# THE ECONOMIC SITUATION

## December 2024

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### Getting Started

With December upon us, Election Day behind us (but yet to be deciphered), and the effects of wars, hurricanes, strikes, and COVID's lingering scars affecting us, what can we say about the US economy now and what to expect from it going forward? According to the Bureau of Economic Analysis's first estimate, third-quarter real GDP growth cranked along at a healthy 2.8 percent pace, slightly lower than the second quarter's 3.0 percent.[1] Whether measured by the all-item Consumer Price Index (CPI) or the Federal Reserve's preferred Personal Consumption Expenditures (PCE) Price Index,[2] inflation has fallen into the low 2 percent range.[3] The unemployment rate is happily staying in the low 4 percent range,[4] and the fluctuating Consumer Confidence Index, up strongly in October, is resting at a comfortable, nearly just-right level.[5] In short, the post-COVID economy is beginning to look normal again.

But there is more to consider. Of key importance, the economy's interest-rate-sensitive sectors are still hurting, following the Fed's yearlong effort to bring down inflation with high interest rates. Housing sales and starts are down, and auto sales have been falling since January 2024.[6] When we look at the overall economy, we find that job openings have been heading south since March 2022, when 12.2 million jobs were added, compared to October 2024, when, because of storms and strikes, just 12,000 were added.[7] (I note that 254,000 jobs were added in September.) Countering these negative forces, spending on infrastructure and investment in the microchip and electric vehicle (EV) industries, spurred by more than a trillion dollars in taxpayer funding, are bringing growth in public sector construction and investment in private sector tech manufacturing.

But let's not forget that we Americans are still consuming and spending far more than we earn or produce each year. The federal deficit


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as a share of GDP is hitting record-making highs and rising, exceeded only by rates during World War II and the COVID pandemic years,[8] and the interest cost of the debt is putting a squeeze on spending for other major budget items like Medicare, Medicaid, and Social Security.

## Looking at some maps

We get a visual interpretation of these forces by way of state-coincident economic indicator maps produced by the Federal Reserve Bank of Philadelphia.[9] In figure 1, I show three data maps for August 2024, September 2024, and, for compar-

**FIGURE 1. Three-month change in state-coincident indicators, August 2024, September 2024, and June 2024**

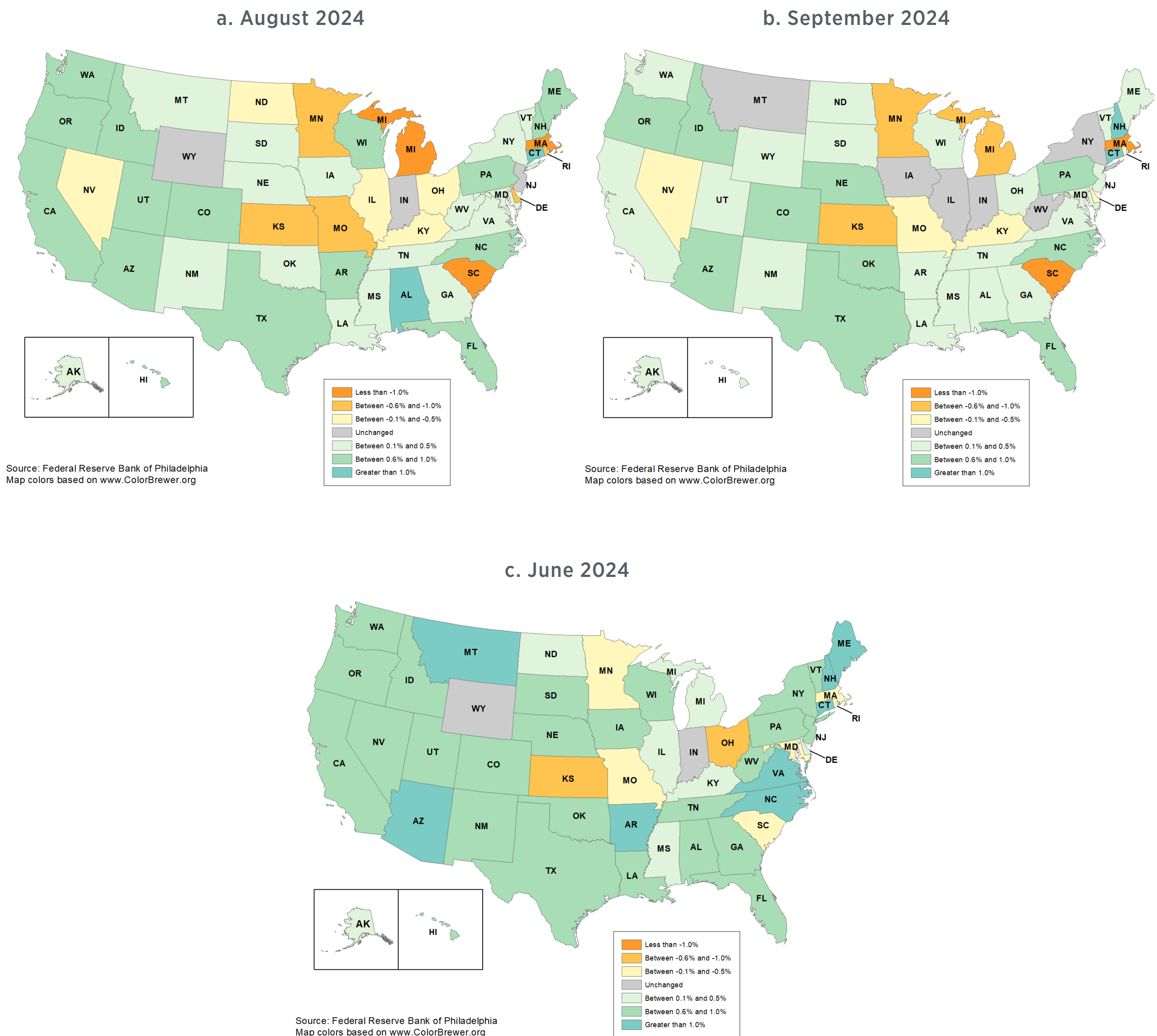
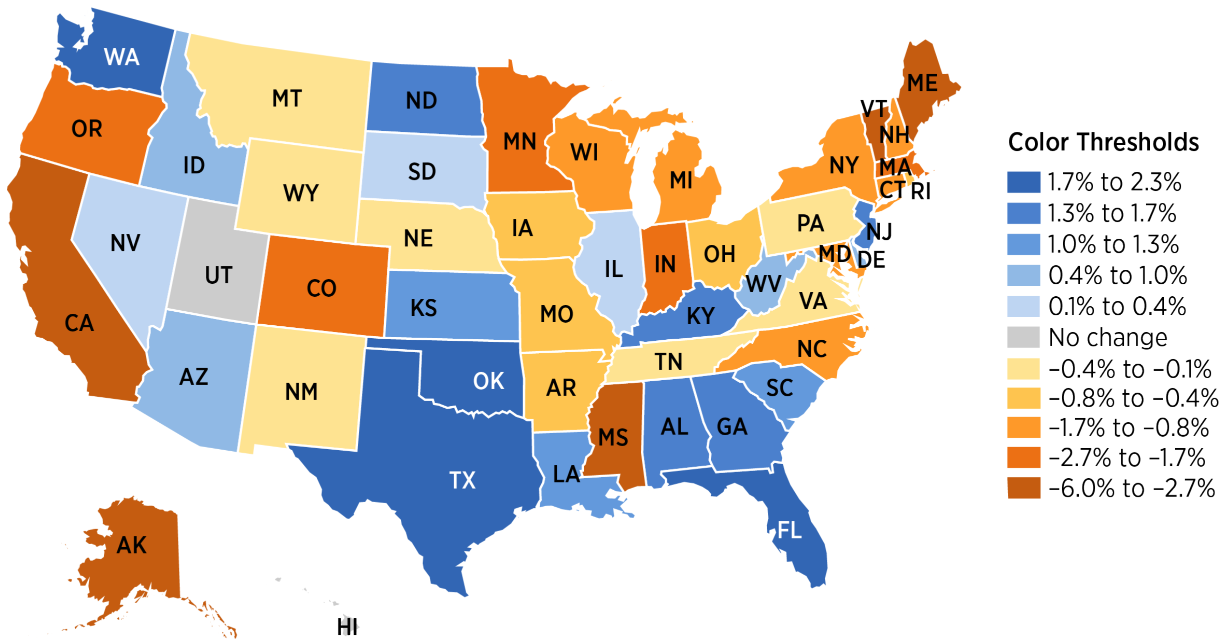


**FIGURE 2. Employment growth, manufacturing, year-over-year, March 2023–March 2024**




Source: US Bureau of Labor of Labor Statistics, "QCEW State and County Map," accessed November 18, 2024, https://data.bls.gov/maps/cew/us.

ison purposes, June 2024. The September/June comparison shows how the economy has weakened following months of higher interest rates. The August/September match tells how and where the economy is still weakening. Weakening seems to be centered in the Illinois–upper Midwest neighborhood. The southern half of the United States, or Sunbelt region, has fared best.

I provide another view of regional differences in figure 2, which shows 12-month growth, March 2023 to March 2024, in manufacturing employment across the 50 states. I note that manufacturing employment for the nation was down slightly during this period. The states with shades of gold, orange, and brown show employment losses. Brighter shades of blue show stronger positive growth. Once again, though somewhat spotty, greater strength is found in the sunbelt states.

In spite of weakness in manufacturing employment, manufacturing output for the nation, as measured by the Fed's manufacturing production index for the same quarter, expanded year over year.[10] The US economy is very much about services and high-tech manufacturing, and manufacturing is obviously not a labor-intensive industry.

## A look at the year ahead

Let's consider the year ahead. In table 1, I show GDP forecasts for the next four quarters from three forecast organizations: the Philadelphia Federal Reserve Bank's economics panel, a *Wall Street Journal* (WSJ) survey of economists, and the Wells Fargo Economics Group. I call attention to how closely nested the forecasts are and note that the WSJ and Wells Fargo forecasts were made

**TABLE 1. GDP growth forecasts**

| SOURCE OF FORECAST | FOURTH QUARTER 2024 (%) | FIRST QUARTER 2025 (%) | SECOND QUARTER 2025 (%) | THIRD QUARTER 2025 (%) |
|---|---|---|---|---|
| Philadelphia Fed | 2.2 | 1.9 | 1.8 | 2.2 |
| *Wall Street Journal* | 1.7 | 1.7 | 1.9 | 2.0 |
| Wells Fargo Economics | 1.7 | 1.5 | 2.2 | 2.6 |

Source: Federal Reserve Bank of Philadelphia, "Fourth Quarter 2024 Survey of Professional Forecasters," November 15, 2024; Paul Kiernan and Anthony DeBarros, "Economists Say Inflation, Deficits Will Be Higher Under Trump Than Harris," *Wall Street Journal*, October 14, 2024; Wells Fargo Economics, "Weekly Economic & Financial Commentary," October 25, 2024.

prior to Election Day. Recalling that the ingredients for the 2025 economy are already baking in the oven, I also note that none of the forecasts suggest negative real GDP growth for the next 12 months. I hasten to add, however, that any number of economic shocks could affect these numbers. We might need to be reminded that GDP growth is determined by how many people go to work each day (a number that is falling) and by gains in productivity determined by improved technology and investments in human capital. As the *Wall Street Journal's* Mary O'Grady recently noted, "America needs to import people because we don't make enough of them here anymore."[11]

## How this report is organized

The report has four sections, including this introductory section. The next section considers what we have learned about the presidency itself from the recent intense political campaign for the White House. For years, Congress has shifted detailed management of the economy to the White House by way of regulatory agencies and other actions. As a result, many Americans believe it is the president who "runs the country." I explore this tendency and take the reader back to 1776, when Adam Smith set down what he called the duties of the sovereign. Strangely enough, in the campaign just ended, our top-of-the-ballot candidates never got around to talking about what the fundamental duties of the president should be or the extent to which those basic duties are being adequately fulfilled. That the United States habitually consumes more than it produces each year was another fact not discussed in this or in recent presidential campaigns. Why this is the case and how proposals to limit imports can have a negative impact on our overall well-being is also explored in this section.

The report's third section takes a closer look at inflation and how, despite better looking nationally reckoned numbers, consumers are still caught in the jaws of rising prices. There may be an anomaly here, but what matters, of course, is the personal price index that most of us must deal with in our daily lives. The section explores what is happening to prices of things consumers are required to "buy," like property taxes or homeowners' insurance, and considers how inflation's long tail is still whipping. The section also plows through another anomaly: the fact that the European Union is now seeking to become more like the United States at a time when the United States is trying to look more European. Just where this may take both political units remains to be seen.

In the fourth section, I reflect on what I would do if I were made economic czar in the new administration. This gives me an opportunity to

talk about the right kind of nothing. Finally, the report ends with the Yandle Reading Table and a discussion of a book that could not be more appropriate for this time of rising presidential power: Ruchir Sharma's 2024 book, *What Went Wrong with Capitalism*?[12]

### What Did We Learn from the Campaign?

As the presidential campaign was ending, reports of industry lobbyists lining up to talk with Donald Trump at Mar-a-Lago[13] or figuratively stepping up to make contact with Joe Biden and Kamala Harris[14] brought back memories of wonderful days years ago when I stood in line with my young children at the local mall, waiting to have a heart-to-heart talk with Santa.[15] Paid to understand how business gets done in Washington, some lobbyists are just as sure as my little ones were that Santa Claus is coming to town.

The similarities don't end there. Kids and lobbyists both know exactly when the big event will take place: December 25 (Santa) and Inauguration Day, January 20 (Trump). Not only that, they also understand what's at stake. In the weeks leading up to Christmas, children fret about Santa checking his list, "twice," to see who's been "naughty and nice." And in the weeks following an election, businesses interests that have stepped into the political arena fret about which side of the winning candidate's own naughty-or-nice ledger they may be listed.

In none of this do I mean to suggest that politicians are lacking in principles, but it would be naive to believe that those packing the sled don't think about who's been nice and who hasn't. Those sleds have been loaded with promises: student loan forgiveness, tax cuts, protection from competition and price gouging, regulatory relief to unleash everything from homebuilding to vaping, more subsidized housing and daycare, and an end to a so-called invasion of criminals coming to our shores. And it doesn't stop there. Once in office, a new administration will continue to ration benefits and exemptions from rules they impose at least partly on the basis of who is naughty or nice. Being nice brings access and, perhaps, a sugarplum like an exemption from an onerous tariff.

And what about the folks who are "naughty"? For this unfortunate group, the competing presidential candidates used different words. They talked about morons, idiots, the enemy within, the unhinged, the Antichrist, garbage, or fascists who seek to destroy democracy.[16] Sadly, there's little goodwill and cheer to be found in a time when politeness has all but left the political lexicon. For now, at least, "civil" discourse has gone by the wayside in favor of "locker-room language"[17] that makes a candidate seem "real" or relatable,[18] or of ever-intensifying partisan rhetoric that voters tolerate because they, too, can't stand the other side.

In earshot of our children's Santa conversations, we parents always did our best to make good. We knew, of course, that we're the ones who will be paying for whatever Santa left by the chimney. The same is true for political conversations that happen out of earshot. Yes, there will be arguments about how subsidies, tax breaks, and other gifts given to a narrow selection of industries will grow the economy for everyone else, but it will be the so-called forgotten men and women[19] who will pay the bill. Believing otherwise requires almost as much faith as it takes to believe in Santa.

#### Have presidents become too busy?

When we look closely at the office of the presidency, it's amazing to see how much US presidents have been vested with power to manage the minutia of the average American's life.[20] Writing

recently in *The Wall Street Journal*, Hudson Institute scholar and long-time Washington inside observer Chris Demuth put it this way:[21] "The presidency has become much more powerful and less benign than it was designed to be. In recent years, the president has become lawmaker-in-chief, eclipsing Congress in many arenas of national life. He employs his new powers unabashedly for partisan purposes. His traditional, irreplaceable function as head of state and national leader has fallen by the wayside."

To some degree, it seems, we have bought into the idea that this single individual, the president, whose powers are delineated and delimited by the Constitution, is the one who actually "runs the country." Now budding entrepreneurs must deal with a thicket of rules and regulations imposed by a White House whose occupants believe they manage just about everything.[22] No wonder that those same entrepreneurs come knocking at the White House door, hoping to be greeted with a smile when they ask for special treatment. In addition, everyone, no matter how rich or poor, is on the receiving end of some kind of federal welfare, whether it be stimulus money, subsidized EVs, tariff-protected jobs, or taxpayer-enabled prescription medicine and healthcare. We all want a president who will "feel our pain" and send us some happy bucks to relieve it.

The current scope of a president's responsibilities includes overseeing a national healthcare program, regulating the prices of prescription medicines, setting rules to govern mortgage finance, enabling student financial aid and loan forgiveness, setting auto fuel economy and washing machine standards, determining who may enter the country or get booted, dealing with climate change, managing the nation's plumbing as we switch from lead pipes to something safer, and deciding when the nation should go to war! And this, of course, just scratches the surface.

As a result, political campaigns are contests about which candidate promises the most in what may be perceived as "bankable benefits." Providing public goods that we all can enjoy, not rationed out by prices or property rights, just won't get the job done. We want private goods provided at public expense.

But while the pitch may be louder, the activity itself is nothing new. Writing about this more than 80 years ago, H. L. Mencken, the satirical sage of Baltimore, said of politicians, "They will all promise every man, woman and child in the country whatever he, she or it wants. They'll all be roving the land looking for chances to make the rich poor, to remedy the irremediable, to succor the unsuccorable, to unscramble the unscrambleable. . . . The winner will be whoever promises the most with the least probability of delivering anything."[23]

In any case, the outset of new administration is a good time to remind ourselves of what Adam Smith called the more fundamental duties of the sovereign, set forth in his monumental 1776 work, *The Wealth of Nations*. Smith was describing a "system of natural liberty." His earlier ideas had reinforced Thomas Jefferson's ideas for the Declaration of Independence.[24] Smith described his system this way:[25] "Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men."

Anticipating, perhaps, our modern expectations of the White House to the contrary, Smith argued that "the sovereign is completely discharged from a duty" of having to regulate the

minutiae of everyday life. To involve oneself with such details would require a level of engagement "of which no human wisdom or knowledge could ever be sufficient." Who among us, in an age of gigantic executive-branch agencies, can realistically handle "the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society"?[26]

Like some modern analysts, Smith thought no ordinary human being could ever be equipped to regulate the entire US economy. But Smith went further. He emphasized that "the sovereign has only three duties to attend to," which we might paraphrase as[27] (1) providing national defense, (2) protecting the life and property of citizens with a system of justice, and (3) providing infrastructure and other public works—things like roads, bridges, harbors, and perhaps the protection of public health.

This oft-called "nightwatchman government" establishes a crucial and necessary starting point for an assessment, relatively free from campaign-driven distractions, of how we are doing.

Perhaps it's because we have vested the president with such a vast responsibility of providing detailed benefits to identifiable interest groups that little time is left for a public discussion and debate about the duties of the sovereign—a foundation point of government.

### Will the new trade policies kill our Santa Claus economy?[28]

Year in and year out, we Americans consume more than we produce, and in recent years, the numbers have been growing.[29] No, it's not Santa Claus and Rudolph delivering the goods. It's net imports: what we buy from other countries minus what we sell to them. Neither White House candidate talked about this issue during the campaign, but both made promises that, if implemented, would end the import sleigh-ride and make us all poorer.

In 2023, the trade surplus was $65.4 billion, about equal to what Amazon sells in three months.[30] In 2022, it was even more, at $78.7 billion.[31] If we go back to 1992, it was just $3.2 billion. How can we consume more than we produce each year?

It's partly explained by two trends that aren't healthy: our government's growing deficit habit combined with the nation's low rate of private savings. We as a country—government and private citizens—spend more than we earn each year. But consuming more than we make is how we manage the disparities, and—warts aside—is a sign of continued American prosperity.

Loading Santa's sled are people in other parts of the world who are producing more than they consume. They are also saving a lot more than we are, and their government deficits are not as large as ours. They trade with us, taking our IOUs and printed greenbacks and shipping us things we want and need: automobiles, microchips, steel, aluminum, chemicals, tractors, toys, medicine, and a vast array of other consumer goods. And then, when our trading partners end up with more of our dollars than they want for the purchase of American goods, they use those dollars to invest in American business. Consider the Chinese-owned Volvo plant in South Carolina employing some 1,500 workers or the huge Chinese Fuyao Glass Company plant with 3,000 workers in Moraine, Ohio.[32]

A glance at countries of origin on goods found at a Target or a Walmart, from Amazon, or from anywhere else identifies those countries that happily trade with us. A lot of these imported goods have been coming from China, but Chinese exports

have been falling since the United States started a trade war with China. Much of what used to be shipped from there is now shipped from other Asian countries, especially from Vietnam.[33]

Each time we put the squeeze on China, shipments to the United States from elsewhere increase. Short of some drastic change in our own consumption habits, it has to be that way. So long as we consume more than we produce, the goods we consume have to come from somewhere.

It's folly to assume that those substitute goods will suddenly and automatically come from American producers. When tariffs are placed on Chinese goods and shipments from China to the United States fall, US production of those goods increases, but not by much.[34] We have tight labor markets and an economy that has adjusted to produce what we already do best. While America is expanding as a services, high-tech, and construction economy,[35] other countries have become more effective at manufacturing goods. To force a reversal of this trend through tariffs would make us poorer.

Candidate Donald Trump stated, in no uncertain terms, that he would raise the gangplank and close America's harbors to goods not just from China, but from other countries as well. Candidate Kamala Harris, though less strident, never condemned the idea of imposing higher tariffs on Chinese and other goods. So, look out Santa Claus!

Both Trump and Harris implicitly wanted to stop Americans from consuming more than we produce each year. That might make sense if they had also been calling for federal action that would decrease the annual deficit.[36] But both candidates did the opposite when, for example, they proposed eliminating income taxes on tips or favored increased subsidies for home ownership. Both mean higher deficits, and higher deficits mean the pressure to import will increase, not decrease.

Will it be goodbye Santa Claus and welcome to Hard Times, USA? Or will other special interest groups—those that gain from open markets and freedom—keep America's door open to free trade? Time will tell.

## Inflation, a Falling CPI, and Mimicking the European Union

Inflation as measured by the CPI and the Fed's preferred PCE Price Index is down significantly from a year ago, and some noteworthy forecasters say the prospects are bright for even lower CPI inflation in the days ahead.[37] Yet consumers are still deeply worried about high prices, especially for goods or services they are required to "buy."[38]

### Is this an anomaly or what?

Consider this: Wells Fargo Economics expects inflation to register 2.9 percent this year and 2.5 percent in 2025, as compared with 4.1 percent in 2023.[39] *The Wall Street Journal*'s economics panel is calling for 2.3 percent in 2024 and 2025.[40] As good as the numbers look on paper, consumers do not seem to be buying them. The latest University of Michigan Consumer Sentiment Survey[41] shows expectations of lower future inflation, which is exactly what the Fed and most everyone else is pulling for, but the same survey shows consumers are worried about higher prices going forward. Let's try to make some sense of this.

Yes, the CPI may be headed south but the prices of items in the family budget that are required expenditures are headed north, and it is mainly because of past inflation. It turns out inflation is a tough and long-lasting task master.

As MIT economist Kristin Forbes put it: "[F]rom the viewpoint of households, it has not been so successful. . . . Many have taken a big hit to their wages. Many consumers believe the basket of

goods they buy is now much more expensive."[42] If in doubt, I believe we should trust the consumers to know how they are doing, rather than White House and other economists whose stock in trade is about measuring things and not necessarily determining how consumers feel.

So, what are the price increases that are putting a wrecking bar to the family budget, and how do they relate to inflation past? First, look at auto insurance, which is required by law for drivers. According to the Bureau of Labor Statistics, auto insurance prices are up 18.6 percent compared to a year earlier and up 47 percent since the 2020 pandemic.[43] And inflation in recent years has pushed up the price of automobiles, which means it takes a larger policy to cover losses. So, yes, gasoline prices are currently down from where they were a year ago, which makes it cheaper to fill up for the commute to work, but the higher cost of insurance is more than devouring the savings on gas.

Then there's homeowners' insurance, which is required for anyone with a mortgage and viewed as vital by almost everyone else. In February of 2024, those insurance rates were up 23 percent from a year earlier, and for good reason:[44] Inflation has sharply increased the market value of homes, and more valuable homes require more insurance reserves to take cover losses. With wildfires and hurricanes wiping out insurance company reserves at a prodigious rate, we should expect to see homeowner's insurance prices bounce upward.

Finally, there is one last unavoidable price increase that property owners face, no matter where they live. State and local property taxes are another expenditure that cannot be avoided. As we have heard before, we cannot avoid death and taxes.

According to *American City and County*, property taxes paid by individual families nationwide have risen 6.9 percent in 2024.[45] I note that the September CPI was up 2.4 percent, year over year.[46] Looking at Federal Reserve data on growth of state and local property tax revenues in 2023, we see that taxes rose 7.2 percent, compared with 4.1 percent for the CPI.[47] Have state and local governments become price gougers?[48] Note that 2022 was a better year. Taxes rose 6.9 percent while the CPI jumped 8.0 percent. If local governments are greedy price gougers now, they were positively altruistic good neighbors in 2022.

Now that the CPI seems tamed, people are still worried about the inflation that matters most: increases to the prices of items they are required to purchase. Homeowners do have potential remedies: They can take out loans on their appreciated property to help fund the family budget. Car buyers can settle for smaller, less expensive models when shopping. But neither of these suggestions is very attractive or even practical.

Because of past inflation, consumers are caught in bind. The value of their homes may have appreciated, and their stock portfolios may be worth more. This means they, on average, may be richer. But these wealthier consumers are still in a bind when it comes to managing the family budget. Inflation has long-lasting effects, even when it seems to be passing. Past inflation is a tough task master.

## The US prospers and the EU lags. Will we swap places in the days ahead?[49]

In a recent and much anticipated European Union (EU) report on *The Future of Europe's Competitiveness*,[50] Mario Draghi, author and former European Central Bank president, notes that because of low and falling productivity, EU GDP per capita has fallen from roughly 70 percent of the US in 1980 to 60 percent today.[51] To turn things around, Draghi calls for the EU to follow the US model, focusing not on older industries, such as

automobile manufacturing, but providing support to high-tech companies.[52] Draghi notes, "No EU company with a market capitalization over EUR 100 billion . . . has been set up from scratch in the last fifty years, while all six US companies with a valuation above EUR 1 trillion have been created in this period."[53]

Ironically, the US firms that Draghi's report describes as noteworthy—Apple, Microsoft, Nvidia, Amazon.com, Alphabet, and Meta Platforms—are the very firms that US antitrust authorities have had in their sights for years.[54] The prospective gains from large US high-tech firms could be washed away because of antitrust concerns and actions.

An additional irony is seen in the current US effort to shore up and protect the auto and steel industries while bringing antitrust actions against highly productive high-tech firms. We seem to be planning for the past. If the Draghi report successfully influences EU policy, lagging GDP growth here may cause the EU and the United States to swap places. We will fade while the EU prospers.

But while US antitrust action may weaken the goose that lays golden eggs, all is not lost. The US economy has features that no EU countries can duplicate, even if they try. The US forms a single economy with open internal markets, and it is huge. Turning again to Adam Smith, we find the scholar made a critical observation about this in his *Wealth of Nations*, where he argued that "the division of labor is limited to the extent of the market."[55] This thoughtful statement tells us that manufacturing firms and other businesses in mammoth market economies, as in the United States, can achieve lower costs as they expand and discover scale economies throughout the economy, while similar firms in smaller economies cannot.[56] Unlimited specialization is the key.

As timely now as in 1776, Smith's statement speaks directly to but discourages the EU's recent commitment to follow America's lead. Instead, the EU should work to achieve greater openness across member countries and encourage global free trade, which would have the effect of expanding EU boundaries. Then, Adam Smith's nostrum would encourage EU prosperity. As for the United States, we should take the EU report as a compliment and as a cautionary note and rethink our current tendency to attack large, successful firms by threatening antitrust actions.[57]

## If I Were Czar: The Right Kind of Nothing![58]

On our back patio late one afternoon, my wife, Dot, and I were talking about major events that have occurred in our almost 70 years of marriage. That's a lot of ground to cover! "Do you recall a time like this," Dot asked, "when it seems the world is coming apart, COVID shutdowns, financial distress, the Ukraine war, the Middle East, and constant economic upheavals, and now a truly disruptive presidential campaign?"[59]

After thinking a bit, I admitted that I could not recall any period quite like the past 15 years. But then, we seniors are known for having some memory problems.

Dot responded with a challenge: "If you were made economics czar in January and had full sway to change federal policies, what would you do to make things better? Taxes? Regulation? What?"

After a long silence, which gave me a chance to think a bit, I suggested two things that I would do as economics czar. First, I would do the right kind of nothing: a yearlong ban on any changes in taxes, spending, regulation, tariffs and monetary policy. And then, during that pause, I would call for a long conversation with the American people about their hopes and dreams.

Here's some background on that plan.

There's no doubt about it. If the US economy could once be described as the Great American Bread Machine, since the 2008 Great Recession it's been more like the Great American Scream Machine. The Federal Reserve has worked successfully to reduce inflation from the high nines to a 2 percent goal while so far avoiding another recession. Meanwhile, presidential candidates from both parties have proudly called for more tariffs, higher taxes for some and lower for others, and more or different kinds of regulation.

Put another way, the economics medicine men and women are on the hunt. With external shocks aplenty, like energy interruptions, wars, and the aftermath of a devastating pandemic, we have been on a bumpy policy path with more potholes promised.

Just to put some dimensions on the roller-coaster turbulence experienced by the American people since 2007, consider this: In October 2007, the unemployment rate stood at 4.7 percent. By October 2009, a little less than two years into the recession, it had risen to 10.0 percent.[60] The rate then plummeted as the economy became flush with stimulus money. In February 2020, just before the COVID pandemic, the unemployment rate stood at 3.5 percent. Then, with COVID shutdowns, the rate jumped to 14.8 percent in April 2020, the largest one-month increase since 1939.[61] By April 2023, after the Fed continued to cut interest rates, it had fallen to 3.4 percent but rose to 4.3 percent in July 2024 following a Fed policy reversal. It now rests happily at 4.1 percent. We are almost back where we started in 2007. Whew!!! What a ride!

The Fed's speeding up and slowing down of their actions delivered higher interest rates, which in turn took a bite out of economic activity. The effects are seen in the average interest rate paid nationwide for 30-year fixed-rate mortgages. The rate paid in third quarter 2007 stood at 6.55 percent.[62] This was before the 2008 Great Recession, COVID, and the later battle against inflation. Long after the recession, in the fourth quarter of 2012, when the economy was flooded with money, the rate fell to 3.36 percent. Then, when the Fed reversed engines and began to tighten the economy, the mortgage rate rose to 4.78 percent in 2018's fourth quarter. In 2024's fourth quarter, it's resting at 7.3 percent.[63] When the trip started in 2007, the mortgage rate stood at 6.55 percent. Again, we're just about back where we started. Again, what a ride!

To get a handle on the effect of government intervention on the economy, the Brookings Institution's Hutchins Center produces a fiscal impact measure that estimates how much local, state, and federal spending adds to GDP quarterly growth.[64] The measure's four-quarter moving average stood at minus 0.25 percentage points in 2007's third quarter. At the time, there was no meaningful government stimulus. After efforts to cushion the effects of the 2008 recession, the measure jumped to 2.62 percentage points in 2009's fourth quarter. In 2018's second quarter, the measure rose to 3.85 percentage points, and in 2021's first quarter, 5.23 percentage points. Brookings predicts that the fiscal impact measure will register minus 0.08 percent in this year's fourth quarter. This is close to where the ride started in 2007. Finally, real GDP growth was hitting 2.41 percent in 2007's third quarter.[65] The most recent estimate shows 2.8 percent for 2024's third quarter.

We are back! But, as Jerry Lee Lewis might have put it, there was "a whole lotta shakin' goin' on."

So, with this background in mind and memories of our rough roller coaster ride still intact, let's

have a yearlong policy pause and give the economy a chance to find itself, regain balance, and move forward. Of course, we will have to respond to external shocks, should they occur, but let's not add any of our own making.

And while catching our economic breath, let's have a national conversation with hearings held in major cities speaking to the fundamental question: What are our hopes and dreams? As a nation, what is our future promise? Such hearings wouldn't likely result in sudden action, but they might help make us feel better about ourselves as a nation.

**Yandle's Reading Table**

Ruchir Sharma's well-written and well-reasoned *What Went Wrong with Capitalism* (Simon & Schuster, 2024) is a book for our times. As a young man in socialist India, Sharma was drawn to capitalism as a way of life that relies on private property rights, markets for communicating scarcities, and the right to succeed or fail when setting one's own course. He saw Adam Smith's "system of natural liberty" as a way for him to build a better life. He came to America and prospered. But, as he tells the story, just as he was getting engaged with capitalism, something was going wrong. Even in the Reagan years, when it was "morning in America," the "welfare state, the regulatory state, the national security state, all held steady or continued to grow, and government deepened its influence over our economic lives."[66]

Federal intervention in the lives of citizens was not all that new, the author notes. What was new was how it was financed. In an attempt to avoid any economic pain, Americans became addicted to debt. The federal government systematically ran deficits to support political winners and economic losers, growing ever more fearful that any serious economic shock would bring down the politically sponsored sandcastles that energized economic life. But it is not the deficits and expanding federal debt that is the problem so much as the accompanying intervention that is necessary to avoid major bankruptcies.

Whether it was financial bailouts from the 2008 Great Recession, distress from hurricane Katrina, fallout from the COVID pandemic, preparations for climate change, or the emerging conversion of the world auto fleet from internal combustion engines to electric motors, the answer was the same. The federal government would regulate and intervene at whatever point necessary to keep the economy afloat, if not prospering. As a result, price signals no longer communicated the realities of scarcity and opportunity, profits no longer implied success in satisfying marketplace-demonstrated consumer preferences, and large-firm bankruptcies were simply to be avoided. Also, as pointed out powerfully by Cato Institute's Gene Healy, a cult-like presidency became empowered to run the country.[67]

As Sharma points out, "the underlying issue is socialized risk for everyone—the government extending the safety net beyond the poor to the middle class and the rich, at a pace and scale that have corrupted capitalism with debt."[68] The result: America's coddled capitalism spawns a class of oligarchs who are insulated from the downside and rewarded with tax cuts on the upside. A kind of two-tier industrial organization results in which smaller firms enter in record numbers and live or die depending on how efficiently they've been managed and how well they've satisfied consumers. The smaller-firm sector looks like old-time capitalism, while the largest firms in an industry walk hand in hand with government. Perhaps it has always been that way—but not, perhaps, as

openly, with heavy citizen participation in the politics that determined the outcome.

But government leaders were unable to call up the ghost of John Maynard Keynes to justify the government's fiscal habit. After all, Keynes called for temporary interventions for seemingly temporary hard times. As Sharma traces the history of the rise of corrupted capitalism, he notes that there were temporary reversals, such as during the George H. W. Bush administration, when a deal was made with Congress to control future deficits, or when Bill Clinton based future deficits on realistic assumptions and began to pay down the debt.

But each time a bit of fiscal sunshine appeared, another crisis arrived that called for more bailouts. Major global financial firm mergers led to concentrated debt holdings and a potential for global meltdowns in the face of any sudden change in the economic well-being of major Wall Street entities. As the financial contagion spread across the United Kingdom, France, and Germany, what might have begun as the bailout of a major US firm expanded to become bailouts across the developed world.

Sharma notes that the force of government-provided welfare became so large that incomes rose for the wealthiest Americans as well as for poorer citizens during the crises that have transpired. Meanwhile, debt exploded. In a sense, we all embraced the government habit. Somehow when the large government checks began to hit bank accounts, even the more conservative citizens happily spent the money.

But is there any hope for a reversal, for a recovery of a less corrupt capitalism? With a review of some high and low points in world history, Sharma explores these questions. He does not attempt to explain how things might change, but he does suggest that it will take some kind of meaningful fiscal shock for the nation to change its habits. Instead, perhaps demonstrating an unrealistic belief that reason can prevail over political necessity, he ends his book on a positive note, suggesting that younger minds may transfer their concern for the natural environment to another natural system, the free market economy, and take the lead in bringing about policy adjustments that will reconnect the behavior of human beings to the real cost they are imposing on the human prosperity.

Sharma has provided a book worth reading and discussing with others who are concerned about the rise of corrupted capitalism.

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