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Behind The Slow Growth: ObamaCare, Debt, Fed …

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Per capita personal disposable income, adjusted for inflation, remains over $1,000 below its prior peak.

There are 2.5 million fewer people employed now than in early 2008 while at the same time the U.S. population has grown by 12 million.

What happened to economic growth?

Typically when an economy comes out of a recession (the last one ended in June 2009) it will have several years of above-average growth, a snapback as it returns to longer run trend growth. That didn't happen this time. In the first 15 quarters of the current expansion, economic growth, after inflation, increased 8.3%.

In the first 15 quarters of the prior three expansions economic growth, after inflation, increased on average by over 15%. This economic expansion has only been slightly more than half as fast as the average expansion. There are various factors holding it back.

One is ObamaCare. Outgoing senator Max Baucus, who helped write ObamaCare, thinks its implementation may resemble a "train wreck."

Too Many Dollars

ObamaCare is holding back business formation and expansion as employers don't know what the cost will be or how it should be interpreted but are afraid as the IRS is involved.

ObamaCare might have been conceived as a method to cover the uninsured, but it has ended up as an albatross for the entire economy and is slowing growth in the standard of living.

Another policy holding back growth is the mind-numbing increase in gross federal outstanding debt from $10 trillion at end of 2008 to $16 trillion at the end of 2012, as shown in White House budget tables.

Taxpayers regard bond-financed government spending as future tax liabilities and spend less, which acts to offset any positive effect that bond-financed government spending might have on increasing growth.

The maximum possible return on that incremental increase in outstanding sovereign debt that anyone can muster is $0.25 for each dollar of deficit spending.

The increase in sovereign debt has effectively been wasted at an enormous cost in future tax liabilities which holds back private sector growth. Yet the increase in deficit spending marches on.

Another knife in the back of the U.S. economy is the astronomical increase in the money supply. The monetary base increased from approximately $850 billion in August 2008 to over $2.9 trillion in March 2013. This averages out to an increase in monetary base of over $37 billion per month.

What has been the result? Slow growth.

Holding Cash

Now the Fed is purchasing $40 billion a month of mortgage backed securities and $45 billion/month of Treasuries. That is a monetary policy for an economy that is mired in a deep recession; not the fourth year of economic expansion.

In the depth of the 2008 recession quantitative easing (QE1) was definitely needed and provided the necessary liquidity to the markets that allowed the economy to function and end the recession in June 2009.

But why undertake buying $85 billion of debt instruments at this stage of the expansion?

The Treasury portion of QE3, buying $45 billion a month, effectively purchases over half the Treasury debt issuance this year. Is that why the Fed implemented it? To try and keep longer-term bond yields low to hold down the cost of financing the $16 trillion debt burden?

That is how it looks — the Fed is effectively monetizing the issuance of Treasury debt.

Is it any wonder banks, households and businesses are holding large amounts of cash and cash equivalents?

This monetizing of federal debt allows the White House and Congress to cheaply add nearly a trillion dollars to outstanding Treasury debt this year.

The Federal Reserve policy of buying $85 billion of debt in the fourth year of recovery is enhancing Main Street's perception that central bank officials have turned into an arm of the administration.

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