PERSONALLY SPEAKING

Number 101 ***March 4, 2013***

AGE OF OBAMA OR AGE OF BERNANKE?

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Reporting in *The Orange County Register*, Joel Kotkin asserts emphatically that we are living in the Age of Bernanke and that the American civilization is headed in the same direction as the Roman Empire – into "inexorable decline." His remarks have gotten some traction in several blogs but as far as we can tell not on broadcast media or cable TV.

In the simplest of terms, Kotkin argues that big banks and big businesses are destroying the United States and that Fed chair Ben Bernanke has been the key player enabling this destruction. The problem is that the data sources he employs to establish his human destruction claims don't support his argument. They have the effect if not the intent of deflecting responsibility away from President Obama.

If as Kotkin claims, citing Invest.com, "8.5 million workers have exited the labor force," why is it that according to the BLS the civilian labor force today is actually bigger than in January 2009 when Obama was inaugurated?

If, as Kotkin claims, the number of persons in poverty "surged by more than 2.6 million," why does the very Census Bureau source that he cites show a slight decline in poverty from 2010 to 2011 – the only years for which poverty data are reported at that source?

Kotkin correctly cites data indicating that the number of startup jobs per 1000 has declined during the Obama years. But he does not report that the very source he uses enumerated four factors that contributed to that decline none of which related to action taken by Bernanke's Fed.

Kotkin reports information published in the *New York Times* that correctly cites Census Bureau data indicating an 8 percent drop in household income from 2007 through 2011. And he draws the conclusion that "things, in reality, are not getting better for anyone but the most affluent." That very same Census source shows that mean household income for *all five quintiles* in the U.S. population and the income threshold to count a household in the highest class (95th percentile) *decreased* over this period.

Later in his commentary Kotkin cites Clinton administration insider Bill Galston to the effect that "we could see the emergence of a closer alliance between big business and the public sector interests." Kotkin conveniently leaves out what Galston said at the very end of his remarks: "… we seem to be headed in another direction altogether, and CEOs are likely to remain without a home in either party."

Notwithstanding Kotkin's shoddy research work, is it possible that he is right, that we are living in the Age of Bernanke not the Age of Obama?

Maybe so. The Fed under Bernanke has held interest rates at historically low levels for months, making it more difficult for persons, notably the retired, who rely on the interest earnings from their investments to pay their bills. But lower interest rates, particularly lower mortgage interest rates, ease the burden of borrowing and re-financing.

The balance sheet of the Fed since financial turmoil began in August 2007 has climbed from $869 billion to $3.092 trillion principally through purchases of Treasuries and mortgage-backed securities from financial institutions, allowing those institutions to clean up their balance sheets and, to use Kotkin's own words, "continue to thrive." But their thriving simply does not account for why "the rest of us" haven't prospered because, as the household income data indicate, all of us including the richest on average have lower incomes today than in 2007.

Kotkin's commentary is based on the premise that if one sector of the economy is surging ahead, other sectors must be lagging behind. In contrast and following John Kennedy, we contend that a rising tide lifts all boats. The trick is to find the ways to get the tide to rise.

Stimulate aggregate demand? Incentivize aggregate supply? Drive down interest rates? Stop government meddling in the market system?

At this stage of the current business cycle, it seems the monetary rule makes more sense than the others remedies. That is, following Milton Friedman's advice, the Fed should increase the money supply by some constant low rate, year in and year out, and otherwise not engage in discretionary interventions in economic affairs. Friedman offered two reasons for this advice. First, the macro-economy is simply too complex for effective discretionary interventions on the part of the Fed. Second, the Fed's intervention track record has been to make a bad situation even worse. Clearly, Bernanke does not accept Friedman on either count.

For lack of sufficient evidence we don't buy Kotkin's fundamental argument. Someday we will know if America is in inexorable decline and who was primarily responsible – super technocrat Bernanke or super politician Obama. Addressing the responsibility question is especially complicated because the two are joined at the hip. By purchasing $45 billion in Treasuries every month Bernanke has been enabling increases in federal spending on

Obama's watch that are not paid for by tax revenues. And by deliberately suppressing interest rates that reduces the cost of borrowing, Bernanke has (a) enabled the U.S. Treasury to issue wave after wave of securities and (b) held in check the higher interest payments owed on the public debt under a scheme of steeper rates, thereby easing Obama's problem of dealing with even bigger budget deficits.

The essential difference between the two is that Bernanke's accepts that his mandate is to *stabilize* the economy whereas Obama insists that the election returns confirm that his mandate is to *transform* the economy.

Will economic historians someday declare this Age of Bernanke or the Age of Obama? Does anyone remember who served as Fed chair under the transformative Franklin Roosevelt?

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