Joint Economic Committee
Representative Kevin Brady • Chairman

REPUBLICAN STAFF ANALYSIS

Yes Virginia, the Obama Recovery Really is that Bad

And it's not because of the Sequester

October 15, 2013

The National Bureau of Economic Research's (NBER's) business cycle dating committee pegs June 2009 as the end of the "Great Recession." More than four years after the end of the recession, much of the nation has yet to experience anything resembling a normal economic recovery.

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The current economic recovery remains the weakest among post-1960 recoveries on a wide swath of economic indicators or ranks very near the bottom. The weakness of the economic recovery has left the United States with a large, potentially persistent, growth and jobs gap.

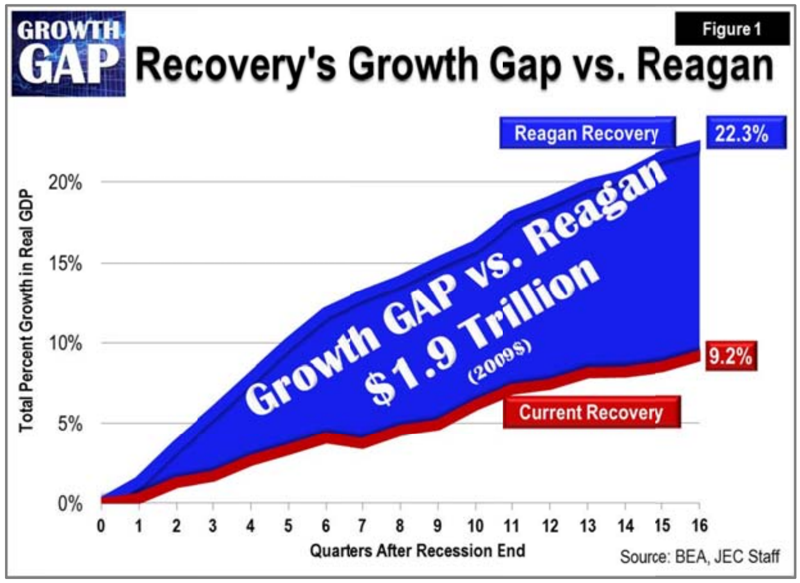
President Obama and Congressional Democrats have tried to blame the sequester implemented under the *Budget Control Act of 2011* that was enacted more than two years into the recovery. Reality is that this recovery's failure to deliver has little if anything to do with the sequester. Rather, there is a laundry list of factors, many driven by administration policy, that are to blame.

This staff analysis will answer the question "How Bad is the Obama Recovery?" by examining several economic indicators and discussing the degree to which the sequester may have had an impact on the recovery.

Just How Bad is the Obama Recovery?

Typically, economic recoveries are evaluated using several economic indicators. Real economic growth as measured by gross domestic product (GDP), changes in employment indicators, and the unemployment rate are the most commonly referenced indicators. This analysis will address each of those indicators and several other related measures. Comparisons will be made with the average post-1960 recovery and with the strong recovery of the 1980s, often referred to as the "Reagan Recovery."

Economic Growth

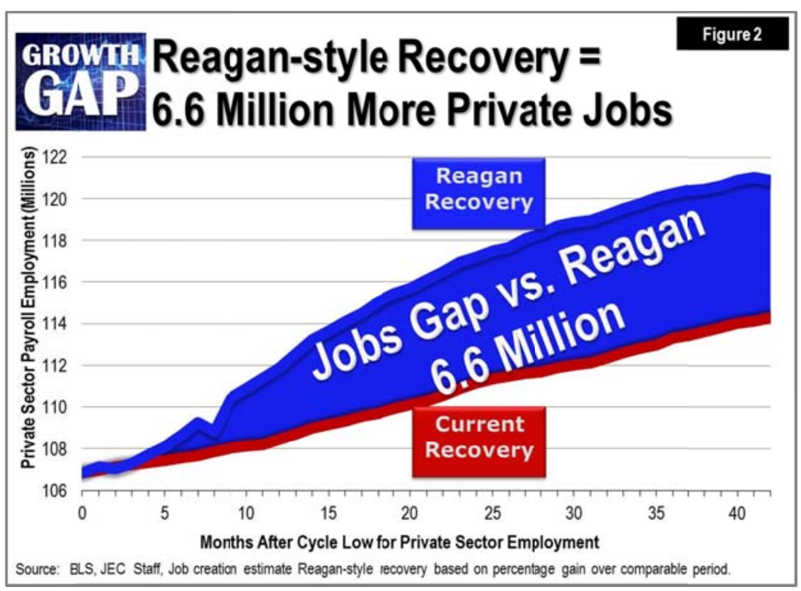


Since the recession ended in the 2nd-quarter 2009, real GDP has grown by a total of 9.2% over the four-year period, equivalent to an annualized growth rate of 2.2%. This compares with total growth of 18.2%, equivalent to an annualized rate of 4.3%, in the average post-1960 recovery. And the comparison with the Reagan Recovery is even more startling when real GDP increased by 22.3%, equivalent to an annualized rate of 5.2%, over the comparable period. This places the growth gap for this recovery at $1.3 trillion (2009$) compared to the average post-1960 recovery and $1.9 trillion (2009$) when compared to the Reagan Recovery (see Figure 1 – additional charts are included at the end of this document).

Private Sector Payroll Employment

The White House likes to tout its private sector job creation record, noting that there have been 42 consecutive months of private sector payroll jobs gains with 7.5 million private sector payroll jobs added over that period representing a gain of 7.0%. What the White House doesn't advertise is that the economy still has 1.4 million fewer private sector payroll jobs than in January 2008 when private sector payroll employment peaked. The White House chooses February 2010 as its starting point for calculating its private sector "job creation" record. February 2010 represents the recent low point for private sector employment.

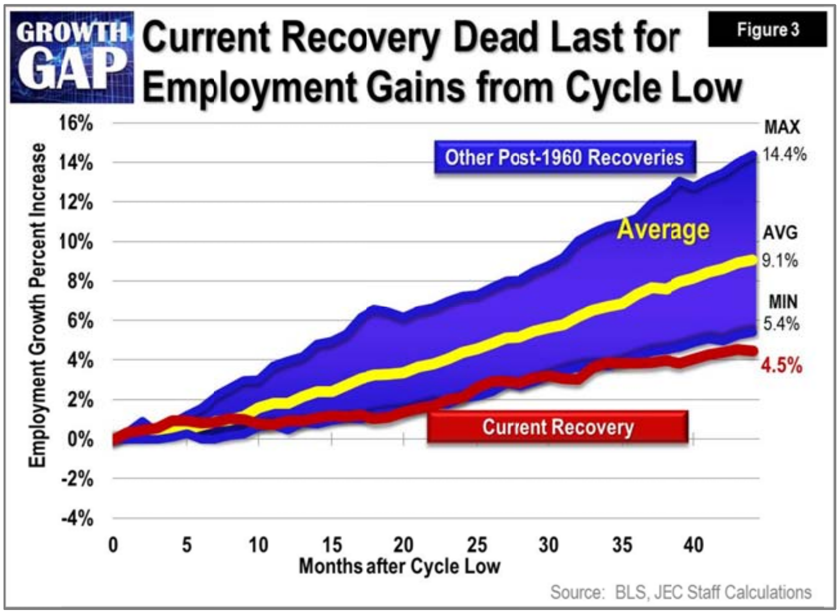
Compared to other post-1960 recoveries, the Obama recovery continues to scrape bottom when it comes to private sector job creation even when using the White House's starting point. Private sector payroll employment grew an average 11.0% over the comparable period in other post-1960 recoveries. That difference puts the private sector jobs gap for the Obama recovery at 4.3 million compared to other post-1960 recoveries.



The gap is even more pronounced compared to the Reagan recovery when private sector payroll employment grew by 13.2% over the comparable period. A Reagan-type private sector payroll jobs gain would have produced an additional 6.6 million private sector jobs (see Figure 2).

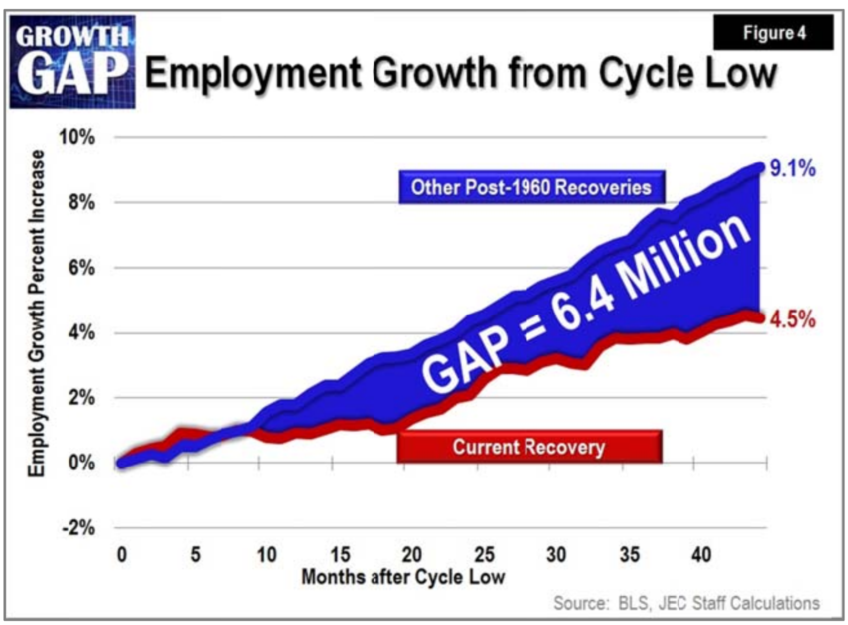
Employment as Measured by the Household Survey

While the Current Establishment Survey (CES) that measures payroll employment tends to get more attention, the household survey that also measures employment provides some insight into the dismal nature of the current recovery. Adopting the same convention of counting off the cycle low that the White House uses when discussing private sector job creation in the CES leaves the Obama recovery dead last for employment gains among post-1960 recoveries (see Figure 3).



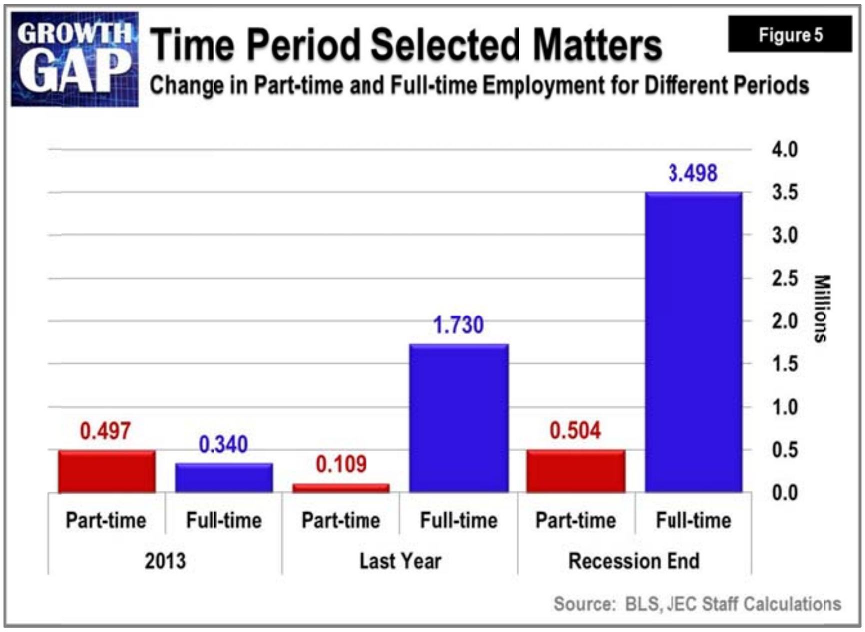
Employment as measured by the household survey hit bottom in December 2009. In the 44 months since, employment has risen by 6.1 million or 4.5%.

Over the comparable 44 months, the average recovery saw employment rise at more than double that of the current recovery – 9.1%, equivalent to an employment gain of 12.5 million. That puts the employment gap of the current recovery compared to the average of other post-1960 recoveries at 6.4 million (see Figure 4).



This recovery's employment gap is especially pronounced when compared to the strong Reagan recovery of the 1980s. Measured off the cycle low over a comparable 44 months, employment in that recovery grew by 11.1% or the equivalent of 15.3 million. In other words, a Reagan-style recovery would have produced an employment gain 9.2 million greater than the current recovery.

Recently, there has been a great deal of discussion regarding the gains in full-time vs. part-time employment. It is important to remember that data in the household survey tends to be very volatile and needs to be evaluated with care. Comparisons with past recoveries can be difficult because of changes in the wording of the survey questions that are asked about full-time vs. part-time status. Because of the volatility and seasonal trends in the data, the time period selected for comparison can created a misleading picture of the situation.



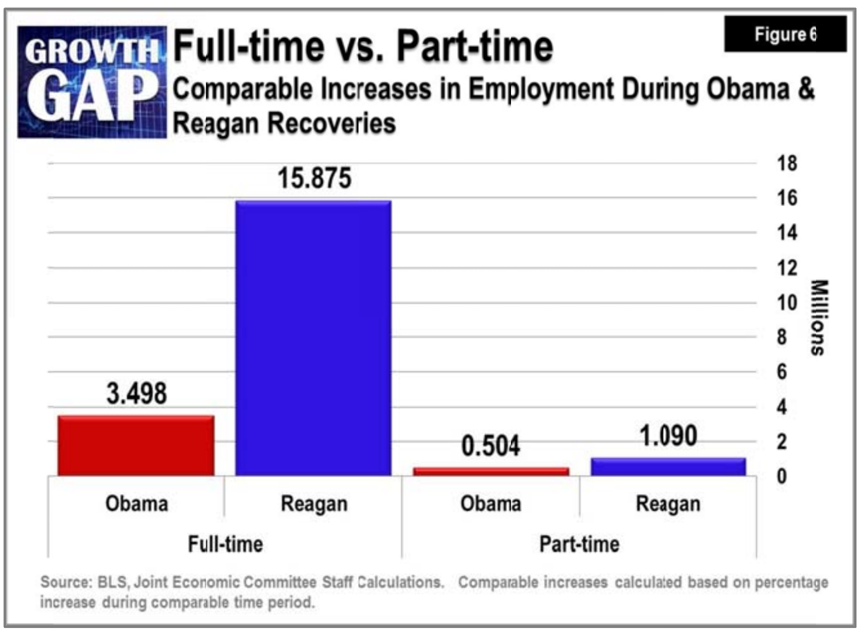


Figure 5 illustrates how the timeframe selected can change the full-time vs. part-time story. The ratio of part-time vs. full-time employment gains for 2013 was significantly different prior to the most recent employment report issued on September 6, 2013.

That report indicated part-time employment gains outstripping full-time gains by a ratio of more than 3-to-1 in 2013. The most recent report puts the ratio close to 1½-to-1.

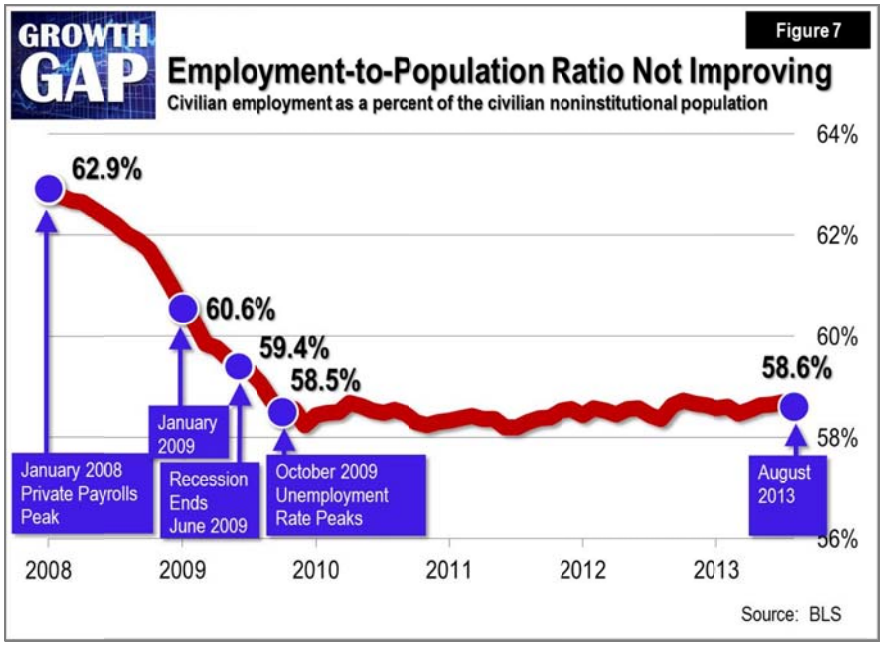
The reality is that the current recovery has failed to create both enough full-time and part-time employment opportunities.

As Figure 6 shows, the pace of part-time employment gains in the Reagan recovery was nearly double that of the current recovery. Full-time employment expanded at more than 4½ times the pace of the current recovery.

It is also important to remember that a large majority of part-time workers work part-time by choice. At present, there are 7.9 million part-time workers that are described as working part-time for economic reasons. That includes those working part-time because of slack work or business conditions as well as those who say they could only find part-time work. By contrast, there are some 19.3 million who say they are working part-time for noneconomic reasons.

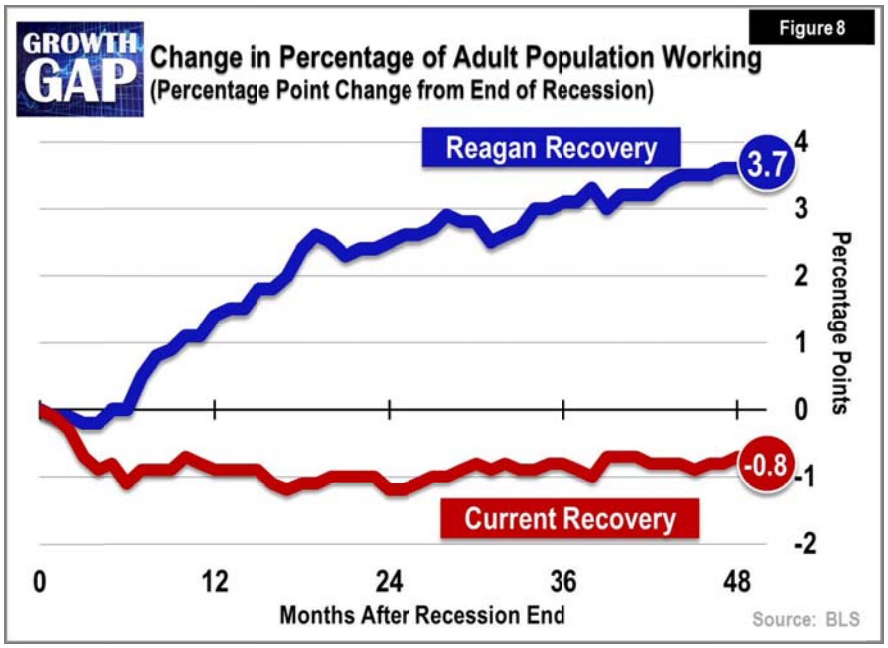
The Unemployment Rate and Related Measurements

The unemployment rate peaked at 10.0% in October 2009. Since that time the rate has declined to its present level of 7.3%. This gives the impression of significant improvement. While the unemployment rate has declined, the percentage of adult Americans that are employed has not increased. Figure 7 shows that the percentage of adult Americans that are employed, as measured by the employment-to-population ratio has actually declined since the recession ended in June 2009.



The employment-to-population ratio is more than four percentage points lower than in January 2008 when private sector payrolls peaked. It stands two full percentage points below the January 2009 level when President Obama took office and has only risen 0.1 percentage point since the unemployment rate peaked at 10.0% in October 2009.

Figure 8 shows the very different progress on the employment-to population ratio during this recovery and during the Reagan recovery. Since the end of the recession, the employment-to-population ratio has actually declined by 0.8 percentage point. In other words, a smaller percentage of adult Americans are employed today than when the recession ended.

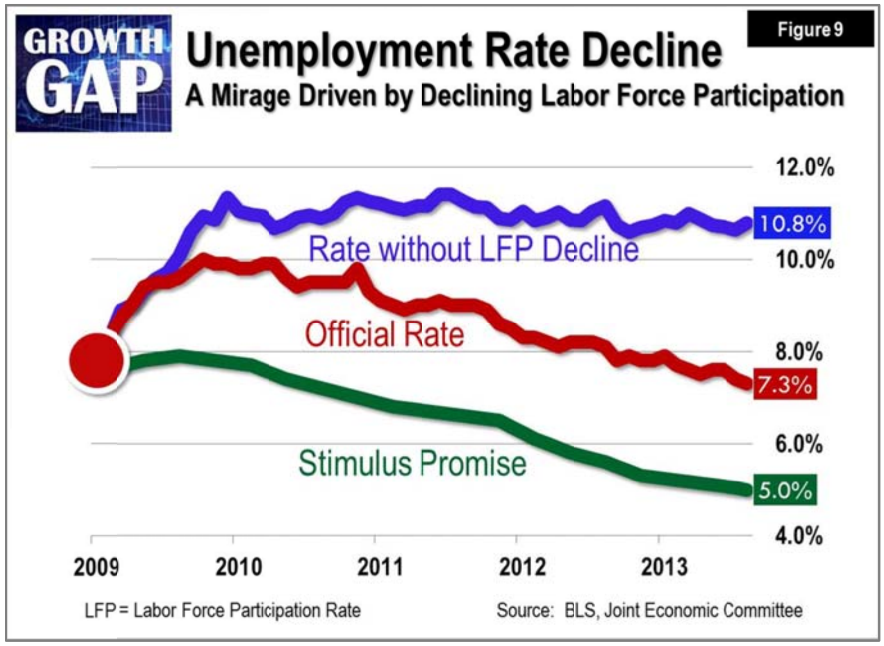


Over the comparable number of months during the Reagan recovery, the employment-to-population ratio rose by 3.7 percentage points. This 4.5 percentage point gap is just another indication of how poorly this recovery stacks up against a strong recovery.

The failure of the employment-to-population ratio to rise coincidently with a decline in the unemployment rate is the result of declining labor force participation. The decline in the labor force participation rate has been well documented. In August 2013, the labor force participation rate dropped to 63.2%, the lowest level since August 1978. While labor force participation has been projected to decline very gradually due to the aging of the population, the recent declines are troublesome and much greater than previously projected.

As mentioned earlier, the widely followed unemployment rate has declined to 7.3% from its October 2009 peak of 10.0%. This decline is largely a mirage that has been driven by the decline in labor force participation. While you can perform this analysis from any reference point, this analysis looks at the labor force participation rate today compared to when President Obama took office in January 2009. In contrast to the current labor force participation rate of 63.2%, in January 2009 the labor force participation rate was 2.5 percentage points higher at 65.7%. At the beginning of the recession, the rate was even higher, standing at 65.8%.

Absent the decline in labor force participation since January 2009, the unemployment rate would stand at 10.8% rather than the reported 7.3%, a 3.5 percentage point difference (see Figure 9).

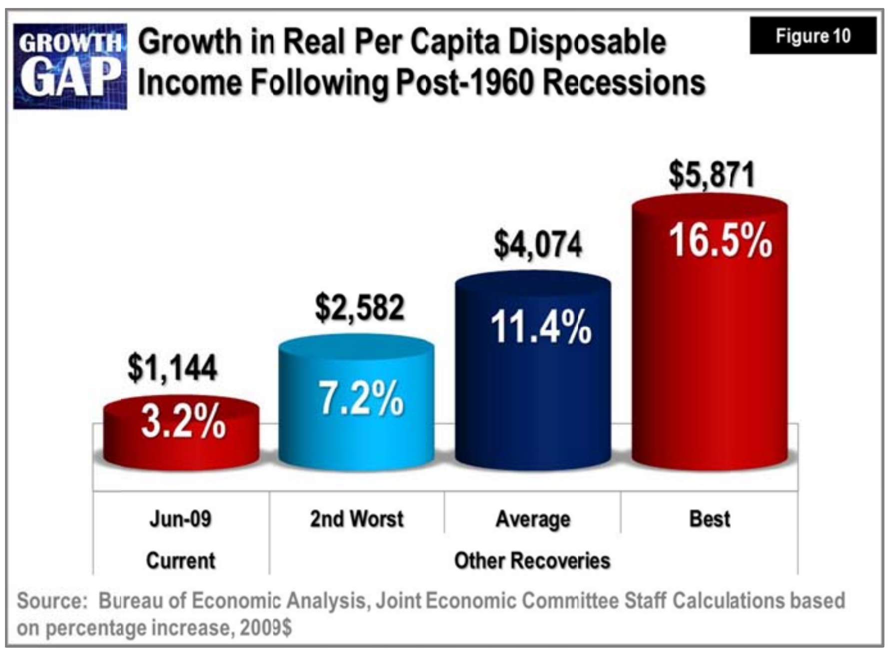


Both rates are significantly higher than the 5.0% rate that the Obama administration said the massive stimulus legislation passed in February 2009 would deliver.

While the headline unemployment rate is psychologically important and still widely followed, the dynamics of labor force participation make it increasingly less reliable as a meaningful measure of labor market health.

Personal Income

There are a number of different ways to look at how well American families and households have fared economically. This analysis looks at the change in real per capita disposable income during the recovery compared with other post-1960 recoveries. While not perfect, this measure is useful because it accounts for inflation and is not distorted by changes in household or family structure over time.



In the 50 months since the recession ended, real per capita disposable income has increased by only 3.2%. This is half the rate of increase in the second worst post-1960 recovery.

Real per capita disposable income increased an average of 11.4% over a comparable period in the other post-1960 recoveries. If real per capita disposable income had increased at that rate in this recovery, it would have grown by $4,074 (2009$) instead of only $1,144 (2009$) (see Figure 10).

Change in real disposable income per capita since end of recession (June 2009) vs. change in S&P 500 Total Return, 2009 dollars. Source: BEA, S&P/Haver Analytics, JEC Staff Calculations

Perhaps one of the most disturbing aspects of the "personal income story" is the wide divergence of how the public at large has fared compared to Wall Street. While real per capita disposable personal income advanced a paltry 3.2% since the recession ended, adjusted for inflation the S&P Total Return Index has soared by more than 80% (see Figure 11).

While the Federal Reserve's expansionist monetary policies may have helped to boost profits on Wall Street, it is increasingly clear that they have failed to deliver meaningful relief to families on Main Street. Economic policies that discourage investment and entrepreneurial risk taking on Main Street continue to deprive the American people of the economic recovery they need and deserve.

The Recovery is Really that Bad, but it isn't because of the Sequester

Over the past year, there has been considerable discussion about the effects of automatic spending reductions contained in the *Budget Control Act of 2011*. Advocates for more spending predicted economic and social calamity if the sequester was not stopped. Some economic forecasters predicted that both real economic growth and employment would suffer if spending reductions were allowed to take place.

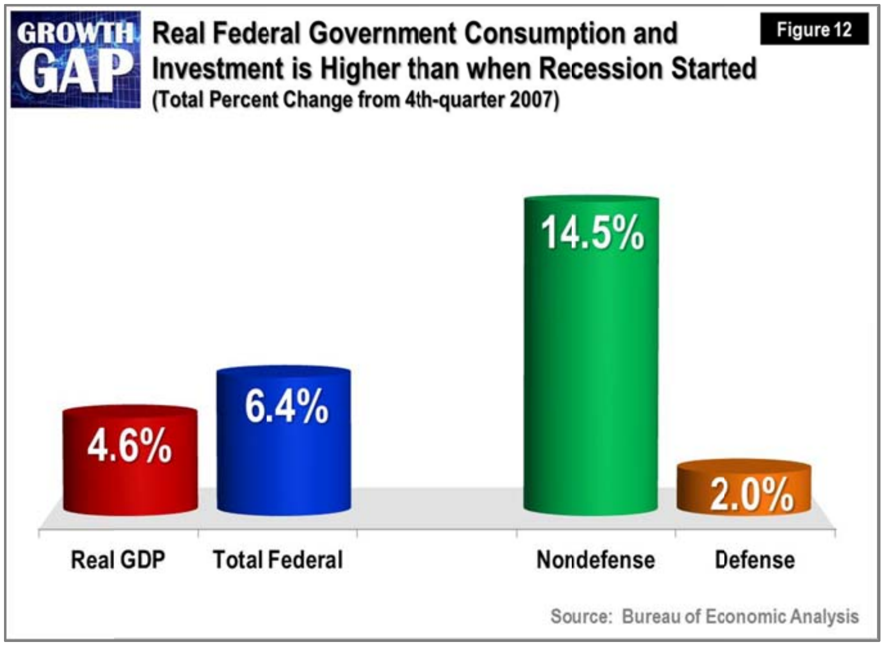
While the sequester has received the vast majority of "ink" in this discussion, the tax increase component of fiscal tightening should have received the bulk of the attention. In its June 2013 *Economic Letter*, the Federal Reserve Bank of San Francisco noted: "Surprisingly, despite all the attention federal spending cuts and sequestration have received, our calculations suggest they are not the main contributors to this projected drag. **The excess fiscal drag on the horizon comes almost entirely from rising taxes.**" (Emphasis added.)

In reality, the total reduction in federal government spending has been minimal. The Congressional Budget Office (CBO) recently estimated that over the first eleven months of the fiscal year, total outlays have declined by $127 billion or 0.4%. However, more than two-thirds of the decline is the result of how payments to and from government-sponsored enterprises (GSEs) are recorded. During the first eleven months of fiscal year 2012, payments to GSEs amounted to $5 billion. During the first eleven months of the current fiscal year, GSEs made payments to the federal government in the amount of $82 billion. These payments are recorded as negative spending, not as revenues. Excluding outlays for GSEs reduces the amount of spending reductions for the first eleven months of the fiscal year to a paltry $40 billion, an amount equivalent to slightly less than 1.2% of total outlays and only 0.2% of 2nd-quarter GDP.

An analysis of spending trends should be made in an appropriate context.

Nondefense spending was ramped up significantly during the recession and defense spending was boosted by the troop surge.

While all federal spending does not show up in the federal government consumption and investment (FGC&I) component of GDP, comparing current levels with pre-recession 4th-quarter GDP levels helps put some perspective on the question. Real GDP was 4.6% higher in the 2nd-quarter 2013 than its pre-recession level. Real FGC&I was an even greater 6.4% higher than the 4th-quarter 2007. Most telling, as Figure 12 illustrates, is the comparative levels of federal nondefense consumption and investment and defense consumption and investment.



In real terms, defense consumption and investment is 2.0% higher than pre-recession levels, while real nondefense consumption and investment is a whopping 14.5% higher.

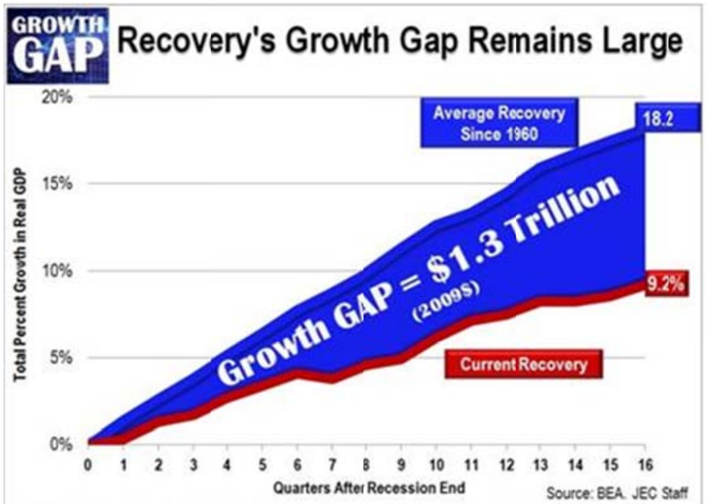
Federal government spending remains elevated despite the protestations that "austerity" is hurting the economy. In reality, the only meaningful "austerity" that has been imposed is on American families via tax increases, not by reductions in federal spending. In reality, exceptionally low interest rates are masking the size of government spending on programs and entitlements.

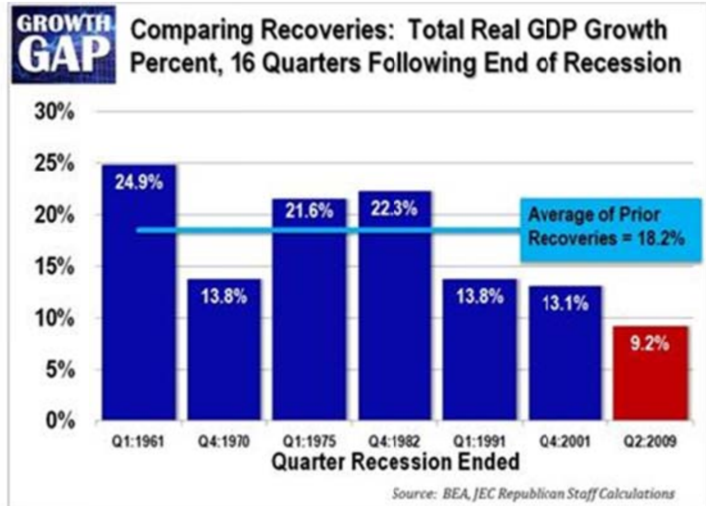
Conclusion

The Obama recovery ranks last or close to last on virtually every indicator of economic health. And despite protests to the contrary, the anemic nature of the recovery has little to do with the modest amount of spending restraint imposed by the *Budget Control Act of 2011.* Constant intervention and interference in the marketplace by the federal government and Federal Reserve are likely contributing to the slow recovery. The free market engine of American growth and prosperity has been restricted to first gear. The bottom line is that if we want to put America back to work, we have to let America work.

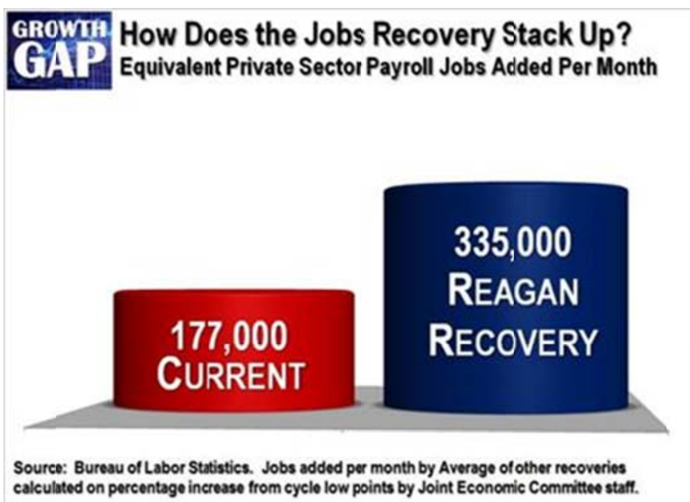
Chart Appendix – Additional Charts

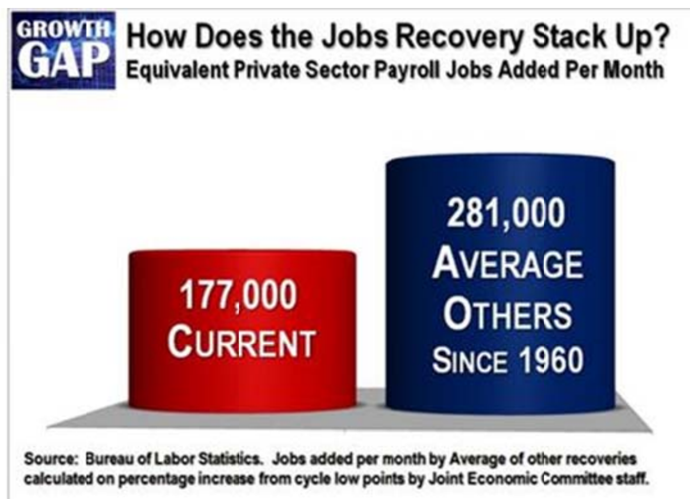
Economic Growth

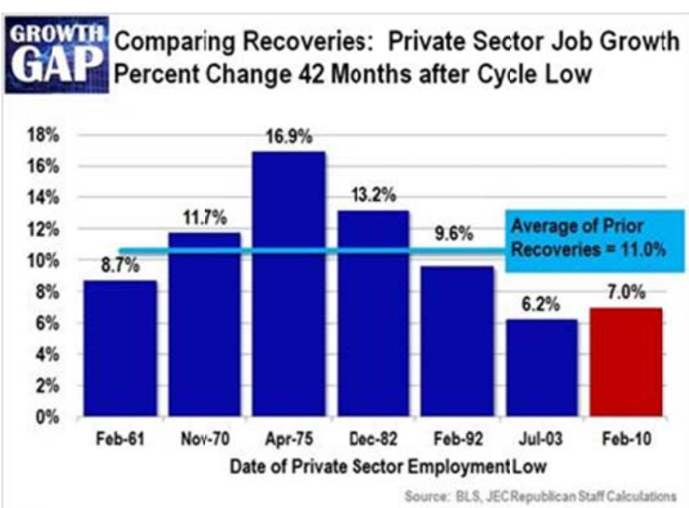


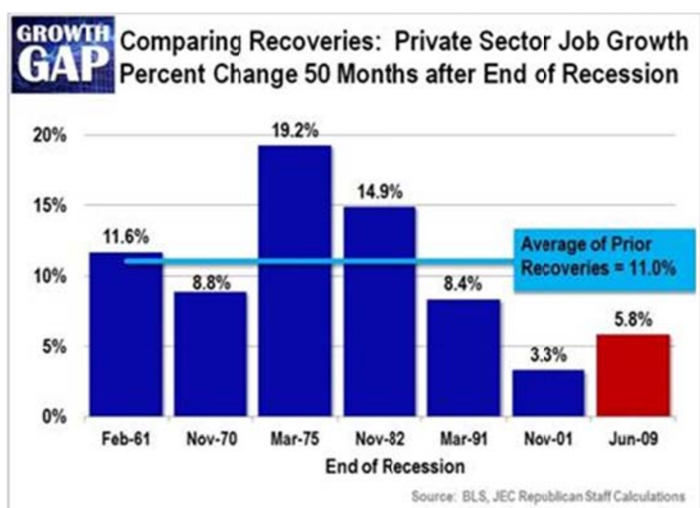


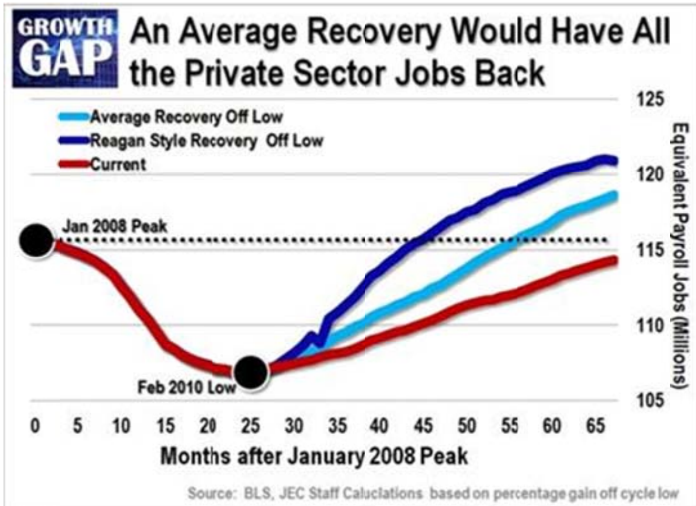
Private Sector Job Creation and Federal Employment

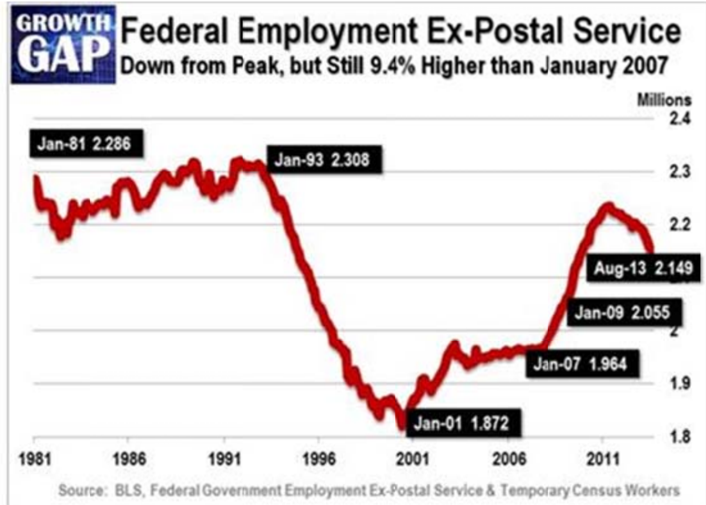




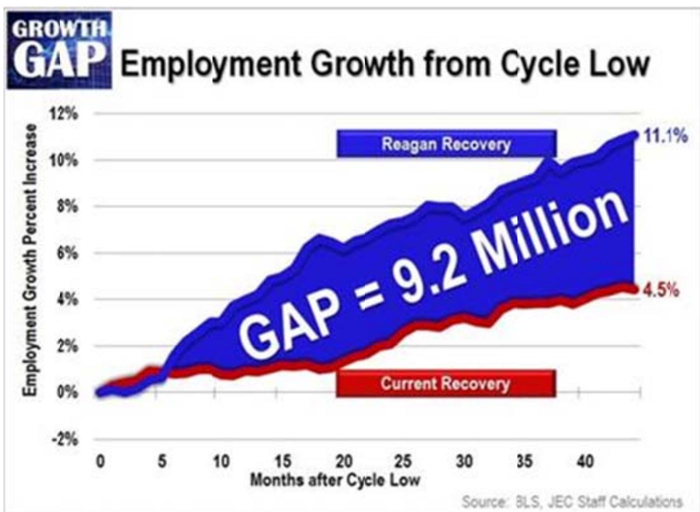


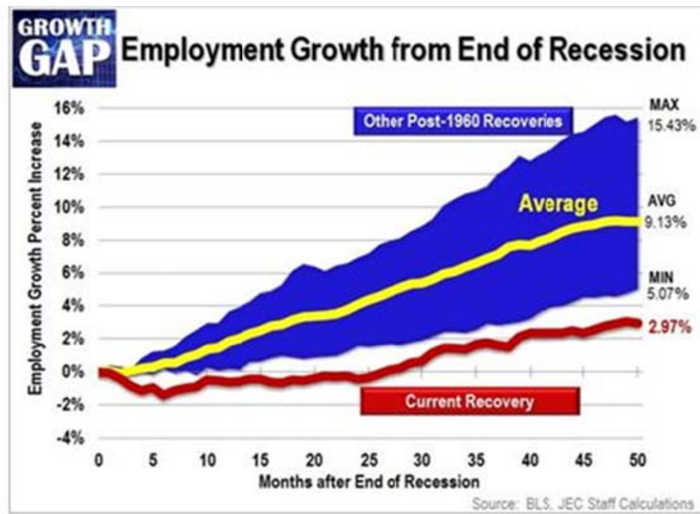


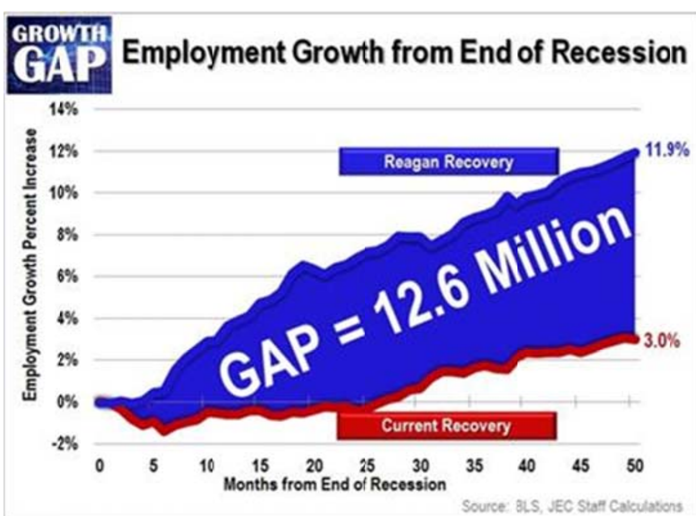




Household Survey Charts







Other Charts