PERSONALLY SPEAKING

Number 84 *July 8, 2011*

WHO WILL PUT THE HUMPTY-DUMPTY
U.S. ECONOMY TOGETHER AGAIN?

Edward J. O'Boyle, Ph.D.
Mayo Research Institute

Since its fall from the business-cycle peak reached in late 2007, the U.S. economy has remained broken like Humpty-Dumpty. Consider the following data from the June 2011 jobs reports.

1. May-June change in the jobless rate, +0.1 percent, is not statistically significant. Economy STALLED.

2. May-June change in the number of persons employed, -445,000, is statistically significant. Economy in DECLINE.

3. May-June change in the number persons unemployed, +173,000, is not statistically significant. Since March there has been a 545,000 increase in the number of jobless persons. Economy in DECLINE.

4. May-June change in number persons not in labor force who want a job now, +663,000, is statistically significant. Economy in DECLINE.

5. May-June change in payroll jobs, +18,000, is not statistically significant. The April-May change, +25,000, is not statistically significant. Economy STALLED.

6. Number of persons employed in June who were unemployed in May (+2,401,000) > number of persons unemployed in June who were employed in May (+2,192,000). Economy MARGINALLY BETTER.

Against this backdrop, how to explain the booming stock market that has seen the Dow Jones Industrial Average rise by15 percent in 2009, 11 percent last year, and nearly 9 percent this year?

Clearly there is a serious disconnect between the labor market and the real economy on the one hand and the stock market on the other. By comparison with a civilian labor force of 153 million, only a small number of institutional traders drive the financial market. Those institutional traders and financial consultants earn a living by the commissions on trades they execute. That is not to say that millions of Americans do not benefit from the gains in that

market. They profit through their pension fund holdings and personal investments. However, those gains do not show up in current family income and they remain largely passive players in the stock market. And while traders and consultants are active players in the stock market they are not active players in the real economy.

Consumer spending is the biggest driving force in the real economy and consumers have been paying down on mortgage and consumer debt. At the start of the Great Recession in late 2007, consumers on average were paying 13.89 percent of disposable personal income on outstanding mortgage and consumer debt. The latest figures from the Federal Reserve indicate they have reduced debt payments to 11.51 percent. These payments do not contribute to consumer spending, thus aggregate demand continues as a serious barrier to economic recovery. And until that debt is worked off, the economy will remain in trouble. Today, millions of consumers are passive players in the real economy.

Are bankers active players in the real economy? On the negative side, *yes*, as when their bad judgment in making loans has produced a total of 370 bank failures since the fall, resulting in a serious credit crunch. On the positive side, *no*, because even though bankers can create credit out of their excess reserves they cannot produce an active player to put that credit to work establishing a new business or revitalizing an old one. Bankers are unable to kick start an economic recovery.

Are government officials active players in the real economy? *Yes*, in public works projects and public enterprises and when they have active private-sector partners along with the financial wherewithal to support those projects, enterprises, and partners. But as virtually everyone knows federal and state governments today are severely strapped paying their ordinary obligations and wrestling with enormous unfunded liabilities in public pension programs and health care insurance.

With consumers working off mortgage and consumer debt, banks cleaning up their balance sheets, governments straining under the weight of budget shortfalls and unfunded liabilities, a Federal Reserve that has spent its stimulus ammunition, and private businesses faced with higher taxes and more regulation, who will step forward to do the heavy lifting necessary to energize a true economic recovery that puts Americans back to work? And why would they put their own fortunes and reputations on the line? Has an America that has become pre-occupied with entitlements, tax loopholes, sleazy sideshows, and turning a fast buck used up all of the entrepreneurial spirit that made it the land of opportunity?

America needs men and women of action with vision to see the opportunities that others do not see, or even look for, and the perseverance to overcome the obstacles that naysayers and bureaucrats in and out of government will put in their way. There is no other way to put Humpty-Dumpty together again.

Edward J. O'Boyle is Senior Research Associate with Mayo Research Institute.
Offices in New Orleans, Lake Charles, and West Monroe
www.mayoresearch.org   318-381-4002   edoboyle@earthlink.net