It’s the Economy

What’s wrong with the economy? The stock market is at an all-time high, unemployment is 5.4%, and inflation is under 2%. Yet the GDP for the last quarter was 0.2% well below the historical average of over 3%.

The problem is that there is a major disconnect between Wall Street and Main Street. Wall Street is driven by zero interest rates and the Federal Reserve’s buying of Treasures and Securities. On the other hand Main Street is driven by regulations and taxes. Yes they are interconnected but in a secondary way.

Three factors are driving Wall Street. The Federal Reserve policy of zero interest rates has increased stock buy backs using cheap money driving up the value of stocks. Zero interest rates facilitates mergers resulting in tax savings, lower costs, by merging common functions and expansion of products, all at the cost of employment.

Finally, savers earning zero interest on bank accounts and CD’s are forced into the stock market, at higher risk, to pursue higher returns on their investments, (one of the goals of the Federal Reserve). This put large sums of money into the stock market driving up prices. The net result is a booming stock market. This is a two sided sword. One of the fears of the Federal Reserve is once interest rates go back to normal this money will be pulled out of the market bursting the stock market bubble, the only bright spot in the economy.

The Federal Reserve’s use of monetary policy to spur the economy has failed and now is backed in a corner where rates cannot be raised for fear of forcing the economy back in recession.

The problem is that Main Street, with 70% of the employment in the United States, has not recovered. Made up of small businesses (less than 500 employees) is driven by government policies. High taxes and regulations, which this administration has pursued, continue to be a drag on this segment of the economy. The true unemployment is closer to 11% when you consider those who have dropped out of the job market, part time employees who would like full time jobs and those who are working below their skill level.

Income inequality is the greatest since this administration has come to office and reflects the difference between Wall Street gains and Main Street stagnation. The widening gap between rich and poor threatens America’s overall economic growth and is exacerbating social unrest that we see today.

This administration’s solution to the problem of income inequality is income transfer from the rich to the poor through taxation. This will only accelerate the trend for government dependency and larger entitlements. At this time 47% of the people pay no federal taxes, with 49.2 % receiving benefits from one or more government programs.

Obama compares himself to Lincoln. Lincoln came from Illinois, Obama comes from Illinois; Lincoln served in the Illinois Legislature, Obama served in the Illinois Legislature, Lincoln had very little experience before becoming President, Obama had very little experience before becoming President, Lincoln was highly respected by some, but intensely disliked by others, Obama is highly respected by some, but intensely disliked by others, and finally Abraham Lincoln was a tall, skinny lawyer. Barack Obama is a tall, skinny lawyer.

But that is where the comparison ends. Lincoln firmly believed in able persons carrying their own weight and perceived the United States as a strong nation, respected by the world. Lincoln showed his obvious respect for the flag, U. S. Constitution, and the military.

Lincoln's experience in foreign policy was very limited and appointed William Henry Seward as his Secretary of State. But he also believed that nurturing the nation's economy would prove the more effective method of husbanding and expanding the nation.

Obama on the other hand has a distaste for the military and believes that the U.S. involvement in the world is the cause of the world's problems. He believes that government can solve poverty through expansion of support programs and the transfer of wealth. His approach of leading from the rear has caused a vacuum that is being filled by our adversaries all over the world.

Since the end of World War II in 1945 the United States has been the dominant economic driver of the world economy starting with the Marshall Plan that rebuilt the European economy. This leadership ended with the government driven recession of 2008 and the Obama administration's concept of leading from behind. The hope that China would fill the gap has failed and the world economy continues to limp along on the edge of recession.

The Obama presidency will be judged in four areas Obamacare, foreign policy, race relations, and above all the economy, all failures.

The administration had an opportunity in aiding the middle-class, who were hurt by the 2008 recession, but chose instead to focus on "Global Warming" wasting millions of dollars on failed businesses and so called shovel ready programs which were not. Focusing on the takeover over one sixth of the economy, Obama Care, increased taxes and penalties with the unintended consequences of the elimination of many low skilled jobs.

The one bright spot in the economy was oil which was brought about by advancements in the technology of fracking and horizontal drilling. Although the Obama administration tried to take credit for its job creation it did everything in its power in eliminating the use of oil in the defense of "Global Warming". Under this administration, drilling on public lands went down. It denied the Keystone pipeline and defended the 1970 law prohibiting the export of domestic oil.

The present resurgence of the domestic auto industry is the direct result of zero interest rates and the low cost of gasoline. The mainstay of the high margin SUV and pickup truck are in a comeback as a result.

The Saudi Arabia move to break the back of the American oil industry is having an effect and gas prices are starting to rise again. This and the ill-conceived force bankruptcy of GM in favor of the unions and the giveaway of Chrysler will in the end be their undoing once interest rates return to normal.

As a result the U.S. remains mired in an economic decline and any talk of a broad recovery is false. Because of the inflationary pressure, government policies and the devaluation of the dollar, the average wage earner is struggling to stay afloat. The Obama administration has been trying to paint a rosy picture of the economy, one that is expanding out of the recession of 2008, but most businesses are reluctant to hire understanding that they must keep a strong balance sheet, not over leverage and try to protect their present employees in these unstable times.

Until there is a change in policy towards pro-growth, the Federal Reserve will be slow to raise interest rates in fear of forcing the economy back in recession.