The Fed's Projections Are Too Rosy, Again

This is wishful thinking. Okun's Law (or rule of thumb) says that it's going to take inflation-adjusted growth in the economy of at least 3 percent to make any dent at all in the unemployment rate. And even if GDP does grow at 4 percent, as the Fed projects, unemployment will likely drop by less than one half of one percent, or still well above 8 percent. Not only does that not bode well for President Obama's reelection chances (no President since FDR has been elected to a second term when unemployment has been over 7.2 percent), it's also bad news for those who continue their job search in a flat economy.

The first difficulty with the Fed's projections is that with inflation of 2 to 2 ½ percent (these figures are according to their analysis — the inflation experienced by citizens is provably higher), it's going to take economic growth of 6 to 7 percent to fulfill the Fed's expectations. And nowhere on the economic scene are numbers like that showing up.

Another difficulty is that unemployment, which should be declining (the recession supposedly ended in June of 2009, according to the National Bureau of Economic Research — NBER) nicely by now, is actually increasing. The Labor Department announced on Thursday that initial claims for unemployment benefits rose to 429,000, way above the number anticipated by mainstream economists. And those claims have remained above 400,000 now for 11 straight weeks.

The housing market isn't helping matters. The Commerce Department said on Tuesday that new single family home sales fell another 2.1 percent in May while sales of previously owned homes fell 3.8 percent. And the Case-Shiller Home Price Index, due out next week, is expected to show continued declines in house prices

Louis Woodhill, writing in *Forbes* magazine, uses the "employment-population ratio" as an indicator of employment levels and a predictor for the future. It's a simple ratio of the number of working age adults who actually are holding jobs compared to the population. That ratio peaked at 63.4 percent in December 2006 and has declined ever since. In June 2009, the month that NBER said the current recession ended, this ratio was at 59.4 percent. Last month it was at 58.4 percent, and declining. Says Woodhill, "From the point of view of the ordinary citizen, the current recession has been grinding on for 53 months, with no signs of ending."

Mortimer Zuckerman, editor-in-chief of *U.S. News and World Report*, wrote that since the start of the recession, "There have been no new net increases in full-time jobs … [which] is contrary to all previous recessions." He points out that 131 million workers have jobs today, a number that is lower than in January 2000 when the country's population was 30 million smaller that it is today. He summarizes the state of the economy:

> Today, over 14 million people are unemployed. We now have more idle men and women that at any time since the Great Depression. Nearly seven people in the labor pool compete for every job opening. Hiring announcements have plunged to 10,248 in May, down from 59,648 in April. Hiring is now 17 percent lower than the lowest level in the 2001-02 downturn. One-fifth of all men of prime working age are not getting up and going to work.

Zuckerman confirms that the unemployment number announced by the Department of Labor at 9.1 percent "is a gloss on reality … the real number is a nasty 16 percent … and this does not take into account the discouraged workers who have left the labor force. "

Other indicators showing the poor state of health of the economy include the fact that there is no one on strike. David Rosenberg of Gluskin Sheff noted that back in the 1970s, it was common to see as many as 30,000 workers on strike in any given month, with 300 work stoppages at any given moment: "Last year there were a grand total of 11. "

So the Fed's projections can safely be taken, once again, with a more than a grain of salt. Dismal consumer and investor confidence numbers from Rasmussen and others confirm the reality: Despite years of attempted "healing through stimulus" by the Obama administration and the Federal Reserve, investors and citizens remain unconvinced of the health of the economy and consequently are unwilling to do much more than maintain a wait-and-see attitude.

The solution remains, as it always has, to stop the remedies and let the free market, driven by individual decisions, right itself. Let house prices continue to fall until they find a bottom, representing a "clearing" of the market. Let entrepreneurs innovate without the rules, regulations, and limitations placed on them. Let them keep the fruits of their labors if they guess right about fulfilling needs. Let firms hire without being hampered by minimum-wage laws and rules requiring inclusion in various benefit packages currently mandated by law. The resultant "release of pressure" will cure the unemployment problem.