Introduction

Nearing the end of the 1st Quarter of 2012, the U.S. economy has begun to show signs of life again. U.S. GDP for the 4th Quarter of 2011 remained unchanged at 3.0 percent growth according to the third estimate. This is much improved from 3rd Quarter growth of just 1.8 percent. The Dow Jones Industrial Average continues its slow and methodical climb, settling just below 13,200 at the writing of this piece. It increased 1.9 percent in February and is up another 1.2 percent in March.

Key February/March Data

Positive Signs

U.S. productivity remains among the highest in the world while U.S. non-financial corporations’ cash reserves remain at nearly $2 trillion. The February Conference Board Global Leading Economic Indicators Report shows the United States increased .7 percent while Europe and China both increased .8 percent. This is the second straight month that the U.S., Europe and China have all seen positive growth. The U.S. savings rate settled at 3.7 percent in February, compared to 4.0 percent in December which shows more confidence in the market. This is the lowest it has been since August 2009, which was temporarily low because of the end of the Cash for Clunkers program. Consumer confidence jumped from 61.1 in January to 71.6 in February and then receded slightly to 70.2 in March. Automobile, SUV and light truck sales in February were up 15.7 percent relative to February 2011. The unemployment rate settled at 8.3 percent in February which is unchanged from January. Construction spending was up 8.2 percent in January relative to January 2011 and February housing starts were up a massive 35.9 percent relative to February 2011.

Negative Signs

The U.S. remains one of the highest corporate tax rate countries in the world at an average rate of 39.3 percent with U.S. companies holding more than $1.2 trillion overseas as a result. Oil, gold, and silver prices continue to remain relatively high, although they are trending downward. Despite falling crude oil prices, the national average for gas prices spiked to $3.64 in February, a 20 cent increase from January. According to the latest manufacturing sector of the ISM Report on Business, the manufacturing sector of the U.S. economy decreased to 52.4 in January from 54.1 in January, drawing closer to falling below 50 which signals a recession for the manufacturing sector. Durable goods orders and shipments were both down in January relative to December, but were up compared to January 2011. Personal disposable income continues to trend upward, but at a slower pace than inflation which indicates a general decrease in wealth.

Current Issues

The last week in March 2012 was historic in the modern era from a legal perspective and perhaps from a regulatory perspective. Consider the following two issues. The U.S. Supreme Court spent 3 days and just over 6 hours hearing arguments regarding President Obama’s Affordable Health Care Act while the EPA declared new regulations on carbon emissions which will make it very difficult to
construct a new coal fueled power plant in the future and
certainly will put upward pressure on utility prices over
time. The new EPA guidelines have caused much division
in Congress including division within the Democratic
Party and will likely result in a court challenge. So you
may ask -- why is it important to reflect on such issues in
an economics article? It is important because the role of
public policy has never been more important in U.S.
history than it is today. Public policy is the application
of economics and the law in order to resolve issues and
disputes while upholding the written law of a given
country (i.e. the Constitution of the United States in the
above instances). In essence, public policy is designed to
improve society within the proper role and scope of
government.

In the case of the President’s health care act the problem
the court is addressing is the legality of the legislation
passed by the 101st Congress of the United States
designed to cover the roughly 30 million Americans
without health care insurance. The court is addressing
whether or not the law itself and policy dictates are within
the proper role of our federal government as defined by the
U.S. Constitution. Or in practical terms, should the federal
government be granted greater oversight and control over
18% or almost $2.76 trillion of the U.S. economy.

The major debate centers around whether or not the federal
government has the authority to mandate that individual
Americans purchase health care insurance or be penalized
via a tax for not doing so. If the court overturns this act, it
will be the most precedent setting case in 50 years, some
say since the Court overturned portions of President
Roosevelt’s “New Deal” in the 1930s. The new Carbon
rules recently outlined by the EPA are just another
example of the growing size and cost of the regulatory
structure in the United States.

Not only is the United States soon to be the country with
the highest corporate tax rate in the industrialized world
and the country with the greatest percent of personal
income taxes paid by its top 1%, but it is quickly becoming
a regulatory nightmare. The average cost of regulations
per employees is now $10,585 and growing, placing
tremendous pressure on a firm’s ability to maintain or hire
new workers. In 2002, 67% of all Initial Public (stock)
Offerings (IPO) in the world were issued on U.S. stock
markets. Today after regulations like Sarbanes-Oxley just
16% of the world’s IPO’s in 2011 were issued by U.S.
stock exchanges.

With the size and scope of government growing to record
levels and the courts, not the legislature, seeming to be the
only way to reverse said growth, perhaps the most
important reason for choosing our next president is how
he/she will appoint justices to the U.S. Supreme Court if
given the opportunity? What do you think?

Contact Us

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