



JUST GETTING BY Obama's Economic Report Card

"We can probably muddle along without taking bold action. Our economy will grow, though slower than it should, new business will form, and unemployment will keep ticking down. Just by virtue of our size and natural resources and the talent of our people, America will remain a world power and the majority of us will figure out how to get by."

President Barack Obama, July 24, 2013
During his new "better bargain" deal speech

I guess that quote says it all.

It explains why we are experiencing the slowest economic recovery out of a recession on record. Why the unemployment rate has barely budged lower in years. Why corporations are hoarding cash and not investing. Why entrepreneurs are not taking risks.

Even the President himself knows that even though their economic "policy" has not worked, the America economic machine can still go on without the added help.

In his address to Congress (and the nation) last week, the President spoke of his next new "new better bargain" deal to secure an economic future for the USA. The President invoked the word "inequality" more often than the word "growth" in a speech that seemed to create even larger riffs in the nation.

He continues to makes excuses for people that aren't trying hard enough while dismissing those that have to the point of belittling them. It's one thing to urge compassion and charity, but saying that somehow a person who's done things right, like gone to university or college, saved, lived within their means, etc...with a full time job...owes the person that dropped out of high school an economic reward.

When the President implies that "inequality" is morally wrong, he may be correct if he is speaking about separate rules or laws governing the same people. If the

economic outcome of effort between people results in one doing substantially better than others, it's merely the consequence of a system which is called capitalism. The irony of it all is that liberal policies that demand higher taxes, higher gas prices, more regulations and more hurdles for businesses negatively affect those at the lower end of the economic ladder. Those policies actually create more hurdles for people who genuinely want to work hard and improve theirs and their kid's lots in life by moving up the ladder.

There has been an effort to try to create a coalition of "victims" who will rely on government to fight back against the "system" – that system being capitalism. It's a very dangerous path and one which should be resisted. The end results can be seen in parts of Europe, and most recently, the city of Detroit.

So while the President raises the economic question, it must be acknowledged we obviously don't believe that the President of the United States is solely responsible for where they currently sit. The criticism (or praise where due) must be equally applied to all levels of government for fiscal and monetary decisions made over the past 30 years spanning Republican and Democratic administrations.

However, given the President, in his own words, seems to have taken the position that he is responsible, for having "cleared away the rubble and getting us back to where we were," it is simple enough to look at the economic data and see, if indeed, that that is the case.

Have the endless bailouts, unprecedented Central bank monetary stimulus, and the myriad of other Obama financial support programs gotten the US back to where it was in 2007 before the financial meltdown?

While US equities may have retraced themselves, it would seem looking at major aspects of the economy that is not the case:

With respect to full time employment, which allows for maintaining and/or increasing a standard of living, household formations, and savings, it would seem since January 2009, there has actually been very little increase in full time employment. Full time employment jobs are up a mere 178,000 jobs, while food stamp users are up over 15 million. The unemployment rate has ticked down slightly, but is more attributable to the way the statistics are maintained, where many have moved to part time jobs (which is up 1.7 million jobs by the way for that period), or simply stopped looking for work and started relying on the government to make ends meet as the food stamp numbers increase would support. By any measurement, the President would get a failing grade on job creation.

With respect to incomes, the average middle class family (which the President espouses to be a staunch defender of) is primarily focused on working, paying their bills, and raising their families. The amount of the paycheck means everything to them. The problem is a very weak economy creates a larger available labour pool, and this puts downward pressure on wages (which ultimately leads to lower consumption!).

The US numbers show that wages have barely grown since the President took office, and that failure of wages to keep pace with real costs of living has also put pressure on the personal savings rates as they dip into them just to "get by." This lower savings rate will ultimately reduce future productive investments and consumption.

The personal savings rate was over 6% when the President took over and has fallen to below 3%. While it is not a problem specific to the current Administration, an accumulation of debt and deficit spending that began in the 1980's has not helped. However, what is more pronounced under this Administration is that since the recent crisis began, the financial dependency on government has soared, and remains near the highest levels on record. Social benefits as a percentage of real disposable incomes have soared from about 18% to closer to 24%.

In terms of home ownership, it is now at the lowest levels since the 1980's. It is hard to suggest that economic policies of higher debt levels, bigger government, higher levels of government dependency, and ongoing bailouts have done much to improve "the American dream."

After every previous World War II (modern times) recession, household net worth had exceeded its previous peak within 3 years. We are now in year 5 and still well below its highs. In terms of household net worth, once again, we barely have a passing grade.

So while there is no doubt the current Administration inherited a terrible situation, it can be argued the Bush Administration inherited an economy falling into recession, racked by financial scandals, and a terrorist attack – all of which were fostered by the prior administration.

So a logical person has to ask how the new-new policies are going to be any different and have any different results if they are still on the backs of increased government debt, higher spending, government bailouts, and bigger entitlement programs (like the day care Obama proposed in last week's speech).

They say the definition of insanity is doing the same thing over and over and expecting different results.

Stay tuned,

Vito Finucci
Vice President and Director
Investment Advisor

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