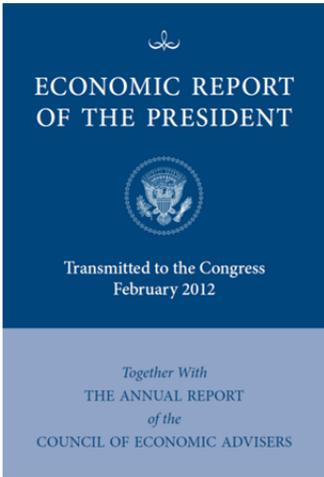




REPUBLICAN STAFF COMMENTARY



The 2012 Economic Report of the President

Forgetting the Reagan Recovery & Missing the Point

February 29, 2012

WHEN A TREE FALLS IN A FOREST ...

Long after most Members of Congress had cast their final votes before returning home for the President’s Day district work period and after many reporters had already filed their weekend stories, the White House released the 2012 Economic Report of the President (ERP) at 4:00 p.m. on Friday, February 17, 2012.

Economic Report of the President released when it would receive little attention.

The timing of the release of this year’s ERP suggests that the White House wasn’t interested in trumpeting the report and its portrayal of the Obama Administration’s economic record. In fact, the timing of the release suggests that the Administration did not want this report to receive the same type of response that the Administration’s budget proposal garnered.

RIGHT WORDS, WRONG POLICY

President Obama opens the 2012 ERP by stating:

“One of the fundamental tenets of the American economy has been that if you work hard, you can do well enough to raise a family, own a home, send your kids to college, and put a little money away for retirement.” (ERP, 3)

President Obama uses the right words to describe the American Dream, but his policies are inconsistent with his words.

In this statement President Obama has captured the essence of what most understood to be the “American Dream.” Unfortunately, what follows this introductory sentence in the ERP’s 266 pages makes clear that the statement is nothing more than a nice platitude that lacks any connection to the policies pursued by this Administration.

In order to be consistent with the Obama Administration’s economic policies and the rest of the report that sentence would have been worded much differently. It might read “everyone, regardless of whether you’ve worked hard, worked a little or haven’t even tried to work, is entitled to own, spend, and save with money taken from hardworking taxpayers.” Sadly, the ERP—which should be a serious policy document discussing the actual state of the economy and outlining what economic policies will help achieve the goals of economic growth, maximum sustainable employment, and stable prices—is an overtly political document that is riddled with inconsistencies; chalk full of data cherry-picking; and ultimately does nothing more than foster a vision

Continued on next page ...

of Americans more dependent on government than at any point in our nation's history.

This Republican Staff Commentary on the ERP provides a brief overview of the Obama Administration's claims and policy prescriptions on critical components of a healthy, thriving economy, specifically: job creation and economic growth, fiscal policy, energy and housing.

JOB CREATION – DENYING HISTORY

The loss of one's job, especially through no fault of one's own, is a crisis in one's life that is only superseded by the death or serious illness of a loved one, a serious illness, and perhaps a few other crises. The job crisis is compounded when the termination is due to economic conditions resulting in a severe and widespread contraction of the number of jobs available, as we experienced in the fallout of the financially induced recession that began in December 2007.

Defense of the Obama Administration's job creation record ignores history.

The Obama Administration believed that the United States needed Keynesian demand stimulus, not supply incentives to spur private business investment in new buildings, equipment, and software and private sector job creation. The previous Congress agreed, passing the American Recovery and Reinvestment Act (ARRA) three years ago. Yet, hardworking taxpayers have little to show for more than \$1 trillion that their federal government borrowed for ARRA and subsequent stimulus programs other than mortgaging the economic prosperity of their children and grandchildren.

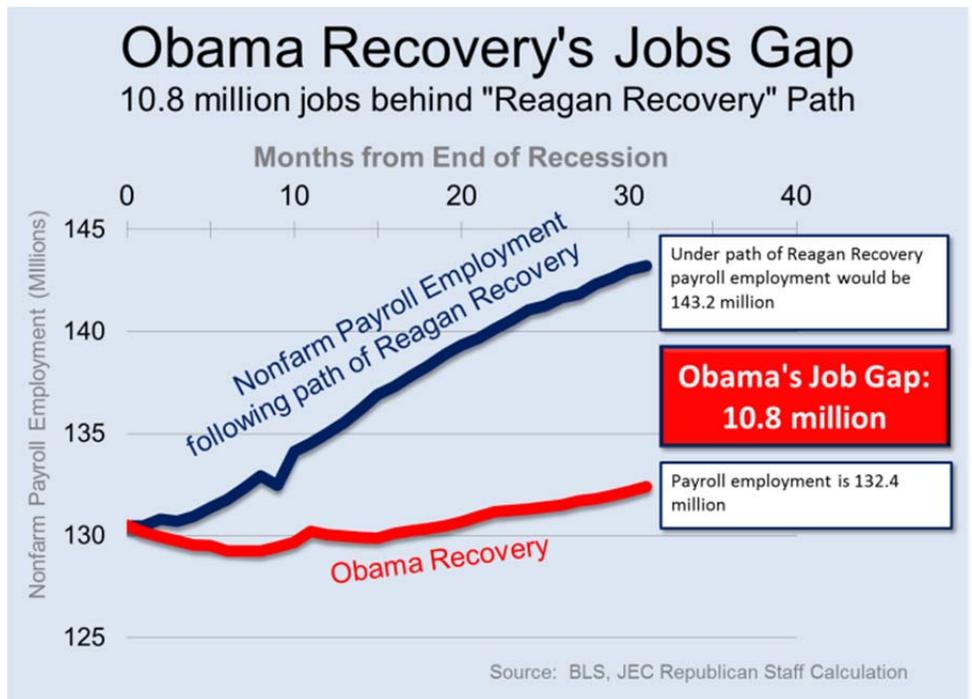


Figure 1. When compared to the pace of job creation following the 1981-82 recession, the Obama Recovery suffers a job gap of some 10.8 million nonfarm payroll jobs.

The Obama Administration is quick to boast that the current recovery has shown stronger job growth than the two previous recessions of 1990-91 and 2001. Conveniently the ERP ignores the results of the Reagan Recovery

following the 1981-82 recession when unemployment rose to 10.8% compared to the recent recession's 10.0%.

In 31 months since the end of the recent recession in June 2009, payroll employment has increased by 1.5% or 1.9 million nonfarm payroll jobs. Over the same 31 month period following the 1981-82 recession, employment increased by 9.8%.

In other words as Figure 1 on page 2 shows, if the Obama Recovery had followed the same path as the Reagan Recovery since the end of the recession there would be another 10.8 million jobs.

Obama Recovery suffers a 10.8 million job gap when compared to the success of the Reagan Recovery in 31 months after recessions ended.

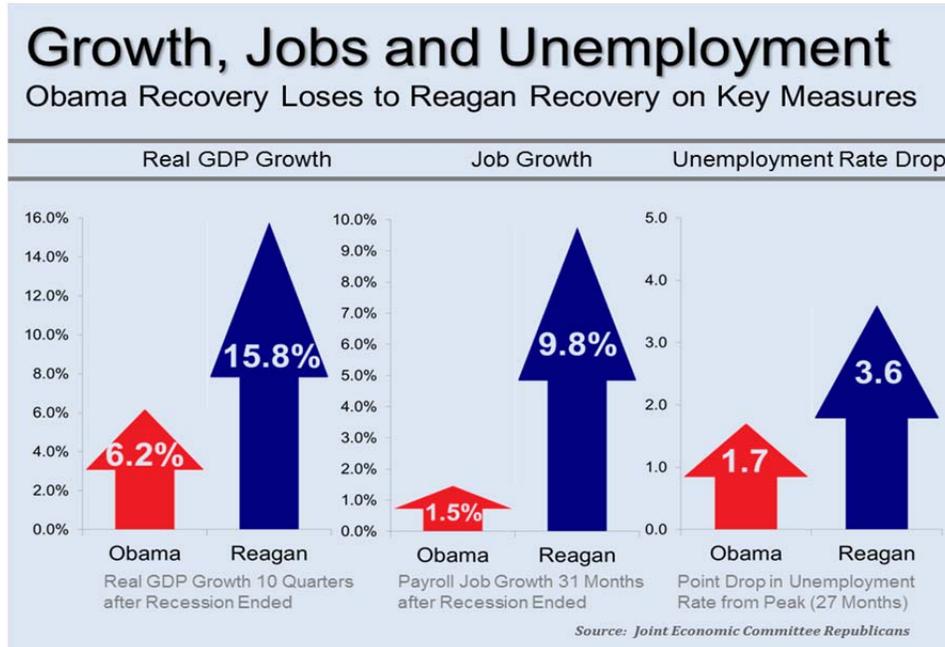


Figure 2. In choosing to ignore the results of the Reagan Recovery the Obama Administration has attempted to avoid a serious discussion of the successful results generated by the policies of the Reagan Administration in comparison with the inferior results produced by its program to grow the size and influence of government.

This isn't the only economic metric that the current recovery lags badly on. As Figure 2 illustrates, the recovery also lags on real gross domestic product growth and decline in the unemployment rate.

Compared to the Reagan recovery from the similarly deep 1981-82 recession, the Obama recovery lags behind in real GDP growth (6.2% to 15.8% for the 10 Quarters after the recession ended); lags in job growth (1.5% to 9.8% over the 31 months after the recession ended); and lags in the decline of the unemployment rate (1.7 percentage points to 3.6 percentage points over the 27 months following peak unemployment).

On critical measures of economic growth, job creation and unemployment, Obama record fails badly in comparison with Reagan Recovery.

The ERP cherry-picks data as the administration claims its recovery—notwithstanding a record-breaking, persistently high unemployment rate—is in line with the recovery from the 1991 recession and faster than the 2001 recession. Of course, what the ERP does not mention is that their claim does not factor in the dismal drop in the labor force participation to 63.7%, the lowest level since 1983. Were they to factor this in, for an apples-to-apples comparison, a more accurate picture would be seen.

If labor force participation had not declined to lowest level in nearly three decades, unemployment rate would exceed 11.0%.

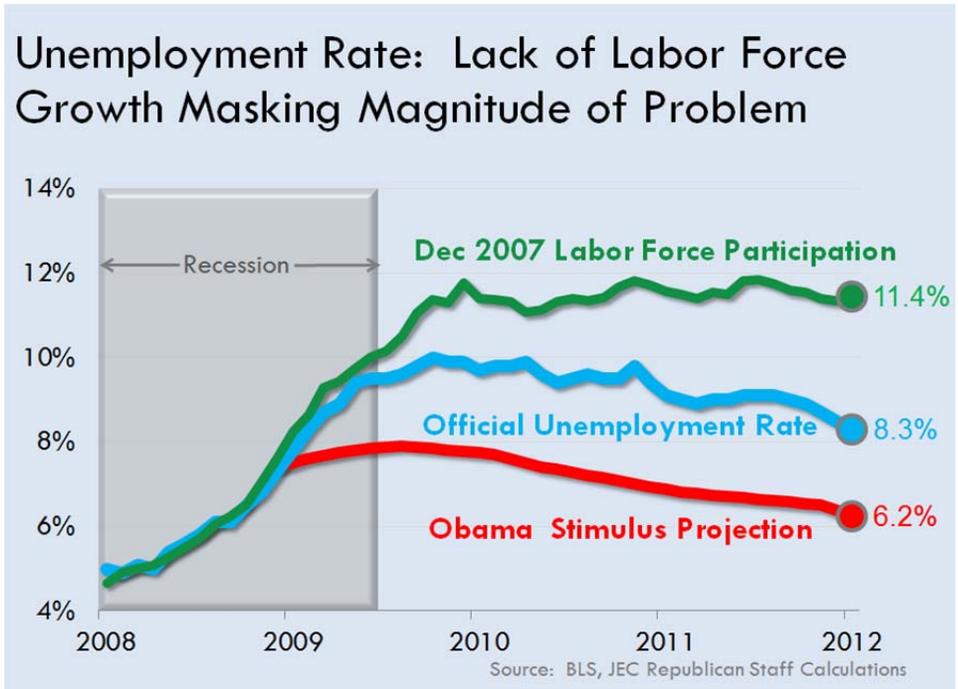


Figure 3. Much of the recent decline in the unemployment rate can be attributed to the drop in the labor force participation. At the pre-recession participation rate of 66.0%, the unemployment rate would exceed 11% -- more than three percentage points above the official rate of 8.3%.

Disturbingly, despite the failure of the administration’s policies to get us out of our economic rut—and Republicans do not think that 8.3% unemployment is a number to be celebrated—the ERP makes clear that the administration wants more of the same. They would further dip into the paychecks of hardworking taxpayers (both directly and indirectly through those who create their jobs and employ them) to fund more “education, innovation, clean energy, and infrastructure” (ERP, 30). While such investments may be beneficial, two questions must be raised:

President Obama’s plan for America is to take more from hardworking taxpayers to feed an ever expanding government.

- (A) Does the Administration’s track record to-date inspire confidence in their ability to make good economic decisions with respect to these investments going forward?
- (B) Who is going to pay for this? The administration would suggest the most financially successful hardworking Americans will; but it is naïve to think that higher taxes on job creators will not discourage job-creating investments, and will not result in fewer private sector jobs.

The ERP also takes an increasingly partisan and hostile stand by pitting some Americans against other Americans. While the ERP draws attention to the share of income earned by the top 1%, and the “rising income inequality” between the 1% and the 99% (ERP, 178-179), the ERP completely fails to consider the income mobility of Americans.

The amazing thing in America is that this 1% group is ever-changing, with the same names rarely appearing year-after-year. According to IRS data during tax years 1992 to 2008, for example, 3,672 different taxpayers represented the top 400 returns in each year. Of these, a little more than 27% appeared more than once and slightly more than 15% appeared more

than twice. In any given tax year, on average, 39 percent of the top 400 adjusted gross income returns were filed by taxpayers that are not in any of the other 16 years. Only four taxpayers made the top in all 17 years.

Moreover, the President's vision of a stagnant economic pie in which one group can get more only by taking something away from other groups does not reflect the reality our dynamic economy under sound economic policy.

A FAILURE TO UNDERSTAND FISCAL CONSOLIDATION

To the ERP's credit, it does use the word "austerity" twice, unlike the FY2013 Budget released by the Office of Management and Budget on February 13. However, both times "austerity" is found, it is used in a negative context. In other words, despite a \$15.3 trillion debt, which continues to grow at an unsustainable pace, the Administration refuses to hit the spending brakes.

In discussion of the current Eurozone fiscal crisis, the Administration attributes their sovereign debt and deficit problems to slow economic growth (ERP, 129), rather than government overspending due to unaffordable social welfare programs, high marginal tax rates, and suffocating regulations that discourage entrepreneurship and private job-creating. This omission indicates a blind spot in the Administration's thinking and explains why President Obama is totally unwilling to embrace the recommendations of his own deficit-reduction commission or to propose any meaningful reforms to slow the future growth of spending on Social Security, Medicare, and Medicaid. Instead, the Obama Administration risks a future sovereign debt crisis in the United States.

Next, the ERP sends a very confusing message on federal tax policy. On the one hand, President Obama uses class warfare language to urge the repeal of pro-growth tax relief on America's job creators (ERP, 4); and on the other the ERP states that the President has called for tax reforms to lower the corporate income tax rate (ERP, 159). Considering how many businesses are incorporated as sole proprietorships, partnerships, or S-corporations, the Obama Administration's tax policy is confused and incoherent. The non-partisan Congressional Budget Office, in their "Budget and Economic Outlook: Fiscal Years 2012 to 2022," even comments that President Obama's policies, including repeal of the pro-growth tax relief "will raise marginal tax rates on personal income above those of the past decade and thus will modestly reduce people's incentive to work," having a negative effect on potential output and economic growth (CBO, 39).

ENERGY COSTS

While the ERP claims "the Obama Administration has taken vigorous steps to facilitate and promote" foreign direct investment (FDI) in the United States (ERP, 142), especially in "the capability to produce clean energy products within the borders of the United States" (ERP, 143); the facts suggest otherwise and again highlight the inconsistencies of the Obama Administration.

On this point, one needs look no further than the Keystone pipeline project, which the Obama Administration rejected in January. TransCanada indicates that Keystone XL is a \$7 billion project that would create more

Administration blames slow growth for Eurozone crisis while ignoring problems of overspending, high marginal tax rates, and excessive regulation that stifled growth.

President Obama offers a confusing message for America's job creators.

Obama Administration has rejected job creating investments in traditional energy sources that would lessen America's dependence on oil from hostile regions of the world.

than 20,000 direct jobs and 118,000 spin-off jobs during construction; yet the Obama Administration just rejected this powerful job-creating investment, apparently due to philosophic objections to exploiting oil shale resources specifically, and fossil fuels generally, because there are no substantive reasons to reject this project.

Moreover, the ERP offers few insights into mitigating the negative impact of high energy prices on Americans. Instead, the ERP's account of energy issues is captivated by its own "smart" and "efficient" regulations, and completely sidesteps the Administration's efforts to direct the economy to the technologies that the Administration would seem to favor for its own reasons. Ultimately, the chapter tries to create an aura of smart regulation, effective federal support for innovation, and a well-balanced approach by government to safe and healthy economic growth. Unfortunately, this is completely disconnected from reality where the Administration actively works against the market economy, which is struggling against the Administration's regulatory headwinds, to create jobs and get Americans back to work.

HOUSING MARKET

Administration still believes in same interventionist policies that helped wreck the housing market.

Finally, a few words are in order regarding the ERP's comments on the depressed housing market. While the Obama Administration touts the positive impact its programs have had on the housing market, the statistics point to a different conclusion. Only 6.6% of the funds authorized under TARP to the several Making Home Affordable programs have been spent, and according to the Inspector General of TARP, the Home Affordable Modification Program has reached just 19% of the 4 million homeowners it was originally intended to support. Despite these shortcomings, the Administration is still committed to government intervention as a solution to the nation's housing woes even though the spending is ineffective and a waste of hardworking American's tax dollars.

CONCLUSION

This *Republican Staff Commentary* is intended to provide a brief discussion of several issues raised in the ERP. More detailed analyses of its components will be provided as the official response to the ERP is completed.