

'Risk you can measure, uncertainty you can't,' says Richard Rahn

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Richard W. Rahn is a senior fellow of the Cato Institute and chairman of the Institute for Global Economic Growth, serves on the editorial board of the Cayman Financial Review and writes a syndicated weekly economics column. He spoke to the Trib regarding how the economy will perform in 2015.

Q: There have been conflicting predictions on what to expect from the economy in 2015. What are your thoughts?

A: Predictions are almost always worthless. I'm always amused by people who say they know things with great certainty and then it never turns out.

The Fed kept predicting more than 4 percent growth after the crash in 2009. They did that for five years and they were never right.

That being said, the U.S. economy probably is in somewhat better shape because you have a flood of capital from around the rest of the world coming into the country.

On the other hand, as other countries slow down, that means our export markets will be weaker. The dollar probably will continue to rise or stay high and that means imports will be cheaper. It'll be rougher on the exporters but nice for the consumers.

I think we can expect a continuation of very low or nonexistent inflation — in fact, in the real world we probably had deflation.

We have very slow real growth taking place in terms of per capita (gross domestic product). Much of that (is attributable) to government regulation and taxation.

In terms of the numbers economists normally deal with, I expect again we'll have low real growth in the U.S. If we're lucky, we'll do 3 percent. The unemployment rate will probably stay around the same. That kind of growth will make very little progress in reducing the number of people who are long-term unemployed or who have dropped out of the labor force.

Q: What would it take to get growth consistently above 3 percent?

A: The U.S. economy could easily grow at a steady 4 percent a year if you didn't have so much government interference and regulation (of business).

Q: There's been discussion that the U.S. economy could be dragged down by underperforming European economies and emerging economies, such as China, that aren't growing as rapidly as they once did. Are those legitimate concerns?

A: Those are big concerns. There are reports, talk of course, about the Russian economy going into the tank. Other nations will reduce their demand for goods and services from around the world. So, as I mentioned, the U.S. export sector is going to have a rough time.

On the other hand, with prices of foreign imports, given the rise of the dollar and the big drop in energy prices, you could even see a bit of deflation this year, given the drop in oil prices.

With energy prices coming down, it's great for the consumers. But those people who now produce oil in the U.S., they see their incomes go down by the amount that other real incomes go up.

Q: So while you're not expecting a boom in 2015, you believe the economy won't be a bust either?

A: I think most people will be about the same or a little better off. But we don't know what's going to happen in the world.

Risk you can measure, uncertainly you can't. Too much of the world now is in the uncertainty stage.