WORLD BUSINESS ACADEMY
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PERSPECTIVES

by ***Rinaldo S. Brutoco***

Rinaldo S. Brutoco is the Founding President and CEO of the Santa Barbara-based World Business Academy and co-founder of JUST Capital. He's a serial entrepreneur, executive, author, radio host, and futurist who's published on the role of business in relation to pressing moral, environmental, and social concerns for over 35 years.

It's the Economy, Stupid!

Happy Days are Here Again

James Carville famously coined this phrase in 1992 as candidate Bill Clinton campaigned for President. He hung it (together with two other "targeting" phrases) in the Clinton "War Room" where that campaign was planned and executed. It turned out that the recession of 1992 was just the boost that Clinton needed to unseat then-President George H.W. Bush as he reminded the voters how critical the economy should be with the votes to be cast. Although Carville is not someone I personally admire, it seems he hit a "nerve" with the political forces at the time and left us with this lasting observation. As the French observed so long ago, "The more things change, the more they remain the same." We're back at the economy as the principal "driver" behind the political "buzz" of the moment. This time the twin issues are a) employment and b) inflation fears.

Employment concerns of the moment are the result of the perceived "poor" job creation number of 266,000 released by the Bureau of Labor Statistics ("BLS") for April 2021. Generally, economists were predicting that up to 1,000,000 would be created after the robust gains of the last two months—particularly March's 770,000 ("revised" down from 916,000). I have a few comments.

Let's start with this concept of "revising" down the actual numbers. An interesting fact is that the actual raw number of new jobs created in April 2021 was approximately 1,000,0000. You can be forgiven if you didn't know that as almost no one but professional economists have that information. You see, when the April jobs number was released, it was "seasonally adjusted" downward from 1,000,000 to 266,000. So, what is this "seasonal adjustment" all about? Turns out the BLS, in its wisdom determined that a "normal" Spring 2021 number would have had a floor of roughly 750,000 new jobs automatically added as the economy "routinely" moved from winter to spring. Right! As if anything about 2020-2021 has been routine! To adjust the actual number down when we are climbing out of an epidemic-induced, deadly deep recession which destroyed more than a third of the economy, is simply absurd.

Even more absurd, as of today we are still "missing" 8,000,000 positions that were eliminated in the pandemic and which have yet to come back. How do you seasonally adjust for that? How do you seasonally adjust for a pandemic response that killed over 580,000 Americans and has left us struggling to find our social and economic footing? Even more significantly, how do you seasonally adjust the "normal" passage of winter into spring when our Capitol was almost overtaken by an armed insurrection, and 70 percent of Republicans claim to believe our current President is illegitimate because of the toxic "Big Lie" being perpetrated. If ever there was a year to resist the temptation to "normalize" our labor accounting standards, this is the year.

Do you feel better knowing that the economy created so many more jobs than BLS reported? You should. It is good news. Here's a prediction: in raw numbers May will end with at least 500,000 more new jobs than April, and I wouldn't be surprised if that hits over the 750,000 mark. I also feel confident that even more jobs will be added in each of June, July, August and September. What happens after that is determined by how successful the Republicans will be in blocking President Biden's $2.2 trillion (or whatever lesser number ends up passing) infrastructure or "Build Back Better" plan.

In fact, the level of job creation since Biden took office is the highest it's been since the '70s. With so many jobs still "missing", and the economy now growing so well, there's high surety that GDP growth will continue upward. It's currently pegged by Fed Vice-Chair Richard Clarida (who also sees the BLS jobs report based on "transitory factors") at 4.2 percent annualized growth. The current economists' consensus for GDP growth is a more "bullish" 6.2 percent annualized growth by the end of the year, and I personally believe it could be even a percentage point higher by then. If this last set of observations makes you feel good, you're not alone. Consumer Confidence took a big jump in April from 109 to 121.7—which is a significant indicator of both future economic activity and job growth.

But what about inflation? We remember Richard Nixon for at least four things: 1) Opening China, 2) Signing the Environmental Protection Agency into law; 3) massive stagflation (when inflation runs very high and the economy shrinks); and 4) Watergate—the last time we held a president accountable for his crimes.

Let's focus on number three. In the absence of a slowing economy, which we reported above is definitely not happening, a little inflation is absolutely no problem. We've been averaging just a tad over 2.2 percent for more than a decade and it probably won't semi-permanently rise much above 3.5 percent. If so, we have no problem whatsoever. Business could pass along that small amount of inflation to customers without any serious disruption. Further, it would permit banks and insurance companies to pay small interest fees to depositors and policyholders—that's a good thing. It would also tamp down the overheated housing markets by bringing mortgages back down to traditional interest ratios.

Low by historical standards, a 3.5 percent inflation rate would make it easy for the government to continue borrowing with "cheap" dollars to implement a massive restructuring of our domestic infrastructure. The new infrastructure that will replace our decaying collective societal assets will last decades and, in some cases, centuries. That's the time to build—when borrowing costs are cheap. It is too early to tell, and no one should ever predict long-term trends from one month's data, but it is clear that the temporary supply chain breakdowns which are pushing prices up temporarily will likely abate as the economy re-starts following the national lock-down we've all withstood.

As one sage put it reflecting on the pandemic crisis now ending, "It is easier to put the economy into a coma than to awaken it." The "kinks" have to work themselves out of the system and our trading partners (especially Europe) have to struggle free from their version of the pandemic in the months ahead as their vaccination rates climb, which they will in the developed world. So, no fear of inflation at this time, and if such fear becomes reasonable you'll read about it here first.

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