THE GINN ECONOMIC BRIEF

U.S. ECONOMIC SITUATION JANUARY 2022 | VANCE GINN, Ph.D., CHIEF ECONOMIST

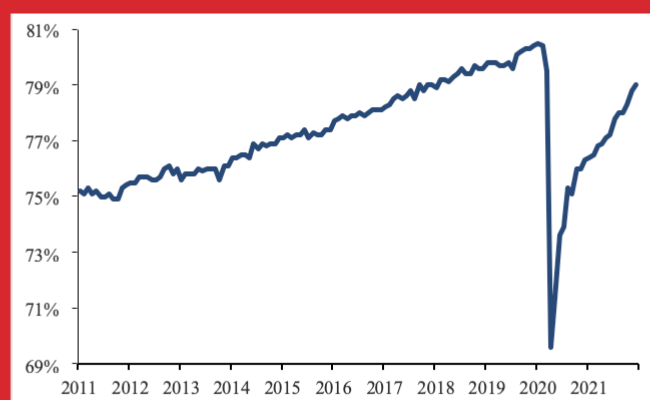
78.8%

PRIME-AGE EMPLOYMENT RATE IN DECEMBER 2021

Inflation-adjusted total earnings are down 1.5% since February 2020.
Click here for details.

OVERVIEW: The shutdown recession from February to April 2020 was devastating. There must be a return to the dignity and permanent value of work instead of dependency on government from Washington's big-government agenda and mandates related to COVID-19. The U.S. labor market has been improving more slowly than expected even though Washington has tried "stimulus" repeatedly. Congress has authorized spending $7.2 trillion above the normal fiscal year budget since the shutdown recession. The next bad policy from D.C. could be the $5 trillion Build Back Better Act that would add $3 trillion to the bloated $29 trillion national debt, ballooning the debt owed per taxpayer by $23,800 to $110,900. The increased debt from excessive spending has given the Federal Reserve a path to more than doubling its balance sheet by buying mostly Treasury securities, which has fueled the highest inflation rate in 39 years. High inflation and the lowest rate of productivity in 50 years indicate stagflation is here. Congress and the Fed should end bad policies that are crushing Americans' livelihoods and promote proven pro-growth ones instead.

EMPLOYMENT-POPULATION RATIO (25-54 YEARS OLD)



LABOR MARKET: The U.S. Bureau of Labor Statistics recently released a muddled U.S. jobs report for December 2021. Labor market data include wages not keeping up with inflation, a near record high of 10.6 million unfilled jobs, and a depressed rate of prime-age (25–54 years old) people employed. Since the shutdown recession ended in April 2020, total nonfarm jobs are up 18.8 million but remain down 3.6 million from the peak in February 2020. Sixty-seven percent of these total jobs gained were during the Trump administration from April 2020 to January 2021 and 33% of them during the Biden administration thereafter. Private nonfarm jobs have increased by 18.7 million but remain down 2.6 million from the peak. Sixty-nine percent of these private jobs gained were during the Trump administration and 31% during the Biden administration. And although the typically reported U3 unemployment rate has declined to 3.9%, the more realistic U6 underemployment rate, which includes those working part-time but who would like full-time employment and discouraged workers, is at 7.3%.

	JUNE 2009	FEBRUARY 2020	APRIL 2020	DECEMBER 2021
Employment-population ratio (25-54 years old)	75.9%	80.4%	69.6%	79.0%
Unemployment rate (U6)	16.5%	7.0%	22.9%	7.3%
Private sector employment	108.4M	129.7M	108.3M	127.0M

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) December 2021 is the latest period.

Texas Public Policy Foundation

901 Congress Avenue | Austin, Texas 78701 | (512) 472-2700 | www.TexasPolicy.com

ECONOMIC GROWTH: The data below show a comparison of real gross domestic product (GDP), measured in chained 2012 dollars, and real private GDP, which excludes government consumption expenditures and gross investment.

	Q3:2009-Q4:2016	Q1:2017-Q4:2019	Q4:2020	Q1:2021	Q2:2021	Q3:2021
Real GDP (end of period)	$17.8T	$19.2T	$18.8T	$19.1T	$19.4T	$19.5T
Annualized Growth (avg for period)	+2.2%	+2.5%	+4.5%	+6.3%	+6.7%	+2.3%
Real Private GDP (end of period)	$14.7T	$15.9T	$15.4T	$15.7T	$16.0T	$16.1T
Annualized Growth (avg for period)	+2.9%	+2.7%	+5.7%	+6.7%	+8.7%	+2.6%

The shutdown recession had catastrophic economic contractions—31.2% in real GDP and 37.4% in real private GDP in Q2:2020—because of individual responses and government lockdowns related to the pandemic. The economy rebounded sharply in Q3:2020 as some states started reopening, but it slowed down again in Q4:2020 as many states reimposed pandemic-related restrictions during the winter wave. The recovery picked up again in Q1:2021 and quickened in Q2:2021 as many Americans returned to work and states appropriately reopened. It slowed again in Q3:2020 as states restricted activity again during the summer wave. But the growth in nominal GDP, measured in current dollars, has been dominated by inflation, which distorts economic activity, comprising half of the 13.4% increase in Q2 and three fourths of the 8.4% increase in Q3.The Atlanta Fed has recently decreased its predicted Q4 growth from 7.4% to 5%.

For historical comparison, the previous expansion from June 2009 to February 2020 had 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 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 spending led to bloated debt, the Federal Reserve had more Treasury securities to purchase and increased the money supply, resulting in higher inflation—at a concerning 5.9% annualized rate in Q3:2021 per the GDP implicit price deflator and 7.1% annual rate in December 2021 per the consumer price index (CPI). After adjusting total earnings in the private sector for CPI inflation, real total earnings are down 1.5% since February 2020, indicating the budgeting struggle for workers. These earnings were up at an annual rate of 1.6% from 2009–16 during the Obama administration, 2.5% from 2017–19 during the Trump administration (up 1.1% from 2017–20), and 1.6% so far during the Biden administration. Elevated inflation will continue even as the Fed has been tapering their debt purchases.

High deficits and taxes are always and everywhere a spending problem. As the federal debt to GDP ratio is 126%, and the Biden administration has issued an irresponsible FY22 budget, the time is now to adopt the Foundation's 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, though recently worse than expected as governments are distorting economic activity. The path forward should include pro-growth policies that look more like the policies that supported historic prosperity from 2017 to 2019, rather than the anti-growth, big-government policies of the $12 trillion in spending either authorized or proposed by Congress since the pandemic started and the massive tax hikes by Democrats in Congress and the Biden administration. It is 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 much economic destruction; pass the RAB instead.
- Stop paying people not to work, impose strict fiscal and monetary rules, and end pandemic-related mandates.