Joint Economic Committee Democrats

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The Bush Economy: The Facts Behind the White House Facts

In two major speeches on the economy this month, President Bush has cited a number of economic indicators to justify his claims that the economy is strong and that his policies are an important reason for that strength. In fact, however, the list of economic indicators assembled by the White House to justify the President's claims is highly selective and lacks context. As a result, the implications that the President draws about the success of his policies are unwarranted.

The following analysis examines the key statistics cited in a White House fact sheet issued in conjunction with the President's speech on the economy given in Chicago on January 6, 2006. It provides the additional facts necessary to put the White House numbers in their proper context and to understand why so many ordinary American families feel left behind in the Bush economy.

Unemployment

White House fact: The unemployment rate (4.9 percent in December 2005) is lower than the average of the 1970s, 1980s, and 1990s.

The facts behind the facts:

- The unemployment rate was 4.2 percent in January 2001 when President Bush took office, 0.7 percentage point lower than it is now.
- Moreover, there are twice as many people who have been unemployed for 27 weeks or longer now than there were when President Bush took office (26 weeks is the amount of time an unemployed worker can collect regular unemployment insurance).
- In every month of the Clinton Administration from July 1997 to January 2001, the unemployment rate was as low as or lower than it is now (4.9 percent).
- The unemployment rate was between 3.8 and 4.1 percent in every month of 2000 and averaged 4.0 percent for the year.

Job Creation

White House fact: The economy has created more than 400,000 jobs over the last two months (November and December 2005), over 2 million jobs over the past 12 months, and over 4.6 million since May 2003.

The facts behind the facts:

- President Bush has the slowest rates of both overall and private sector job creation of any administration in over 70 years.
- The jobs slump associated with the recession that began in March 2001 has been the most protracted jobs slump since at least the end of World War II (the period over which there are consistent comparable data).
- Whereas it was common to see job gains of 200,000 to 300,000 and sometimes 400,000 jobs per month in the 1990s expansion, gains of that magnitude have been rare as the economy has struggled to emerge from the latest jobs slump.
- When expressed on a monthly basis, the 4.6 million jobs created since May 2003 work out to a pace of just 150,000 jobs per month. That is just a little

faster than the pace needed to keep up with normal growth in the labor force.

- At this point in the recovery from the 1990-91 recession, the economy had created 4.8 million more jobs than have been created in the current recovery.

Economic Growth

White House fact: The economy grew at 4.1 percent in the third quarter, the 10th consecutive quarter in which GDP grew at a rate above 3 percent.

The facts behind the facts:

- The average annual growth rate over the entire period since President Bush took office has been 2.7 percent. That compares with a 3.6 percent average annual growth rate under President Clinton.
- There has been nothing exceptional about economic growth in the recovery from the 2001 recession. It has been slower than in the typical postwar recovery and about the same as in the recovery from the 1990-91 recession.
- Wages and salaries have grown much more slowly than they have in the typical postwar economic recovery, while profits have grown much faster.
- Business fixed investment, a critical factor for future growth, has grown less than two-thirds as fast as it has in the typical postwar recovery.

Productivity

White House fact: Productivity (output per hour in the nonfarm business sector) rose at a 4.7 percent annual rate in the third quarter and has grown at a 3.4 percent annual rate since the end of 2000.

The facts behind the facts:

- Productivity growth has indeed been very strong, but that productivity growth has shown up in the bottom lines of companies much more than in the paychecks of workers.
- After adjusting for inflation, average hourly compensation of employees (wages plus benefits) has grown at just a 1.6 percent annual rate since the end of 2000—less than half the rate at which productivity has grown.
- In the late 1990s, in contrast, growth in compensation more nearly matched growth in productivity. From the end of 1996 to the end of 2000, for example, productivity grew at a healthy average annual rate of 2.6 percent and real compensation per hour grew at an average annual rate of 2.9 percent—more than 80 percent faster than the growth rate since the end of 2000.

Wages and Income

White House fact: Over the past 12 months, real disposable personal incomes were up 1.5 percent. Since 2001, real after-tax income per person has risen 7 percent.

The facts behind the facts:

- Under President Bush, real after-tax income per person has risen at an average annual rate of 1.5 percent. Under President Clinton real after-tax income per person rose at an average annual rate of 2.3 percent.
- Real after-tax income per person is a measure of average income. Use of an average obscures the fact that income gains have been concentrated at the top of the distribution. This measure also includes nonwage income, which is more unequally distributed than wages.
- During the period of job creation since May 2003, real wages have declined. After adjusting for inflation, the average hourly earnings of production or other nonsupervisory workers are down 1.1 percent. Real average hourly earnings have fallen or failed to rise for three straight years (measured on a December-to-December basis).
- After adjusting for inflation, the median usual weekly earnings of full-time wage and salary workers have fallen 0.9 percent over President Bush's first five years in office. (That contrasts with an increase of 7.3 percent over the last five years of the Clinton presidency.)
- Earnings in the middle and the bottom of the distribution have failed to keep up with inflation

under President Bush, while those in the upper half have grown somewhat faster than inflation. (That pattern contrasts with the strong and widespread earnings growth over the last five years of the Clinton presidency.)

- The Bush tax cuts increased the after-tax income of upper-income taxpayers proportionately more than that of lower-income taxpayers, aggravating the widening inequality evident in the data on pre-tax income and earnings.

Other Indicators

The White House fact sheet offers several other indicators meant to support the argument that the economy is strong and continues to grow, but when viewed in context these indicators are less robust than the Administration claims.

- *Consumer confidence:* The White House fact sheet cites recent increases in measures of consumer confidence. However, both the Conference Board index of consumer confidence and the University of Michigan sentiment index remain below their level at the start of the Bush Administration and well below the levels reached in the late 1990s.

- *Manufacturing:* The White House fact sheet cites various indicators of expanding manufacturing activity. It fails to mention the fact that manufacturing has lost 2.8 million jobs since January 2001 or to justify or rationalize that loss.

- *Household net worth:* The fact sheet notes that household net worth is at $51.1 trillion—an all-time high. However, after adjusting for inflation and population growth, real per capita household net worth is not quite back to the peak it reached in 2000 and has grown at an annual rate of just 0.8 percent per year under President Bush. In the previous five years under President Clinton it grew at an average annual rate of 4.8 percent per year.

The Impact of Bush Policies

With growth in GDP and investment lower than the average for postwar business-cycle recoveries, the behavior of the economy is not a ringing endorsement of the President's economic policies. When the adverse consequences of the large budget deficits that have accompanied the President's tax cuts are recognized, the case for extending the tax cuts becomes even weaker.

The President and other defenders of the 2001-2003 tax cuts argue that they were necessary to pull the economy out of the recession and that they will contribute to long-term growth. In fact, however, the tax cuts were poorly designed to generate short-term job-creating stimulus without adding to the long-term budget deficit. The resiliency of the American economy and the Federal Reserve's accommodative monetary policy were the critical ingredients contributing to the economic recovery.

In contrast to the claims of some supporters of tax cuts that those tax cuts generate enough revenue to pay for themselves, a wide range of economists recognize that tax cuts increase the budget deficit. Dynamic analyses of tax cuts by both the Congressional Budget Office and the Joint Committee on Taxation conclude that the negative effects of budget deficits tend to outweigh any positive benefits from the tax cuts on economic growth. A Congressional Research Service analysis of the dividend tax cut reached the same conclusion.

Conclusion

The statistics cited by the Bush White House to defend the Administration's economic policies are about an economy in which the well-to-do are doing well. However, those statistics gloss over or ignore the sluggish rate of job creation and the lack of real wage growth that has left the typical American family still waiting to benefit from Bush policies or the Bush economy.

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