The U.S. Economy

By John Gregory | 09/20/16 8:00 AM

Even as the national economy continues to grow, many Kentuckians still find themselves concerned about their personal finances and their employment prospects. A recent report from the Kentucky Center for Economic Policy indicates that the commonwealth still lacks more than 47,000 jobs below employment levels of 2007. It also says rural, younger, and minority workers, as well as those with low educational attainment face significant challenges when it comes to jobs and wages.

A panel of four economics professors appeared on KET's **Kentucky Tonight** to discuss a range of state and national economic issues. The guests were Chris Phillips of Somerset Community College, Malcolm Robinson of Thomas More College, Brian Strow of Western Kentucky University, and Aaron Yelowitz of the University of Kentucky.

Diagnosing the National Economy

The professors say the domestic economy is a mixed bag these days, with good news for some individuals and not-so-good news for others. Brian Strow says low unemployment and low inflation are positive indicators, but he's deeply concerned that the employment rate (the percent of adults with a job) is lower now than it was at the beginning of the recession.

Chris Phillips agrees, saying there are 10 to 12 million working-age adults who are not even looking for employment despite the fact that the nation has created some 15 million new jobs since the recession hit bottom.

The combination of job growth and relatively stable unemployment numbers puzzles Malcolm Robinson. He says a Federal Reserve economist speculates that it's due to people returning to work after years of being out of the job market. Overall though, Robinson argues that recovery has been stagnant with growth rates of only 1 or 2 percent. He says normal post-recession growth rates are usually 4 to 5 percent.

"The reality is that… this slow-growth, low-inflation economy where interest rates are very, very low, that may be the new normal," says Robinson.

There is a positive sign in a recent growth in incomes. Yelowitz says personal earnings have grown by more than 5 percent in the last year. But he adds that's an average increase. Some parts of the country, including the South, have seen incomes advance by less than 3 percent, according to Yelowitz.

Kentucky's Economic Outlook

While rural parts of the commonwealth are struggling, Phillips says the state's "Golden Triangle" between Cincinnati, Lexington, and Louisville continues to be the economic driver for the commonwealth. He credits the gains there to the auto industry, tourism, and the state's native spirit.

"We do very good in bourbon," Phillips says. "China buys a lot of bourbon and they tend to like what we can provide for them."

With more Kentuckians now enrolled in some form of health insurance, Yelowitz says health care is a growing sector for the commonwealth. He says the state's aging population will also help drive that industry. But Yelowitz also fears that some of the reforms created by the Affordable Care Act may deepen what he describes as a welfare culture, especially in eastern Kentucky. He argues that some welfare policies incentivize people to not work or to remain at low-income levels.

As for other challenges, Strow says the state is severely hampered by fiscal decisions being made in Frankfort. He says the unfunded public pension liabilities will stymie growth in the commonwealth by casting a shadow over economic development and business recruitment efforts.

"Where should a firm locate [when considering] one state versus the next?" Strow asks. "I assure you they're going to go for the states with the higher bond rating – the ones that they don't think are going to come back and hit them up for higher taxes in the near future."

What's Up with Wages?

A number of states and municipalities, including Louisville and Lexington, have enacted minimum wage hikes as a way to help those in low-paying jobs. But Yelowitz contends such actions generally cost jobs and end up hurting the individuals the increase was designed to help.

"We need people to be more productive in order to earn higher wages," Yelowitz says. "Many of the proposals out there are trying prop up wages through non-productive ways."

A better way to help workers earn more money, according to Brian Strow, is to give them better job training.

"If we're going talk policies going forward to improve economic growth, we have to talk about getting a higher skill set to the average American worker," Strow says. "It's that skill set that's going to determine productivity and long-term increases in their standard of living."

Malcolm Robinson puts part of the blame for the weak labor market on the slow economy. He says employers keep job postings open until they find a qualified applicant who is willing to accept the low wage being offered.

"It would be great if the economy were growing faster at which point firms would then feel a need to pay higher wages to compete for workers… but if you don't have that, if you can pick and choose who you're going to hire, then wages just aren't going to grow."

Trade Policies

International trade has become a leading issue in this year's presidential campaign. Democrat Hillary Clinton and Republican Donald Trump both say they oppose trade deals that could hurt American workers, and they're against the agreement among 12 Pacific Rim nations known as the Trans-Pacific Partnership (TPP).

Thomas More College's Robinson says TPP isn't a standard trade deal designed to end barriers and quotas. He contends it's more about protecting intellectual property rights and eliminating non-tariff trade barriers. Robinson says one of the arguments against TPP is that it would threaten American sovereignty to create its own regulations. At the same time Robinson warns that isolationism in trade policy has the dangerous result of limiting American access to much needed international capital markets.

Brian Strow says he hopes President Obama is able to secure ratification of TPP before he leaves office. He says Obama wants the U.S. to have more Asian trading partners without having to be as reliant on China, which is not a part of TPP. Strow contends fewer trade barriers will increase domestic exports and jobs, and boost the overall economy.

Any trade deal should create a net positive outcome for the United States, says Yelowitz. He says the winners in trade agreements are consumers who get lower prices on a greater variety of products. The losers are often those people who become unemployed when their jobs go to countries that pay lower wages.

"How you deal with the people who then get displaced and how you try to reintegrate them into the labor force is a fundamental policy issue," says Yelowitz. "Do you retrain them, do you give them extended unemployment, what do you do?"

Other Issues

Immigration policy also impacts the domestic economy, according to Strow. He contends that building a wall and keeping people out is counter productive to a thriving economy because gross domestic product growth is connected to population growth. So he says as the country welcomes more immigrants, the economy grows more quickly.

The weak European economy has been a significant drag on global markets, says Robinson. On the other hand, he adds that the flight of capital from Europe has helped keep interest rates in the United States low.

But if the American economy hit another recession in the next few years, how much lower could the Federal Reserve cut interest rates? Robinson says there are unconventional monetary policies they could employ, including negative interest rates whereby central banks would charge commercial banks to hold their deposits. Some banks in Europe and Japan have set interest rates below zero, but Strow says Federal Reserve officials would be "completely unhinged" to consider such a move here.

A better way to spur the U.S. economy, says Robinson, is to invest in much needed infrastructure improvements. Both Trump and Clinton have proposed substantial infrastructure initiatives in their presidential campaign platforms, but Strow and Yelowitz warn that would skyrocket an already oversized national debt.

While American consumers have enjoyed relatively stable prices for goods and services, Phillips says there are several sectors that are cause for concern.

"Prices have been roughly flat, about 1 percent inflation the last couple years," Phillips says, "but there are particularly three areas where we're seeing substantial inflation: health care, housing, and education."

Even with the spiraling costs of college tuitions, Robinson contends a more educated workforce is better for society and the economy. But Yelowitz counters that the economic gains from a college degree are largely personal. He says student loan options should be structured to help individuals make prudent choices about which majors to pursue.

As for health care, Yelowitz says he fears some businesses may not expand their operations or may limit the hours of their existing employees as a way to avoid the Affordable Care Act's employer mandate. He also says some individuals may not want to earn more money because they fear losing the subsidy that ACA offers lower income people.

On the state level, Strow says Kentucky's expanded Medicaid program may be encouraging some people to drop out of the workforce since they don't need a job to get access to health coverage. He notes that the decline in the state's employment rate in the past few years is comparable to the decrease in the rate of uninsured Kentuckians in that same time period.

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