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I think it was in the Spring of 2009 when Ben Bernanke announced the sighting of economic "green shoots." Since then, economists have had optimism spasms about every 12 to 15 months. Last Fall and early Winter we witnessed another of these spasms. Prosperity and economic vigor were just around the corner. The year 2014 was to be the year that our economy turned the corner.

This time, the spasm was different, though. It was widespread and included more than the professional Pollyannas and the perpetually optimistic.

Over the almost seven years since the Great Recession started, we've easily dismissed optimism spasms, because the fundamentals for a vigorous boom just weren't there. Wealth was down, and balance sheets were weak. Real estate values were low. Banks were not yet healthy and were under severe regulatory pressure. However, by last Winter's spasm, these fundamentals were improved, improved but not fully recovered.

We wanted to believe that last Winter's spasm was finally the correct forecast. We're as tired of America's long economic lethargy as anyone. More actually. It's not easy telling people year after year that the economy will be weak. Our society doesn't shoot the messenger these days, but it can be very uncomfortable for the messenger if the news is bad.

However, as much as we wanted to believe, we just didn't see it. We thought that the fundamentals were not there to provide the basis for a vigorous economy. They still aren't.

So, yet another optimism spasm ended in disappointment. Last week, the Fed adjusted their 2014 growth forecast down from 2.8 percent to 2.3 percent. This is probably still too high. Other forecasters have also been bringing down their forecasts.

What is going on?

As UCLA economist Ed Leamer has shown, real estate is an important contributor to our economic growth. The real estate and construction industries consist of lots of small businesses and provide well paying jobs, and while we've seen increased real estate values, those increases are unlikely to continue. After residential prices overshot on the downside during the Great Residential Devaluation, investors finally entered the market and bid prices up to the point where their models no longer support additional purchases. Future growth will require new market entrants.

But, where are those entrants to come from? We hope we don't drive homeownership rates to unsustainable levels again, but there is political pressure do so. We don't see the entrants coming from immigration. They will have to come from young people.

Vigorous residential markets, ones with firm values and sustained new construction, are supported by new market participants, and our young people just aren't forming households, getting married, or having children at the pace to support vigorous residential markets. Many of them cannot find employment, and if they do, they are often underemployed. Many are also burdened with large amounts of educational debt. New market entrants are unlikely to dramatically increase until we see strong job gains.

Commercial real estate markets won't help much either, except in some fast-growing cities. This is because demographic and technological changes will result in less demand for commercial space in the future.

The banking sector, while improved relative to 2008 and 2009, is also not able to perform its traditional function of financing small business expansion. The failure to adequately address the Too-Big-To-Fail problem means that banks will face a difficult regulatory environment, as regulators attempt to use regulatory pressure to offset perverse incentives. Until alternative sources of financing are available, small businesses will have difficulty growing.

Even if well financed, small businesses face a very challenging environment, because even as our economic fundamentals were improving, we were building new fundamental challenges through regulatory policy. Our country has embarked on a campaign of increased regulation, increased bureaucratization, and increased political participation in business decisions. The result of this campaign is to tilt the playing field to the advantage of big business, which can allocate the campaign's costs over a larger sales base. The campaign has also created new negative incentives for potential employers and potential workers.

While the Fed takes credit for avoiding a depression, their unprecedented expansion of the monetary base has created severe misallocations of assets. This recovery has been characterized by weak investment and strong equity markets. Equity markets have seen phenomenal gains over the past couple years, even as small business has suffered and the economy has languished.

At this point, it's hard not to conclude that equity markets are in a bubble. They do not respond to economic news, but they do respond in big ways to even small perceived changes in Fed policy. The problem, of course, is to determine if or when a crash will occur. This is an impossible forecasting problem. If we do see a crash, it could be very severe. More importantly, money in the equity markets isn't really increasing future economic growth. Increased investment would increase future economic growth.

Fiscal policy has also been creating economic challenges. Our large deficits and accumulated debt create additional risks. They are contributing to the weak investment we've observed by that increased risk and by crowding out private investment. Some would argue that low interest rates eliminate the possibility of crowding out, but that's not true. China gives us our best example.

China has to run persistent trade surpluses with the United State. That implies that they must have negative capital accounts. A trade surplus means that they have to buy something from us. If it's not goods and services, which impact the trade accounts, it is assets, the capital accounts. Our large deficits have provided them with a convenient low-risk asset to purchase, treasuries. If that asset were not available, the Chinese would have to buy other private assets, increasing demand, returns, and investments.

All this is to say that while we've seen some improvement in some fundamentals, we've been busily creating new weaknesses. The result is that we're unlikely to see sustained strong economic growth within our two year forecast horizon.