THE GINN ECONOMIC BRIEF

U.S. ECONOMIC SITUATION OCTOBER 2021 | VANCE GINN, PhD, CHIEF ECONOMIST

4.8%

UNEMPLOYMENT RATE IN SEPTEMBER 2021

How many job losses would result from Biden's Build Back Better agenda?
Click for the answer!

OVERVIEW: Governments' forced business closures and mandates in response to COVID-19 resulted in much economic destruction during what I am calling the "shutdown recession." Returns to normal, to work, and to pro-growth polices are essential for the economic recovery and people's flourishing. However, more government intervention in response to the Delta variant and reckless fiscal and monetary policies out of D.C. are hindering the recovery. The labor market has been improving more slowly than expected even though Congress has authorized $6 trillion since the pandemic started and may soon authorize another $6.2 trillion, while the Federal Reserve has more than doubled its balance sheet to $8.4 trillion. The federal government has been paying people not to work thereby supporting labor market shortages and a near record high of 2.1 million more job openings than total unemployed. In August, there was a record high of 2.9% of job holders who quit their job, possibly due in part to the vaccine mandates. Congress should stop paying people not to work, reject the reckless Build Back Better agenda, and return to the pro-growth policies supporting vast opportunities to let people prosper.

LABOR MARKET: The U.S. Bureau of Labor Statistics recently released a weak U.S. jobs report for September 2021, which showed much slower-than-expected hiring, while wages have not kept up with inflation, and a record high of 10.4 million unfilled jobs. Despite this, the productive private sector has now added more than 17.1 million jobs since the trough in April 2020 after losing 21.4 million jobs over March and April 2020. Private sector employment improved dramatically since the Great Recession through February 2020, took a severe downturn through April 2020 due to the shutdown recession, then improved starting in May 2020. It has been improving thereafter but remains 4.1 million jobs below the peak.

	JUNE 2009	FEBRUARY 2020	APRIL 2020	SEPTEMBER 2021
Prime-age (25-54 years old) employment rate	75.9%	80.4%	69.6%	78.0%
Unemployment rate (U3)	9.5%	3.5%	14.8%	4.8%
Private sector employment	108.4M	129.7M	108.3M	125.6M

Data compare the following: 1) June 2009—Dated trough of the 2007-09 U.S. recession, 2) February 2020—Dated peak of the last expansion, 3) April 2020 is dated trough of the 2021 recession, and 4) September 2021 is the latest period.

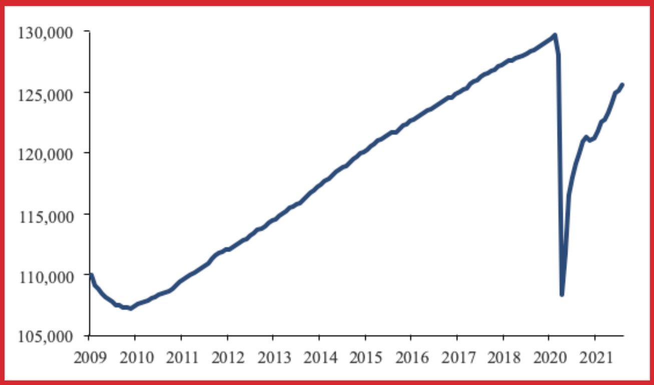
ECONOMIC GROWTH: The data below show a comparison of real gross domestic product (GDP) and real private GDP, which excludes government consumption expenditures and gross investment.

	Q3:2009-Q4:2016	Q1:2017-Q4:2019	Q3:2020	Q4:2020	Q1:2021	Q2:2021
Real GDP (end of period)	$17.8T	$19.2T	$18.6T	$18.8T	$19.1T	$19.4T
Annualized growth (avg for period)	+2.2%	+2.5%	+33.8%	+4.3%	+6.3%	+6.7%
Real private GDP (end of period)	$14.7T	$15.9T	$15.3T	$15.5T	$15.7T	$16.0T
Annualized growth (avg for period)	+2.9%	+2.7%	+43.8%	+5.7%	+6.7%	+8.7%

The recent shutdown recession lasted from February to April 2020, as real GDP contracted by 31.4% and real private GDP shrank by 37.4% in Q2:2020 as a result of individual responses and government lockdowns related to the pandemic. The economy rebounded sharply in Q3:2020 as some states started reopening but slowed down again in Q4:2020 as many states reimposed pandemic-related restrictions during the winter wave. The economy picked up again in Q1:2021, and the recovery was even faster in Q2:2021 as many Americans returned to work and states appropriately reopened. However, in Q2:2021, nominal GDP, measured by current dollars, grew by 13.4%, but real GDP, measured by chained 2012 dollars, grew only by 6.7%, which was much less than the consensus estimate of 8.4%. This means that inflation was the other half of nominal GDP growth, which distorts the economy and will contribute to less growth in Q3:2021, along with bad government policies. The Atlanta Fed has reduced its predicted Q3 growth from over 7% down to 1.3%.

For comparison, the previous expansion from June 2009 to February 2020 had an average annualized growth per quarter of 2.3% in real GDP and 2.8% in real private GDP. The earlier part of the expansion had slower overall real GDP growth but had faster real private GDP growth. One reason was that government spending in the latter period grew at a much faster rate, contributing to crowding-out of private sector resources. The fiscal rule known as the Budget Control Act of 2011 helped rein in excessive federal government spending in the early part, but Congress soon resumed its excessive spending, hindering private sector growth. Given that excessive government spending over time led to bloated debt, the Federal Reserve has more Treasury securities to purchase and increased the money supply, resulting in higher inflation—at a concerning 6.2% annualized rate in Q2:2021 per the GDP implicit price deflator and 5.4% annual rate in September 2021 per the consumer price index with real wages and weekly earnings falling 0.8% over the last 12 months. Elevated inflation will likely continue as the Fed continues to purchase a large share of the roughly $250 billion per month increase in the unsustainable budget deficit, though there is some indication that these purchases may slow after the Fed's November meeting.

PRIVATE SECTOR EMPLOYMENT *(Thousands of Persons)*



High deficits and taxes are always and everywhere a spending problem. As the federal debt now well exceeds economic output by 25%, and the Biden administration has issued an irresponsible FY22 budget, it is time to pass a Responsible American Budget (RAB). The RAB is similar to the Foundation's successful Conservative Texas Budget, with a fiscal rule of a maximum spending limit based on population growth plus inflation. Doing so would support an improved fiscal path and fewer policy distortions for Americans to have more opportunities to prosper. If Congress had followed this approach from 2000 to 2020, the $16.2 trillion national debt increase would instead have been a $2.6 trillion decrease (surplus).

BOTTOM LINE: The U.S. economy and labor market have been improving, but governments should resist resorting again to costly shutdowns and mandates and instead allow freedom, entrepreneurship, and personal responsibility to prevail. The path forward should also include pro-growth policies that look more like the policies that supported historic prosperity under the Trump administration from 2017 to 2019, rather than the anti-growth, big-government socialist policies of the $12 trillion either authorized or proposed by Congress since the pandemic started and the massive tax hikes by Democrats in Congress and the Biden administration. It's time to make work great again by returning to normal.

RECOMMENDATIONS

- Set a pro-growth path by lowering spending, deregulating, and cutting taxes at all levels of government.
- Reject the Build Back Better agenda that would result in 5.3 million job losses; pass the RAB instead.
- Stop unnecessary payments for not working, impose strict fiscal rules to control excessive government spending and debt, and adhere to monetary policy rules to stabilize inflation so we can return to normal.