Episode 406: David STOCKMAN: Progressive Defenses of Obamanomics Are Laughable

Guest: David Stockman

WOODS: I had asked a bunch of my people on Facebook, "What would you like me to ask David Stockman?" and I think I'm going to keep those in reserve for the future, because it occurred to me this morning that I would like the "David Stockman reply" to some of these claims I've been seeing -- that, really, the Obama economic record is pretty good considering where he started, and it's just a whole lot of right-wing ignorance that would make people skeptical. So I'd like to -- especially since you worked in the Reagan administration, there have been comparisons of the Reagan job performance with the Obama performance -- I thought you would be an interesting person to talk to about this.

So, for instance, I'm reading an article from *Forbes* -- and you know *Forbes* online is highly variable in quality; it's like they let anybody post articles on *Forbes*. I don't know when they started that policy. But this is an update from March (so a little bit out of date), saying, "U.S. economy adds 295,000 new jobs in February. This extends the string of 200K new jobs for 12 consecutive months, the best jobs growth since '94-'95. Unemployment falls to five and half percent, a post-recession low." Let's just start with that one figure. Why is that not something to jump up and down about? And by the way, if we were to come back and say that the labor force participation rate is very low, they've got an answer for that. They say, that's just the Baby Boomers retiring. That's demographic; that's not lack of job availability. What do you say to that?

STOCKMAN: Well, there's a number of myths there; let's take them one at a time. First of all, they're taking the job numbers totally out of context, ignoring the fact that we had a devastating recession -- in fact, called "the Great Recession" -- that in the course of which, eight to nine million jobs were lost. And so therefore, the Obama White House commenced at the very bottom of a deep hole, and they're counting essentially born-again jobs. I keep using that phrase, because if we go back to December 2007, before the big plunge occurred, there were 138.5 million so-called "payroll survey jobs" in the American economy -- that's the place to start. Here we are, more than seven years after the last peak, and there are only about 141 million jobs today. So we have had the lowest rate of job growth on a peak-to-peak basis, counting both the plunge during the recession and then the recovery afterwards, for a sustained period, than has ever been experienced before in U.S. history. It amounts to, if you set aside some of the very low-paying temp jobs that have been created in the bartender and restaurant and retail clerk sectors and so forth, we have barely created 15,000 jobs a month since 2007. And that compares to, say, 150,000 jobs a month that would be needed just to absorb the growth of our labor force and population.

So that number about jobs per month I think is phony baloney. Obviously the low unemployment rate is a function of the numerator and denominator, and the denominator is the labor force that has actually had a huge plunge in the participation rate, as I think many of your viewers know. But it's worth going back to those numbers. Today, there are 91 million adults over age 16 who are not in the labor force. If we go back to the year 2000, there were only 75 million adult Americans not in the labor force. So we've had a huge pick-up in that number, and it's not accounted for by the Baby Boom retirees. Baby Boom retirees may be up 7 million or so since year 2000, but obviously, the dropouts from the labor force have increased by several orders of magnitude more than that. So I think what we have going on here is like political talking points, selective extraction of numbers from the BLS reports that create a false picture of recovery.

I think the better number that I keep using -- and I report this on my blog once a month when the BLS numbers come out -- is what I call the full-time or breadwinner employment total. And that basically represents the manufacturing, the construction, the mainline white collar jobs, distribution, wholesale, and those kinds of categories. And the point is we still have 2 million fewer jobs today -- 70 million rounded -- than we had at the turn of the century of 15 years ago -- 72 million. So, for the last decade and a half, the breadwinner job count, by the BLS's own numbers, has been shrinking in America. And what he have done is create a lot of part-time jobs that pay very low wages, average of $13 an hour, generate less than 26 hours a week of work, which is not a full-time job by any means, annual earnings at those rates of less than $20,000 a year -- clearly not something that can support a family and contributes a modest amount to GDP or economic growth. So I think what we have to do is get under the headlines, not select arbitrary months, look at trends, look at fundamentals, and when we do that, we see that we have a tremendous crisis of what I would call the economy stalling out, income growth stalling out, and real jobs, counted on an accurate and honest basis, actually shrinking in the American economy.

WOODS: David, you mentioned your blog, so I want to take this opportunity to tell people that, although you feel like the number of websites you're viewing is at its maximum, drop one of them, and replace it with davidstockmanscontracorner.com. I will be linking to it on today's show notes page. This is Episode 406, so it will be TomWoods.com/406. I'll also link to the article that I'm using for fodder for David here, which is this *Forbes* piece from late last year that keeps getting updated.

Let's go back to that for a minute and see if they're comparing apples and apples here. There's a comparison made in this article between Obama and Reagan. Now, again, I realize that they're not using the kind of metrics that you would want to use, so I want to know, is this a legitimate comparison? They're comparing Reagan -- because, of course, he's dealing with a recession too, and Obama's dealing with a recession, so they're both coming out of a recession -- but they're saying right here that, "President Obama's job creation kept unemployment from peaking at as high a level as President Reagan, and promoted people into the workforce faster than President Reagan. Obama has achieved a 6.1% unemployment rate in his sixth year, fully one year faster than President Reagan did. At this point in his presidency, President Reagan was still struggling with 7.1% unemployment, and he did not into the mid-low 6% range for another full year. So despite today's number, the Obama administration has still done considerably better at job creating and reducing unemployment than did the Reagan administration." Now bearing in mind that you don't endorse everything that was done during the Reagan administration, do you think that this is a reasonable comparison?

STOCKMAN: No, I don't; I think it's apples and oranges. The number of changes in the way the BLS measures the labor force and calculates the unemployment rate between the early and mid 1980s and the present -- it would take our whole discussion to go through all those changes. So we're not measuring the same thing. And so, therefore, the unemployment rate is, as I said, an apples-and-oranges comparison. I think the better thing to do is look at the employment rate, particularly adjusted for the fact that, even by the early 1980s, women had not fully joined the labor force. And if we look at the participation rate for adult males, for instance, between those eight years and the period of the Obama administration thus far, it was dramatically higher during the 1980s than it is at the present time.

And I think at the end of the day what counts is the employment rate, not the unemployment rate. The employment rate measures how many people are contributing real hours to the U.S. economy to generate output and generate a real standard of living. And so, again, I think you just have pundits who can take the rich array of data that they can put their hands on and twist and tweak it in a manner to make things appear far better than they are. I think we have a real crisis of growth going on. This recovery has -- notwithstanding massive fiscal stimulus, as I talked about in the article that you mentioned [before we went on the air], notwithstanding that the balance sheet of the Fed has gone from 900 billion to 4.5 trillion over the last six years, notwithstanding all that stimulus -- we have an economy that is more or less stalled out, dead in the water.

Real investment growth since 2007 is less than one percent. Real investment growth, after you set aside current period depreciation and amortization -- which you have to, because GDP each and every quarter represents some consumption of our existing stock of plant and equipment -- so if you look at it on a net investment basis, investment today in the sixth year of the recovery is 20% lower than it was in 1999 and 2000. Those are just some of the many metrics that help amplify or elucidate what the true trends are, and they're very unfavorable.

WOODS: I'm looking right now at an article, again from late last year, this time in *The New Republic*: "Obama's economic record is strong, even though wages are stagnant." And they say they'll grant that he has some faults, and that one of his faults was that in 2010 and 2011, he became too interested in budget-cutting and deficit-cutting and debt reduction, and so he went along with the Republicans with the sequester, and wound up engaging in budget cutting. And this has been a bad thing, because, as we've seen in Europe, cutting the budget is not good for economies. It seems like there are at least two major fallacies in that. How would you answer that claim?

STOCKMAN: First of all, if we look at Europe, the economy that is keeping Europe above water, that is pulling all the freight, is the German economy. And they have a balanced budget, and they have one of the rare things in the contemporary world: a government that actually believes in fiscal rectitude. So I would not look to Europe for evidence that Obama made a mistake. Secondly, this is just the same old Keynesian story that is predicated on the view that prosperity and growth and jobs and productivity and all the rest of it comes out of Washington, out of the maneuvers and the various kinds of stimulus initiatives in the state, either from the fiscal and budget side or from the central banking apparatus. I don't buy that at all. I think at the end of the day, the free market is what produces prosperity, is where we really get the productivity, the innovation, the production that generates real income and real living standard gains over time. So *The New Republic* is obviously a full-bore drinker of the "Keynesian Kool-Aid." If you take enough of the Kool-Aid, you can come to some pretty inaccurate and false conclusions. And clearly they have.

WOODS: They cite an IMF report, which is trying to come up with reasons for weak economic growth, and apparently in the report, a senior economist there says, "Infrastructure investment, even if debt-financed, may well be justified." And the article goes on to say, well, who's been a major proponent of infrastructure spending, if not President Obama? He hasn't been able to get what he wants, but doggone it, we've got to give him credit for trying. I know you appeared on television and talked about the whole infrastructure question. Can you share some of that with us?

STOCKMAN: Yeah, and of course they're all flapping their jaws about it right now in light of the Amtrak accident last week, which is very ironic, because the real train wreck in Philadelphia is Amtrak itself, and not the unfortunate incident that occurred on the tracks last week. We have wasted, as I indicated in an article that I posted Thursday, $75 billion in today's purchasing power since the early 1970s, when Amtrak was created. Now here is a superb example of what the Keynesians would propose in infrastructure spending, and there's 75 billion of it, and it has been one colossal waste. There is plenty of alternative transportation available to people that want to get from one city to another: air, bus, and obviously the automobile.

So if we look at the larger picture, then, there's no evidence that we're starving infrastructure in the United States, or that our growth problem has anything to do with lack of infrastructure. We spend $150 billion a year at the local, state, and federal level on highways and related transportation. In real terms, that's as high as we've ever done before. Highways and bridges aren't being starved; that is just a lot of mythology that's peddled in the Beltway in order to justify demands for additional spending.

If we look at the rest of the infrastructure -- I was noting the other day that someone was complaining that our electrical power grid and utility capacity is wanting or lacking. Well, I didn't know that that was a function of the state in the first place. Public power was an idea of 100 years ago whose time has come and gone. We have the lowest interest rates imaginable, and have had them for the last several decades. There's no evidence whatsoever that, somehow, utilities are being starved of the capital they need for actual investment in power production and transmission. What the critics are saying is, "We don't like the flavor that's being invested. We want more wind power and less coal." Well that's a different issue, but it certainly has nothing to do with economic growth or with starving the infrastructure. Obviously mass transit is a huge waste of money in almost every area of the country. That is not indicative of a need for more infrastructure spending. The basic issue of things like water supply and waste treatment, those are not national issues. Those are responsibilities of state and local government. And if they can persuade taxpayers to raise bond issues or to tax themselves for more investment in that kind of infrastructure, so be it. But it's not anything that we can make a generic statement about on a nationwide basis. And certainly, there's no evidence that it's causing economic growth to slow down, as it has been, or that somehow we need some massive federal program. So behind all of this is whole infrastructure thing, in my view, is a cover story for more deficit spending. At the end of the day, the Keynesians think they can make jobs and growth come out of bigger federal debts. That is wrong. It's been proved in spades now for the last several decades, both by Republicans and Democrats.

And we should recognize what the so-called infrastructure campaign is really all about. It's just a, as I said, cover story to kind of revive the case for deficit spending that has obviously failed during this recovery effort and the Obama effort to cause economic growth by borrowing $800 billion. It didn't work; most of it was a waste of money. A lot of it was one-time subsidies to operating budgets for state and local governments that never should have been appropriated in the first place.

WOODS: David, before I let you go, I guess we should say something about stocks, because I'm seeing in this *Forbes* article -- this is, again, written towards the end of last year -- "Investors have gained a remarkable 220% over the last five and half years. This level of investor growth is unprecedented by any administration, and has proven quite beneficial for everyone." Are we really going to rain on this parade, too?

STOCKMAN: (laughing) Well, I think we should. First of all, it's very selective. That isn't 220% from the last peak; that's 220% from the absolute dark bottom of March 2009, shortly after the Obama White House took power. The point, though, is of course the stock market has soared. All financial assets have soared, because we have a central bank, the Federal Reserve, that's committed to massive money printing and distortion and falsification of all financial markets. This isn't real; this isn't sustainable. It's the third bubble of this century, and I think we're reaching the point where we're about ready to see the cracks and fissures start to spread. And therefore, to take a dangerous exercise in central bank falsification of the financial economy, of a bubble that has been created on Wall Street, and claim that a big government administration is responsible for that, I think it's the height of absurdity. But it's just one more measure of how far the narrative coming out of Washington is off base.

WOODS: Well, David, I want to remind people once again: davidstockmanscontracorner.com is where you want to go if you want to be able to have a defense for yourself when your friends raise these objections, and say, "Look, Obama's done a fantastic job; what are you nutballs talking about?" You'll have all the evidence right at your fingertips, and of course, I know we all feel like we get too much emails as it is, but cancel a few of those things you're getting so that you can sign up for David's newsletter. Because this is what you need every day. You'll be kept up-to-date on what's going on; you'll get all the lies and propaganda exposed. It is such a valuable resource, and again, we'll be linking to it at TomWoods.com/406. David, I can't thank you enough for being here today; thanks so much.

STOCKMAN: Very happy to be with you, Tom.