

Center for American Progress



Basic Points About the Economy

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Jobs

The Bush administration has the weakest job record of any president since World War II. Total employment growth averaged 0.03 percent from January 2001 through February 2006. In fact, only six months had job growth that was faster than the average from 1945 to 2001. Private sector job creation was even lower with 0.02 percent.

Table 1
Employment Creation by Administration, 1945 to 2006

Administration	Average monthly employment growth	# of months with employment growth at or above 0.18% (average Jan. '46 to Mar. '01)	Average monthly employment growth	# of months with employment growth at or above 0.18% (average Jan. '46 to Mar. '01)
	Total		Private	
Truman (1945-1953)	0.19%	52	0.20%	53
Eisenhower (1953-1961)	0.07%	42	0.04%	43
Kennedy (1961-1963)	0.19%	18	0.17%	16
Johnson (1963-1969)	0.31%	52	0.29%	48
Nixon (1974-1974)	0.19%	36	0.17%	36
Ford (1974-1977)	0.09%	16	0.07%	17
Carter (1977-1981)	0.25%	30	0.27%	32
Reagan (1981-1989)	0.17%	57	0.19%	60
Bush I (1989-1993)	0.05%	8	0.03%	9
Clinton (1993-2001)	0.20%	58	0.21%	68
Bush II (2001-2005)	0.03%	6	0.02%	9

Note: Calculations based on Bureau of Labor Statistics, Employment Situation, Washington, D.C.: BLS.

The employed share of the population remained at 62.9 percent in February 2006, well below the 64.3 percent recorded at the end of the last business cycle in March 2001. Had the employed share of the population stayed the same, 3.2 million more people would be employed now. Considering these additional people would raise the unemployment rate to 6.8 percent for February 2006, up from the officially reported 4.8 percent.¹

Income

Wage growth after inflation has been flat. Inflation adjusted hourly earnings of production non-supervisory workers grew by a total of 1.1 percent from the start of the business cycle in March 2001 to January 2006. Average weekly earnings grew by a total of 0.2 percent during the same period. Real hourly wages did not improve for three years and real weekly wages fell in 2003, 2004 and 2005. By January 2006, wages were still below the inflation adjusted wage levels at the start of the recovery in November 2001.

For five years, family incomes did not increase. In inflation adjusted terms, the total income of a typical family was 3.6 percent lower than in 2000. That is, the typical family income in 2004 was at its lowest level since 1997. Income declines were even more pronounced for minority households and for low-income families.

Table 2
Family Income Trends, 2000 to 2003

Year	Total	White only	Black only	Hispanic	Bottom quintile	Middle quintile	Top quintile
2000	46,058	50,043	32,541	36,382	11,141	46,325	156,054
2001	45,062	49,412	31,448	35,817	10,816	45,490	155,766
2002	44,546	49,264	30,489	34,771	10,494	44,959	150,988
2003	44,482	49,061	30,442	33,884	10,265	44,759	151,031
2004	44,389	48,977	30,142	34,241	10,264	44,455	151,593
Change 2000 to 2004	-3.6	-2.1	-7.3	-5.9	-7.9	-4.0	-2.9

Notes: All dollar values are in 2004 dollars. Figures for total, Whites, Blacks, and Hispanics are median family incomes. Figures by quintile are averages for the respective quintile. Data for Whites and Blacks refer to Whites only and Blacks only. Prior to 2001, people could only select one race/ethnicity, while they have been able to choose one or more since then. Authors' calculations based on U.S. Census Bureau, 2005, Income, Poverty and Health Insurance Coverage in the United States 2004, Washington, D.C.: Census.

Poverty

Since President Bush took office, 3.7 million more people live in poverty. The share of the population living in poverty has grown from 9.5 percent in 2000 to 10.8 percent in 2004. At the same time, the share of children under the age of 18 who live in poverty has

¹ Calculations based on Bureau of Labor Statistics, 2006, Current Population Survey, Washington, D.C.:BLS.

also increased from 16.2 percent to 17.8 percent. That is, 1.4 million more children lived in poverty in 2004 than in 2000.²

Benefits

Pension coverage has slid below 50 percent since 2000. After rising steadily in the late 1990s, the share of workers aged 25 to 64 with an employer-provided retirement plan declined from a peak of 50.3 percent in 2000 to 48.7 percent in 2001 and to 46.3 percent in 2004.³

Health insurance coverage has dropped since 2000. The number of people without health insurance grew by six million from 2000 to 46 million, or 15.7 percent, in 2004. The share of Americans with employer-sponsored health insurance dropped by 63.6 percent in 2000 to 59.8 percent in 2004, its lowest level since 1993.⁴

Bankruptcies

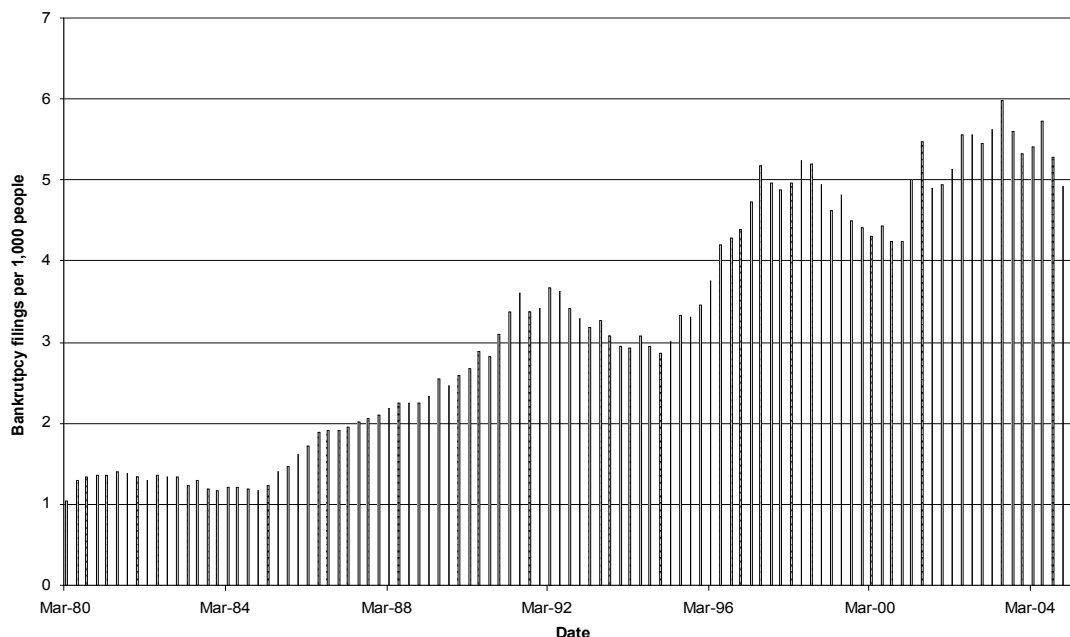
Personal bankruptcies have grown to record level. On average, more than five people out of every 1,000 declared bankruptcy in a given year between 2001 and the middle of 2005. The underlying causes for the rise in bankruptcies are a weak labor market, record debt levels and the loss of health insurance for many middle-class families. Even before the introduction of new bankruptcy legislation caused a spike in bankruptcy filings in the third quarter of 2005, bankruptcies were high, with an annualized rate of more than five cases per 1,000 people in the first quarter of 2005 and more than six cases in the second quarter. In the third quarter, a rush to beat the new bankruptcy code provisions caused a quadrupling of filings, so that the annualized rate spiked to almost 24 cases per 1,000.

² U.S. Census Bureau, 2005, *Income, Poverty and Health Insurance Coverage in the United States 2004*, Washington, D.C.: Census.

³ Pat Purcell, 2005, *Pension Sponsorship and Participation: Summary of Recent Trends*, CRS Report RL30122, Washington, D.C.: Congressional Research Service.

⁴ U.S. Census Bureau, 2005, *Income, Poverty and Health Insurance Coverage in the United States 2004*, Washington, D.C.: Census.

Figure 1: Personal Bankruptcy Filings Relative to the Population



Notes: Calculations based on figures from American Bankruptcy Institute, Quarterly Non-Business Filings, Washington, D.C.: ABI, and U.S. Census Bureau, Population Estimates, Washington, D.C.: Census.

By the third quarter of 2005, families had amassed 121 percent of their disposable income in various forms of debt. An important driver of the rise in household debt has been home equity cash-outs to finance consumption as middle-class incomes have been stagnant. In the third quarter of 2005 alone, households cashed out a record \$113 billion.

Budget Deficits

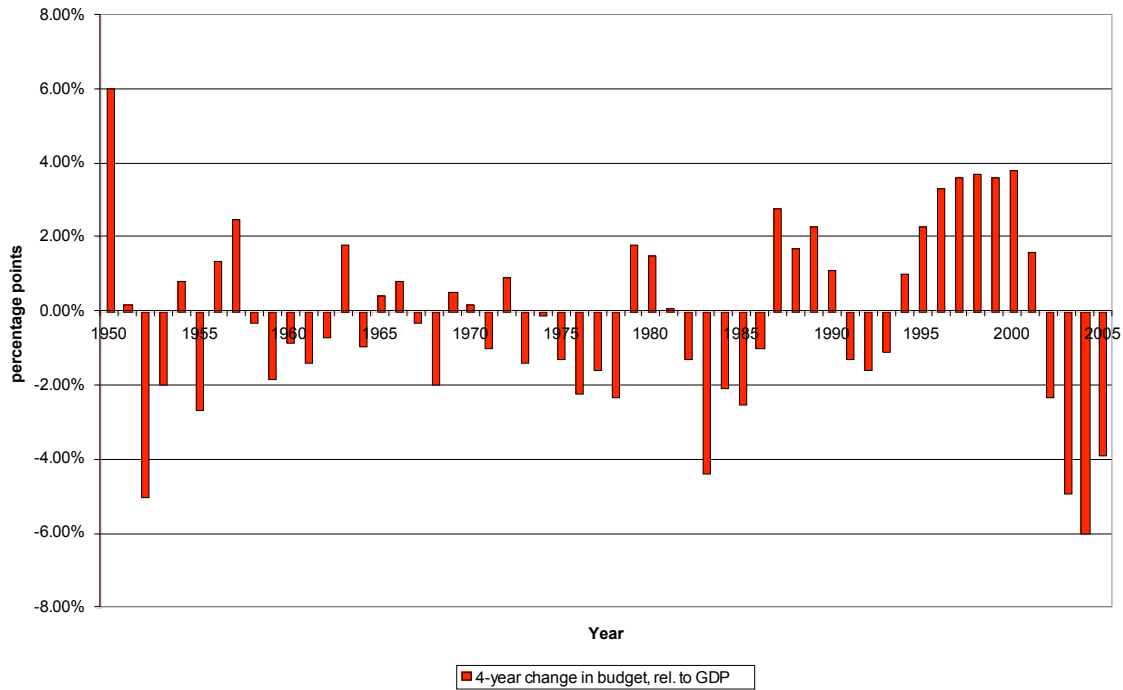
Under President Bush, the federal government has seen the largest fiscal turnaround on record. The federal government went from a surplus of 2.4 percent of gross domestic product (GDP) in 2000 to a deficit of 3.6 percent in 2004. This is a swing of six percentage points, relative to GDP, over a four-year period. In absolute dollars, the budget went from a surplus of \$236.2 billion in 2000 to a deficit of \$412.7 billion in 2004 – a \$638 billion swing.

The budget deficits received a temporary reprieve in 2005. The deficit shrank to \$318.3 billion. However, all indications suggest that this was a temporary phenomenon. Even the White House admits that this year's number will likely surpass \$400 billion. For the next ten years, the nonpartisan Concord Coalition projects a 10-year deficit of \$5.3 trillion, including their own predictions about costs of war in Iraq and Afghanistan, AMT relief and tax cut extension.⁵

⁵ Concord Coalition, Baseline Budget Projections: January 2006, Arlington, VA: Concord Coalition.

The deterioration of the government's finances is a result more from tax cuts than any other factor. In 2004, revenue was smaller as a share of the economy than any year since 1959. Even though revenues picked up in 2005, CBO projects will slide as a percent GDP from 17.5 percent in 2005 to an average of 17.1 percent over the next ten years — the lowest ten-year period in nearly half a century.⁶ For the future, the tax cuts and the Medicare prescription drug benefit will continue to burden the federal government. Deficits from the tax cuts and the prescription drug benefit will cost over \$400 billion by 2011 and over \$500 billion when added interest costs are included.⁷

Figure 2: 4-Year Change in Budget, Relative to GDP



Notes: Calculations based on Congressional Budget Office, Historical Budget Data, Washington, D.C.: CBO.

Foreign Owned Debt

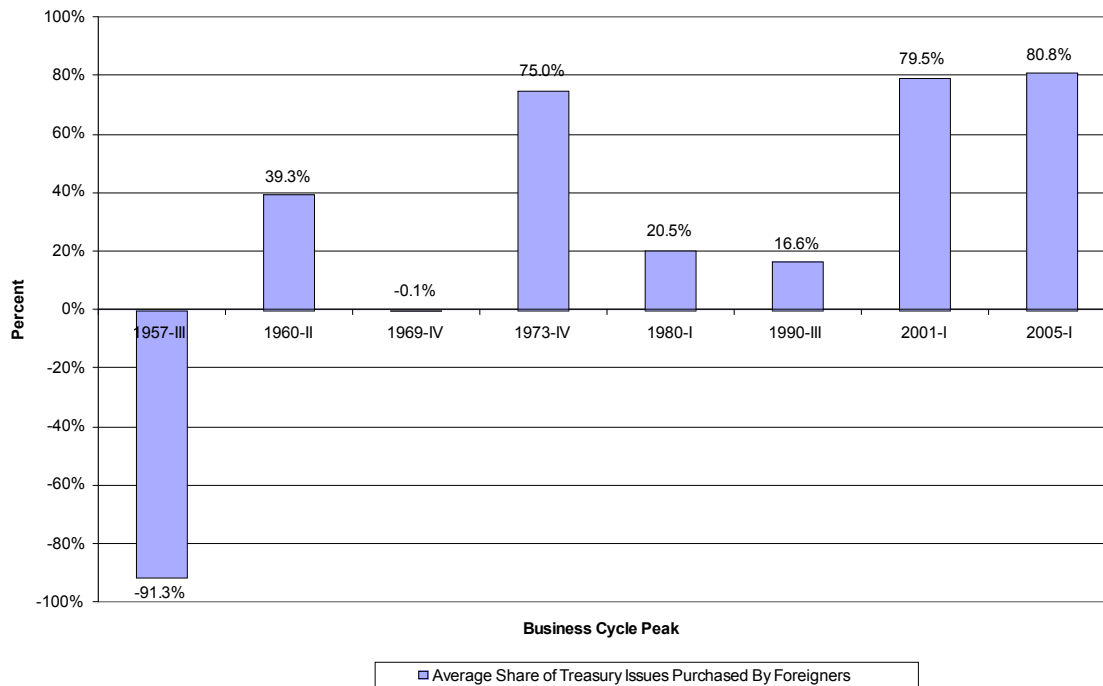
Foreign lenders finance the majority of the federal government's deficits. On average, foreign investors have purchased more than three-quarters of all new treasury issues between March 2001 and September 2005. The largest amounts of U.S. treasury debt are held by Japanese, Chinese and UK investors. Japanese investors alone owned \$683 billion in November, followed by \$296.3 billion by China and \$223 billion by the UK.

⁶ Rirchard Kogan, Isaac Shapiro, and Aviva Aron-Dine, 2006, Drop in Deficit in 2005 Does Note Mean Tax Cuts Are Spurring Economic and Revenue Growth, Washington, D.C.: Center on Budget and Policy Priorities.

⁷ Gene Sperling and Christian Weller, 2006, The State of the Economy, CAP Economic Policy Report, Washington, D.C.: Center for American Progress.

Federal interest payments to the rest of the world totaled \$30 billion in the third quarter of 2005, the largest number since the government started to keep records in 1960.

Figure 3: Average Share of Treasury Issues Purchased By Foreigners



Notes: Author’s calculations based on Board of Governors of the Federal Reserve System, 2005, Flow of Funds Accounts of the United States, Washington, D.C.: BOG.

Trade Deficits

Trade deficits have grown to ever new record heights. For the first time since World War II, the difference between imports and exports surpassed five percent of GDP in the middle of 2004 and six percent of GDP by the end of 2005. Typically, economists consider trade deficits between four and five percent unsustainable, thus giving rise to a greater chance of financial instability: rapidly falling values of the dollar, sharp increases in interest rates and substantially higher inflation.

These deficits will have to be financed by borrowing money overseas or selling off U.S. assets to foreign investors. However, the more assets foreigners own in the U.S., the more money will have to be sent abroad in the future to service all of that debt. Thus, the rising external debt of the U.S. will ultimately become a substantial burden on U.S. economic growth.