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Raising the Fed Rate isn't Magic Bullet

Government must lift regulatory burden, not interest rate to kick off economic expansion.

By Brad Anderson

Citing considerable improvement in labor market conditions, the Federal Reserve finally decided to raise interest rates today. This ends many months of speculation from journalists and pundits, who had devoted seemingly endless attention to the decision.

Real job creators look on dispassionately. It's true that the price of credit, as indicated by the interest rate, has an impact on the economy. Yet it is nowhere close to the primary driver of economic expansion, which is determined to a far greater extent by consumer sentiment. The media should spare some column space for this consideration.

When I was the CEO of the electronics corporation Best Buy, my colleagues and I paid little attention to what the Fed was doing. At most, it had a negligible impact on our business decisions. These were made, rather, based on the actions of consumers, to which we had a front row seat as a major retailer.

And, at the moment, consumers are in far worse shape than the top line unemployment rate and record stock market levels suggest. The working-age labor force participation rate, which captures discouraged workers who have dropped out of the economy altogether, is at a generational low. The rate for young workers, whose early workplace experiences set the stage for their entire careers, hovers near a record low. This reduction in the labor force is a major driver of the falling unemployment rate.

Incredibly, the number of full-time employees in the country only just returned to its pre-recession peak this summer — nearly eight years later — despite the working-age population growing by nearly seven million people in the meantime. Median wages, on the other hand, still have not come back. As the Census Bureau reported recently, wage growth was flat for the third straight year and is still 6.5% below its 2007 level.

A major reason for these consumer headwinds is the regulatory burden placed on American job creators. Over-regulation discourages businesses from investing, expanding and hiring, which have historically been the drivers of economic and wage growth. Note, for instance, that net business formation is still well below historical standards, following years where business "deaths" outpaced "births" for the first time in recorded history.

While these regulations are almost always well-intended, they also almost always have unintended consequences that contribute to economic stagnation. For instance, the Affordable Care Act's employer mandate requiring businesses to provide health insurance for employees who work 30 hours or more per week has led to an increase in the number of employees working only 29 hours or less. A growing list of high-profile companies, including Jimmy John's, Fatburger and Regal Cinemas, have cut hours below 30 per week seemingly because of this regulation.

Or take the Dodd-Frank financial regulations, which require banks to hold more cash and place more restrictions on lending, among other rules that make it more difficult for banks to profit. As a result, only three new banks have opened since its implementation, down from over 100 each year, on average, before. This has cut off a valuable source of lending for small businesses, which account for two-thirds of the nation's jobs.

The list goes on, but the principle stays the same: The swamp of regulations are drowning the nation's job creators and preventing the robust job market and economic growth that would improve consumer sentiment. It's this dynamic between over-regulation and consumer well-being that the nation must address, not wasting time trying to find the Rosetta Stone to predict what the Fed is going to do.

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