Obama's Unemployment 'New Normal' Foretells A 'Lost Decade'

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I apply unconventional logic to economic issues.

(Photo credit: aflcio)

There was considerable weeping and gnashing of teeth over the December "Employment Situation" report released by the BLS on Friday. Analysts were expecting 200,000 new payroll jobs, but they got only 74,000. Some called the "bad" unemployment report a "statistical anomaly."

A quick look at the BLS Household Survey showed that, rather than being bad, December was actually a better-than-average month in President Obama's "new normal" economy. This is not a huge accomplishment, given that "Obama's new normal" comprises slow GDP growth, a stagnant jobs market, and falling real household incomes.

However, the nation moved 133,000 jobs closer to full-time-equivalent* (FTE) full employment during December, while during the average month during Obama's so-called "economic recovery," we moved 25,000 jobs farther away. So, December, as bad as it was in many respects, was better than average for Obama.

Since the economic recovery began 52 months ago, the "headline" U-3 unemployment rate has fallen from 9.5% to 6.7%. However, more than 100% of this decline was the result of 7.4 million potential workers fleeing the labor force. Adjusted to the labor force participation when George W. Bush left office, the unemployment rate has actually increased, from 9.7% to 10.9%, since the recovery began.

Here's another way to look at it. During the past 8 years, America's working-age population has gone up by 19.3 million, while the number of full-time-equivalent* (FTE) jobs has increased by only 0.4 million. Can you say, "lost decade?"

So, does the December jobs report mean that the Federal Reserve moved too quickly to begin "tapering" its QE3 bond-buying program? No. Like QE2 before it, QE3 actually made things worse.

The Fed embarked on QE3 in late 2012 because it was not happy with the way the economy was progressing, especially with regard to employment. We have now had 15 months of QE3, during which the Fed has expanded the monetary base by $1.1 trillion. By every measure, the effects of QE3 have been the exact opposite of what the Fed intended and expected.

Compared with the 15 months prior to QE3 (when the monetary base actually contracted by $52 billion), QE3 accomplished the following:

- Nominal GDP growth slowed down
- Real GDP growth slowed down
- Inflation declined
- FTE job creation slowed down
- The decline in labor force participation accelerated
- The employment ratio fell
- Interest rates rose
- Gold prices plummeted (a good thing, but the opposite of what the Fed expected)

QE3 has been a disaster. The sooner it is ended, the better. The curious thing is that anyone ever expected that exchanging $1.1 trillion of risk-free, interest-bearing excess bank reserves for $1.1 trillion of risk-free, interest-bearing government securities would jumpstart the economy. Perhaps an even more curious thing is that no one at the Fed seems to have noticed that QE3 has had the opposite impacts of what they expected.

If monetary stimulus (at least as practiced by the Bernanke/Yellen Fed) is actually counterproductive, what about fiscal stimulus?

Keynesians believe that more government red ink boosts "demand," and, conversely, that deficit reduction reduces GDP. Although economists like Paul Krugman will do their best to explain them away, the numbers from 2013 will put yet another nail in the coffin of Keynesian economics. Things went the opposite way that Keynesianism would have predicted.

As we moved into 2013, taxes went up by a lot (top marginal rate, payroll taxes, and Obamacare taxes), and federal spending went down because of the "sequester." Because 2012 real GDP (RGDP) growth (4Q over 4Q) was only 1.95%, and because the federal deficit declined by 2.4 percentage points of GDP during 2013, by Keynesian lights, we should have had an economic slowdown, or even a recession, last year.

That's not what happened. RGDP growth actually accelerated. Assuming that 4Q2013 real GDP (RGDP) growth comes in at 3.0%, RGDP growth for all of 2013 (4Q over 4Q) will be up by 38% over 2012.

Despite a projected RGDP growth rate (4Q over 4Q) of 2.69% for 2013, America's labor market lost ground during the year. We ended 2013 with a slightly lower employment ratio than we started with. This is not good. We are well on our way to having a lost generation of young American workers.

At 2.69%, RGDP growth (4Q/4Q) is expected to come in better in 2013 than in 2012 (1.95%) and 2011 (2.01%), but employment growth was worse. We moved 56,000 FTE jobs away from full employment during 2013, while we gained ground equivalent to 153,000 FTE jobs in 2012 and 871,000 FTE jobs in 2011. What is going on?

Obamacare is going on. Obamacare has increased the costs and risks associated with employing people. If you increase the cost of anything, the economy will use less of it. The economy is adjusting to Obamacare by reducing its labor intensity.

In addition, if politicians even talk about increasing the minimum wage, businesses will adjust their forward planning to take this possibility into account. The result will be fewer jobs.

Keynesians fantasize that increasing the minimum wage will increase spending, and thereby boost GDP. For example, the Economic Policy Institute (EPI) declared that:

"A $10.10 minimum wage would increase GDP by $22 billion, creating roughly 85,000 new jobs."

It's hard to imagine that even a Keynesian could really believe this. After all, if raising the minimum wage from $7.25/hour to $10.10/hour would do what the EPI says, then raising the minimum wage to $50.00/hour would increase GDP and employment even more.

There is nothing in Keynesian theory that could be used to calculate the optimum minimum wage, tax rate for "the rich," or level of government spending. In the Keynesian model, higher is always better. This is one reason that Keynesianism not a serious economic theory.

So, is there hope? Yes and no.

There is some reason to be hopeful about economic growth. After being on a declining trend for 13 years (on an end-of-year basis), the Real Dow, which is the Dow Jones Industrial Average divided by the price of gold, went up by 76% during 2013. The gold value of the dollar also rose for the first time in 13 years. Both of these factors are positive for investment in productive assets, and therefore for RGDP growth.

There is less reason to be optimistic about jobs, however. Everything in Obama's policy pipeline right now (full implementation of Obamacare, renewal of extended unemployment benefits, a higher minimum wage, the EPA's illegal "war on carbon," etc.) is negative for employment.

Given that the Republican Party is either the part of economic growth or it is the party of losing elections, now would be a good time for the Republicans to step forward with a powerful pro-growth agenda. Simply opposing Obama's bad ideas will not be enough to score a big win in November. America's workers could use a little hope and change right now, and their only hope for change lies with the Republican Party.

*FTE jobs = full-time jobs + 0.5 part-time jobs