

If the US economy is so good, why does it feel so bad?

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With a 2 percent annual growth rate, 5 percent unemployment, and zero inflation, the US economy is the envy of the world. Growth seems to be rising and unemployment seems to be falling, which means that most analysts expect an even better US economy in 2016. Throw in low gas prices and a strong dollar, and what's not to like?

If the US economy is doing so well, why are ordinary people so unhappy with their own economic prospects?

Where are the jobs?

The aggregate US economy may be growing but most people's personal economies are not. Census Bureau data show that real per capita income is still below 2007 levels — despite six years of solid economic growth. And Bureau of Labor Statistics data show that despite today's low unemployment rates the jobs still haven't come back.

Back in 2006 the employment rate of the civilian population — the proportion of adults who had jobs — was over 63 percent. Allowing for people who are still in school, people who are retired, people who are disabled, and people who prefer not to work, that was just about everyone. When the economy is doing well, people who want jobs can get jobs.

Compare that with 2015. For all of 2015 to date the employment rate has been stuck below 60 percent. In fact, the employment rate has not risen above 60 percent since the technical beginning of the "recovery" in June, 2009. Over the last six years, the economy has recovered. Employment has not.

The difference between the 63 percent employment rate of 2006 and the (well under) 60 percent employment rate of 2015 is roughly 7.5 million people. That's the number of jobs missing in today's roaring economy. Bringing today's employment rate back up to 2006 levels would require the creation of more than 7.5 million new jobs.

Full-time to part-time

What's more, since the Global Financial Crisis there has been a shift from full-time to part-time employment. Some 2.5 million full-time jobs have disappeared, to be replaced by part-time employment. Assuming that people have basically the same preferences as they had before the recession hit, this means that the US economy is really short 10 million full-time jobs.

And remember, this is the economy at its best. The current "recovery" won't last forever. It is already the fourth longest expansion of all time and about to overtake the World War II period to become the third longest. If the next recession hits while the economy is already 10 million jobs short of full employment, God help us.

The managers of the US economy don't seem to be worried about this. On December 16, 2015 the Federal Reserve raised interest rates (albeit by a tiny amount) for the first time in seven years. The

Fed expects that “economic activity will continue to expand at a moderate pace and labor market indicators will continue to strengthen.” In other words, the Fed expects more good news.

More good news for whom? As analyses from the Financial Times show, banks are increasingly parking their money at the Fed, not lending it out to businesses and consumers. Along with the Fed’s increase in lending rates (from 0 to 0.25 percent) came an increase in the interest rate the Fed pays banks on their own deposits at the Fed (from 0.25 percent to 0.5 percent).

Excess funds

For the last six years banks have parked trillions of dollars of excess funds in their accounts at the Federal Reserve. After all, they can earn 0.25 percent risk-free by borrowing money from the Fed and placing it directly in their own accounts at the Fed. Banks now hold some \$2.5 trillion in excess reserves in these accounts. Those holdings give banks collectively an extra \$6 billion in annual risk-free profits.

Before the Global Financial Crisis, US banks held virtually \$0 in excess reserves in their Federal Reserve accounts.

What we see today is a US economy that is great for banks, great for bankers, and not so great for ordinary workers. Employment rates are down, employment hours are down, and wages are down. Bank profits are up, up, up to record levels. It’s no wonder that ordinary people are not as optimistic as the Board of Governors of the Federal Reserve System.

In the end, the Fed can’t fix the problems of the US economy. The Fed can help the banks (and the bankers who serve on its boards) but it can’t make companies hire more people. Only government can do that, and the US government has shown no willingness to create jobs in this recession, or even in this century.

The US government should be borrowing that cheap Fed money and using it to put people to work. Education, healthcare, and infrastructure could all absorb millions of workers to do jobs that desperately need to be done. President Obama should make this clear to Congress and put people to work. Fixing the jobs crisis can’t wait for the next president — or the next recession. It is already long overdue.