

Community Futures has achieved a major milestone, celebrating 30 years of service to entrepreneurs and communities across BC. As part of our 30 year celebration, we are publishing *The Future of Entrepreneurship Series*. Written by business leaders, this series of forward thinking articles will provide insights and opinions in regards to a number of key challenges and opportunities facing entrepreneurs in the future.

The New Normal

Dr. David E Bond

The world's economy has undergone a fundamental change and it's going to take time for governments, households and nations to adjust to this new normal. To successfully survive these forces of change will require leadership in both the private and public sectors as well as a clear understanding of the situation we face.

What is this situation, exactly? It seems highly likely that Canada and most of the developed world will face slow (less than 2%) annual rates of economic growth for at least five years. Slow growth marks a change from what most Canadians have experienced in the past few decades and adjusting to that "new normal" will place strains on the nation's social, political and economic fabric. But in previous periods of immense national stress we have risen to the challenge and there is no reason believe we will not do so again

Robert Gordon, a respected American economist at Northwestern University says in his newly published book, "The Rise and Fall of American Growth" that this global slow-down is nothing new. While he believes the revolution in high tech and communications has been important, it pales in comparison to the great advances made between 1870 and 1940. These included harnessing electricity, improved urban sanitation, modern chemicals and pharmaceuticals, the internal combustion engine and basic communication such as radio and the telephone. Without innovation of that magnitude,

he and many other economists believe economic growth will be very low for the foreseeable future

A quick review of the global economies confirms this pessimistic view. Europe is in a sorry state. Growth there is negligible, government debt is massive, tax revenues are low and the monetary system is on life support. Japan has been limping for more than three decades and seems unwilling or unable to make the changes necessary to return to growth. China, the economic engine that drove the last major surge of growth, is slowing as it tries to transition its economy to be more centred on domestic consumption rather than exports. At the same time, China is trying to lessen corruption and maintain a one party system. Further compounding its problems is a massive amount of bad debt (estimated to equal 50% of its GDP) which overhangs the market. Until that debt is dealt with and corporate balance sheets show a better match of assets and liabilities, little additional investment will take place.

Finally, the force that drove growth in the five decades after World War II, increasing world trade, is slowing. The growth in the last decade has been about half of what it was between 1987 and 2007. Efforts to expand free trade have been fitful. The recently negotiated Trans Pacific Partnership is facing strong headwinds in the United States and may not be ratified. And the World Trade Organization's latest round of negotiations was officially abandoned last year.

Without growing trade there really is nothing pushing global growth.

A rapidly growing economy permits the state to fund growing demands for services such as health care without having to implement policies aimed at increasing efficiency. Growth also can provide room for tax reductions.

Under the new normal, sectors such as health care, accustomed to having its financial demands met, will find it difficult to adjust to opposition to increased spending unless there is a simultaneous increase in the efficiency of the entire system. We can look forward to protracted labour disputes in every public sector activity from education to fire protection and policing and this will put a strain on communities.

Just as importantly, slow growth, particularly in government revenues, means some government expenditures can only be increased if others shrink - unless, of course, taxes increase. This mathematical certainty will force a rethink of what governments should and should not do and probably lead to tax increases, particularly on higher income earners and on certain types of income such as capital gains and large inheritances.

In BC's private sector, the loss of business on the part of suppliers to the resource sector will make for a turbulent and disquieting economic scene characterized by rising unemployment. Labour markets will undergo significant restructuring. Skilled workers, who moved to Alberta because of high paying jobs and who are now laid off, will begin moving back to where they originally lived and that will put downward pressure on wages in BC. Moreover, potential employers of these displaced workers will be concerned that, if things turn around in the petroleum sector, their employees will once again move back to Alberta. At the same time, these peripatetic workers will not be consuming much since their income will undoubtedly fall well short of previous levels in the petroleum sector while personal debt has not decreased nearly as much.

The recent run-up of housing prices is not sustainable. The prices of existing housing will stop rising and in some centres (Vancouver, Calgary, Toronto and others) fall sharply, along

with the income of realtors and the tax take associated with any purchase. We can also expect a decline in housing construction and, therefore, the demand for everything that goes into a new house (appliances, heating systems, plumbing and wiring etc.) and this too could lead to increased unemployment.

All of this means an unsettled environment for anybody considering starting or expanding a business since, in a slow-growth economy, new business ventures will face rising hurdles to entering the market place. For one thing, slow growth means slow (or non-existent) increases in consumers' income. Given historically high levels of indebtedness, households will be seeking to reduce their debt and will therefore cut back on consumption.

Not only will markets for both products and services be shrinking or just not growing, obtaining financing for start-ups will become more difficult. That, in turn, implies a raising of the bar as to what projects can and should be supported.

Although the overall picture is not optimistic, it does not mean that a well-financed new venture with a solid business plan and a good product or service in a focused market will not succeed. Seasoned and determined new entrepreneurs will still come forward and many will succeed - but it won't be easy. These successful entrepreneurs will have to have vision, drive and smarts to succeed.

Watch for Dr. Bond's second article *Characteristics of Entrepreneurs I have known*.

Community Futures is a non-profit community business financing organization created to support small and medium sized enterprises throughout rural BC, paving the way for diversified local economies and job creation.

[Learn more](http://goo.gl/o5BAjl) (<http://goo.gl/o5BAjl>)

