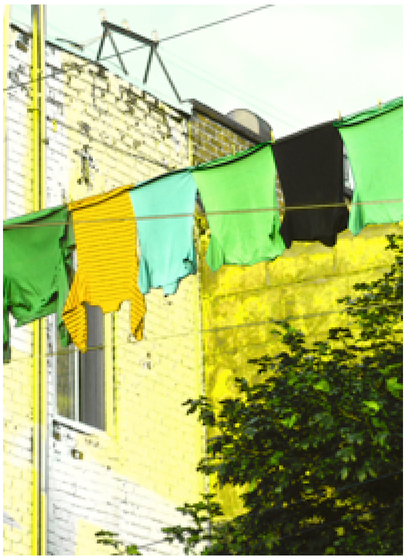
# New Study Shows How the Economy Is Really Doing



The household income index (HHI) — created by two former Census Bureau analysts, Gordon Green and John Coder — has declined by almost 10 percent since the start of the recession, marking "a significant reduction in the American standard of living." And the decline has been steady, month after month since January 2000, with only nine months out of the 138 months since then showing any improvement.

As noted by Robert Pear in the *New York Times*, this explains "why Americans' attitudes toward the economy, the country's direction and its political leaders have continued to sour even as the economy has been growing." And even the assumption that the economy really is growing is still unclear. Henry Farber, a Princeton University economist, observed, "As a labor economist, I do not think the recession has ended. Job losers are having more trouble than ever before finding full-time jobs." One of Farber's studies shows that when people finally do find work, they are likely to have to take a substantial pay cut, amounting on average to almost 20 percent below their previous positions.

Wells Fargo Securities Group's "Weekly Economic & Financial Commentary" reviewed all of last week's torrent of economic data and concluded that the economy is "still growing but the expansion is still at risk." Any excitement over the September job growth numbers is premature, according to the report, which concluded that the modest monthly job growth reported "will not invigorate the economic recovery and still leaves the economy vulnerable to future financial shocks." The report also noted that initial unemployment claims are staying above 400,000 every month, a long way from the 300-350,000 monthly claims that are "considered a prerequisite for the sort of job growth needed to bring down the unemployment rate."

The report also noted that retail sales were flat in August, "essentially meaning that spending growth had slowed to a standstill." And on top of that, consumer sentiment remains at the lowest levels since the recession started in 2007.

Explanations abound as to why the economy remains stuck in neutral, with household incomes and consumer sentiment declining along with them. Angel Martin Oro, an Austrian economist writing for *The Freeman*, has the best answer so far. The contraction in incomes is a measure of just how large a bubble the Federal Reserve had created, and how serious the economic hangover is from the ending of that binge. He wrote,

> The economy has to go through a process of adjustment that cleanses the massive errors resulting from economic decisions [individuals] made in the past.
>
> This restructuring involves not only reallocating capital and labor, but also reducing debt [by] a significant amount, which has [negative] effects on demand and aggregate economic activity.

This “reallocation” is painful, as people out of work have discovered, but it is also very slow, partly because Keynesians in government are determined not to let that reallocation take place. With interest rates at essentially zero, and the Fed’s efforts to bring down long rates as well, poor economic decisions will continue to be made by people who think the current price of money is a reflection of the real economy. As Oro put it, quoting another Austrian economist, J. R. Rallo, “keeping interest rates extremely low for a prolonged period, as the Federal Reserve has, creates incentives for people not to reduce debt and adjust to the new circumstances.” In other words, Fed policies are still promoting a dream world where bad decisions can continue to be made without consequences.

Not only is the Fed getting in the way of clearing the market and allowing for the readjustments to take place, the current administration has created what economist Robert Higgs has termed “regime uncertainty,” which is extending further that necessary period of readjustment and reallocation. Higgs noted, “The surge in the federal deficit and debt, the likely introduction of new taxes to finance the recent massive public spending … changes in existing tax rules, potential burdens on businesses brought about by environmental and energy regulations, and the still-uncertain real effects of Obamacare and the new financial regulatory framework [Dodd-Frank]” all point to further disincentives stalling any economic recovery.

That’s why the recession continues. It’s Fed and administration policies that stand in the way of any recovery with their continuing drumbeat of interference, fear, and uncertainty. The HHI is merely the latest, perhaps one of the best, indicators of how those destructive policies continue to hurt middle-class Americans.