The Outlook: Dec. 9, 2019

The Economic World in 4 Headlines

Last Thursday and Friday gave us a set of headlines which tell us a lot about the state of the economic world, today. Here they were, in essence:

France Goes on Strike!

German Output Plunges Amid Calls for Government Stimulus

Japan's Prime Minister Abe Readies Next Round of Stimulus

Those three were all clustered on Thursday. Then, on Friday, came America's contribution:

U.S. Jobs Growth Explodes Again!

The first three stories were some of the saddest reading we've seen in a while. They were sad because those are three giant economies—France, Germany and Japan—which have been limping forward on crutches for 20 years or so . . . and it's just about impossible to imagine things getting any better.

Why not?

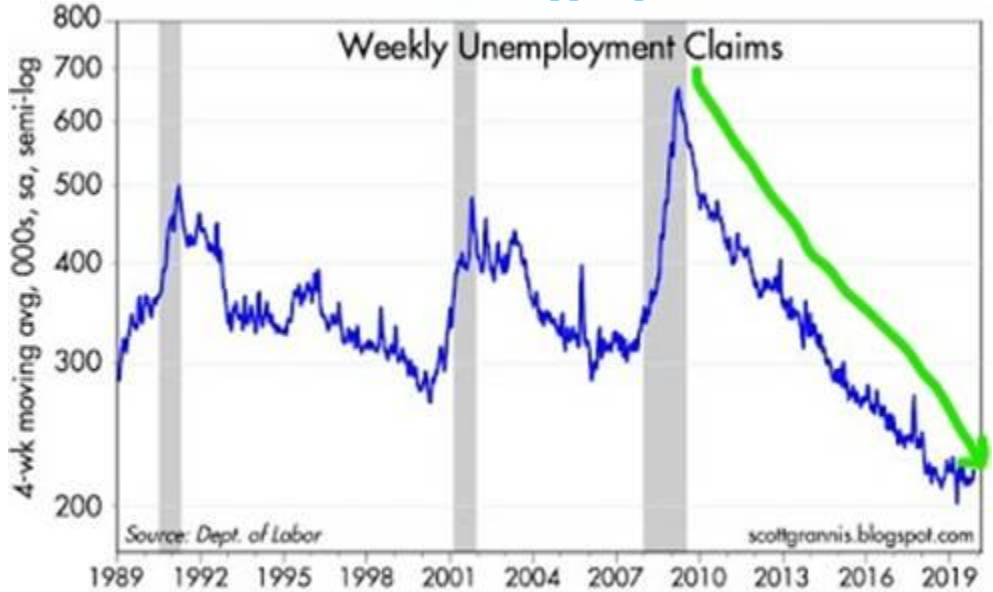
Because there appears to be just about nobody in any of those 3 nations—from political leaders to ordinary citizens—who understands the reason for America's economic vitality, and wishes to apply it to their own country. It's free markets; win-or-lose competition; easy hiring and firing of labor; fairly low taxation and regulation; and in general a low-to-nonexistent government role in "guiding" the economy. But we have to look very hard to find a lonely defender of those principles in Europe and Japan. They weren't even mentioned in the 3 headline stories above.

France went on strike to protest its government's cautious plans to save its vast pension systems, covering everyone, by gradually raising the retirement age from 62 years to 65 years, among other fixes. Polls say everyone knows the current system is broken; and they also say no one likes any of the possible fixes. That pretty much captures the sad problem, not just for French pensions but for most of the European and Japanese economies. Generations of Europeans have been taught to sneer at America's cowboy capitalism, and to expect government to "guide" their economies. They don't like the result—decades of very slow growth—but they also don't like the idea of following the U.S. model. And in Europe's academia, media and politics there are no voices suggesting they might reconsider. Instead there are endless proposals for more clever kinds of government "stimulus," or more clever kinds of central bank "stimulus." (Like the negative interest rates in Europe and Japan.)

The contrast between the first 3 stories and the "U.S. Jobs Explode!" story was startling. We are getting near the 11-year mark for this economic expansion, which is mind-boggling for economic historians. But the reasons are not complicated; they're simple. The Calamity of 2008 – 2009 gave everyone a great fright, and they reacted with long-lasting caution and prudence: building up fairly-tremendous financial strength, and using that strength to gradually and consistently build future growth, rather than splurging and plunging, waving fistfuls of dollars at every opportunity. Of course Europe and Japan felt exactly the same fright, and generally reacted the same way . . . so why such stagnant progress compared to the U.S.? The only answer to that is those "growth principles" which find no backers except in America. In the U.S., we cowboy capitalists are plowing the fertile fields of Iowa, so to speak, when it comes to economic growth. Europe and Japan are stuck with West Texas, by comparison—and they're not interested in reacting to the problem by branching into shale fracking, so to speak. They're mostly interested in waiting for their governments to do something clever, to make their fields more fertile.

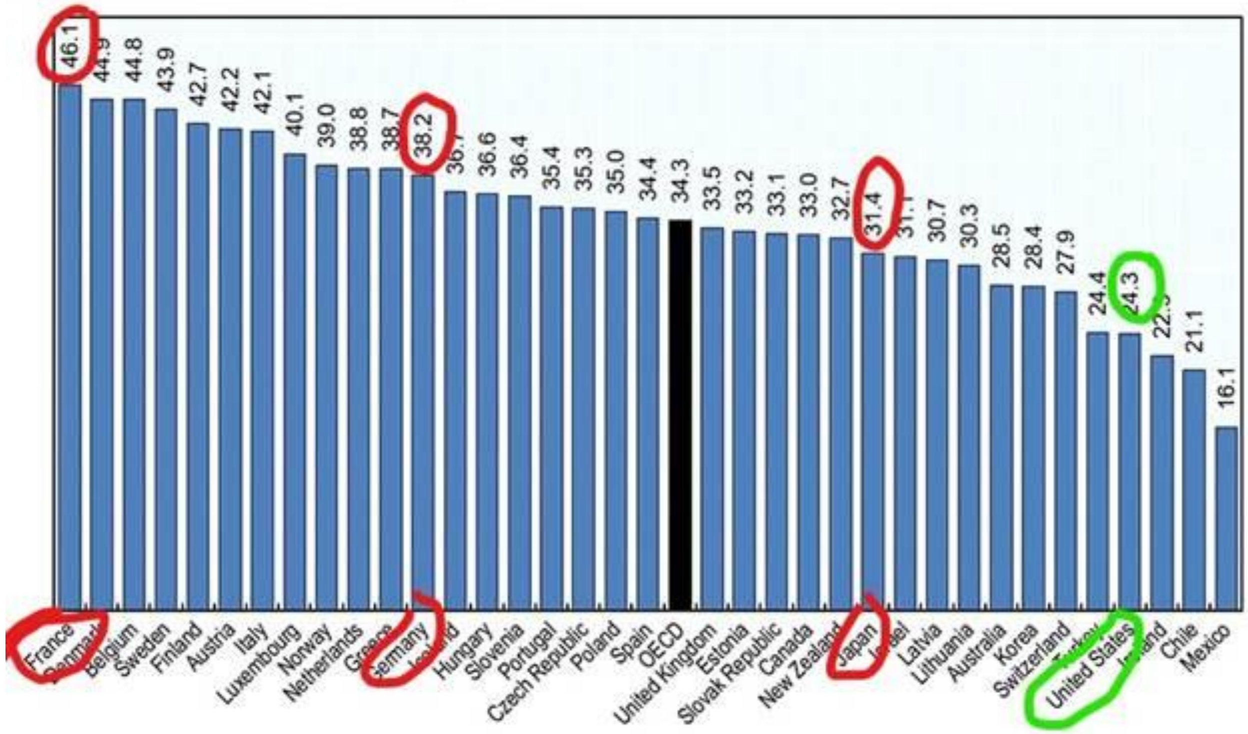
At Outlook we've often mentioned the market's nature, particularly its habit of adopting a mood or vague opinion which is wrong; and only slowly and painfully coming around to correct judgments, as real-world facts gradually shed light on the mistake. Friday's startling jobs report (on the heels of a great many startling jobs reports over the last few years) shone a pretty bright light on economic reality. Despite the amazing number of things to worry about these days—Trade War, new Cold War, Impeachment, etc.—Main Street, USA, is not reporting to the hospital or the psych ward for therapy. It's using its financial strength to keep building—carefully and prudently, but still building. It's obviously going to take a lot more than "Trade War!" to change its mind.

Jobs: America's Mind-Boggling Green Arrow



Tax Burdens: Red (France, Germany, Japan) or Green (U.S.)

Tax-to-GDP ratios in OECD countries, 2018



Note: Preliminary data for 2018 were not available for Australia and Japan.

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