

V.I.M.COR

Economic Research
Report Date: 08/04/2016

Vassalotti Investment Management Corp
117 Olde Farm Office Drive. #925
Duncansville, PA 16635
Phone: 814-693-5093
www.vimcor.com
gary@vimcor.com

The Economy & Other Accomplishments in this election year

This paper was prompted by an opinion letter I read in the Altoona Mirror on 08/02/16 titled “Don’t Underestimate Obama’s Track Record.” Reading the letter sent from the reader, I began to wonder how the public was perceiving the economic outlook and results of the Obama administration.

Granted, the President doesn’t actually do much directly about economic laws; he sets the tone and congress acts upon it. The President can sign or veto the resulting legislation; of course, in this administration he can also create an executive order, but that is a different topic.

The writer goes into a vast list of the ‘accomplishments’ that have occurred during this Presidency.... Health care reform, Wall Street Reform, ending the Iraq War, draw down in Afghanistan, killing Osama Bin Laden, saving the auto industry (he gave Obama credit), reversed torture policies, improved America’s overseas image, removed banks from student loan industry (socialism), boosted fuel efficiency standards, increased veterans support, credit card reforms, and equal pay for women.

He goes on to say unemployment is now 5% but was 10% when Obama took office, and that George Bush was responsible for the \$19 trillion in debt the US has.

Although I want to concentrate on the economic parts of his letter, I hope to touch upon his other points as well, so, lets start with the order he listed in his letter.....

HealthCare Reform

The US per capital spending on Health care was \$8,915 (2012), \$8,170 (2009), \$8,411 (2010), and \$8,658 (2011). So costs have increased, and yes, they did increase at a lower rate than they had been prior.¹

But, this ignores the effects of the recession (cost had risen slower in other recessions as well), and it also does not disclose the reduction in Medicare reimbursements. These reimbursements are not voluntary amounts set by providers, but forced upon providers by the government.

Looking at the private sector that has become involved in the market place plans we see companies that are suffering large losses on the policies; many are dropping plans or leaving the market place (United Health Group², Blue Cross, Health Net³). With fewer insurance providers in the marketplace, premiums will most likely begin to increase to reflect the actual cost of these policies; that is how the free market works, after all. (After reading the ACA, I could not understand why any health insurance company wanted in the exchanges to begin with. The way I read it, it was a map to put them out of business in 5-10 years. It seems to be working).

So, is Health Care reform truly an ‘accomplishment?’ Only time will tell but considering the losses being incurred in the insurance industry, it does not look good. I know some people that have had the experience that some medications / devices that used to be covered for my family are not covered under the new plans.

Wall Street Reform

Every election year, Wall Street Reform seems to be a large topic of interest. Yes, fraud should be prosecuted (but, that wasn’t part of the Dodd Frank reforms by Obama), and it should be kept in mind that the reforms enacted are to stabilize the banks in case of crisis, not to prevent the next crisis.

What, then did Dodd Frank introduce?

1. Financial Stability: Banks must be better capitalized (actually put into effect due to international agreements), more oversight through the Stability Oversight Council.
2. Transparency in Financial Markets: Standardized derivatives must be centrally cleared.
3. Consumer Protection: Established the Consumer Financial Protection Bureau to protect consumers from predatory mortgage and financial products services.⁴ (This, of course ignores the Clinton era mandates on mortgage companies to make those low credit loans using little or no documentation. But, of course, the government is not to blame).

1 <http://www.factcheck.org/2014/02/aca-impact-on-per-capita-cost-of-health-care/>

2 <https://www.washingtonpost.com/news/wonk/wp/2016/04/19/unitedhealth-group-to-exit-obamacare-exchanges-in-all-but-a-handful-of-states/>

3 <http://www.azcentral.com/story/money/business/health/2016/06/29/blue-cross-blue-shield-health-net-drop-affordable-care-act-marketplace-plans/86519566/>

4 <https://www.treasury.gov/press-center/Documents/DFA%205%20Year%20Deck.pdf>

Again, time may tell if these are successful.

Ending War in Iraq / Draw Down in Afghanistan / Killing Osama

Well, again, yes and no. He did bring the troops back, but at the same time declared / extended a 'national emergency' situation in Iraq. This declaration triggers provisions in "numerous statutes which confer standby authority on the president."⁵ So, he could send the troops back at a moments notice.

Obama did decrease the number of troops in Afghanistan; however, many analysts believe this has made the situation worse, not better.⁶

Osama was killed during the Obama administration. A definite positive.

Saving the Auto Industry

Well, the Obama administration was involved, but to say they are solely responsible, not so much.

Barack Obama, however, cannot claim full credit for this outcome. According to several experts, he needs to share it with his predecessor, President George W. Bush. Dr. James Rubenstein at Miami University co-wrote a post-bankruptcy assessment for the Federal Reserve Bank of Chicago. Rubenstein said no one should overlook the importance of Bush's decision to use \$17.6 billion in TARP money in December 2008 to keep General Motors and Chrysler afloat.

"The Bush Administration provided short-term bridge loans," Rubenstein said. "That allowed the Obama Administration to take a couple of months to assess the situation."

Aaron Bragman, the lead American automotive analyst for the financial forecasting group IHS Automotive, echoed the point. "The Bush administration is the one that actually acted to save them from an uncontrolled bankruptcy and shutdown," Bragman said. "The Obama administration's role was to fix them."

I agree that the saving of the industry was imperative. I do wonder about some aspects of it, including the large benefit given to the unions vs the forced haircut given the bondholders⁷. One other 'odd' thing was the selling of the government stake in GM before the revelation of costly recalls; had a private investor done this, a lawsuit would have surely followed.

5 <http://www.cnsnews.com/news/article/terence-p-jeffrey/3-years-after-he-ended-war-obama-declares-iraq-national-emergency-us>

6 <http://www.politifact.com/truth-o-meter/promises/obameter/promise/1096/end-war-afghanistan-2014/>

7 <http://www.politifact.com/truth-o-meter/article/2012/sep/06/did-obama-save-us-automobile-industry/>

Unemployment is only 5%

This is the main part of his letter that led me to do this paper. I looked at his claim of the unemployment rate; it is stated as under 5%. But is this a 'real' number? How can this number be real and interest rates continue to be extremely low?

I don't think the unemployment rate alone is much use, especially the way it is calculated. When unemployment benefits run out for an individual, he falls off of the unemployment rolls. This does not mean the economy has low unemployment. We need to look at job creation vs population growth. A paper by the Market Realist⁸ website gives a good data (provided by the US Census Bureau) background for my viewpoint.

Using population growth and job growth together, a revised unemployment number would be closer to 8%. At this level, low interest rates and slow economic growth make sense.

These results are in contrast to the numbers generated by factcheck.org. They report that unemployment is 5%, while job growth was 9,265,000, and long term unemployment was down by 614,000. Consumer prices, meanwhile, are up 12.4%. Federal debt has more than doubled, to \$13.6 trillion, being 74% of GDP vs 52% when he took office.⁹

These are contradictory financial statistics. I have been looking for signs of a true recovery and growth rate and will continue to do so. It doesn't seem to be here yet.

I do understand President Harry Truman's plea for a 'One-handed economist.'

8 <http://marketrealist.com/2015/02/job-creation-not-matching-population-growth/>

9 <http://www.factcheck.org/2016/01/obamas-numbers-january-2016-update/>