

What is an Organic Economy?

March 2011

We have organic meat, organic fruit, organic vegetables, organic milk, all from organic farms that produce them, organically. We even have organic cotton and hemp clothing. There are many rules and regulations that determine whether something is organic or not. Imagine that... We need the government to tell us if something grows out of the ground right, or not so right. So what about an organic economy? Is that something government is also responsible for?

All sorts of data suggest the economy is improving. Unemployment is down. Foreclosures may have peaked. Home sales seem to be improving. Manufacturing output is high. Auto sales are up. Banks are lending. Consumers are spending and borrowing. Company coffers are full of cash. The stock market has boomed. And many personal and institutional balance sheets have stabilized. How about a big sigh of relief? Whew!

Employment isn't growing fast enough, but with all those other economic indicators moving up, it would seem job growth should follow. And any worthwhile job growth would boost the economy. More jobs mean more consumption, which inspires more job growth, and off we go into a virtuous economic growth period. Hmmm... maybe that's the organic economy.

What do we owe to these better days? Could it be the Chinese economy's need for more of our stuff, with India and Brazil helping out there, too? Maybe we should thank those bright folk in the EU who seem to have settled their potential sovereign debt crisis. And maybe it is partially because we have kept the terrorists from causing further damage, although current Middle East turmoil does present some concern. At least the violence today is centered over there. All in all it would seem to be a job well done by our global leaders. The system has been saved!

Maybe we should really be thanking Washington for its wonderful economic triage. The Federal government changed accounting rules, bought mortgages, collapsed interest rates, sent money to the states, and inspired home, auto and renewable energy sales with economic incentives. Heck, even in Texas I was able to buy a refrigerator at Sears for \$400, which was before my \$250 appliance rebate. What a deal, eh? \$150 for a brand new full sized refrigerator! Thank you taxpayers!

This economic triage got the Armchair to thinking... Where did all this stimulus come from, how much has it amounted to, and what good quantifiable stuff has it inspired? Questions, questions, questions, the Armchair always wants to know how and why and what are the repercussions. And the data is...

From January 1, 2008 to December 31, 2010, we increased our federal debt by \$4.7T. By the way, "T" stands for trillions. Yes, yes, yes, we have moved way past the millions world of a generation ago that rapidly turned into a billions world during the New Economy. All that was sooo 1900s. Those were ancient economic times. This is the new millennium. We have now graduated into the trillions society. Must be time for another trophy to support our self-esteem! Back to the numbers...

We spent \$4.7T more than we brought in from 2008 to 2010. And now according to the Congressional Budget Office (CBO), in 2011 we are going to spend another \$1.5T – that's *trillion* – more than we will receive in federal revenue. Add up our fiscal stimulus for the four years between 2008 and 2011, and we will have spent \$6.2T more than we took in. That's \$6.2T *we had to borrow*.

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Let's not forget the Federal Reserve's admirable job helping douse this economic forest fire. Firefighter Ben first bought \$1.2T of mortgages and by the end of this June the Fed will have bought \$600B (yes, just billions) in US Treasuries. All told, the Fed will have rained down \$1.8T in printed money.

So let's see, \$6.2T in borrowing plus \$1.8T in printed money... Well heck that comes to a nice round number of \$8T...as in TRILLIONS. What has that \$8T gotten us? Well if we project 4% GDP growth this year, then all told, for this four-year period we will have grown GDP by about \$1T.

We tossed out \$8T of stimulus to create \$1T of growth. \$8T of stimulus to inspire a little employment growth, a slowing of foreclosures, more consumer spending and all those other wonderful economic indicators that now point to *recovery*. Seems like a whole lot of money to just *sort of* get this economy back on its feet. But is it on its feet? Are we back on an organic growth path?

Of course we have to get to the Armchair Rub, as every action produces a reaction, the law of consequences, or unintended consequences, as has become the modern popular perspective. They are unintended since no one is to blame anymore, right? The buck doesn't stop anywhere these days, it's now a hot potato passed from one hand to another. So what is the consequence of all this stimulus?

The CBO suggests federal revenues are equal to about 18% of GDP. So if we generated \$1T in GDP growth over the last four years, that's \$250B a year in GDP growth, 18% of which would generate \$45B in annual revenue...back to just billions again. So here is the question...How many years of generating \$45B in revenue will it take to pay back \$8T in *stimulus*? Can anyone say...178 YEARS? Uhhh...and that's without interest. Read that again...That's a 178-year payback...without interest.

So back to the title of this musing, exactly what is an organic economy? And what will that organic economy look like without an 8 to 1 stimulus to growth ratio? Can we really go stimulus cold turkey here? Of course not. That's why the CBO projects a trillion dollars or so of budget deficit each year for the rest of this decade. Is this really sustainable?

Certainly a good many folks don't believe so. The Tea Party voters don't believe it. The born again fiscal conservative Republicans don't seem to believe it. The Libertarians certainly don't believe it. But politicians mostly don't believe it because austerity is the new electorate cause dejour and getting elected is all about appealing to the current voter sensibilities. From hope and change, shock and awe stimulus, we're now more focused on better managing our finances. Hmmm...be careful what you wish for?

What happens when we cut government spending, which means we have to cut jobs? Where are those newly unemployed going to work? The unemployment rate isn't falling because of job growth. It is falling because a large number of people have stopped looking for a job. This is called the "participation rate." The number of people looking for jobs has decreased, not because they found jobs but because they just stopped looking. And when they stop looking, we stop counting them as unemployed. Lovely accounting there Washington!

So if those newly unemployed government workers struggle to find a job, how can we cut back our social safety net? It would seem improbable we will have any measureable cut backs with more and more people in need. No surprise that both the Republican and Democrat suggestions for new fiscal conservation are like asking an eight-year-old to give up candy...for the next five minutes.

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To the Armchair, there really isn't an organic growth economy anymore. We left that behind in the 1990s. Since then the economy has been all about government policy and government stimulus.

We should all know and understand by now that recovery from the dot.com recession was mostly inspired by government policy. Housing loan regulations dating back to the 1970s and expanded in the 1990s set the stage for a false rise in home ownership rates and values. Interest rates kept low by Greenspan gave way to a home building, home speculating and consumption boom. Misguided banking regulation further greased the wheels of that boom. Government debt grew massively, even under Republican watch. Money was everywhere, unemployment reached a modern day low, while most Americans enjoyed the fruits of easy credit and ever rising asset values. But as we all know, that *prosperity* was not sustainable.

Now we are *recovering* from our second recession in a decade. Economic indicators are again pointing up and the stock market is back to booming. Once again interest rates are at historic lows but this time we have \$8T of borrowed and printed money (giving us a mere \$1T of GDP growth). This is another illusionary recovery. Our economy is totally dependent on government policy, which has been working hard to stimulate, but now must seemingly also work equally hard to ratchet back.

Why have we lost our organic growth economy? If you have been reading the Armchair for a while you know my answer. ***Technology today is destroying jobs faster than our economy can replace them.*** Our organic economy, whatever that might be, can't create enough jobs. Any semblance of an organic economy has been replaced by, of all things, a sort of government *managed economy*. Today we can only inspire job growth through government policy. Today it takes \$8 of stimulus to create \$1 of GDP growth. Don't look up folks, but we're long past Adam Smith's free market. We're already living in a *managed economy*. Without Washington, we're toast!

So how long can we play this game? One would think not long, but Japan has been playing it for two decades. We're only one decade in, so even if the current organic economy seems like an illusion, it may still have great legs. Fortunes can still be made even while the ship is sinking.

As Warren Buffet is often quoted, *the rising tide lifts all ships, but when the tide goes out you can see who is swimming naked.* So long as we can keep the borrowing and printing tide rising, it would seem few will notice the Emperor is parading around in his birthday suit.

All this has the Armchair thinking...***if the system is unsustainable, well then we better become self-sustainable.*** My organic garden was planted last weekend! And for now, with the stimulus tide possibly at its peak, we should make some organic hay while that sun is still shining.



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