December 1st Edition

DOUGLAS HOLTZ-EAKIN | DECEMBER 1, 2014

Last year the administration delayed the launch of the small business section of healthcare.gov known as SHOP. This year the site is seeing minor technical problems, and little interest from the business community. As the Washington Post reports, during the first week of open enrollment the site garnered only 200,000 page views, compared to 1.5 million for the main site. Other issues include inconsistencies with the section asking employers how long new employees will have to wait before getting covered. That section only allows an option up to 60 days, but the law allows up to 90 days, leaving business owners scratching their heads.

Congressional Republicans are planning opposition to much of the administration's regulatory agenda. According to The Hill, "…control of both the House and Senate in the next Congress will enable GOP lawmakers to ratchet up their attacks on what they view as overzealous regulation." AAF has analyzed the administration's regulatory agenda finding over $100 billion in potential costs, not including the very costly and just announced ozone rule.

Eakinomics: The Economy, the Holidays and Beyond

The *Wall Street Journal* featured an optimistic view of the outlook for consumer spending during the holidays. Recent data from the Bureau of Economic Analysis shows that the personal saving rate has held steady at roughly five percent during 2014, in contrast to a previously-reported rise to as high as 5.6 percent earlier in the year. The steady saving rate, the argument goes, combined with lower unemployment and faster — though still tepid — wage increases portends a financially healthy household sector that will open its pocketbook during the crucial end-of-the-year sales season.

Perhaps, but it is still hard to say that the picture is especially bright. The U.S. economy (as measured by Gross Domestic Product, or GDP) has grown at an annual rate of 2.3 percent since the 2nd quarter of 2009, when the Great Recession officially bottomed out. Over the same span, personal consumption expenditures (PCE) have grown at an annual rate of 2.2 percent. The close alignment is hardly surprising as PCE constitutes two-thirds of overall spending. Unless PCE ticks up noticeably, the math makes it very hard for GDP to grow more rapidly.

That's the catch. During 2014, PCE has grown at 2.2 percent yet again, and the monthly data show no particular pattern of acceleration.

The "good news" scenario is one in which the labor market tightens, wages grow much faster, and consumer spending accelerates accordingly. The key part of this argument is for the unemployment rate, currently 5.8 percent, to be an accurate indicator of labor market slack — or lack thereof. As has been widely noted, many people dropped out of the labor market entirely during the recession and recovery. Only if they stay out will the unemployment rate accurately reflect the state of the labor market. In this scenario, good news for the overall pace of growth is accompanied by the work effort of the U.S. remaining at historic lows.

The "bad news" scenario is one in which there is no particular increase in the modest pace of wage growth — perhaps accompanied by rising labor force participation. Americans may work more, but income won't rise noticeably faster and the so-called recovery will continue to muddle along.

In either event, there is no reason for the United States to accept the slower, long-term trend in growth. Poor growth threatens the nation’s future. The antidote is permanent, structural reform, which should be the focus of the new Congress and President Obama in 2015.