



IN THIS ISSUE: CHEER UP AMERICA

- 1 – INTRODUCTION: WHY DO WE FEEL SO BAD?
- 2 – ECONOMY: NO RECESSION IN '08
- 3 – GLOBALIZATION: TRADE GOOD, PROTECTIONISM BAD

- 4 – SOCIAL/CULTURAL TRENDS: ON THE MEND
- 5 – OTHER MISCELLANEOUS GOOD NEWS
- 6 – CONCLUSION: DISPAIR IS UNWARRANTED

1 – INTRODUCTION WHY DO WE FEEL SO BAD?

As repeatedly highlighted in these pages over the past 26 years, there is a mismatch between Americans' assessment of their own economic, financial and social situations (good, with good prospects), and that of the country or economy in general (bad, and likely to get worse). And as we have been pointing out during all of this time, both cannot be true for a majority of people. But has the mismatch between perception and reality ever been greater than today?

[According to the latest Harris Poll, 94% of Americans are satisfied with their lives (56% very satisfied), and 62% expect their personal situation to improve in the next 5 years. Yet 68% believe the nation is "on the wrong track."]

One wonders about the accuracy of polls that show some significant percentage of Americans believing that the economy is in recession: economic growth in the third quarter was 4.9% (combined second and third quarters were up 8.7% on an annualized basis); or that the next generation will experience a declining standard of living (two-thirds of Americans have incomes higher than their own parents, according to the Economic Mobility Project). How do such misperceptions persist in the face of evidence to the contrary? Our long-time readers know at least three explanations:

- News media really do have a "bad news bias" (because that is what delivers audiences), and a politically-motivated "bad economic news" bias when the sitting President is

a Republican (documented by the Media Research Center).

- Politicians really do have a "problem mentality," because they are in the business of selling "solutions" (how else to justify themselves?).
- Improvements in income, standard of living and quality of life entail change, and change seems inconsistent with the stability we associate with contentment.

Of course we have problems, worries and fears; Pat Buchanan has just published a litany of them in book form (*Day of Reckoning*): deindustrialization, collapsing culture, weakened dollar, outsourcing, trade and budget deficits, declining middle class, loss of global dominance, weakened military, illegal immigration, unfunded federal mandates, social decomposition (to name a few!). We have demonstrated through the years (and will do so again herewith) that these are not insurmountable problems (indeed, some are not problems at all). But extrapolations from false premises lead to predictions of catastrophes, thus catching the public imagination, and turning challenges into overwhelming "crises."

The good news is that the bad news is wrong; the bad news is that the good news often gets overlooked. And to paraphrase Mark Twain, "it ain't what you don't know that'll hurt you so much as what you think you know that ain't so." So here is our objective analysis of why you can enjoy the Holidays and New Year.

Trend Analysis That Builds Business Decisions

2 – ECONOMY: NO RECESSION IN '08

The case for no recession in 2008:

- We are certainly not in recession now; as stated above, the increase in real GDP in the third quarter was revised upward to 4.9% by the government's Bureau of Economic Analysis, which cited exports, personal consumption expenditures, private inventory investment, equipment and software, federal government spending, nonresidential structures and state and local government spending as positive contributing factors. At nearly 5%, third quarter growth was the best in 4 years and second highest in 7 years.
- Consumers are not "tapped out." Employment (and employment opportunities) and household income are still at high levels. Chain-store sales are up 2.5% from a year ago; "Black Friday" and "Cyber Monday" sales were both up substantially from a year ago, setting new records. Housing values have declined marginally, but the "negative wealth effect" on consumer spending is just not that pronounced, if it exists at all.
- Sub-prime debt is not a widespread or systemic problem; it comprises only about 1.4% of global equity markets and actual defaults affect only a small percentage of domestic borrowers. Furthermore, the Fed has committed to "act as needed" to shore up the economy; to stay "flexible and pragmatic" in dealing with the housing situation and credit crunch; and

to not let fear of "moral hazard" deter policy-makers from doing what is necessary.

- The price of oil was unsustainable at \$100; it is now dropping and will continue to do so through 2008, bottoming out as low as \$50 or \$60. According to Fadel Gheit of Oppenheimer & Co., there is no oil shortage. Global inventories are over 4 billion barrels, the equivalent of all the oil produced in the Middle East for six months. Buyers are having no trouble finding sellers. The fear premium is totally exaggerated, not justified by logic or market fundamentals.
- The Federal Reserve predicts low inflation and continued economic growth in 2008; it will not raise, and might lower, interest rates.
- Taxes will not be raised, and may be cut (it's an election year!).

Of course recessions have not been outlawed; we seem to get a short, shallow one every ten years to correct the unavoidable misallocations of economic and financial resources. But due to the amazing resiliency and productivity of the modern American economy; its abundance of entrepreneurs, innovators, inventors, risk-takers and creators; its public and private equity markets; its rule of law – in other words, capitalism – we will always return to the path of growth. The threats of disruption to this process of "creative destruction" are high taxes, overregulation, instability and protectionism.

3 – GLOBALIZATION: TRADE GOOD, PROTECTIONISM BAD

Expanding trade, far from adversely affecting American workers, has improved jobs and living standards in the United States, according to a study recently released by the Cato Institute, "Trading Up."

Trade has not caused a net loss of jobs in the US economy, and accounts for only 3% of annual job

displacement. Further, the study shows that in the past decade, as the US economy has become more globalized, American workers have seen their real hourly compensation rise by 22%.

The study also finds that household income has been rising and middle-class families have been

- Market and industry analysis
- Strategic business direction
- Growth dynamics

- Trend identification and analysis
- Keynotes and presentations
- Proprietary research and reports

Trend Analysis That Builds Business Decisions

moving up the income ladder. The real median net worth of US households has risen 31% in the past decade while the share of income needed to finance debt has remained stable.

Why we trade, as Russell Roberts explains in *Foreign Policy*, is to leverage the skills of others

who can produce things more effectively than we can, freeing us to make things we otherwise wouldn't be able to afford. The United States has run a merchandise trade deficit every year since 1976. It has also added more than 50 million jobs during that time. Per capita income, corrected for inflation, is up more than 50% since 1976.

4 – SOCIAL/CULTURAL TRENDS: ON THE MEND

Improvements are visible in the vast majority of social indicators, write Peter Wehner and Yuval Levin in *Commentary*. In some areas, like crime and welfare, the progress has the dimensions of a sea-change. In a number of key categories the amount of ground gained or regained since the early 1990s is truly stunning. Crime, welfare dependency, abortion, teenage births, smoking, drug and alcohol use – all are down, some dramatically so.

The gains made are not yet secure, and could easily be lost. And some of the most vital social indicators of all – those regarding the condition and strength of the American family – have so far refused to turn upward (for example, out-of-wedlock births reached an all-time high of 37% of all births in 2005). But the progress we have witnessed over the last 15 years is impressive, undeniable, and beyond what most people thought possible. It is fair to say, the authors write, that there was no one in the early 1990s who predicted it.

[That's incorrect: as we wrote in our November 1992 issue and many times since, such trends tend to be cyclical. And that's the conclusion Wehner and Levin reach themselves: "Culture itself exhibits an ebb and flow as surely as economies pass through cycles of ups and downs. In *The Great Disruption* (1999), Francis Fukuyama argued, the aftermath of the cultural breakdown of the 1960s had already triggered and was now giving way to a reassessment and recovery of social and moral norms. Despite persistent anomalies and backslidings, some species of cultural re-norming certainly seems to have been occurring in this country over the past decade-and-a-half.]"

Michael Medved agrees. In a recent column, "Gloom-and-Doomers Wrong on US Moral Collapse," he writes, "America remains, as always and in all things, on the move. Those who have already written off this great and good society as the victim of inevitable moral disintegration or unstoppable degeneracy don't understand the unfailing national capacity for fresh starts and new life."

5 – OTHER MISCELLANEOUS GOOD NEWS

WAR IN IRAQ WINDING DOWN; ISLAMOFASCISM ON THE RUN

The evidence that al-Qaida has suffered a major strategic information defeat in Iraq continues to mount, writes Austin Bay. The Moslem media is less and less willing to be an apologist for al-Qaida. Westerners, unless they observe Arab media closely, and have contacts inside the Arab

world, will not have noted this sharp drop in al-Qaida's fortunes.

On the ground, violence has not been eliminated but is abating. A sample of recent headlines: "Al-Qaeda in Iraq reported crippled;" "Al-Qaeda faces rebellion from the ranks;" "Sects unite to battle al-qaeda." Within the last three months,

Trend Analysis That Builds Business Decisions

Growth Strategies newsletter was formerly published as *FutureScan*.

the “trend” (made of incremental successes) has become “fact.”

Could these positive trends reverse? Yes. But at this point it seems we have won a major battle with potentially global significance.

BLACK AMERICANS: THE GOOD NEWS

According to the Pew Research Center, only 3 in 10 African Americans say that “racial discrimination is the main reason why many black people can’t get ahead these days,” while 53% say that “blacks who can’t get ahead in this country are mostly responsible for their own condition.” These figures mark a decided shift from the mid-1990s, when majorities of African Americans consistently cited racial discrimination as the main reason for a lack of black progress.

There are many misconceptions concerning black American men. As documented in “What Black Men Think,” a newly released video:

- Nearly 75% of black men graduate high school
- There are over 2 ½ times the number of black men 18-24 in college (469,000) than in jail (180,000)

6 – CONCLUSION: DISPAIR IS UNWARRANTED

In a recent book author Cullen Murphy asks, *Are We Rome?* Are we doomed to “decline and fall”? He answers that while there are similarities – the military might, the melting pot, the cultural power – the differences are huge: Rome was economically static; America is economically transformative. Rome was always a slave-holding state; America decisively cast slavery aside. Rome was never a democracy; America is a vibrant democracy. Rome had no middle class; in America the middle class is the core social fact – our ballast, our gyroscope, our compass.

- Less than 2% (290,500) of the total number of black men in America (16,794,000) are incarcerated

ENVIRONMENT: SANITY WILL PREVAIL

Bjorn Lomborg is the Danish scientist and environmentalist who wrote *The Skeptical Environmentalist* (2001), in which he meticulously debunked every eco-scare being promulgated by alarmists. His newest book is *Cool It*, in which he gives the same treatment to global warming. He shows that the predicted effects of global warming – from glacial retreat and rising sea levels to droughts and food shortages – are vastly exaggerated by activists and the media, or in most cases, plainly wrong (the population of polar bears, for example, has quintupled since the 1960s).

The idea of spending billions of dollars on a non-existent crisis is insane; to say “the science is settled” is absurd on its face and plainly untrue (see www.icecap.us for an extensive list of scientists who dissent). “Deniers” are still vilified and attacked on a personal basis (proving that the motive of activists is political in nature), but their willingness to speak out is growing. Let us hope objectivity and reason will prevail.

But the biggest difference is that Rome’s elites were completely self-satisfied, while striving to improve life is part of our social compact. Americans see America as a work in progress, in a state of constant reinvention. Concludes Murphy, “We’ve changed far more in the past hundred years – even in the last fifty – than the Roman world changed in the centuries before and after Rome’s fall. You could almost say we’ve built the fall of Rome into our political system. Are we Rome? Yes, again and again and again.”

So let’s keep things in perspective. Reports of our demise are premature.