US Economy and Public Finances Deteriorating – Candidates Talk About Something Else

WASHINGTON – While we wait with trepidation for the outcome of the Iowa caucuses that will finally begin to shape the race for the Democratic and Republican nominations, none of the candidates really care to discuss in any detail the actual conditions of America, both its economy and public finances.

On shaky ground

Let’s make this simple. The US economy is on shaky ground. A lot of the rather modest (2%) economic growth that we had since the end of the 2008 recession is due to free money doled out by the Federal Reserve for an absurdly long time.

Energy bust

And now, some of that growth is gone, for good. Thanks to Saudi Arabia and its all out oil production policy that depressed prices, the massive energy boom that America enjoyed until 2014 is over, killed by oil at $ 30 a barrel. More than 100,000 high paying jobs have vanished in about a year. More losses to come as more US energy companies go bankrupt, or have to retrench.

Easy credit

And what about the good news, like higher consumer spending? Well, the stunningly large 2015 car sales were financed almost entirely via easy credit extended to practically anybody walking into any dealership. (Some analysts talk openly about “sub-prime auto loans”). With these kinds of credit tricks it
is easy to jack up GDP figures. The problem is that you cannot keep doing this for ever. When consumers who do not earn that much (their incomes have been stagnating for decades) have used up all their credit, then what? Is it just a coincidence that Wal-Mart is planning to close a large number of stores?

True, we have had significant employment growth. But most new jobs are low paying, and many of them are only part-time. Where will the new economic growth come from? From massive new consumption driven by store clerks and janitors who make $20,000 a year?

**High dollar hurts exports**

US exports have been hit and will be hit by a deteriorating global economy (this means less demand) and by a high dollar that makes Made in the USA products more expensive. For the moment, manufacturing output is relatively steady. However, thanks to automation, this sector will not create many new jobs.

**Jittery markets**

Are we headed towards a recession? Probably not any time soon. Still, with modest growth and declining corporate earnings, we are barely treading water. It would only take a bit of bad news (look at the Wall Street jitters anytime something strange comes out of China) to wipe out many of the newly created restaurant and hospitality jobs.

Of course, compared to weak Europe or Japan, let alone disaster zones Brazil or Russia, the US is doing much better. But this is not a robust, resilient economy built on the production of valuable goods that give America a strong competitive edge. Sure, we still have many IT giants. But there is only one Silicon Valley in America.

**Fiscal picture getting worse**
Sadly, we have to add to this a slowly deteriorating fiscal picture. With due credit to President Obama, it is true that after years of gigantic federal deficits that added massively to the national debt, more recently US public finances have improved—a great deal. The US Federal deficit is now down to less than 3% of GDP for 2015.

However, this will not last. A combination of increased discretionary spending and the higher costs of all key entitlement programs due to an aging population will cause an increase of the Federal budget deficit beginning in 2016. According to the Congressional Budget Office, a non-partisan, research and analysis public body, the US Federal deficit will go from $439 billion in 2015 (2.5% of GDP) up to $544 in 2016, (2.9% of GDP).

**The rising cost of entitlements**

And any fair estimate of the increased costs of Social Security, Medicare and Medicaid—the largest Federal entitlement programs—indicates that year after year the deficit outlook will get progressively worse.

Entitlements will soon absorb 15% of GDP (now it is 13.1%). Higher deficits mean higher cost of debt service and the reduction of discretionary spending, including defense.

**Obamacare does not pay for itself**

And there is more. The just released numbers on Obamacare enrollment do not look good. The new people who signed up for medical insurance are mostly old and sick. The young and fit did not enroll in sufficient numbers. And this means higher costs for the system. Since most of the new, needy “patients” receive Federal subsidies to pay for their brand new medical insurance, soon enough Obamacare’s extra costs will add to the deficit.

**Not a catastrophe**
For the time being these numbers, while worrisome, do not look catastrophic. And in fact they are not. But they indicate a bad trend of higher costs and higher deficits, notwithstanding higher tax revenue. And here why this is happening. As new births keep declining, while more and more Americans get older and live longer, the cost of well-meaning social programs designed in another era, (Social Security was designed in the 1930s), at a time in which retirees were expected to collect benefits only for a few years before they died, will keep growing.

Candidates do not talk about any of this

Given the above, it is obvious that entitlements reform should be on top of any serious candidate’s list of policy priorities. But it is not. Sure, some of them have presented fiscal reform plans. But they are mostly attention grabbing tax cuts ideas. They fear that any serious talk of real reform amounting to benefits cuts for millions of Americans would amount to political suicide.

So, here is the thing. This elections year should be an opportunity to focus on the real issues affecting America: a fragile economy and deteriorating public finances due to entitlement programs no longer in line with current and future demographic trends.

No serious talk about policy

But no, the candidates do not talk about any of this. This year we have had a mixture of political theater, lunatic plans to redistribute wealth, populism and empty grandstanding. Between the crazy ideas pushed by socialist Bernie Sanders and Trump’s bravado, mixed with his endless recitations of his good poll numbers, there is no room for seriously talking about anything.

A bizarre President or a weak one
As I said, Thank God America is not in a serious crisis. But we see a once vigorous society that is slowly deteriorating, while those who want to run the Republic peddle fantasies to people who just want to be duped. My hope is that this unusual political season that started as vaudeville will finally get serious. But I would not count on it.

Sadly, we will end up either with a bizarre president (Trump, Cruz or Sanders), or with a weak one (Clinton) who will do nothing to change course.