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> "The irony of economic stability
> is economic uncertainty"
> ***Anonymous***

"The Economy" – Toward Authentic Growth: Short Run vs. Long Run

In our previous economic outlook letter we discussed the importance of **economic fundamentals** and how truth in numbers helps **minimize uncertainty while bringing clarity** to decisions on managing assets, minimizing liabilities and planning for the future. The challenge for many families and companies is that planning is more difficult primarily because of **continuous uncertainty**. For example, **economic policy** continues to remain intensely politicized whereby **economic growth** has been relegated to politicians as opposed to the more natural cycles of competitive markets. Because of the intense political climate, particularly in the United States, both monetary and fiscal policy is essentially on hold until next year. Thus, uncertainty and slow growth remain constant.

Understanding the "**what and why**" of the economy is imperative to shaping an investment strategy as we enter the fierce political season ahead. At the center of this ***understanding*** are the economic principles of **the short run** and **the long run**. At Banta Asset Management we are mindful of the political influence on economic outcomes. Equally important is our understanding of how the economy works no matter what the influence. A recurring objective of Banta's economic outlook letters is to bring **economic clarity** amidst the noise of **political ambiguity**.

Economy Clarity – What is the U.S. Economy Doing?

- **Understanding the *Short Run vd. Long Run***

The "**short run**" is a period of time in which the quantity of at least one element of production (traditionally land, labor, capital, resources, knowledge and entrepreneurship) is **fixed**. For example, if a company wants to grow in the short-run it will be constrained to fixed inputs such as labor costs, a contractual lease, or the costs of goods sold. The "**long run**" is a period of time in which all quantities of inputs of production **can be** varied either by market or policy influences. The short and long runs are different from industry to industry, but what all companies depend on for **authentic growth** is the **ability** to change the costs of all of their inputs. More directly, the **long run** is the time period that is long enough to allow corporations **to fully respond to changing incentives in the economy**.

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From Economic Theory to Economic Strategy

As stated above, the natural instinct for families and companies is **to grow** for all of the right reasons that accompany growth – mainly **lasting prosperity**. The challenge for the U.S. economy is multifaceted, but can be narrowed to perpetual “short run” policies, ideologies and strategies. For example, we hear both parties argue in favor of policies that “create jobs” or “foster economic growth” through various fiscal and monetary tools. Regardless of political ideology, growth policies should aim at providing **the right incentives** to **embrace the reality** of structural (or permanent) changes in the economy, such as entire industries that dissolved, consolidated, innovated or shifted to foreign markets. One of the most difficult realities is the enduring unemployment rate at 8.3% combined with the very slow GDP growth rate of under 2.0% - statistics that don’t see positive structural corrections changing anytime soon. Therefore, economic strategies that seem to adhere to the incentives characterized by the **long run idea** might be those that encourage, if not compel a work force toward life-long learning investments through higher education programs thus embracing the short run to be **ready for the long run** thereby enabling a more nimble, competitive and prepared productive economy.

The Economic Short Run – Slow Growth Seeking Long Run Possibilities

So, as the summer plods ahead the economic numbers remain “stable” and “short run”:

- Projected year-end GDP growth rate below 3%
- Unemployment rate holding at 8.3%
- Inflation rate currently below 2%
- Yet, a Dow that has returned above 13,000%
- Yet, corporate earnings remain strong
- Yet, consumer confidence index ticks up

At Banta Asset Management we realize the paradox of a short run economy. We all want stability – perhaps a stable GDP growth rate, but this is not the economy we have. However, what we do have is the wisdom of how competitive firms behave and that companies are more nimble than national economies. We particularly veer toward companies driven by the **right incentives** and have the courage to **create value** from global markets and supply chains while also driving their firms to **innovate** all elements of their production. These are the fundamentals that endure and ironically when the “long run” is recognized by policy makers, competitive firms will have already put their sights on new manufacturing plants, hired new talent, invested in new markets, and created new customers.

With continued confidence,

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