



## IN THIS ISSUE: OPTIMISM IN THE FACE OF DOOM-AND-GLOOM

America is in a foul mood. On the day of the recent State of the Union speech given by the current President of the United States, New York Times columnist Gail Collins wrote, "Seldom has a presidential address been delivered when so many Americans are so angry for so many different reasons." Editorial cartoonist M. Wuerker of [www.politico.com](http://www.politico.com) fashioned a map of the United States after Joel Garreau's *Nine Nations of North America*, but labeled our contemporary states as Consternation, Exasperation, Stagnation, Depression, Agitation, Vexation, Disarray, Apoplexy, High Anxiety and Oxidation (that's a synonym for "reduction"!).

This is what happens when the economy is not growing, and when so many people do not see any prospects for a better, more robust future: the loss of hope. For a President elected on the promise of hope, the loss of hope is devastating. Americans are naturally and instinctively optimistic, but right now many are in despair and do not see the way forward.

But there is a way forward, and that way is economic growth. Two recently published books provide roadmaps.

### 1 – IT'S NOT AS BAD AS YOU THINK

### 2 – THE NEXT HUNDRED MILLION: AMERICA IN 2050

## 1 – IT'S NOT AS BAD AS YOU THINK

The US economy will grow at least 4% this year, thanks to the sea of liquidity created by the Federal Reserve. The Dow Jones Industrial Average will finish the year at 13,000 or higher. The housing market will boom again in the not-too-distant future. Future generations of Americans will continue to have higher living standards than past generations; they always have, and always will. So believes Brian Wesbury, and he makes a heck of a good case.

As Wesbury demonstrates in his new book, *It's Not as Bad as You Think: Why Capitalism Trumps Fear and the Economy Will Thrive*, the Panic of 2008 was not a failure of capitalism, a failure of finance, or a failure of markets. It was a failure of government. Policy mistakes, followed by ill-conceived government remedies, turned a run-of-the-mill problem into a catastrophe.

He counsels putting things in perspective. The US economy has faced much worse times in the past

century, yet it has still grown in 80 out of the past 100 years and 45 out of the past 50 years. During that time, per-capita real GDP has nearly tripled. The US economy has recovered from every recession, every panic, and every depression it has ever experienced, partly because of the insatiable appetite people have for bettering their condition. But this well-known fact does not stop the pessimism.

Conventional wisdom is telling a false story of the current recession, writes Wesbury. His book tells a different story, one that is much more optimistic, hopeful (and more in line with history): Government subsidized homeownership for decades; the Fed cut rates to 1% in the early 2000s; a housing bubble ensued, and then burst. This need not have caused a recession, but market-to-market accounting acted like an accelerant. Forcing the valuation of assets to (depressed) market levels created a vicious downward spiral of financial problems. The government, in an attempt to work around the accounting rule and

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not change it, attempted multiple and costly ad hoc approaches to fix the economy that did not work. The end result was a panic – a massive drop in the velocity of money – the first in a hundred years.

So, a recession occurred. But now, easy Fed policy, changes in mark-to-market accounting rules, and an end to the panic have turned the economy and market around. The first impact of a very accommodative monetary policy, just like the United States is experiencing now, is to drive the economy and stock market significantly higher. What this means is that the economy has some clear running room; the next 12 to 18 months are likely to be boom times for America. A V-shaped recovery is unfolding, not a long, slow slog.

### **MORAL AND LESSON: CAPITALISM IS NEITHER FRAGILE NOR AS SUSCEPTIBLE TO BOOMS AND BUSTS AS PEOPLE FEAR.**

Wesbury makes some other interesting points. For example:

- Despite some relative shifts in income, the average worker is significantly better off than 10, 20, 30, 40, or 50 years ago. Just as importantly, the benefits of growth and wealth creation are spreading around the world. Global trade has increased dramatically, and until the recent crisis, worldwide real economic growth had been setting records. The idea that all

of this has now come to a screeching halt because of a few hundred billion dollars of bad mortgage loans is actually quite absurd.

- Sunk costs just don't impact a capitalist system. When firms fail and financial losses are booked, and when prices hit bottom, it's all water under the bridge. There is no reason to look back.
- The Panic of 2008 was caused by a drop in the velocity of money, not tight money. All that needs to happen is for velocity to stabilize (or increase), which appears to be happening. Then, as the money supply kicks in, the economy will pick up steam as if by magic. That's the way money works. It always has, and it always will.
- At the end of every recession there are those who argue that easy money won't work this time. But no matter; it never seems to be true.

There are causes for concern, of course. Primary among them is continued large-scale government intervention in the workings of the economy. But the awful events we have experienced recently do not signal a permanent change. All panics end; this one will too. Like dogs that bark, banks will again make loans, and consumers will again spend. Because that's what they do.

## 2 – THE NEXT HUNDRED MILLION: AMERICA IN 2050

Joel Kotkin's new book, *The Next Hundred Million: America in 2050* is inspired by the remarkable fact that in the next 40 years, in stark contrast to its more rapidly aging rivals in Europe and Asia, America's population will expand dramatically (roughly from 300 million to 400 million), and "emerge by mid-century as the most affluent, culturally rich, and successful nation in human history."

Like Wesbury, Kotkin is also inspired by the adaptability, flexibility and responsiveness of American society and culture. He writes: "The ability to adjust to economic challenges is the essence of the American story. This prospect offers a valuable first lesson for those contemplating the likely path of the American future. Throughout our history America has responded to crises – notably, the inevitable excesses of capitalist growth – by

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reforming itself, both in Washington and at the local level.”

**The United States displays the crucial traits – adaptability, flexibility, responsiveness – and possesses the fundamental tools – human and material resources, entrepreneurship, stable political institutions – that together have allowed, and will in the future allow, the nation to overcome both the inadequacies of its leaders and the foibles of its citizens.**

Above all, writes Kotkin, America’s continuing demographic vitality will drive its economic resilience in the coming decades. We will be experiencing population increases among all age groups: newborn, youth, young adult, middle-aged, older adults, seniors; among all ethnicities, races and original nationalities; among immigrants and native-born generations (first, second, third and older); among all geographic sectors: north, south, east, west; among all types of households and living arrangements: families, extended families, non-related households, empty-nesters, single households, multigenerational households; among all neighborhood types (urban, suburban, exurban, rural). We will be a truly diverse, and diversified, nation. **Furthermore, this demographic growth will drive economic growth, as people seek and find ways to live and be productive.**

Kotkin’s book is a bracing, optimistic, long-range look at the future of the United States. He does not concentrate so much on politics and policy as people, and does not forecast or predict so much as foresee (much like my own approach, he looks at the likely consequences of trends already well underway). The book is mostly concerned with who we will be, how we will live, and where we will live. As a result, the book is about the future of American families, neighborhoods and communities.

## **HOW WE WILL LIVE IN 2050**

Despite criticisms that suburbs are culturally barren, energy inefficient, or suitable only for young families, 80% or more of the total US metropolitan population growth has taken place in suburbia, confounding oft-repeated predictions of its inevitable decline. By the mid-21st century this pattern will likely accelerate, writes Kotkin. Suburban communities will continue to become social, cultural, religious, entertainment, business and employment centers. The future will belong to those communities that are able to blend work, culture and recreation with the type of housing preferred by most Americans: single-family homes.

Advances in telecommunications will drive massive changes in the way we live and work, particularly in the suburbs. Between 1990 and 2000 the number of Americans working at home full time increased by 23%, to over 4 million. An additional 20 million – more than 10% of American adults – work at home part time. This process will become inexorable, says the author. In the future, distinctions between social and professional life, between community and work, may fade.

The United States will remain a nation of great cities. But for most Americans the focus of urban life will shift to “cities of aspiration,” those that offer economic and social opportunities to growing families (including affordable housing and living expenses). As a result, one of the least anticipated developments in the nation’s 21st-century geography will be the resurgence and renaissance of the American Heartland. This will be not so much a movement to remote hamlets, but to the growing number of dynamic small cities and towns spread throughout the Heartland.

**All of these developments hold considerable promise. A key driver is the technology that allows people to locate where they wish.**

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## **POST-ETHNIC AMERICA**

A powerful component of America's strength in the 21st century will be its ability to transcend even the most entrenched racial barriers. This is America's uniqueness. In 2005 the United States swore in more new citizens than the next nine countries put together.

More than half of all skilled immigrants in the world come to this one country. By 2039, due largely to immigrants and their offspring, the majority of working-age Americans will be "minorities." That's fine, because progress in overcoming the racial divide occurs first and foremost in commerce (workplaces and stores), and in the everyday realm of neighborhoods, parks, schools, and churches.

English will of course continue to be the dominant language of our hybrid culture.

**What will hold this society together? Ultimately, says Kotkin, this unique society will find its binding principle in the notions that have traditionally differentiated it from the rest of the world: a common belief system and spiritual core, a sense of a shared destiny, a culture of opportunity, and recognition of the importance of community and family.** This creed will become ever more important as the United States attempts to cope with its growing diversity, differentiate itself from other nations, and meet the challenge of new aspiring powers.

Kotkin makes many other interesting points. For example:

- Americans are becoming not more nomadic but less so, as our population ages and as urban amenities become accessible in more locales. The trend toward more stable, less mobile families is likely to continue.

- The trend toward all things local is part of a distinct American tradition that sees the smaller units of society as absolutely vital. The American future will be increasingly characterized by decentralization, the de-clustering of the workforce and economy, entrepreneurialism and self-employment.
- We cannot be a post-industrial, high-tech economy without reviving the real economy: physical infrastructure, manufacturing of hard goods, energy production.

## **AMERICA IN 2050**

America is a country founded on and sustained by optimism, writes Kotkin. The bleak vision of America's long-term future underestimates the nation's self-renewing power generated by its unique combination of high fertility, great diversity, and enormous physical assets.

The most crucial factor may be demographics. In contrast to almost all its advanced rivals, America's population of working-age and young people is expected to continue upward. The United States' greatest priority will be to create entrepreneurial and workforce opportunities for its ever-expanding population.

In coming decades the most critical challenge facing the nation may be maintaining the prospect of upward mobility (only now our focus must be not on race but on class). The promise that "anyone" can reach the highest levels of society has been and remains fundamental to the American ethos. Our success in the 21st century depends on our ability to keep true to that ethos.

None of it will be easy, and certainly much can go wrong. Still, concludes the author, we have no reason to lose faith in the possibilities of the future.