



Mary Hanson



## About the Business Advisor

The Business Advisor is written and published by Mary Hanson, a business attorney in Torrance, California.

Mary Hanson has a law degree from the University of Wisconsin and an MBA from the University of Southern California. She has practiced business law exclusively for 30 years.

She provides legal services related to owning, operating, buying, selling, and structuring businesses. Her clients are business owners in many different industries. She handles corporations, LLCs, new businesses, new ventures, and a broad range of contracts and business decision-making.

Her interests include flying and World War II.

Her law office is located in the Del Amo Financial Center, 21515 Hawthorne Blvd. #885, Torrance, California. She can be reached at (310) 543-1355 or by e-mail at [mhanson@bizadvisor.com](mailto:mhanson@bizadvisor.com)

## WHY AMERICA WON'T BE BACK

by Mary Hanson

**A** number of highly-regarded economic indicators now evidence an economic recovery. Does this mean the economy we knew will be back? What is the long-term picture?

In my view, those who expect the recession to end and the good times to return are in for a disappointment. An overview of economic factors reveals a seriously challenged economy with few saviors in sight. Economies don't operate on the basis of history, so predictions of a recovery based on historical economic data should be discounted. The economy will rise or fall based on what consumers, employees, and businesses put into the economy and what obstacles the government imposes or neglects to remove.

My review of economic factors leads me to believe we will bump along the rough road of "economic recovery" for a number of years without meaningful economic improvement. The systems that are broken will remain impaired for years. Government policies, spending, debt servicing, and taxes will impede economic growth. While some individuals and some businesses will do very well, the unemployment rate will remain high, business growth will be challenging, and investment returns will be disappointing. The prosperity and easy credit we knew won't be back.

The good news is that the inevitable inflation (from inappropriate government spending and financial policies) will be delayed for years by the weak economy.

### The Economic Indicators

There are many different economic indices and indicators. Those that show economic improvement include the yield curve, the ISM index of new orders, the ISM manufacturing activity index, the index of new orders, the ISM index for the nonmanufacturing sector, the Korea Composite Stock Price Index (an indicator of global manufacturing), the U.S. stock market, the Conference Board Consumer Confidence Index, consumer spending, and the Conference Board Leading Economic Index.

However, the improvements observed do not seem to reflect a deep, wide, or steep upward trend. Key parts of the economy remain broken. Real estate, consumer and commercial lending, unemployment, and auto sales provide grim evidence of the entrenched nature of our malaise.

### Real Estate

Real estate remains a big problem. Many economists claim that our economy cannot recover without a recovery in real estate.

Both residential real estate and commercial real estate are fodder for the economic pessimism mill. Underwater loans, declining values, delinquencies, foreclosures, tightened lending standards, and issues related to the packaging and servicing of commercial mortgage backed securities (CMBSs) all suggest a long, bumpy road to recovery for real estate.

In the residential real estate market, levels of unsold homes remain high

Visit our website at <http://www.bizadvisor.com>

▼

---

*“An overview of economic factors reveals a seriously challenged economy with few saviors in sight.”*

and housing prices remain low, despite loan modification programs, new buyer tax credits, and low interest rates.

The commercial real estate (CRE) market is bad news that has not yet hit the fan. CRE loans, including CMBSs, the commercial loans packaged as investments, have short terms and the full impact of past loose lending practices will hit the economy when the loans are up for renewal. It is anticipated that by the end of 2012, when \$150 billion in CMBSs come due, \$100 billion may have serious difficulty getting refinanced. A record amount of more than \$800 billion in CRE mortgages is expected to come due in the next three years.

The outlook for refinancing CRE loans is pessimistic because even where there is adequate cash flow to support existing loans, values of properties have fallen so far that borrowers won't be able to extend existing mortgages or replace them with new debt. Both property owners and their lenders (including investors in CMBSs) could be seriously hurt.

The impact of CRE loans on regional banks has been in the news recently with such loans playing a role in the failures of two large regional banks, and with federal regulators reporting their findings that billions of dollars of CRE loans are likely to be losses for regional banks.

## Lending

Banks are still lowering credit limits and tightening credit standards. The Federal Reserve's most recent survey of banks offered little hope for improved credit conditions. The bank credit situation affects commercial and industrial economic growth, residential and commercial real estate sales, and consumer spending. This

factor of the economy warrants more media coverage than it receives. Economy recovery is not in the cards until lending is available to support it.

## Unemployment

Despite government spending of billions of dollars of “economic stimulus” to create jobs, hundreds of thousands of jobs continue to be lost each month. According to United States Department of Labor statistics, the number of unemployed persons increased by 466,000 in August, a total of 14.9 million persons are now unemployed, and the national unemployment rate increased in August to 9.7%. The number of persons working part-time because they were unable to find full-time work was reported to be 9.1 million.

The challenge for a recovering economy is to provide jobs not only for those who became unemployed as a result of the recession, but also for the continued flow of workers seeking employment upon graduation from college, high school, and training programs, and those who seek employment after a change in family or financial situations.

## Auto Sales

Although the “cash for clunkers” program successfully boosted sales of autos, sales volume after the program ended dropped to a level almost half of what a normal “good” month of auto sales should be.

## Economic Factors for the Future

Real economic growth depends on productivity, innovation, and efficiency. These are the forces that create wealth and create jobs. The basic idea is to cleverly use resources

## WHY AMERICA WON'T BE BACK

(financial resources and innovative problem-solving ideas) to get an output of product greater than the total input.

The World War II generation was instinctively “productive.” The experience of the Great Depression promoted a commitment to hard work. An educational course or a job was considered a big opportunity. Serious effort was put in to get the most out of the course or the job, and also to contribute the most to the course or the job. Leisure time was often spent building something, growing something, or fixing something. Through effort alone, the output was greater than the input.

In the 1950's, President Eisenhower pushed for the creation of the U.S. interstate highway system. The original purpose was for national defense. The “unintended consequence” was a boom in commercial activity utilizing the highways to ship goods to and from all parts of the U.S. The expenditure of federal funds was repaid many times over in the taxes resulting from the boom in commercial activity.

Funds spent on roads or infrastructure don't automatically create economic growth. Prior to the creation of the interstate highway system it was not feasible to ship produce across the country, except by railroad. It is not the spending of money that causes economic growth. It is the expenditure of effort and funds to solve a problem that blocks economic activity.

### Roadblocks to Economic Growth

**U.S. debt.** The total has hit \$11.7 trillion, and federal government has a deficit budget. If interest rates rise (when interest rates rise?), the more expensive repayment of debt will

require further increase in the U.S. budget. Higher taxes intended to support the increasing budget will have the effect of slowing the economy. If the “solution” to government overspending and debt is printing more money, the value of the dollar will be reduced and inflation will result. If economic productivity is the creation of greater value by the investment of resources, then debt repayment is economic non-productivity. Debt repayment is a payment now for something (of value?) received previously, plus interest for each year that the debt is not paid. Nothing is produced now by the use of funds for debt repayment.

**Taxes.** A big economy with a big productive workforce and an innovative nature can normally survive high taxes. But now we may have a “perfect storm” of greater regulation, wasteful government spending, global competition, consumer debt, reduced credit, reduced value of real property and investments, growing entitlements, and greater unemployment, so that higher taxes, combined with other influences, present a daunting obstacle to economic growth. Taxes can be a productive use of resources, if government is as efficient and productive in its use of funds as businesses and private investors are. But government isn't. And if the government use of funds is for repayment of debt, the non-productivity is multiplied. Funds that could have been used for productive purposes by businesses or investors are instead provided to the government for its unproductive purposes.

**Entitlements.** Most entitlements are programs the American people support, including benefits for the disabled, elderly, and poor, as well as pensions for government employees. No matter how highly regarded the

▼

---

*“It is not the spending of money that causes economic growth. It is the expenditure of effort and funds to solve a problem that blocks economic activity.”*



## Publisher's Note

The high national debt should be reason for alarm (and action). What does history suggest as an outcome? Inflation is almost a certainty. Economists say that U.S. debt repayment will require either higher taxes or inflation (in order to pay back the debt in cheaper dollars). Economic recovery offers higher tax revenues for debt repayment, but creates higher demand for goods and funds, increasing inflation and interest rates. Even if the U.S. economy languishes so that inflation is not sparked here, recovery in other countries may increase global interest rates, hurting the dollar and fueling U.S. inflation.

What are the other possible outcomes, if high taxes are not adequate to repay the debt (or at least service the debt to avoid default)? History does not paint a pretty picture. One outcome is negotiation. The concept of the U.S. as the debtor nation negotiating for forgiveness of debt is unthinkable. The other common outcome in history is military action (including war) in order to avoid payment or escape the limitations imposed by creditor nations.

Mary Hanson  
Attorney/Publisher

# BusinessAdvisor

a resource for business owners

FROM THE LAW OFFICE OF MARY HANSON

entitlement programs are, the economic impact of entitlements must be recognized. Entitlements by their nature are non-productive. Some (e.g., pensions) are the economic equivalent of debt, in that they are payments now for a benefit that was received years earlier. Others are payments made without a reciprocating benefit to the government. Dollars spent on entitlements are not available for investment, improvement, growth, innovation, problem-solving, defense, regulation, law-enforcement, or any other purposes.

**Global realities.** The existence of a global economy needs to be considered in policy-making. Unions that insist on wages and benefits that exceed labor rates elsewhere must face the inevitable loss of jobs to countries or areas where the effective labor rates are lower. State governments that

ignore the possibility that businesses will move from high tax states to lower tax states may have to deal with lower tax revenues, fewer jobs, and the secondary effects of loss of employers. Federal government policies imposing tariffs on foreign goods and limiting work permits for talented foreigners don't merely disadvantage the Americans wishing to import the products and employees. Foreign governments will impose tariffs on American goods in retaliation for American tariffs. Talented scientists and innovators not permitted to work in the U.S. will work somewhere, and those countries will have the benefit of innovation, new jobs, economic activity, and tax revenues. Short-sighted policies can do more economic harm than billions of stimulus dollars can undo. **BA**

# BusinessAdvisor

a resource for business owners

FROM THE LAW OFFICE OF MARY HANSON

21515 Hawthorne Blvd. • Suite 885 • Torrance, California 90503 • (310) 543-1355

PRSR STD  
US POSTAGE  
**PAID**  
TORRANCE CA  
PERMIT #43

RETURN SERVICE REQUESTED