

September 2015

## Introduction

This week the most powerful woman in the world decided to do nothing. U.S. Central Bank chief Janet Yellen announced that the Federal Reserve would not raise interest rates for at least another month, keeping the U.S. Federal Funds Rate at near zero. In justifying The FED's decision to keep interest rates at their historically low levels, Yellen cited a highly unstable global economy as the key reason. Yellen noted "heightened concerns about growth in China and other emerging market economies have led to notable volatility in financial markets." As one takes a panoramic view of the global economy, FED chair Yellen's concerns certainly seemed to be justified. The Canadian economy is in recession while Brazil is teetering. Both Canada and Brazil are victims of declining global commodity prices and reduced Chinese demand for commodities. European growth remains sluggish with many experts worried about the specter of debt default once again appearing on the Greek horizon. We find it interesting that many including Chairwoman Yellen look to the U.S. economy as a bright spot within a turbulent global economy. It is important to remind our readers that in the first half of 2015 the U.S. economy is growing at an annual rate of just over 2%, well below the average annual growth rate of roughly 3.2% for the U.S. economy since World War II.

## Key August/September Data

### Positive and Negative Signs

The outlook for the global economy appears to be uncertain at best. The question is whether or not there is a risk for an abrupt slowdown or even a collapse similar to what happened in 2008 – 2009.

The U.S. economy continues to chug along at a pace that would have been deemed unacceptable by President Reagan or President Clinton. This "moderate" pace of growth is certainly attractive by current global standards. The U.S. is experiencing good job growth, unemployment is at a 7 year low of 5.1%, while U.S. trade with China accounts for less than 1% of current U.S. GDP leaving the U.S. seemingly insulated from the specter of a collapse in the Chinese economy.

In addition to the global economic concerns already noted, we believe Americans should be concerned over the rising tide of political and military uncertainty in the world. In the last week, Russia has moved much of its top squadron of fighter pilots and jets to Syria. The Japanese parliament for the first time since the end of World War II has given its military permission to become engaged in military combat around the world, while China is building islands in the waters of the South China Sea for the express purpose of docking and supplying ships of war. The Ukraine remains unstable as does much of the Middle East and North Africa. The lack of confidence in the economic and political drivers we see around the world today presents reasons for concern and even pessimism relative to economic growth in 2016 and beyond.

## Current Issues

The U.S. and global economies are running out of tools to combat sluggish growth and even recession in parts of the world. For more than 6 years, the U.S. economy has been fueled by policies that have not been rooted in sound economic logic.

Deficit spending in the last 10 years has more than tripled the national debt of the United States and has clearly been a bi-partisan failure of Congress as well as a Republican and now a Democratic president. The

U.S. national debt is now almost 18.7 trillion dollars. Putting the impact of our current national debt into perspective, the average share of the U.S. national debt per capita now stands at just under \$58,500 per U.S. man, woman and child or a burden of roughly \$240,000 for an American family of four. U.S. tax policy continues to be anti-business, overly complicated and complex, and one that punishes business at an excessive and unfair level. It is important to note AGAIN that the United States has the highest average corporate income tax rate in the industrialized world at 40% and no clear signal that Washington has the courage or the conviction or common sense to implement lasting and effective tax reform.

For more than a month now, U.S. stock markets as well as their counterparts around the world have signaled their disgust with political efforts to reform and jumpstart economies. From Asia to Europe to South America to right here in the United States declining stock values reflect declining confidence in geopolitical policies and those who champion them. This past Friday, the Dow Jones Industrial Average declined 290 points, while the S&P 500 declined 1.6% and the NASDAQ dropped 1.4%. Major stock markets in Europe, like Germany and France, continue their declines by falling over 2.5% on Friday as well. The Dow Jones Industrial Average is now down 8% for the year, with the S&P 500 off 5%. The remaining bright spots in the U.S. economy outside of the automobile industry are reflective in the strong performance of technology and biotech stocks that have kept the NASDAQ up just over 2% year to date.

In addition, regulatory burdens seem to be increasing on a yearly basis in the United States and around the world with burdensome and unnecessary regulations cropping up across the economy in areas ranging from the financial and environmental sectors to healthcare and wage structures.

So how might you ask has the U.S. economy performed as well as it has if taxation and regulation truly are as burdensome as we say. The truth is The Federal Reserve Bank of the United States has poured more than \$5 trillion into the U.S. economy since 2008, driving the cost of borrowing money for banks to near zero. This artificial stimulation via historically low interest rates has kept the U.S. economy afloat while producing modest economic growth in an economic environment that otherwise certainly would be in decline. Whether you agree with what The Federal Reserve Bank has done over the last 7 years or not, the ability of The FED to artificially stimulate the economy is clearly coming to an end. This last economic tool has been exhausted by Washington. Modest economic growth, fueled by artificially low interest rates cannot be sustained any longer.

## Conclusion

If the U.S. economy is to return to sound, stable long-term economic growth, it must return to sound traditional economic values. The U.S. can no longer afford to run deficits with a national debt approaching \$19 trillion. The United States does not have a revenue problem the United States has a spending problem. Regulation is harming the economy and curtailing job growth. Simply put, government is consuming too large a share of U.S. GDP!

## Contact Us

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