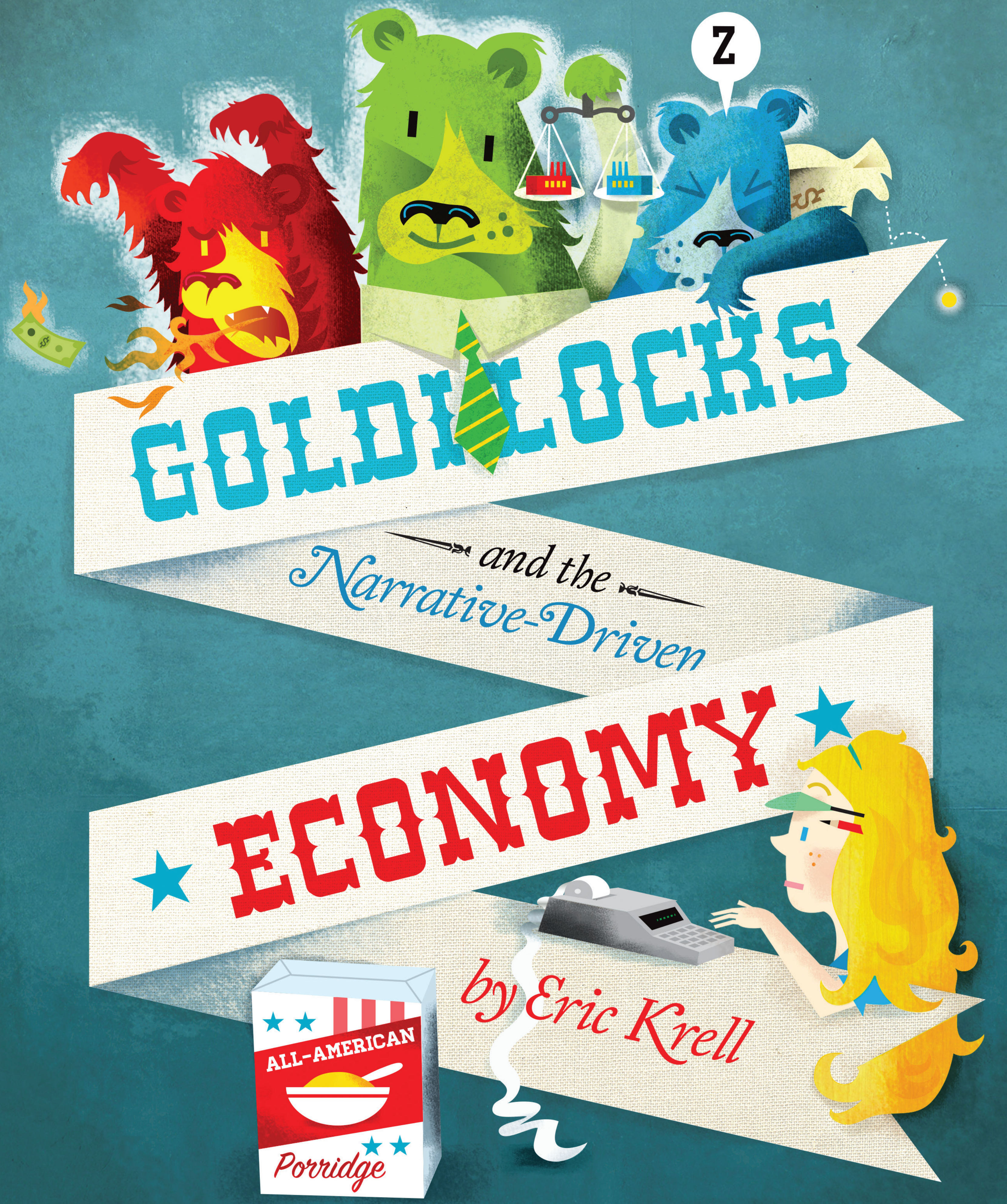
GOLDILOCKS and the Narrative-Driven ECONOMY

by Eric Krell



It turns out that gross domestic product (GDP) and porridge have something in common.

When describing the recent U.S. economy, “Goldilocks and the Three Little Bears” serves as a fitting analogy. The term “Goldilocks economy” refers to a period that is neither too hot nor too cold. But when describing the underlying economic issues affecting the U.S. population as a whole, this description sounds, well, like a fairytale. That’s because sharp claws have been flying during increasingly rancorous debates, presidential and otherwise, about how fiery or frigid the economy really has been.

There exists a widening and puzzling gap between the status of indicators used to assess the country’s economic health and the severity of issues that Americans cite when describing the country’s—and their own—prosperity. This gulf is important to address by rethinking how we create, construct and disseminate economic narratives.

Indicators vs. Issues

Measures used to assess and forecast economic health include GDP, several employment measures, business spending, consumer spending, interest rates, inflation, energy prices, housing indicators and more. By many, but not all, of these measures, the U.S. economy looked relatively healthy as the summer began. Considering the impact of the 2008 global financial crisis and the U.S. economy’s unchallenged status as the world’s primary engine of economic growth, our position seems even rosier.

Unemployment has dropped significantly since 2009. Housing prices, sales and starts (which reflects new construction) have increased over the same period. Business spending is poised to increase this year, and our GDP growth rate remains positive but relatively small (around 2 percent). Despite increasing volatility, U.S. equity markets reached historical highs in July. This marks an extremely condensed economic assessment, and clouds always loom. Continuing household income declines, a deteriorating Chinese economy, a spike in U.S. inflation, geopolitical tensions and/or an ill-considered interest rate decision could rain a swift reversal down on our partly-sunny economy. Or not. July’s Dow Jones Industrial Average record quickly followed on the heels of Britain’s stunning vote to leave the European Union (EU). While the actual Brexit may take up to two years to negotiate, the results of the vote sent U.S. equity markets plunging, briefly, before they rebounded strongly. Over the longer term, the negative impacts of Britain’s EU exit on the U.S. economy appear likely to be relatively low-key, but that could change depending on how the negotiations play out.

Forecasts, downpours and uncertainty aside, the following economic issues should be pivotal in the near future:

1 Monetary policy

In recent years, the U.S. Federal Reserve has relied on less conventional moves, such as quantitative easing, to stimulate the economy while interest rates remained near zero. Even more creative methods may be needed to goose growth if rates do not rise as soon or as steadily as previously expected.

2 Income levels

Household income and wages mark a highly personal economic issue, which naturally generates heated political and policymaking debates. The growing focus on "income stagnation" and "income inequality" puts a wide range of potential economic policy changes in play that could affect global trade, the tax code and more.

3 Business regulations

During the presidential campaign, The Dodd-Frank Wall Street Reform and Consumer Protection Act was alternately portrayed as a deadly threat to U.S. competitiveness and a woefully inadequate stab at curtailing unprincipled Wall Street behavior. The next president's view of Dodd-Frank could result in dramatically more or far fewer regulations. Either outcome could have a major impact on business spending.

4 Global trade

Are multilateral trade pacts diabolical drivers of U.S. job losses or crucial enablers of global free trade, peace and prosperity? How the next president addresses this charged question will affect workers in manufacturing industries, most U.S. businesses with global footprints and the economy.

5 China's economy

The nature and pace of the slowdown of the Chinese economy—the second-largest in the world—will have major impact on most economies, including the U.S.

Data-Driven Fairytales

Another economic issue looms large, and it relates to both the accuracy and the relevancy of economic indicators. The growing disconnect between economists' quantitative assessments and Americans' qualitative assessments (of the economy and their own prosperity) requires reconciliation.

A recent Gallup poll of 1,000-plus U.S. adults found that the economy remains the biggest problem facing the country. Another recent Gallup poll found that only 28 percent of Americans are satisfied "with the way things are going in the United States." This suggests that most Americans are far gloomier on the state of economy than those highly educated professionals who are trained to assess the economy.

This puzzles a growing number of business and economic experts, like *The Wall Street Journal* columnist Greg Ip, who earlier this year wrote that the economy "can't explain why Republican voters backed insider Mitt Romney in 2012 when unemployment was 8% and an outsider … this year when unemployment is 5%." Ip also wonders why so many warmed to one of the candidate's "hard line against illegal immigration when the number of illegal immigrants has been dropping since 2007" while others cheered another primary candidate's "promise of government-run universal health care when the number of uninsured is at an all-time low."

Two reasons for these types of gaps reside in our economic data and narratives.

First, key traditional economic data points should be rethought, revised and/or supplemented. Type "Is GDP…" into your search bar and Google's algorithms will instantly complete your question: "…a good measure for economic well-being why or why not?" Click through the search results and you'll find that notable authorities from numerous disciplines—*The Economist, The Atlantic,* The Organisation for Economic Co-operation and Development (OECD) and *Psychology Today,* to name a few—offer compelling "why not" arguments centered on the fact that wealthy economies are increasingly services-based. *The Economist* proposes improving "how GDP data are collected and presented" and then supplementing a more effective GDP with two related measures, one that focuses on services and another that measures longer-term prosperity.

Second and more broadly, data-driven storytelling is overwhelming us with information and misinformation, making it more difficult to distinguish between fact and fairytale. As technology democratizes broadcasting, there are fewer editorial fact-checkers and far more broadcasters. Rather than crafting compelling narratives based on carefully sourced data, many communicators conduct "narrative-driven data dumping" in which incomplete and often self-serving messages are bolstered with dubious data. Tying the loss of U.S. manufacturing jobs to global competitors alone, for example, reflects a narrative that neglects the significant impact of some staggering manufacturing-technology innovations and the rise of services industries.

Regardless of how hot or cold U.S. GDP turns later this year and beyond, it will be increasingly important to take a deep look at the relevancy of each ingredient in our economic porridge and the accuracy of the narratives they support.

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