Trend Tracker

March 2016

A Picture of the Obama Economy

by Merrill Matthews, Ph.D.

Introduction

The old saying is that "a picture is worth a thousand words." Well, economic graphs are "pictures" where data-driven lines, bars or circles tell a story—and sometimes tell that story better than the raw data.

So the Institute for Policy Innovation decided to pull together several charts that tell a story about how the economy and current economic policies are working. It's not a pretty picture.

We have focused on five different areas, with two graphs for each: the employment and unemployment rates; total federal debt; income and poverty levels; the growth in welfare participation rates; and public opinion. There are certainly other topics we could have included, but we wanted to keep it short and accessible.

We think these 10 graphs tell a story: President Obama's economic policies have led to years of tepid economic growth.

Ironically, those who the president claimed he wanted to help the most—the poor and lower-income workers—have fared poorly under his policies, while those he hoped would provide the funds for his massive income-transfer schemes have done well.

Not even the largest expansion of government spending in history—along with the added federal debt—could achieve the economic growth the president repeatedly promised. That's because private sector investment, not government spending, is the catalyst for economic growth.

Rather than develop the graphs ourselves, we relied primarily on widely available sources, especially the Federal Reserve Bank of St. Louis, whose graphs are helpful because they include shaded areas that identify past recessions. As several of the graphs demonstrate, many negative trends preceded the Obama administration, but accelerated under Obama.

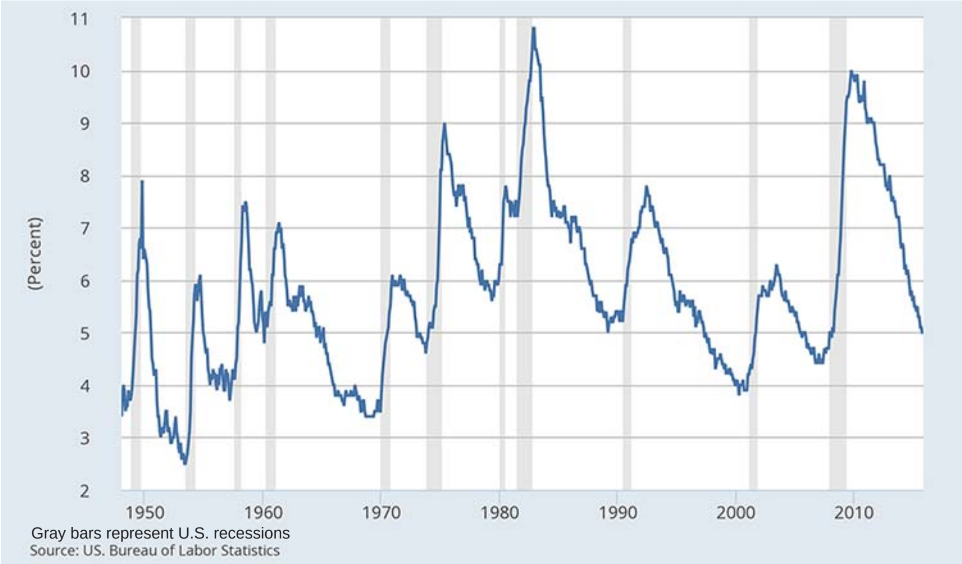
As an economic policy organization we strongly resist any narrative that Obama's slow-growth economy is the "new normal." That will only be true if his policies of high tax rates, massive government spending, hyper-regulation, and mandated increases in wages and benefits that have led to high levels of business-climate uncertainty become the new normal. Reverse those policies and we believe high rates of economic growth will return—soon.

"…the Institute for Policy Innovation decided to pull together several charts that tell a story about how the economy and current economic policies are working. It's not a pretty picture."

"Not even the largest expansion of government spending in history—along with the added federal debt—could achieve the economic growth the president repeatedly promised."

U.S. Employment

Civilian Unemployment Rate



The unemployment rate depicted here has been trending down since 2010, and is currently under 5 percent. But that number may not be the positive indicator it is usually thought to be—at least this time.

That skepticism is because the labor force participation rate—i.e., working-age people who are employed or actively looking for work—has declined so dramatically. Thus the low unemployment rate may be almost entirely due to the low participation rate. People aren't considered unemployed if they have given up looking for work.

Civilian Labor Force Participation Rate

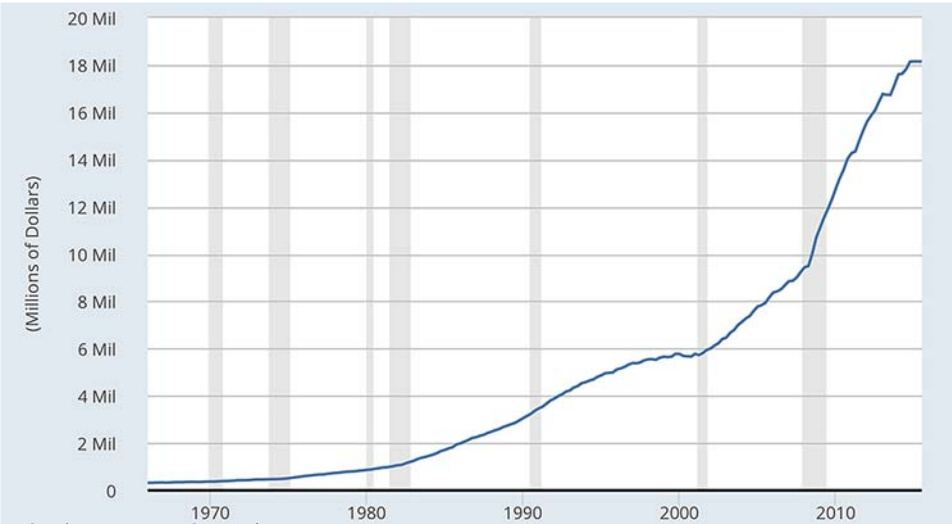
As this graph shows, the labor force participation rate was about 67.3 percent in 2000. It fell during the recession in 2001, but leveled off when the economy began to pick up. It started to decline, understandably, during the 2007- 09 recession, but that decline has continued at an unprecedented and troubling rate.

Some explain the decline in part by suggesting that baby boomer retirements—the oldest boomers turn 70 in 2016—are playing a role. But according to the St. Louis Fed (in a different graph) the labor force participation rate of those age 65 and older has increased since the end of the recession, from 21.7 percent in June 2009 to 24 percent in November 2015.

The more likely explanation for the labor force decline is that millions of frustrated Americans have simply given up looking for work in the Obama economy.

Federal Government and Federal Reserve Bank Debt

FEDERAL DEBT: TOTAL PUBLIC DEBT



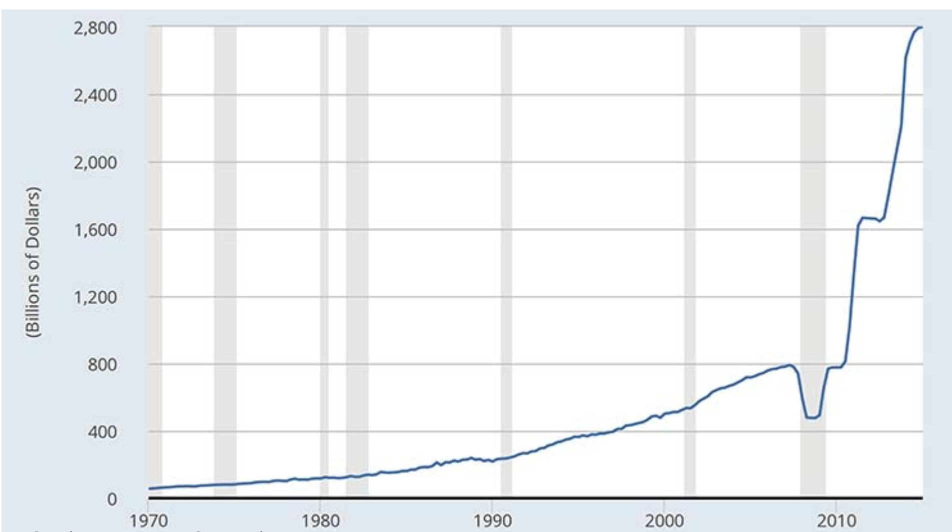
Gray bars represent U.S. recessions

Source: US. Department of the Treasury. Fiscal Service

This graph shows the rapid increase in total federal debt to more than $18 trillion—and that figure excludes long-term federal obligations for Social Security and Medicare.

The increase began under President Ronald Reagan, steadily increased under Presidents George H.W. Bush, Bill Clinton and George W. Bush, but then exploded under President Obama. However, that upward spike began to level off once Republicans controlled both houses of Congress.

FEDERAL DEBT HELD BY FEDERAL RESERVE BANKS

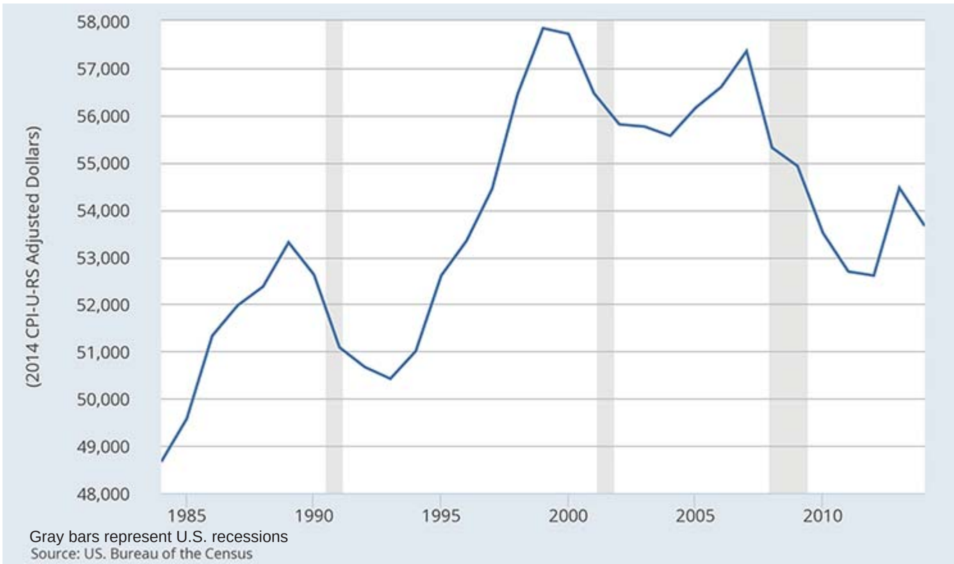


Gray bars represent U.S. recessions

Source: US. Department of the Treasury. Fiscal Service

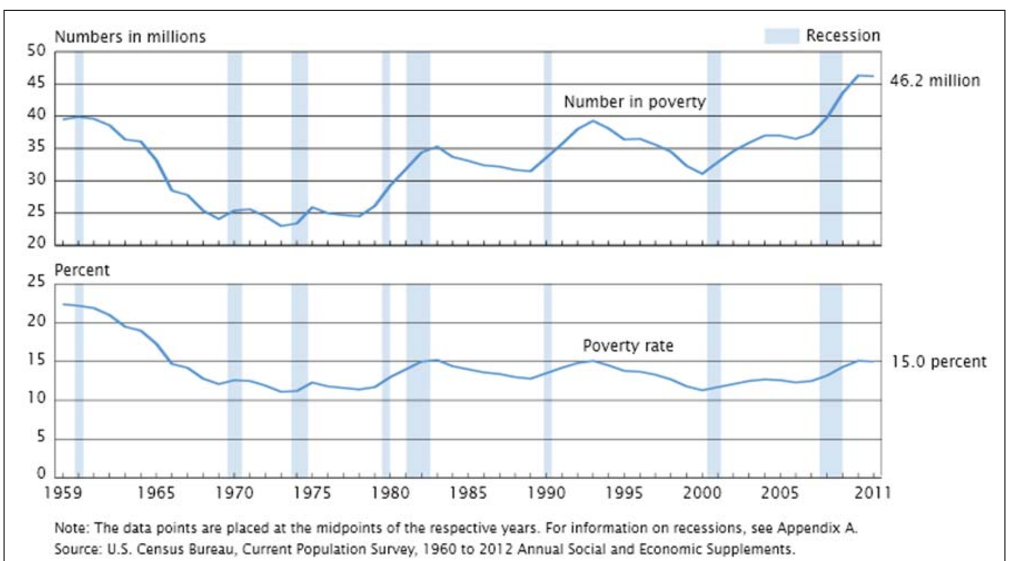
Beginning in 2009 the Federal Reserve banks dramatically increased their holdings of federal debt—to $2.8 trillion—in an effort to stimulate the economy.

Real Median Household Income in the United States



President Obama has spent the past seven years trying to help the middle class. As this graph shows, he has failed miserably. Median household income is lower today than when he took office. It is common for median incomes to drop preceding a recession—notice the decline about a year before a recession (the shaded areas) begins. But the decline after the last recession lasted much longer—and has apparently returned.

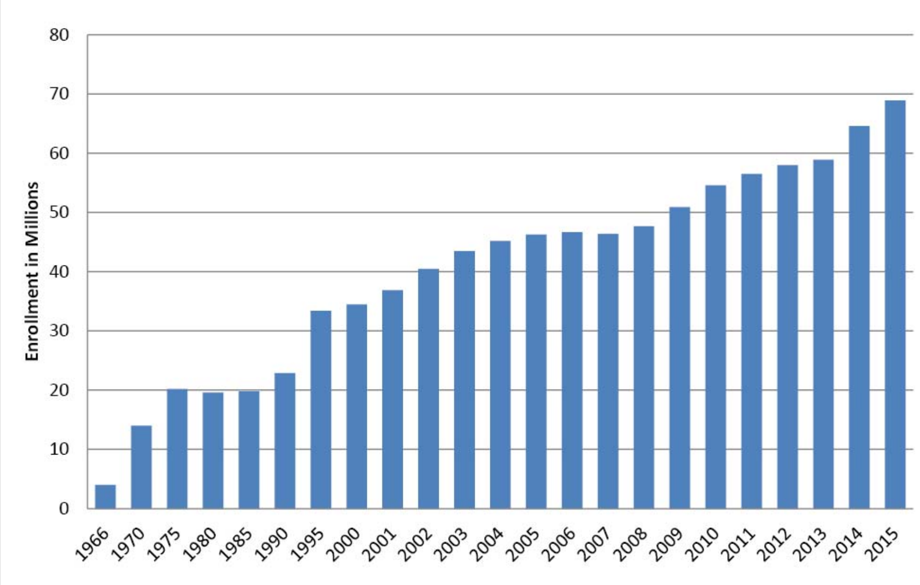
Number in Poverty and Poverty Rate: 1959 to 2011



This graph shows that the number, as well as the percentage, of Americans living in poverty have increased during Obama's presidency. It is a remarkable outcome, given the president's concerted efforts to transfer wealth from higher-income workers to the poor. A reasonable conclusion is that Obama's policies have not helped the poor and may have actually hurt them.

Welfare Participation and Transfer Payments

TOTAL MEDICAID ENROLLMENT FROM 1966 TO 2015 (IN MILLIONS)



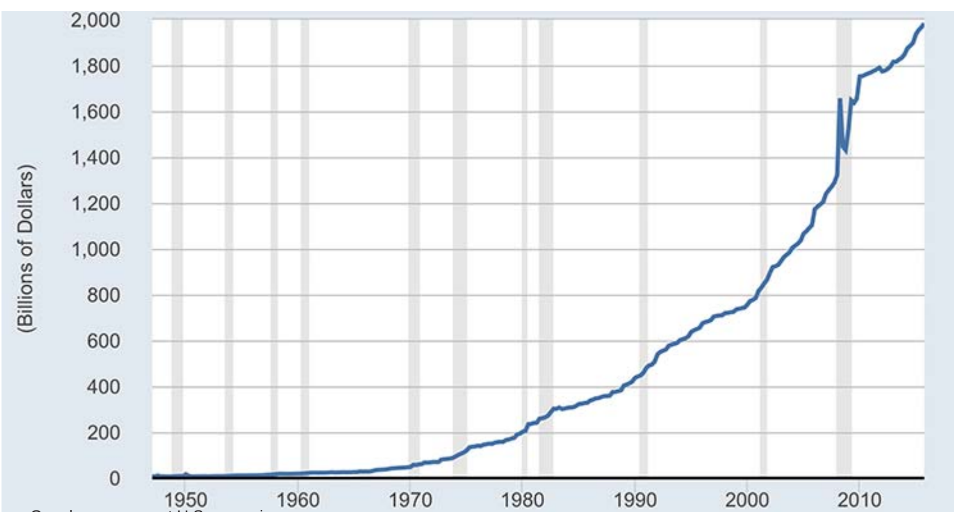
Source: Statista

Obama will leave office with millions more Americans on welfare than when he started. And, ironically, he will be proud of that fact.

Much of the welfare population growth has been due to Medicaid expansion, and one of Obama's real regrets is that he couldn't get even more Americans on this welfare program. However, while participation in most means-tested welfare programs spiked during the 2007-09 recession and continued increasing for several years after the recession's end, most of them have leveled off by now or have begun to decline.

Not Medicaid. About 20 percent of the country now participates in this worst-of-all, government-run health insurance programs—and if Obama had his way it might have reached 25 percent to 30 percent.

FEDERAL GOVERNMENT CURRENT TRANSFER PAYMENTS: GOVERNMENT SOCIAL BENEFITS: TO PERSONS



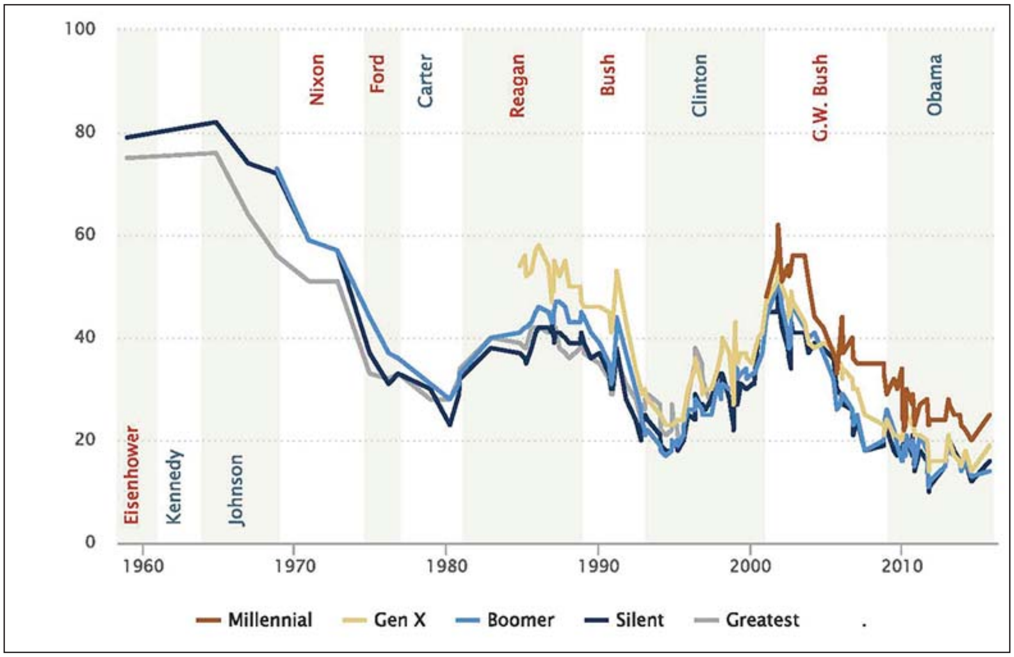
Gray bars represent U.S. recessions
Source: US. Bureau of Economic Analysis

Prior to passage of the Affordable Care Act, nearly half of the population received some type of transfer payment from the federal government—though millions of those are seniors on Social Security and Medicare, which arguably they paid for with their FICA taxes. But with perhaps 8 million or 9 million Americans receiving Obamacare subsidies, we have probably crossed the 50-percent tipping point. As the graph shows, we now spend nearly $2 trillion on transfer payments—nearly two-thirds of the $3.25 trillion actual federal revenues for 2015.

Entitlement spending is a fiscal train wreck, especially since so much of it (e.g., Social Security, Medicare and Medicaid) is on autopilot and not part of discretionary spending. The entitlement-spending explosion began long before Obama entered the White House, but he has exacerbated the trend.

Public Opinion

Percentage of Individuals Who Trust the Government in Washington Always or Most of the Time



Source: Pew Research

Economic numbers tell a story, but so does public opinion. Obama came into office claiming he wanted to restore trust in government—by which he meant more government spending and big-government programs—by demonstrating that government can be both effective and efficient. He failed. As the graph shows, trust in government is at an all-time low.

More tellingly, the Rasmussen polling firm has been tracking public perceptions about whether the country is moving in the right direction since Obama took office. A large majority, generally between 60 percent and 70 percent, think the country is heading in the wrong direction, while between 20 percent and 30 percent think it's headed in the right direction.

Percentage of Individuals Who Believe the United States Is Headed in the Right or Wrong Direction

Source: Rasmussen

Conclusion

During the Obama years, the federal government has borrowed and spent more than at any time in history. We were assured over the past several years that the borrow-tax-and-spend approach would create jobs and grow the economy. The promises were false.

As multiple economists have demonstrated, economic growth after the 2007-09 recession was much slower and weaker than after previous recessions. Defenders of those policies repeatedly claimed that the tepid economic growth was because the government hadn't done enough. But those claims just aren't credible when the government borrowed and spent more—much more—than at any time in history.

The economy has improved very slowly, but millions of unemployed and underemployed Americans have simply given up looking for work, federal debt is outrageously high, lower-income workers are struggling, entitlement spending has ballooned, and the public has lost confidence in the government and this administration.

> ***"We were assured over the past several years that the borrow-tax-and-spend approach would create jobs and grow the economy. The promises were false."***

President Obama keeps claiming that by almost every measure the economy has done very well since he took office. But he is virtually the only one making that claim.

The only way to reverse this mediocre performance is to implement pro-growth economic policies that cut taxes—especially those taxes that discourage investment—reduce harmful regulations, and reform entitlement programs to not only encourage work but also provide a way for workers to set their own money aside in a personal retirement account.

If Congress and a new president take steps in that direction, almost every graph included here will take a turn for the better.

Merrill Matthews is a resident scholar with the Institute for Policy Innovation.

Copyright © 2016 Institute for Policy Innovation

Nothing from this document may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or by any information storage and retrieval system, without permission in writing from the publisher, unless such reproduction is properly attributed clearly and legibly on every page, screen or file. IPI requests that organizations post links to this and all other IPI publications on their websites, rather than posting this document in electronic format on their websites.

The views expressed in this publication do not necessarily reflect the views of the Institute for Policy Innovation, or its directors, nor is anything written here an attempt to aid or hinder the passage of any legislation before Congress. The Institute for Policy Innovation (IPI) does not necessarily endorse the contents of websites referenced in this or any other IPI publication.

Institute for Policy Innovation
1320 Greenway Drive, Suite 820
Irving, TX 75038
phone: 972-874-5139
email: ipi@ipi.org

www.ipi.org