Observations on the state of the American Economy

Thomas R. Cuba
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Wow. That is either a great title for an essay or the most boring thing in the world. In either case, it is an important topic. Unfortunately, once I settled on the title, I realized that our capacity to make observations on the American Economy has been nearly terminated by the smoke and mirrors put in place to hide it.

Let's examine some of the old standards: The Stock Market and the Unemployment Rate.

The DOW was the gold standard until manufacturing was supplanted by technical industries. Even though the NASDAQ arose (1971), it serves to augment the DOW, not to replace it. So, the indexed exchanges seemed to work for a while, but recently there seems to be no rhyme or reason to the market going up or down or doing nothing. Most people blame computerized trading, but that is only half the story.

The unemployment rate was fine for a while too, until the statisticians in Washington came up with six different ways to calculate it. There are other weird things too, like not counting farmers and not counting people who do not want to be employed.

The most obvious failure of these two indicators is that they no longer seem to be linked together. The unemployment rate goes up, and so does the DOW. We scratch our heads and pray our broker knows more than we do. He either doesn't or he isn't saying.

The problem is that these measures are no longer relevant to the American economy. The indexed exchanges are more relevant to a world economy. The proof is how the American index is more responsive to European and Japanese market indexes than to internal American factors, like unemployment, inflation, or the gross domestic product (GDP).

The unemployment rate was never a really good tool and I am still baffled as to why the other tool, the *Labor force participation* rate is not quoted more often. Instead of 6 different ways to calculate how many people are out of work, the participation rate takes all the people over 16 and counts how many have jobs. It does not include the military. The benefits to such a measure go way beyond the fact that it is a lot easier to count employed people than unemployed people.

By counting the people who actually have jobs, we can examine the strength of the economy. The relationship is sound: A better economy provides more jobs. Don't confuse that relationship with better jobs or higher paying jobs, but just more. From 2003 to the middle of 2008, the rate hovered around 66%. Two thirds of Americans were working. Two thirds were producing the economy. Since then the rate has been steadily declining to around 63%. Not much (3%), until you realize that 3% of 300 million people is nine million people. Comparing the current Washington bluster about how the unemployment rate is dropping to the fact that 9 million fewer people actually have jobs highlights the introductory comment about smoke and mirrors.

There are solutions to the current lack of a clear view of the American economy. The fastest and easiest is to pay more attention to the labor force participation rate. The other would be to create a market index, like the DOW, NASDAQ, or S&P which really does track the American economy by tracking American business. Not just ones that have headquarters in America or manufacturing plants in America, but which are truly American. The best index would be to track businesses actually owned by Americans as individuals or as the super-majority of the shareholders.

Labor Force Participation See: http://data.bls.gov/timeseries/LNS11300000