Joint Economic Committee
Republicans

Representative Kevin Brady *Vice Chairman*
Senator Jim DeMint *Senior Republican Senator*

REPUBLICAN STAFF COMMENTARY

Not "Doing Fine"

The Persistent Failure of Obamanomics and the Worst Recovery Since World War II

June 19, 2012

Three years have lapsed since the official end of the Great Recession: two years since Treasury Secretary Tim Geithner boasted, "Welcome to the recovery;" a year-and-a-half since President Obama said, "The next two years, our job now, is putting our economy into overdrive;" and less than a week since the president assured America that "[t]he private sector is doing fine."

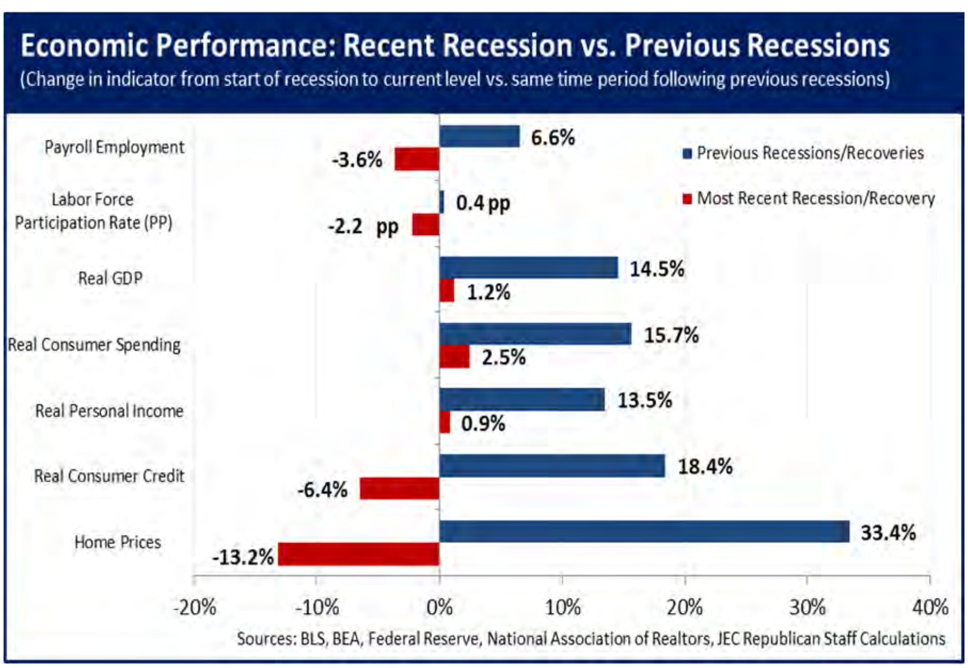
The American economy is decidedly not "doing fine."

Yet for all the rhetoric, the economic fact remains: Americans are mired in the worst recovery that the United States has ever recorded.

Economic conditions are worse today than at the same point in any recovery since World War II.

Employment, income, and economic growth continue to underperform past recoveries, while the Eurozone's ongoing debt crisis has only increased the risk of a double dip recession in the United States. The American economy is decidedly *not* "doing fine."

This report is an update to a similar report issued one year ago comparing current economic data and trends—including employment; real gross domestic product (GDP) growth; real consumer spending and credit; housing; and real personal income—with those from previous recessions and recoveries. The report finds that economic conditions are worse today than at the same point in any recovery since World War II.



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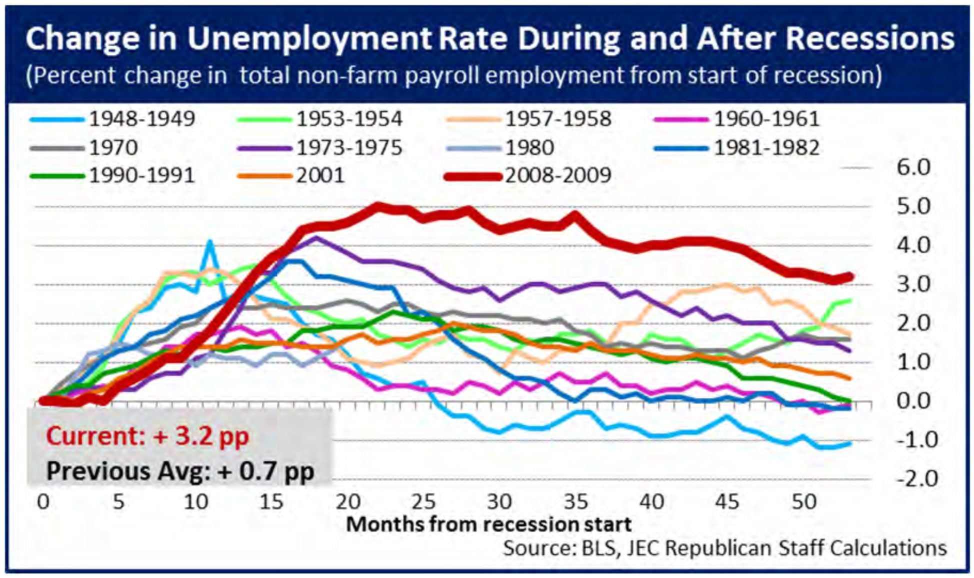
EMPLOYMENT

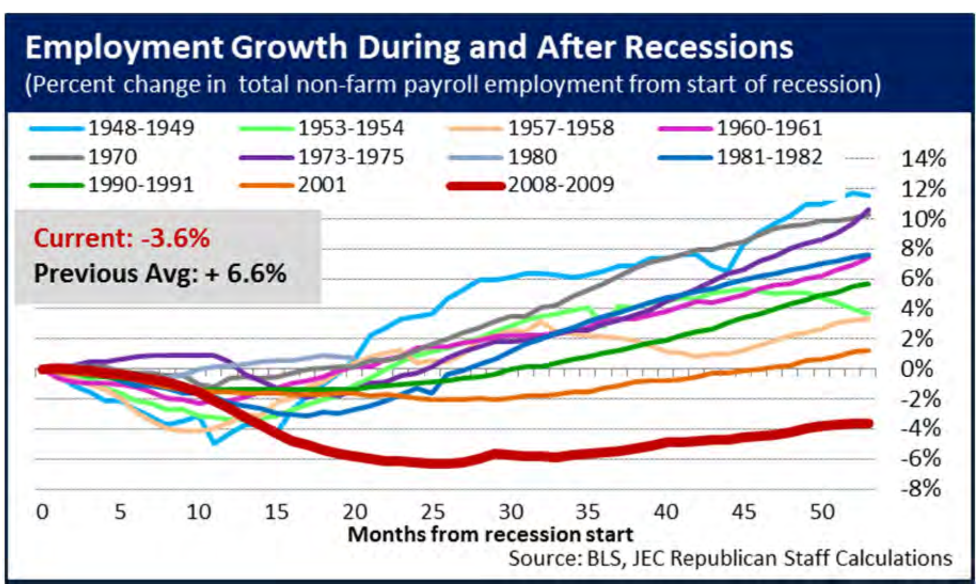
Now, 35 months removed from when the recession officially ended (June 2009), and 40 months since President Obama signed an $814 billion stimulus bill—which White House economists said would keep unemployment from climbing to 8 percent. Today, the unemployment rate in the United States is 8.2 percent, and it has been at or above 8 percent for a record 40 months (since records began in 1948).

The unemployment rate is 3.2 percentage points higher today than when the recession began. This compares to an average increase of only 0.7 percentage points over that same time period in previous post-WWII recoveries.[1]



If employment today were up 6.6 percent instead of down 3.6 percent, there would be 14.1 million more individuals with jobs

Even worse though, total employment—that is the total number of payroll jobs in the economy—is now 3.6 percent *below* what it was at the start of the recession, 53 months ago. This compares to an average *increase* in employment of 6.6 percent over the same period in prior post-WWII recessions. If employment today were up 6.6 percent instead of down 3.6 percent, there would be 14.1 million more individuals with jobs.



The recovery from the recent recession has failed to generate typical "bounce-back" job-creation that has occurred after virtually all previous recessions. Had employment followed a typical, symmetrical pattern, there would be 5.2 million more payroll jobs in the economy than there are today.

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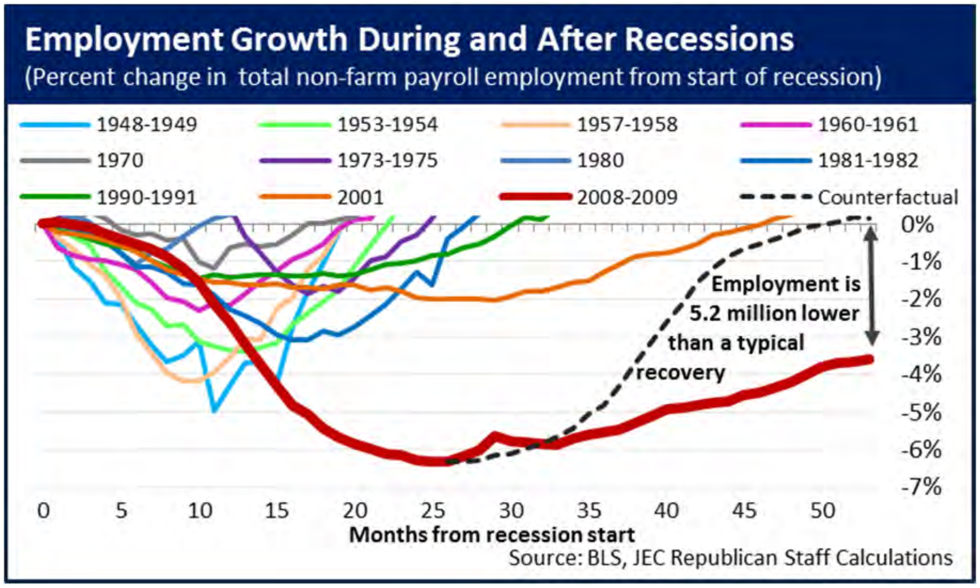
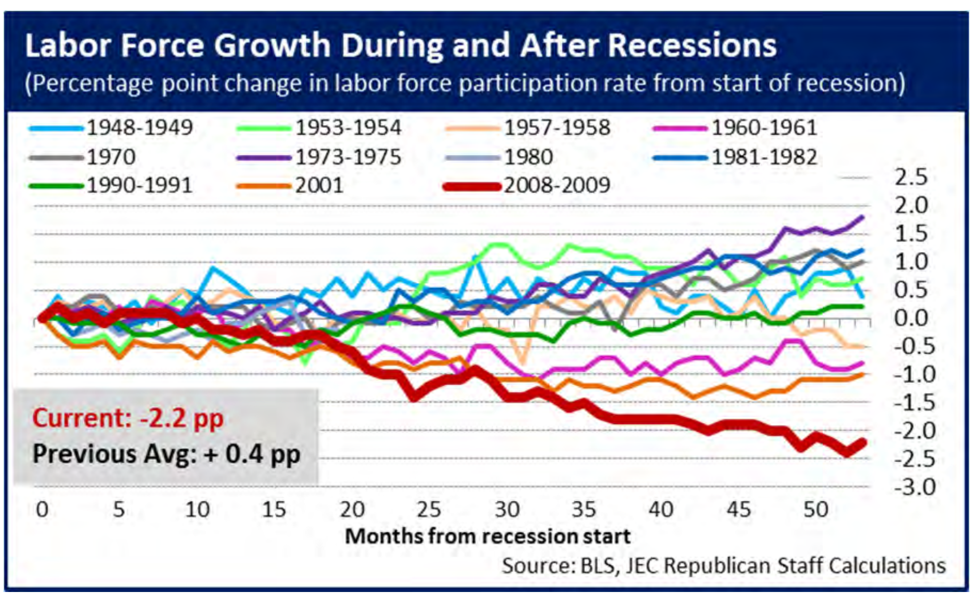


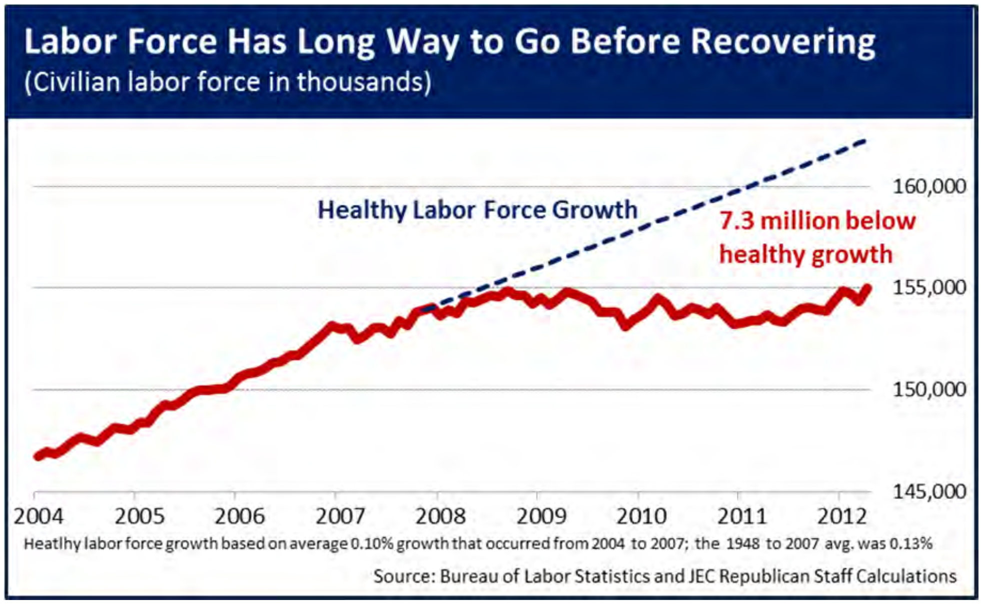
LABOR FORCE

One of the most worrisome components of the recent recession and current recovery has been the rapid decline in labor force participation. In April 2012, the participation rate hit a more than 30-year low of 63.6 percent. From the start of the most recent recession to May 2012, the labor force participation rate has *declined* by 2.2 percentage points, from 66.2 to 63.8 percent. During that same period after previous post-WWII recessions began, the labor force participation rate *rose* an average of 0.4 percentage points.

In April 2012, the participation rate hit a more than 30-year low of 63.6 percent.



If the labor force had continued to grow at the same pace that it did from 2004 through 2007, there would be 7.3 million more people in the labor force than there are today.[2]

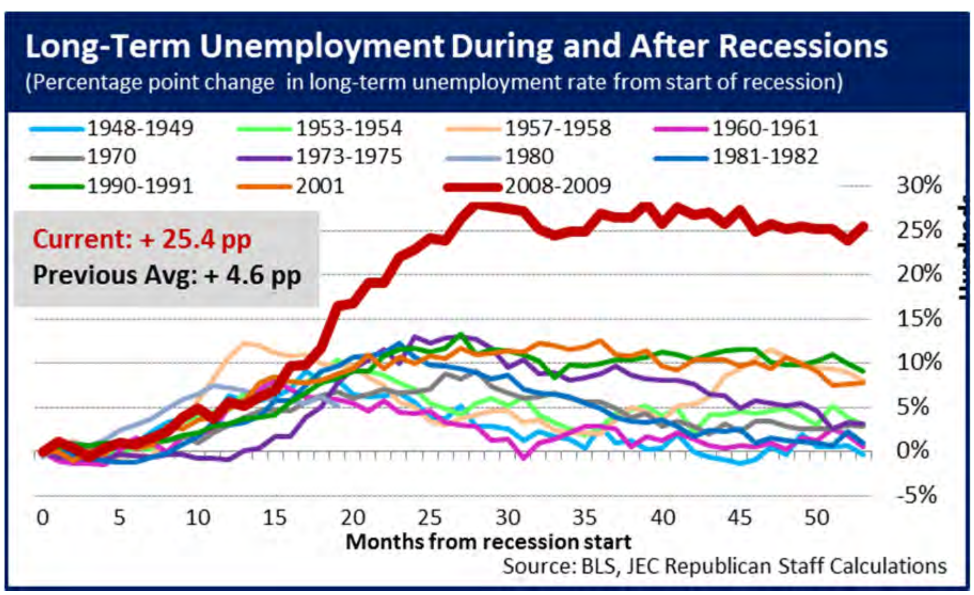


If there were 7.3 million more workers in the labor force today, the unemployment rate would be 12.3 percent, instead of 8.2 percent.

That the labor force has significantly declined is likely to prolong the high level of unemployment. As previously discouraged workers, who left the labor force, begin to re-enter it, there will be more people looking and competing for jobs. If there were 7.3 million more workers in the labor force today, the unemployment rate would be 12.3 percent, instead of 8.2 percent.

LONG-TERM UNEMPLOYMENT

A particularly troubling component of the current labor market is the record-high level of long-term unemployment (the percentage of those unemployed, who have been out of work for six months or more). The proportion of the unemployed who have been without work for *more than six months* is 42.8 percent—a 25.4 percentage points increase since the beginning of the recession. This compares to a historical average increase of only 4.6 percentage points over that same period after previous, post-WWII recessions began.



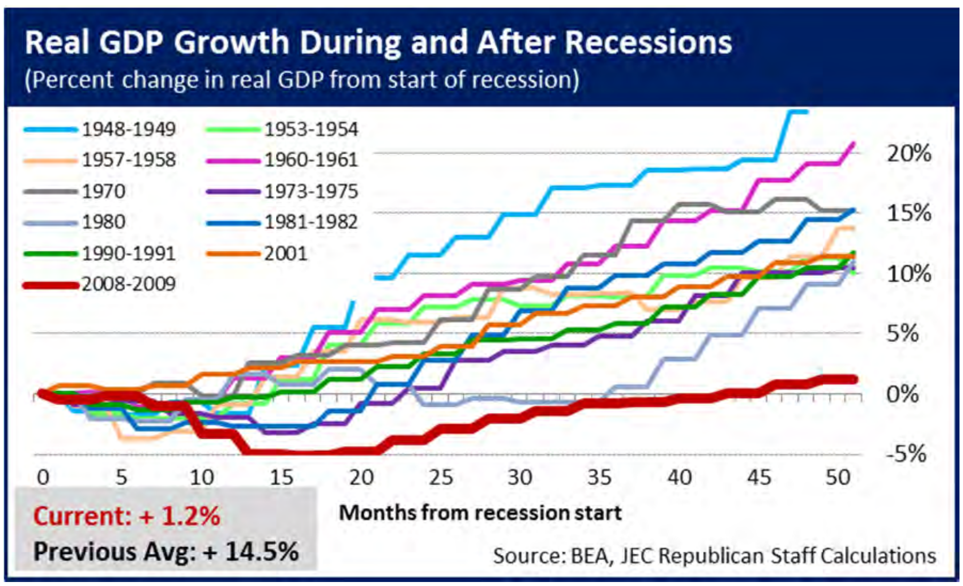
As emphasized by Federal Reserve Chairman Ben Bernanke, long-term unemployment is particularly concerning because "people without work for long periods can find it increasingly difficult to obtain a job comparable to their previous one, as their skills tend to deteriorate over time and as employers are often reluctant to hire the long-term unemployed."[3]

REAL GDP GROWTH

Real GDP grew at an annual rate of only 1.9 percent in the first quarter of 2012, and has grown at a disappointingly slow pace thus far during the recovery. In the first year after the recession, real GDP grew 3.0 percent, compared to average growth of 6.6 percent following prior post-WWII recessions.

Real GDP growth (only 1.9% in the 1st quarter of 2012) has failed to keep pace with that of past recoveries.

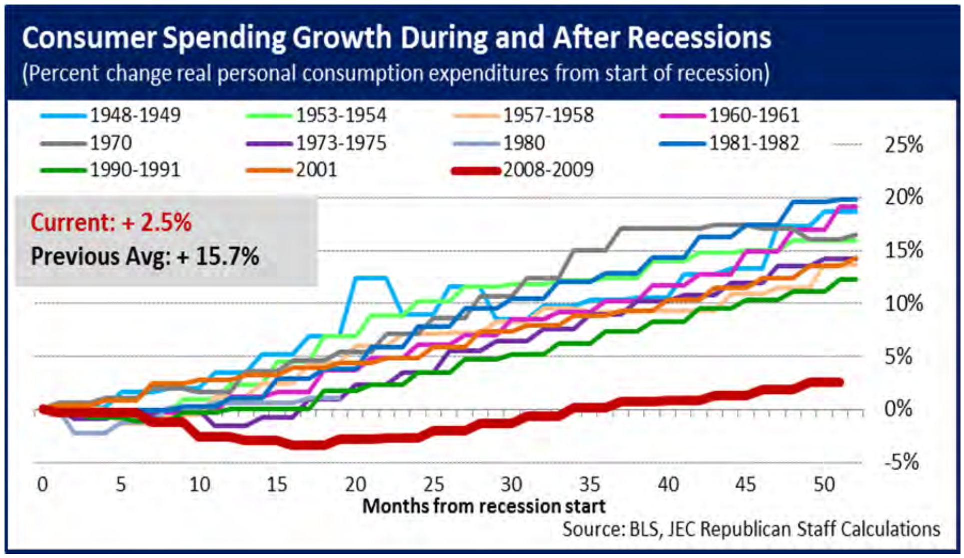
To date (through the 1st quarter of 2012), real GDP has risen by a cumulative 1.2 percent since the recession began, compared to an average increase of 14.5 percent in past recessions.



REAL CONSUMER SPENDING

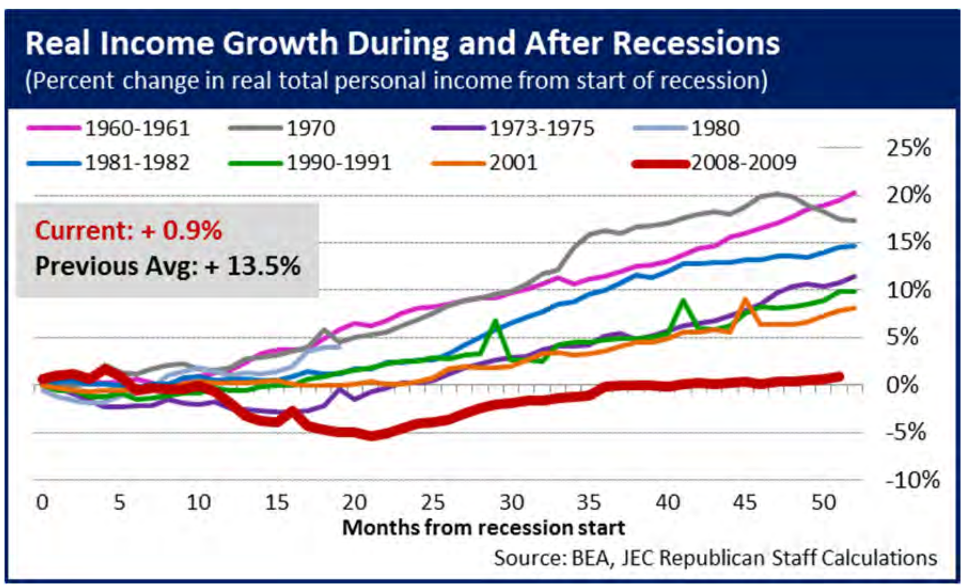
Consumer spending makes up roughly 70 percent of GDP, but since the start of the most recent recession, real consumer spending has increased only 2.5 percent, compared to growth more than six times as high—15.7 percent—over the same period during and after previous post-WWII recessions.

For the economy to recover, consumers need to start spending again, but for spending to resume, consumers need income and access to credit—both of which have been lagging behind in the current recovery.



REAL PERSONAL INCOME

Real income growth has been particularly weak coming out of this recession. Since the start of the recession (through April 2012), real personal income has grown just 0.9 percent. This compares to average income growth of 13.5 percent over the same time period for previous post-1960 recessions.[4]



Real median household income is down more than $4,500 since the recession began, and down $3,200 since the so-called "recovery" began.

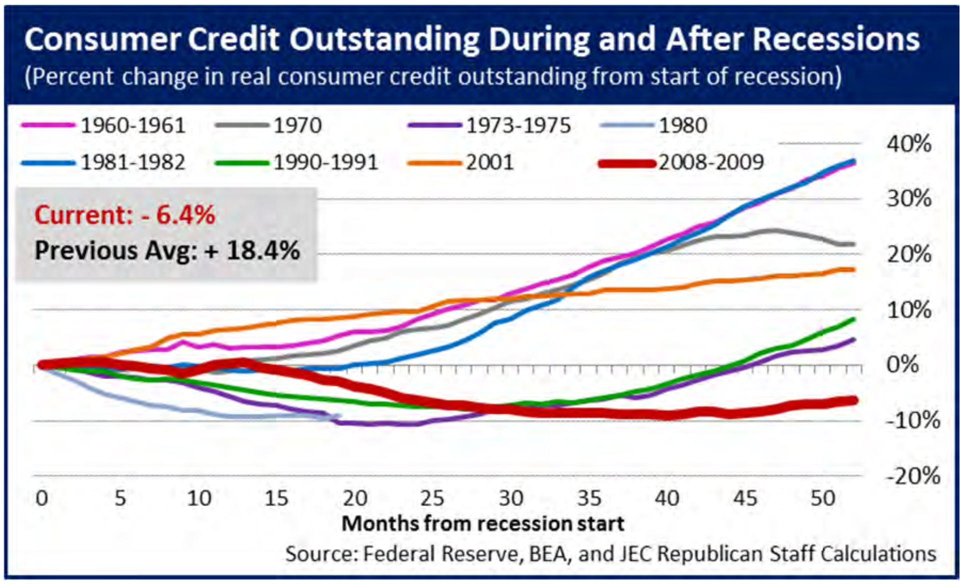
And on a per-household level, real median income has declined by more than $4,500, or 8.3% since the recession began.[5] The especially troublesome part of this decline in median household income is that the bulk of it—$3,200—did not occur during the recession itself, but in the past three years of so-called "recovery."

Even greater than the decline in income, however, has been the decline in net worth. From 2007 to 2010, median family net worth declined 40%—from $126,400 to $77,300—a level last seen in the early 1990s.[6]

REAL CONSUMER CREDIT

Since the start of the recession, the amount of real consumer credit outstanding has *declined* by 6.4 percent. This compares to a *rise* of 18.4 percent over that same period in previous post-WWII recessions.

The decline in credit availability has not only affected homeowners, whose access to credit has been decimated by the housing collapse, but many small business owners. Without access to credit, many businesses have been unable to maintain regular operations and have had to lay off employees, postpone planned investment and expansion, or close up shop altogether.



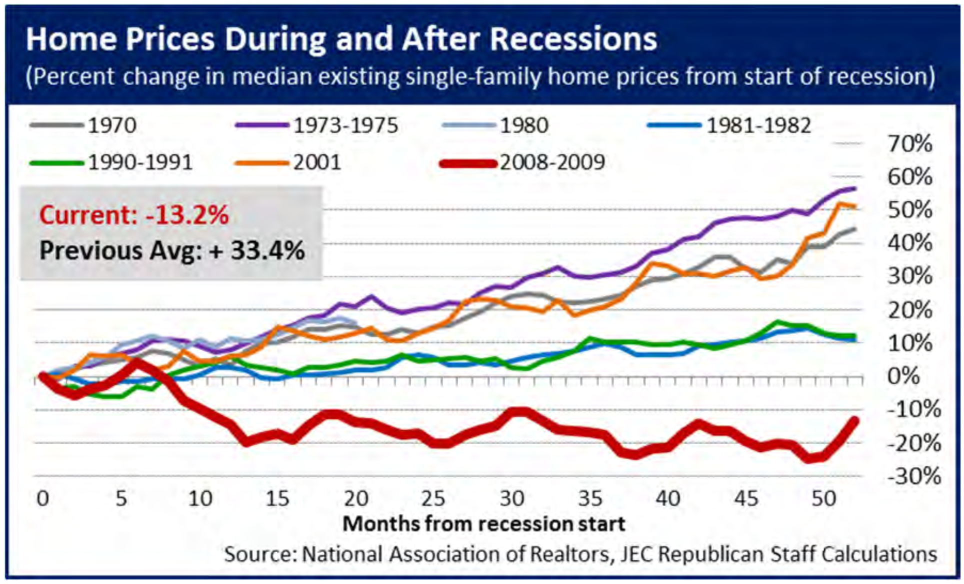
Furthermore, although interest rates are at all-time lows, most individuals and businesses who would like to borrow at these low rates are unable to do so because of new heightened lending standards. In particular, the estimated 15.7 million homeowners who are underwater on their mortgages (owing more than their homes are worth) are unable to refinance at lower rates that could save them thousands of dollars a year in mortgage payments.

HOUSING

Arguably the primary driver of the current recession, the housing market, has been extremely hard hit. Despite large amounts of federal spending programs and tax credits aimed at propping up the housing market, home prices remain depressed, foreclosures remain extremely high, and a record-high 31.4 percent of homeowners remain in negative equity, owing more on their homes than their homes are worth.[7]

Since the start of the recession, the median single-family home price is down 13.2 percent. This compares to an average increase of 33.4 percent over the same period in previous, post-1968 recessions.[8]

The housing market remains depressed. Home prices are down 13.2% from the start of the recession, compared to an average price increase of 33.4% in past recoveries, and more than 30% of homeowners are underwater.



CONCLUSION

On July 14, 2009, one month after the recession officially ended, President Obama gave a speech on the economy, saying:

> *Now, my administration has a job to do, as well, and that job is to get this economy back on its feet. That's my job. And it's a job I gladly accept. I love these folks who helped get us in this mess and then suddenly say, 'Well, this is Obama's economy.' That's fine. Give it to me.*

What the president himself has called "Obama's economy" and Rep. Wasserman Schultz says her party "owns" is, in fact, the worst economic recovery the American people have suffered through in a lifetime.

And a year ago, on June 15, 2011, Democratic National Committee Chair Debbie Wasserman Schultz said much the same on behalf of her party: "I think we clearly are responsible… I'm going to take ownership right now… We own the economy."

Yet an unprecedented stimulus and an ever-expanding federal government have resulted in an economy that is barely sputtering along and a debt burden that threatens not only the U.S. credit rating but an outright debt crisis. Now, the Administration and Democrats in Congress are looking elsewhere for blame: President Bush's poor policies, the ongoing European debt crisis, high oil prices, or even last year's tsunami in Japan. But what the president himself has called "Obama's economy" and Rep. Wasserman Schultz says her party "owns" is, in fact, the worst economic recovery the American people have suffered through in a lifetime.

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[1] Data comparing current levels to averages of previous post-WWII recessions include the ten recessions occurring between 1948 and 2001. The data in the graphs for the 1980 recession are limited to the first 18 months following the start of the recession because 18 months after the start of the 1980 recession commenced the beginning of the 1981-1982 recession. While the data in the charts are limited to the first 18 months following the start of the 1980 recession, the data levels comparing previous recessions to the most recent one include the full span of data for all recessions. All data comparisons are based on the most recent data available: for data on employment statistics, comparisons are made through the 53 months following the start of each recession; for data on income, consumer credit, and home prices, comparisons extend 52 months beyond recession starts; and for GDP and consumer spending, comparisons extend 51 months beyond the start of each recession.

[2] The estimated figure of 6.7 million assumes the same 0.10 percent monthly growth rate in the labor force that occurred from 2004 to 2007 also occurred from January of 2008 onwards. The long-term historical average growth rate from 1948 to 2007 is 0.13 percent per month.

[3] Federal Reserve Chairman Ben Bernanke, "The U.S. Economic Outlook," Remarks at the International Monetary Conference, Atlanta, Georgia, June 7, 2011.

[4] Data on personal income was first recorded in 1960, so comparisons for this statistic are limited to those recessions occurring after 1960.

[5] Data on median household income provided by Sentier Research (adjusted to March 2012 dollars).

[6] Data on family net worth from the Federal Reserve Survey of Consumer Finances, 2010.

[7] Estimates from Zillow Negative Equity Report for the 1st quarter of 2012.

[8] Data on single-family home prices first began in 1968, so comparisons for this statistic are limited to those recessions occurring after 1968.