Lack of recovery a crisis in investor confidence

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One question some people have started asking is why the economy is not showing any signs of an accelerated recovery. Since the Great Depression the US has had numerous short recessions, but the economic recovery following them was usually a strong 5-7% increase in the GDP for the year following the slump. The current recession is not displaying any signs that it will recover at that pace.

The problem has its foundation in a twist of the economy. The original slump started because of too much private debt and an over-leveraged investment sector. As the markets attempted to correct, there was a massive drop in real estate values and that drop shook the economy.

However, under normal circumstances, the economy would by now have cleared most of the over-capacity and be moving forward in recovery. Economist and New York Times columnist Paul Krugman complained that the issue is a liquidity crisis, and that the failure of banks to loan money is the issue. He is partially correct because the failure of banks to loan money and the drop in business investment created by that failure is the driving force, but his reasoning as to why is incorrect.

Our economy is going through a severe confidence crisis. Businesses are not confident in the economy, nor in the promise that the government will leave them to be profitable in the near future and it is effecting their decisions. During the downturn, many companies cutback production and services within the US in an effort to reduce capacities and inventories. Now that they have an opportunity to turn their factories back on, most are looking carefully at costs and regulations. Unfortunately for the US economy, few appear to be confident in the future of the US markets and what manufacturing they are restarting is largely overseas.

This is a significant issue and can be seen in recent stock market shifts.**Year-to-date, Dow Jones stocks are off 8 percent, while China stocks are up 71 percent. The world index is up 4 percent. Emerging markets are up 25 percent.**

The masters of finance have their visions of the future and for the US, they are bleak. Without a promise of solid profitability and limited government regulation, they see little purpose in providing funds to companies that will struggle to compete in the global marketplace. And the lack of investment funding is killing the recovery.

It is unfortunate that few economists have been willing to voice this loudly. Part of the problem is that too many of the major economic advisors are still wedded to the Keynesian ideal of consumer spending being able to lift an economy. Twice now this has actually helped bring about stagflation and malaise. Both in the 1970's and now, an over-reliance on the consumer markets to keep the economy driving forward brought the economy to a standstill once the business sector decided to abandon markets where government intrusions removed the possibility of profits.

The recovery we need is possible, but not if businesses must wonder about future costs in energy and health care due to poorly thought out and secretly prepared regulations, which have not received a proper review by the marketplace and the public. Until full transparency is returned to the markets, the economy will remain sluggish.

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