Critiquing Misleading White House Statements About the Economy

PART 1:

Income growth and median earnings

A recent White House news release contains this claim regarding income growth:

> "Real disposable income has risen 2.2 % over the past 12 months. Since January 2001, real after-tax income per person has risen 8.3%." (http://www.whitehouse.gov/news/releases/2006/04/20060411-9.html)

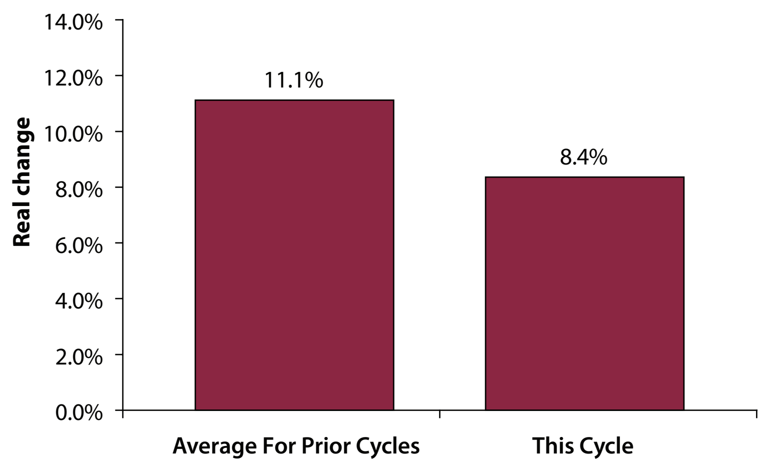
Since income growth is the primary determinant of living standards, the validity of this claim is central to the White House's argument that their policies are lifting the living standards of most families. The problem here is that the measures cited are of limited use in judging the extent to which the recovery is truly reaching most families.

First, these measures represent the aggregate of trillions of dollars in income generated by the economy. Real disposable income (inflation-adjusted income after taxes) always tends to expand in recoveries because more persons are working. Disposable personal income (DPI) also includes income from business ownership, interest, and dividends, but is also lifted significantly by the high levels of executive compensation, as reflected in recent news reports (see *The New York Times*, "A cozy arrangement." April 13, 2006).

To measure the effectiveness of the administration's policies, the question is not whether real DPI is growing, but how fast are the growth rates relative to past recoveries. By both measures cited by the White House, the growth over this business cycle is considerably weaker than the average for past cycles.

As shown in **Figure A**, DPI per capita has gained 8.4% since March 2001, but the average for comparable periods is 11.1%.[1] In addition, the 2.3% gain in real DPI over the past year—2005q1-2006q1—falls short of the average growth of 3.6% over comparable periods in past recoveries.

Figure A.
Growth in real disposable personal income per capita, this cycle vs. past averages



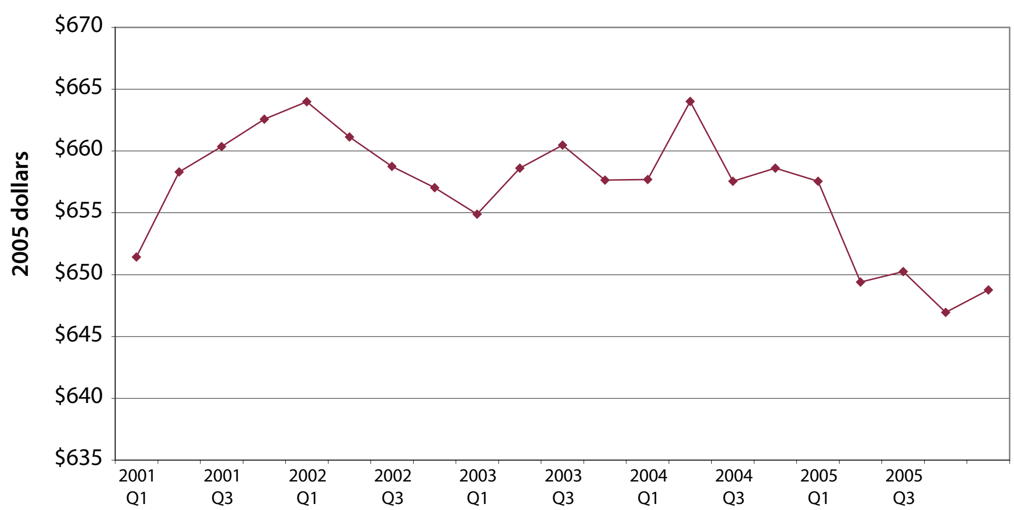
Source: EPI analysis of BEA data.

The second problem with the White House's claim is that the increase in inequality in recent years has meant that average income growth is less descriptive of how the typical family is faring. As growth has flowed up the wealth scale, middle and lower income households have not enjoyed even the modest growth shown in the average income figure above. Median family income declined not only in the recession year of 2001, but has consistently fallen in real terms through 2004 (down 2.9 %, or $1,500). Though median income results for 2005 will not be available until late this summer, the trend in median earnings, shown next, suggests things are unlikely to have improved much since 2004.

Figure B shows the trend in real median earnings of full-time workers since 2001. Median earnings, representing the paychecks of the typical working person, have stagnated or declined since 2002, and by the end of the period are little changed from where they began, despite four years of recovery and strong productivity growth.

The gap between the per capita income growth and median earnings is a stark reminder of the unbalanced nature of the current recovery, one that contradicts the White House's rhetoric regarding the success of their policy agenda.

Figure B.
Real median earnings, full-time workers, 2001q1-2006q1



Source: EPI analysis of BLS data.

NOTES

1. Notice that our comparison starts in March 2001 instead of January 2001. In order to make sound comparisons with past cycles, we examine the first five years of business cycles that have lasted at least as long as the current one.

This *Snapshot* was written by EPI Economist Jared Bernstein.

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PART 2:

International comparisons of employment growth

A recent White House news release contains this claim regarding employment growth:

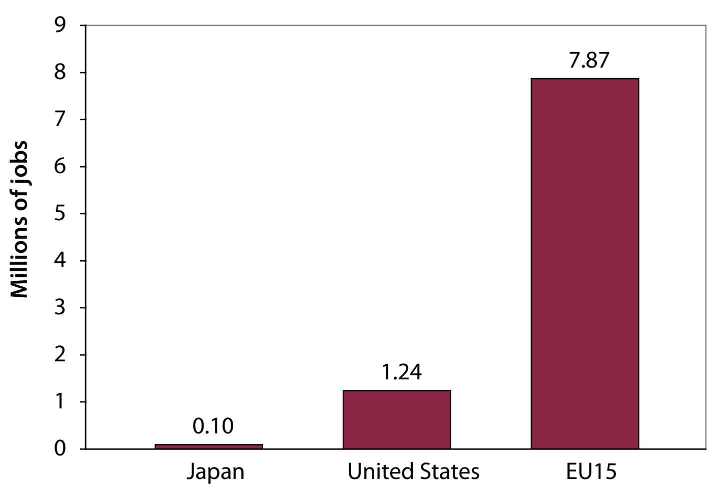
> "Since August 2003, we have added more than 5.1 million new jobs—more than Japan and the European Union combined." (http://www.whitehouse.gov/news/releases/2006/04/20060411-9.html)

International comparisons of employment growth are tricky—employment growth is very sensitive to the timing of different countries' business cycles. In this case, the White House begins its comparison at the exact point when employment began to rise in the latest recovery, so as to avoid counting the longest jobless recovery on record.

Counting over the full course of the Bush Administration, which also corresponds (for the United States) to the standard that one should measure employment growth from the previous business cycle peak (the first quarter of 2001), the most recent comparable data (the third quarter of 2005) shows that the United States added 1.2 million jobs compared to 7.9 million for the EU15 (the group of 15 European nations referenced by the Bush Administration in their release) and a gain of just under 100,000 for Japan over this time period (see **Figure A**).

The White House result is due to "cherry-picking" the date when they start counting jobs, reinforcing the fact that international employment growth comparisons should be approached with some caution. More importantly, the United States should create more jobs than the EU15 or Japan because its working-age population is growing faster. Over the same time period, the working-age

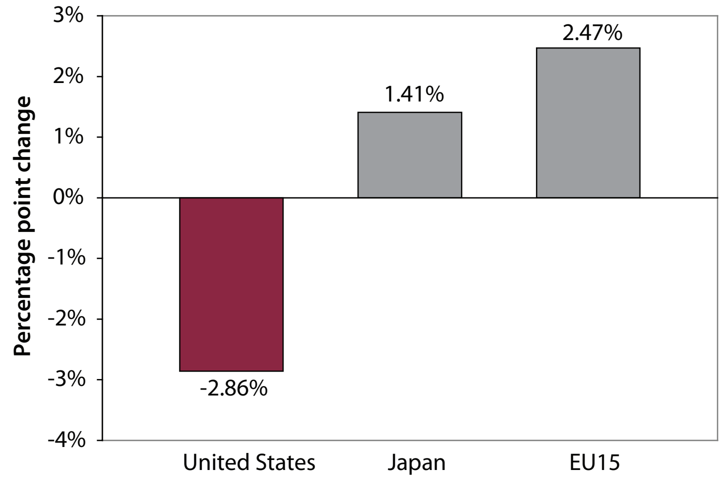
Figure A.
Employment growth between 2001q1 and 2005q3



Source: Employment data from the European Central Bank, the Japanese Ministry of Health, Labour, and Welfare, and the U.S. Bureau of Labor Statistics.*

population grew by over 9 million in the United States compared to a rise of only 3 million for the Euro Area and a decline of over 1 million in Japan. The net effect of this differential employment and population growth is shown in **Figure B**, which shows the change in the employment to population ratio (or epop) for each of these areas. The employment to population ratio shows the share of the working-age population that is currently employed and is a key labor market indicator tracked by economists to measure labor market vitality.

Figure B.
Change in EPOPs, 2001q1 - 2005q3



Source: Employment data from the European Central Bank, the Japanese Ministry of Health, Labour, and Welfare, and the U.S. Bureau of Labor Statistics.*

From 2001q1 to 2005q3, epops in both the EU15 and Japan have risen, while the U.S. epop has fallen. In short, in terms of creating enough jobs to keep pace with growth in the working-age population, the United States actually lags both the EU15 and Japan since the beginning of 2001.

NOTES

* Note: Working-age population statistics are calculated using data from the Organisation of Economic Co-operation and Development, using 2001 levels and applying 2001-03 growth rates over the full period. The resulting epops are the author's calculations from these data. Due to lack of data, Belgium is not included in the EU15 numbers.

This *Snapshot* was written by EPI Economist L. Josh Bivens.

Critiquing Misleading White House Statements About the Economy

PART 3:

International comparisons of economic growth

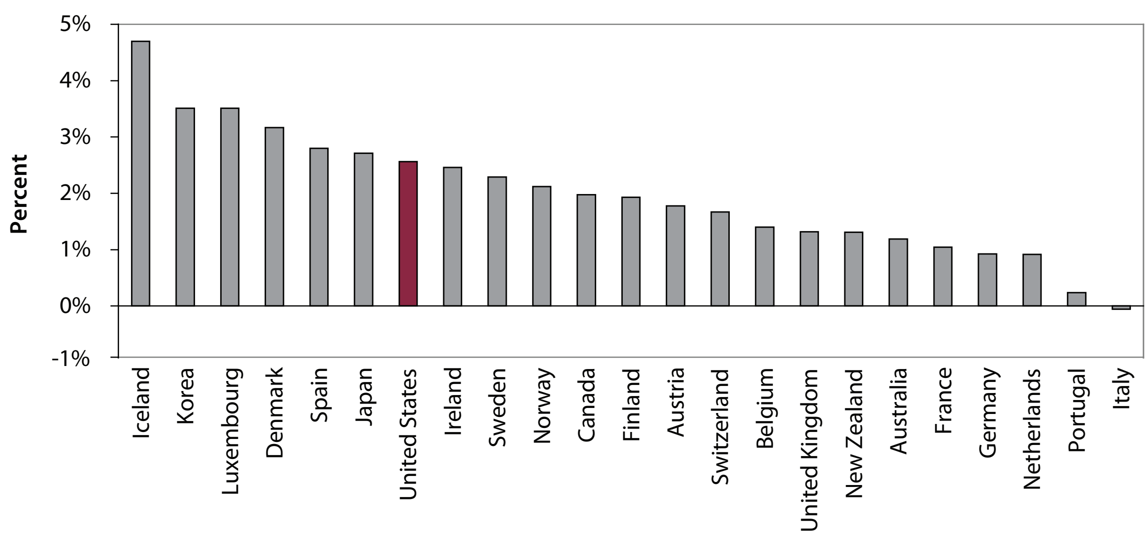
A recent White House news release contains this claim regarding economic growth:

> "Last year, the economy grew at a healthy 3.5 % rate—faster than any other major industrialized country."
> (http://www.whitehouse.gov/news/releases/2006/04/20060411-9.html)

This sort of comparison is hard because nations do not have synchronous business cycles and countries tend to grow faster coming out of a deep trough than at the top of a cycle. Further, a more relevant statistic than Gross Domestic Product (GDP) growth for comparing economic outcomes is growth in GDP per capita. A good chunk of the U.S. GDP advantage over many industrial countries stems only from faster population growth. Growth in living standards is better captured by per capita growth rates.

The White House selects a small number of coun-

Figure A.
Growth in GDP per capita, 2005



Source: The World Economic Outlook Database from the International Monetary Fund.

tries they define as peers with the United States. Among countries classified as "advanced" by the International Monetary Fund (IMF), six had per capita growth rates higher than the United States (see **Figure A**).

In 2005, per capita GDP grew at 2.56 % for the United States. Japan's per capita growth in 2005 was charted by the IMF as higher, at 2.70 %, while five other countries saw per capita growth rates above that of the United States.

— This *Snapshot* was written by EPI Economist L. Josh Bivens.

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PART 4:

The unemployment rate

A recent White House news release contains this claim regarding unemployment:

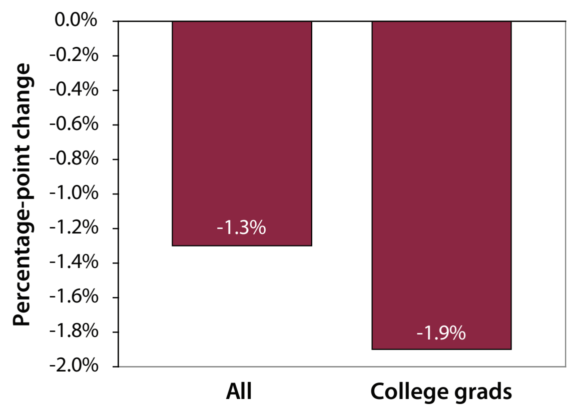
> "The unemployment rate is at 4.7%—lower than the average of the 1960s, 1970s, 1980s, and 1990s." (http://www.whitehouse.gov/news/releases/2006/04/20060411-9.html)

The unemployment rate of 4.7% in April remains slightly above the rate at the peak of the last business cycle (4.3 % in March 2001).

But the unemployment rate presents too optimistic a picture of labor market slack. Since persons not looking for work are excluded from this measure, when potential workers give up looking for work and leave the job market, the unemployment rate does not fully reflect labor market slack.

Employment rates (the share of the adult population employed) are more revealing of the job market tautness. This rate is down 1.3 percentage points of its value at the last business cycle peak in March of 2001. Notably, the employment rate is even more depressed-down 1.9 percentage points-for college graduates, a group whose job prospects are presumably not limited because of any changes in skills required in the job market. (See **Figure A**.)

Figure A.
Change in employment rates, all and college graduates, March 2001-April 2006



Source: EPI analysis of BLS data.

One reason for the cyclical decline in the employment rate is the historically low rate of job creation over the recovery, even in recent months. According to research by EPI, were job creation occurring at a similar rate as the last recovery, employment growth would be about 300,000 jobs per month as opposed to the current underlying trend of about 200,000 jobs per month (though last month's job gains were an off-trend 138,000).

Finally, as shown in the first Snapshot of this series, real earnings have been falling in recent quarters, strong evidence that we have not yet achieved a full-employment job market. In the latter 1990s, as the unemployment rate headed for 4%, real earnings grew quickly (median weekly earnings, full-time workers, were up 7%, 1995-2000). These wage trends are the most compelling argument against the White House's claim that the job market is truly tight in historical terms.

—This *Snapshot* was written by EPI Economist Jared Bernstein.