2014.

U.S. Consumer Confidence increased from 86.4 in June to 92.7 in July, according to The Conference Board. However, the preliminary report for the broad-based University of Michigan Consumer Sentiment Index was 79.2 in August, down from 81.8 in July. The index is at its lowest point since November 2013. The Michigan Index has averaged 87.4 during non-recessionary years, since inception in 1978, while averaging 69.3 during recessionary times over the same period. Our concern is that the index has dropped below its overall yearly average of 85.1 and is clearly moving in the wrong direction.

Current Issues

Tim Nash and Keith Pretty: Based on Alan Murray's Wall Street Journal book review of *Conscious Capitalism*, Murray points out that you were a part of the counter culture at UT Austin. Politically you were very liberal and had a strong anti-business bias. What happened? Today you are not only a highly successful business executive, leading a \$14 billion company, but a respected libertarian thinker who advocates free market economics. Can you speak to your obvious transformation? What caused you to change your views?

John Mackey: Starting a business. Starting Whole Foods changed everything because the intellectual model I had when I was young is what today we would call progressive thinking and I pretty much believed that 'business sucks' because it was motivated by selfishness and it's greedy and it only cares about profit. And non-profits were good because they served a higher purpose and government was good because they were a public service, so if you view the world that way you want less business and more non-profits and more government because those are so good. So, I started a business, kind of not feeling really good about business and then an

interesting thing happened...I discovered business was hard. It's hard to create a successful business. As I always say, your customers think your prices are too high, your employees think your benefits are too low, suppliers don't want to give you discounts unless you have a bigger business, investors want a return on their capital, non-profits want you to donate money, governments want taxes from you, and it's hard. To be successful in business you have competitors who fight you in many different areas.

I started my first store; had \$44,000 in capital, and we lost half of it in the first year and were left with just \$23,000. We were probably heading toward bankruptcy and the philosophy I had didn't explain the role very well. Even though I was only making \$200 a month and the business was not succeeding, my workers and customers still thought I was an exploiter—that I was exploiting them with low pay and high prices. I had become one of the bad guys. And I thought, man, the progressive philosophy doesn't work in the real world. So I threw it away, I rejected it. I don't know how but I started reading Milton Friedman, Hayek, and Mises. As I like to joke, I got a Laissez Faire catalog and I read every book in it! I thought, "This made sense! This makes sense! This is the way the world really works!" I always felt the heroes' journey and I felt it as a very young person. And I thought business was heroic and we were doing well in the world, we were creating value for people and I needed a philosophy that put the entrepreneur in a more heroic position, not as the bad guy. So I discovered the free-market thinkers, anybody who wrote about entrepreneurship, people such as Peter Drucker and Israel Kirzner. There you kind of have it, that philosophy became my guidepost. My thinking has evolved over time, it has gotten more complex, but it's still at that basic core that business is good, free markets create prosperity, and you need to create a society that has more economic freedom in it and less government control, less regulation, less bureaucracy and lower taxes. I'm a classical liberal and more into libertarianism. When I study the history of liberalism, it's still a workable philosophy; however it ends up having the seeds of its own destruction because it creates prosperity, the ignorant become jealous and then people kill the goose that lays the golden eggs.

Mackey later points out in the interview that he wrote the book, *Conscious Capitalism* as a defense of the entrepreneur, freedom and free enterprise. Noting that government, households, and general prosperity in any economy is dependent on the size, scope and success of its business community.

Contact Us

Comments or questions should be directed to Dr. Timothy G. Nash at: tgnash@northwood.edu or (989) 837-4323. Dr. Nash was assisted in writing this issue by Northwood student Zachary Dawes. To view Northwood University's Monthly Economic Outlook Newsletters from previous months, please visit: <http://www.northwood.edu/media/publications/>. For more information about Northwood University, our academic programs and enrollment opportunities for students, visit www.northwood.edu.

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Conclusion