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Want Jobs? Have Faith.

The private sector created 17,000 new payroll jobs in August and the government lost 17,000. The net was “zero.” Nada...zip...zilch...nothing.

Some would say that this is a perfect metaphor for the economy...a big fat zero. The stock market is getting drilled, politicians are frothing at the mouth, the Fed is having longer meetings, and investors are scared. So, what’s going on?

First, let us say that we have been overly optimistic. We expected better growth in jobs and the economy. We have been wrong, but we still don’t expect another recession.

Employment data are notoriously volatile, are often revised and have a large margin of error. Verizon had 46,000 workers on strike in August who were counted as unemployed. The strike is over, and they will add to employment in September. The *other* jobs survey (the Household survey) showed 331,000 new jobs in August. And, the ISM Services index rose in August to 53.3 from 52.7 in July.

But, don’t stop reading there. We did not just say that “the economy is perfectly fine.” It is clearly underperforming. The question is: Why? And what should be done about it?

Some say that economies always perform poorly after a financial crisis. But, the banking crisis of the 1980s (Latin and South American defaults and the Savings and Loan Crisis) did not lead to economic underperformance. Others say that the US government must spend even more, but deficits are already so high that this seems spectacularly foolish.

The answer can be found in one of our favorite parables about economic growth. We borrow it from [Paul Zane Pilzer](#).

Imagine 10 people live on an island. Each person catches two fish every day, which is subsistence living. There are no savings. Children, or immigrants who do not know how to fish, would be hard to absorb. The people would be desperate to increase production.

But then, a miracle happens. Two of these people figure out how to make a boat and a net. They fish 200 yards offshore. The two of them catch 20 fish each day with this new technology, which replicates the daily GDP created by all 10 using the old technology.

At this point, eight people no longer need to fish and the island has a choice. The eight could grow corn, pick coconuts,

fix the boat and the net, or trade some other good or service to their more productive neighbors. Living standards would rise. Abundance and plenty would be created. Children and immigrants could be absorbed.

Or...the eight without a boat could become envious and complain that a 10 fish-to-2 fish income ratio is unfair and that the rich fishermen should pay taxes. So, the island votes to institute an 80% tax on anyone that uses a net.

Let’s assume that the fishermen with a boat continue to catch 20 fish a day. If so, the other eight would stop fishing and divide up the 16-fish tax between them. Everyone would still get two fish a day. Living standards would not rise. Kids and immigrants who did not know how to fish would be a burden. The benefits of the new technology would go to waste.

This is the problem with attempts by the government to be fair and socially just. This is also the problem with trying to spend our way out of economic pain. It doesn’t work.

And even if we decide not to tax the fishermen, but instead borrow the fish and give them away, the same thing happens. Borrowing the fish, and then consuming them, does not create new wealth. It only puts a burden on the less productive that they will never be able to repay. This is what has happened in Greece and many other European countries. Government spending, whether paid for with debt or with taxes, undermines job growth and wealth creation.

Excluding defense, the US federal government is spending more today as a share of GDP than it ever has in history. It is also re-distributing more income than it ever has in history. We understand the impetus for this...we care about people too.

But, the desire to help people does not always mean that what we are doing is really helping. In fact, the massive increase in government spending the US has instituted in the past few years is backfiring. It is undermining growth.

We don’t expect an immediate recession. We don’t think the US economy will collapse. Technology is so amazingly strong that it is off-setting a great deal of the damage done by spending. But, if the US really wants growth and jobs it needs to reverse course, spend less and let technology lift living standards. We need more faith...Faith in markets and everyday people; not faith in government.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-6 / 9:00 am	ISM Non-Man. - Aug	51.0	51.2	53.3	52.7
9-8 / 7:30 am	Int’l Trade Balance - Jul	-\$51.0 Bil	-\$54.1 Bil		-\$53.1 Bil
7:30 am	Initial Claims - Sep 3	405K	405K		409K
2:00 pm	Consumer Credit – Jul	\$6.0	\$4.0 Bil		\$15.5 Bil