

Something's in the Air

October 2018

At my little Depression era bungalow in a small rural community between Houston and Austin, a unique and uniquely regional flower, the oxblood lily, sprouts and blossoms briefly this time of the year. These delicate yet vibrantly blood-red flowers bless residents with their beauty right after the last rain of the summer, or is it the first rain of the fall? Some sprout in loosely organized gardens, while others shoot up in the middle of a yard.

Apparently, these little treasures arrived with the German immigrants who settled Central Texas in the early to mid 1800s. The bulbs can stay fertile for decades, and of course they can multiply. They sleep a few inches below ground for almost an entire year until that special rain inspires them to rise. Their presence pleases the community not just because of their beauty, but also because they represent the beginning of fall. In Central Texas, the hint of a nip is finally in the air.

This change of season is a reminder of the “economist” who greatly influenced the Armchair, “Chance the Gardener.”

Chance the Gardener is the central character of the fictional book *Being There* written by Jerzy Kosinski, published in 1970 then made into a movie in 1979. The story and film are as much a treasure as those delicate blood-red lilies.

Chance the Gardener was at the very best a simple-minded soul, “tetched in the head” as some folks once suggested. Chance understood very little about anything in the world but the small and simple garden in which he worked.

After his employer passed away, the 50ish Chance was cast out into an unknown world. Wandering the streets of Philadelphia, Chance experiences a small “accident” that causes him to become the houseguest of Benjamin Rand, maybe the richest man in America and a mentor and benefactor to the U.S. president.

Elderly and frail, Rand was close to his last day. He was drawn to Chance's unique simplicity and clarity of perspective. A friendship between the billionaire and the gardener develops. When the president comes to visit Rand at his opulent estate, Chance is asked to join them.

President Bobby: *Mr. Gardner, do you agree with Ben, or do you think that we can stimulate growth through temporary incentives?*

[A very long, almost awkward pause, then eventually]

Chance the Gardener: *As long as the roots are not severed, all is well. And all will be well in the garden.*

President Bobby: *In the garden?*

Chance the Gardener: *Yes. In the garden, growth has its seasons. First comes spring and summer, but then we have fall and winter. And then we get spring and summer again.*

President Bobby: *Spring and summer?*

Chance the Gardener: *Yes.*

President Bobby: *Then fall and winter?*

Chance the Gardener: *Yes.*

Benjamin Rand: *I think what our insightful young friend is saying is that we welcome the inevitable seasons of nature, but we're upset by the seasons of our economy.*

Chance the Gardener: *Yes! There will be growth in the spring!*

Benjamin Rand: *Hmm!*

Chance the Gardener: *Hmm!*

President Bobby: *Hmm. Well, Mr. Gardner, I must admit that is one of the most refreshing and optimistic statements I've heard in a very, very long time.*

[Benjamin Rand applauds]

President Bobby: *I admire your good, solid sense. That's precisely what we lack on Capitol Hill.*

This dialog of the absurd, between the U.S. president, a billionaire and a feebleminded gardener, unveils one of the most important economic principles: everything economic runs through cycles, or seasons as Chance suggests. Economy is always experiencing some form of spring, summer, fall or winter.

A lot of mainstream economists these days focus on the length of our current economic "summer", now the second longest expansion on record. Many suggest we are surely due a "winter" soon.

Although the current expansion seems long in the tooth, there are many reasons to think more growth is coming. Take Federal Reserve Chairman Jerome H. Powell's recent remarks on the economy:

"Our economy is strong. Growth is running at a healthy clip. Unemployment is low, the number of people working is rising steadily, and wages are up. Inflation is low and stable. All of these developments are very good signs."

Those are very positive and optimistic remarks by the head of the Fed. Unfortunately, not too long ago a previous Fed Chairman totally missed the 08/09 Recession. Is the current bullish Fed a canary in the coalmine of our next economic “winter”?

Everyone paying close attention wonders what could trigger a change from “summer” to “winter.” When and why will those economic oxblood lilies sprout?

The most obvious threat today seems to be the current trade renegotiations.

During the process of any negotiation there is uncertainty, which tends to delay business investment. Delaying business investment can delay job growth, wage growth, and productivity growth, all of which subdue GDP growth.

In addition, the tariff portion of these renegotiations likely will have negative consequences to some domestic companies/industries. If the negotiations come to a quick conclusion, maybe a few companies/industries experience nothing but a mild “fall.” But if the negotiations stretch out a long time, some companies/industries may experience a harsh “winter.” Would this be enough to throw the whole country into a “winter” economic season?

The Armchair doesn’t think so. Current U.S. economic policy is too accommodative. If you step back to look at the big picture of the current policy process, its strategic plan/path seems very well thought through.

The path started with reducing regulation to provide the private sector more economic opportunity. Then corporate and individual taxes were reduced. Individuals now have a little more money in their pockets. And companies were provided incentive to repatriate capital back to the U.S. At some point, companies can use this “extra” capital for domestic investment. At minimum they can give some of the capital back to shareholders, many of which are underfunded private and government pension programs. The next step has been to renegotiate outdated and domestically unfavorable trade agreements. All the while, the country’s economic strength in natural resources is being emphasized.

Current economic policy objective seems focused on providing incentive for individuals to consume and/or save more and for the business sector to increase domestic investment.

If we could eventually restructure the country’s health care albatross, even more incentive would surface. (My business health insurance premiums just went up 26.7% for the same policy as last year.)

Consideration of the economic and political circumstances over the last few decades has produced a new epiphany (someone surely said it before)...

Government doesn’t fix problems. A growing economy fixes problems.

How can government fix problems if it doesn’t have a growing economy? And wouldn’t a faster growing economy fix more problems than a slower growing economy?

There will always be economic seasons. But in the current environment, any upcoming “fall” that surfaces because of trade renegotiations will most likely turn into a new “spring” that inspires our economy.

More favorable trade deals will surely lead to more domestic business investment, which waterfalls into more and better paying jobs, increased productivity, higher GDP growth and a generally stronger and safer U.S. economy.

Domestic economic policy has been highly dysfunctional for many years. For too long, political leadership has focused on fixing social problems instead of economic problems. Fixing social problems does not fix economic problems. And if you don’t fix economic problems, you create more social problems. Yet fixing economic problems goes a long way towards fixing social problems.

It may be very difficult for many people to see, but if our current policy path continues, domestic social problems should contract while the U.S economy again becomes the envy of the world.

A handwritten signature in black ink, appearing to read "Doug". The signature is fluid and cursive, with a large initial 'D' and a long, sweeping tail.

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