The Bitter Harvest of Obama's Transformation

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In campaigning for the presidency, Barrack Obama inspired popular support of millions of voters by eloquently promising to "transform" America with "fundamental" change. Now his popularity is at its all-time low, his signature legislation, Obamacare, has been a disaster, his highly touted—and extremely expensive—stimulus program has failed. He has done nothing to lower the federal debt or tackle the future insolvency of Social Security, Medicare or Medicaid.And the economy continues to stumble 58 months after the recession officially ended.

In the first quarter 2014, home loan demand plunged 58% from the same period a year ago and 23% percent from fourth quarter 2013. Ever since the Fed began its "quantitative easing"— printing money—in late 2008, it was hoped that driving down interest rates would stimulate home buying and lead to growth in other segments of the economy. Many people were able to refinance their homes with lower mortgage rates, but the hoped-for follow through for the rest of the economy has been very weak. Moreover, the low interest rates have a sizable downside: they lowered the purchasing power of millions of retirees struggling to supplement fixed incomes with decent returns from low-risk investments.

Since the recession ended 58 months ago in 2009, the gross domestic product (GDP) has grown only 1.8% a year on average, half the rate of the past three recessions. The unemployment rate remains stubbornly high at 6.7%, and the standard of living for most people has declined. Median household income declined 1.65% in 2008 and 2.6% in 2009—but it continued to fall after the end of the recession: by 2.3% in 2010 and 2.5% in 2011. In 2013 median household income was 6.2% lower than in 2007, the official beginning of the recession. And it was 4.7% lower than in June 2009, the official end of the recession. Obama's policies have put the country on the wrong track. This is emphasized by the fact that since the end of the recession, employment has risen from 140 million to 145.7 million—but the number of Americans who are neither working nor seeking to work soared from 80.9 million to 91.4 million!

The labor participation rate includes workers and those looking for work but not those who have quit looking for work. This rate now stands at 62.8%, the lowest in 36 years. The employment rate (employment-to-population ratio) stands at 58.9%, compared to 59.4% in 2009. Pathetic as those numbers are, the situation is much worse than they indicate. As we pointed out in a previous posting, 60% of the jobs lost during the recession were in the middle pay range and only 21% in lower paying jobs, but almost the exact opposite occurred during the so-called recovery: 58% of the new jobs were low-paying while only 22% were in the middle range. In short, workforce income has downshifted. Far from showing an economic recovery, the numbers collectively show the economy has been going downhill since Obama became president.

Obama got elected by promising a fantasy he cannot deliver because it is disconnected from economic realities. The “transformational change” he promised has burdened the economy with wasteful government spending, mounting debt, tax increases and costly regulations that dissuaded business from investing and hiring. Evidence throughout the world shows the path to prosperity lies in reducing government spending and government’s role, not in increasing them as Obama has done. The International Monetary Fund data show that nations which restrained government spending enjoyed above-average economic growth. Daniel Mitchell of the Cato Institute provides some examples:

In Sweden, government budgets grew an average of only 1.9% annually from 1992 to 2001, and government spending as a percent of GDP dropped 15%.

In Germany, government spending grew an average of less than 0.2% annually 2003 to 2007, and government spending dropped to 5.4% of GDP. A significant budget deficit became a surplus.

In Canada, government spending grew an average of only 0.8% annually 1992 to 1997, and government spending as a percent of GDP dropped 9.4%. A large deficit turned into a surplus.

Latvia has cut government spending by an average of more than 4% annually since 2008 and reduced government spending as a percent of GDP by more than 7%.

Other nations with similar results include: Ireland (1985-89), Slovakia (2000-04), Singapore (1998-08), Italy (1996-2000), Lithuania (2008-present), Taiwan (2001-06), Israel (2002-05), Estonia (2008-11), Iceland (2008-present) and the Netherlands (1995-2000).

Regulations slow economic growth and impose costs on business and consumers. They make business less competitive and leave consumers less money for saving or spending—including spending for necessities. The overall cost of federal regulatory compliance is estimated at $1.9 trillion annually in a new study, based largely on government documents, by Wayne Crews of the Competitive Enterprise Institute. This amounts to $14,974 per U.S. household, because the added cost of regulatory compliance is embedded in the prices of all goods and services. Regulation is not a free service provided by a benevolent government for its citizens; it is a service that costs them much more than they realize. But by far the greatest and most tragic cost is the slower economic growth that has meant fewer jobs, lower incomes and vanishing economic possibilities that tens of millions of Americans will never see.

The 2013 Federal Register contains 3,659 final rules, which means they must be obeyed now, and 2,594 proposed rules that will have to be obeyed when their final publication appears. Mr. Crews reports that there are another 3,305 regulations moving through the pipeline. Of these, 191 are defined as “economically significant” (having annual costs over $100 million each). This means we are likely to see even more of these expensive regulations from Obama’s remainder in office than in his first 3 years as president, when 106 new regulations in this cost category were adopted. That compares to 28 during the eight years of the George W. Bush administration.

The Federal Register in 2013 contained 79,311 pages. The all-time record was 81,405 pages in 2010. Four of the five largest occurred during Obama's presidency.

Regulations also impose costs by delaying or denying permits for enterprises that would provide employment. Obama has stated his goal of income equality affects everything he does, even why he ran for president. He speaks out against the rich with the class warfare rhetoric of Saul Alinsky and Karl Marx. This makes him popular with middle and lower income voters and unwilling to approve permits or regulations that would favor business or the wealthy—even when they would provide jobs and good wages for the very people he professes to be most concerned about. A case in point is the oil and gas industry.

According to the Bureau of Labor Statistics, new jobs in the oil and gas industry increased 92% between 2003 and 2012, compared to a 3% increase in all jobs during this period. The BLS says the average annual wage in the oil and gas industry was$107,200 in 2012, the latest full year available. At the other end of the scale, waiters and waitresses earned about $16,200 a year, workers in the accommodations industry averaged $27,300, and those in retail trade averaged $27,700. But in oil boom regions, energy development lifted wages for low-income workers, too.

Williston, North Dakota, and Sidney, Montana, are oil boom towns on the western edge of the Bakken geologic formation. Drs. Polzin and Whitsett report:

"Before the Bakken boom in 2003, BLS data showed that average wages in all jobs in Richland County [Sidney] and Williams County [Williston] were roughly equal to their state averages. In Richland County, wages averaged $30,000, or 91% of the Montana average. In Williams County, wages averaged $32,700, or 97% of the North Dakota average.

"The data show that these counties now have average wages that have risen to 133% (Montana) and 170% (North Dakota) of their state averages. And wages in lower-paying jobs have also increased in inflation adjusted terms and relative to the region. In Richland County, food service wages have risen 109% (from 80%) of the Montana average. In Williams County, wage growth has been even more dramatic—to 146% from 97% before."

The authors point out that these two counties are not atypical but characteristic of oil and gas development throughout the U.S. They conclude: "Lower-paid workers in retail trade, food services and accommodations jobs experienced much faster than expected increases in wages per worker. The data don't lie."

The reality of lower-wage, less-skilled workers benefiting from higher-wage, more skilled workers does not jibe with collectivist ideology to which Obama clings. That ideology holds that people becoming rich under capitalism do so at the expense of the poorer classes. That is the essence of the class warfare attacks against the rich and demands that they pay higher taxes— their "fair share"—and that government redistribute this wealth. The more some people increase their wealth, the more virulent become the diatribes against the inequality of wealth. The clamor increases for extending unemployment benefits, other transfer payments, food stamps, subsidies for Obamacare, and other welfare measures, all disincentives to work.

North Dakota has an unemployment rate of 2.6%, the lowest in the nation. You'd think Obama would want to emulate North Dakota in order achieve jobs and lower the unemployment rate elsewhere. He has spoken repeatedly about his concern for "jobs, jobs, jobs," which he claims to be concerned about and trying to create. But he has so far refused to approve the Keystone XL pipeline to bring oil from Alberta to refineries on the Gulf Coast, which would create thousands of jobs just like happened in North Dakota. Last year North Dakota added 18,000 jobs; the Keystone XL pipeline would add 20,000 jobs over several states. The Keystone XL pipeline has been waiting for approval since 2008. (It appears the White House doesn't want to reject the pipeline until after the November elections because billionaire Tom Steyer, who is pleased by the delay, has promised $100 million to help the Democrats retain the Senate. Obama doesn't want to nix the pipeline until after November elections because several Democratic office holders are in favor of the pipeline and might lose re-election if the pipeline is vetoed.)

Another illustrative example in the oil and gas industry is Oregon's Jordan Cove terminal for exporting liquefied natural gas. It will provide Rocky Mountain drilling states with easier access to international markets; however, it took two years to obtain federal approval, which happened just last month. The regulatory delay was tantamount to a 100% tax on the profits that would have been made during those two years. The costly delay would no doubt have been even longer if Putin's invasion of Crimea had not led Congress to push for more exports to ease Russia's control over Europe's energy needs. Significantly, there are 24 other liquefied natural gas terminal projects waiting for approval.

Before wealth can be "redistributed,," it must first be created. Obama's policies act against the creation of wealth. Food stamps do not create jobs. Extending unemployment benefits does not create jobs. Waiters and waitresses and others in low-paying employment do not create jobs; they benefit from jobs created by others.

How do people become wealthy? By providing goods, services and jobs that other people accept to better themselves. Consumers and workers choose new or more economical products, more efficient service or a better paying job because those things are in their self-interest. Other people provide these things through innovation, capital investment and hard work. Some get rich from this process. So much the better, for now they have the know-how and capital to do more of the same. Buyers and sellers enter transactions for their own benefit, but each side must benefit the other in order to succeed. Transactions are "win-win." In this system those who accumulate the most wealth are those who most enrich others through the freedom of the marketplace. These are the people Obama targets for higher taxes in order to make them pay their "fair share."

When Obama castigates the wealthy for not paying their "fair share," his accusation is devoid of any respect for their natural rights. Under a system of natural rights, every individual has a natural right—by the cause-and-effect principle—to whatever wealth he accumulates by the exercise of his rights through labor and trade with others. That is the only "fair" system for the distribution of wealth. It is also the most efficient way of utilizing financial, human, and material resources and raising the standard of living in society.

Aristotle was the first to introduce the cause-and-effect principle in human thought, more than 2,000 years ago, but it has been at the root of knowledge far longer. At least as far back as primitive man learned to hunt or grow food, he has employed the cause-and-effect principle to learn about the world around him and advance his condition. The same cause-and-effect principle is applied so often today we take it for granted in our daily routines, our work, providing for our families and their futures, in medical research and countless other scientific pursuits that extend our knowledge of nature. It is this same principle that identifies property as an effect of action stemming from the right to life, which is the cause. The right to property was seen by our Founding Fathers as the principle means of exercising their right to the “pursuit of happiness,” which is a moral statement of an individual's natural right to act for his own self interest. It means his own happiness is a moral purpose of his life, in the context of his own rights and respecting the same rights of others. The only political system for this is free-market capitalism.

Natural rights are “unalienable,” as the Declaration of independence states. That means they are “not transferable to another person or capable of being repudiated.” You cannot repudiate natural rights; you can only honor them or violate them—as Obama has done by trying to “fundamentally transform” America. It is appropriate to recall Étienne Gilson’s observation, “The natural law always buries its undertakers.”

When government attempts to redistribute wealth, it necessarily violates the property rights of some for the unearned benefit of others. Some people gain, others lose. Unlike free-market transactions, which are win-win, government-forced economic transactions are win-lose. The more win-lose transactions proliferate, the more the economy underperforms what would be achieved by the win-win transactions of a free market. Obamacare is a perfect example: tens of millions of people lose by being forced to pay more for their health insurance, and the money is redistributed to others in the form of unearned health benefits and salaries to administrators.

Obamacare is not an exception. All government economic interventions are win-lose transactions. They are wasteful, distort price signals, misallocate funds, and foster inefficient use of natural resources. In a future posting we shall discuss these issues and include examples. For now, we conclude with further evidence against demands for economic equality and show that the disparity is NOT increasing, as is frequently claimed. Those claims are simply phony propaganda for advancing socialist schemes.

According to the Bureau of Labor Statistics, inheritance and gifts account for 16% of household wealth of the top quintile. For the hated top one percent, inheritance is about 15%. Those numbers have declined by almost half in recent decades. Meanwhile, inheritance comprises 43% of the lowest quintile of household wealth and 31% of the second-lowest quintile.

Kevin D. Williamson writes: “The wealthiest Americans work for their money, and the poor could learn from them. Wealthy households contain on average more than four times as many full-time workers as do poor households....They live modestly relative to their means and for the most part do not work on Wall Street or as corporate executives....

“The country would in fact be far better off if more people lived the way the top 20 percent do: married, working their butts off, saving and investing their money, and living within their means. ...as a practical matter we are running out of ways to spend money on the needy: We already pay for education, food, housing, job training, health care, heating, etc.”