

# WebMemo



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## Obama Jobs Deficit a New Record, Again

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Another month under President Obama, another 263,000 jobs lost. It was not supposed to be this way. Barack Obama promised America that, if elected President and given control over the nation's economic policies, he would create 3.5 million jobs, beginning with the enactment of a massive economic stimulus package. Today's release of dismal employment figures by the Department of Labor show that the nation is still waiting.

So far in his term in office, employment has dropped by about 3.4 million jobs, while the unemployment rate has hit 9.8 percent, the highest in 26 years.<sup>1</sup> The President repeatedly pledged to create 3.5 million new jobs by the end of 2010. He has also repeatedly emphasized accountability and measuring his presidency by results. The President's jobs promise means total employment should be at least 138.6 million by 2010, leaving him with a total deficit to close that now stands at 7.6 million jobs.<sup>2</sup> By his own standard, these results attest that Obama's policies have so far failed to deliver.

Fortunately, the economy's natural recuperative powers spurred by powerful, effective stimulus from the Federal Reserve mean the recession may be ending in the sense that overall output and incomes are stabilizing and the recovery may be on the horizon. Even so, job losses are likely to continue until the recovery accelerates markedly, perhaps sometime in 2010 or even 2011. Meanwhile, the President's policies—such as unprecedented spending-driven deficits and threatened massive tax and regulatory increases—will continue to put downward pressure on employment rather than help to reach his jobs target.

**Promises, Promises, and the Growing Jobs Deficit.** President Obama's repetition of the 3.5 million jobs figure demonstrates that this was a serious promise, and the figure itself was apparently chosen with care. The original target set in the fall of 2008 was 2.5 million jobs, but as employment fell at the end of 2008, he increased the employment target by 1 million to 3.5 million in December 2008.

The President's original jobs claim was soon followed by a claim that the economic stimulus had "saved or created" 150,000 jobs in the first half of the year, this at a time when employment fell by 1.6 million. This claim was followed by another that the economic stimulus would save or create 600,000 jobs this summer, but in fact the economy lost almost 1 million jobs.

When Obama made his 3.5 million jobs promise, employment stood at about 135.1 million according to the Department of Labor's most commonly used measure. This establishes the Obama jobs target for December 2010 at 138.6 million. It also establishes a basic trajectory for employment the economy would need to approximate to hit that target.

According to the latest jobs report, total U.S. employment fell to 130.9 million in September. The September Obama jobs deficit—the difference be-

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tween the target and actual employment—therefore stands at 7.6 million.

Mathematically, closing the Obama jobs gap would require monthly growth in employment of 477,000 over the 16 months between September 2009 and December 2010. The greatest 16-month average increase in employment in modern American history (373,000) occurred during the peak of the Reagan boom, concluding in December 1984 and dwarfing even the strongest similar period of job growth during the Clinton Administration.<sup>3</sup> Closing the Obama jobs deficit would require significantly faster monthly job growth than ever before.

However, it is reasonable to hope that the Obama jobs promise can be kept because the workforce and the economy are much larger today than they were in 1984. This means that the job growth relative to the size of the workforce can be less than that experienced under Reagan and yet still close the Obama jobs deficit.

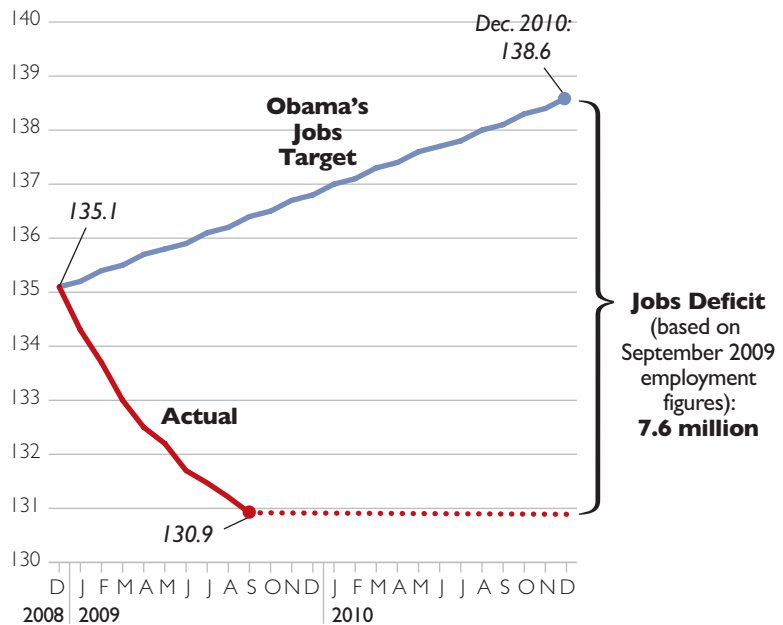
Specifically, Obama needs to average job growth going forward of about 0.36 percent of the workforce compared to the 0.39 percent of the workforce growth under Reagan. This highlights the remarkable force of the Reagan recovery driven by spending restraint, tax cuts, support for free trade, and less regulation. But it also underscores that if President Obama pursues similar economic growth policies, he could conceivably close his jobs deficit and make good on his promise.

**Why Has the Stimulus Failed?** The centerpiece of Obama’s short-term stimulus program is a massive \$787 billion fiscal program he signed into law

### Obama Jobs Deficit Swells to 7.6 Million

President Obama pledged to create 3.5 million new jobs by 2010, which would place total U.S. employment at 138.6 million. Using that figure as a target, Obama’s jobs deficit currently stands at 7.6 million.

Total U.S. Employment, Targeted and Actual, in Millions of Jobs



Note: Figures rounded.

Sources: Heritage Foundation calculations and U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation," January to September 2009, Economic News Releases, Table A-1, at <http://www.bls.gov/news.release/pdf/empst.pdf> (October 2, 2009).

Chart 1 • WM 2638 heritage.org

last spring. By all accounts, this legislation was poorly crafted. However, poorly crafted or not, as a short-term economic stimulus it was doomed from the outset as it is based on the erroneous assumption that government spending and tax cuts can increase total demand in a slack economy.

This theory ignores the simplest of realities: Government spending must be financed. So to finance the resulting deficit spending, government must borrow from private markets, thereby reducing

1. See U.S. Department of Labor, Bureau of Labor Statistics, "Employment Situation Summary," September 2009, at <http://data.bls.gov/cgi-bin/print.pl/news.release/empst.nr0.htm> (September 30, 2009).
2. The actual figure is 7.63 million (138.58 million in December 2010 minus 130.947 million in September 2009).
3. The strongest 16-month period of job growth during the Clinton Administration ended in January 1995 and averaged 314,000 jobs a month over the period.

private demand by the same amount as deficit spending increases public demand.<sup>4</sup>

The federal government can stimulate the economy in the short term not by shuffling demand across the economy through wasteful deficit spending but by improving incentives and the general economic environment. Individuals and businesses across the nation see tremendous opportunities for starting new businesses, for investment, for hiring new workers, for expanding into new markets. Many are holding back, however, due to concerns about the economy, while others are holding back due to concerns about the threatening policies from Washington, and others are holding back because existing tax and regulatory burdens are already excessive.

At this point, the only measure growing faster than the President's jobs deficit is his budget deficit, which is expected to reach about \$1.6 trillion in 2009, or almost four times the level in 2008.<sup>5</sup> Under President Obama's budget, spending grows so rapidly despite massive tax hikes that federal debt is officially projected to grow by \$9 trillion over the next decade, while a more reasonable projection suggests the growth in debt will be closer to \$13 trillion. Such irresponsible fiscal policies cast a pall on the confidence of credit markets and businesses preparing for the future.<sup>6</sup>

The budget also calls for a massive new cap-and-trade system to allow the government to micro-manage the economy while raising hundreds of billions in new taxes on American businesses. This legislation has already passed the House of Representatives and is now heading to the Senate, and would severely hamper the economy for many years to come.<sup>7</sup>

Health care reform is also high on the President's agenda. Health care reform is badly needed, but what is developing thus far in the House and the Senate is much worse than current law. The President has called for a reform that would cost around \$900 billion, and both the House and Senate bills appear to meet that test, and much of this spending would be offset with errant spending reductions and tax increases on individuals and businesses.<sup>8</sup>

These multiple threats posed by Obama's policies badly degrade the economic environment for investing and hiring and delay the needed process of substantial job creation.

**The Right Path to Job Growth.** Effectively stimulating the economy requires more than not depressing it, however. It requires reducing impediments to starting new businesses, hiring, working, and investing. That means:

- Further reducing statutory tax rates,
- Reducing regulatory burdens where possible, and
- Cutting spending to take pressure off of interest rates and leave more of the nation's productive resources in the hands of the more productive private sector.

This is the path President Obama must pursue now to close the jobs deficit and make good on his promise to drive employment to 138.6 million jobs by the end of 2010.

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4. See J. D. Foster, "Keynesian Fiscal Stimulus Policies Stimulate Debt—Not the Economy," Heritage Foundation *Backgrounder* No. 2302, July 27, 2009, at <http://www.heritage.org/Research/Economy/bg2302.cfm>.

5. See Congressional Budget Office, "The Budget and Economic Outlook: An Update," August 2009, at <http://www.cbo.gov/ftpdocs/105xx/doc10521/08-25-BudgetUpdate.pdf> (October 2, 2009).

6. See Brian Riedl, "President Obama's Agenda Would Bring \$13 Trillion in Budget Deficits, not \$9 Trillion," Heritage Foundation *Backgrounder* No. 2319, September 22, 2009, at <http://www.heritage.org/Research/Budget/bg2319.cfm>.

7. See David W. Kreutzer *et al.*, "The Economic Consequences of Waxman-Markey: An Analysis of the American Clean Energy and Security Act of 2009," Heritage Foundation *Center for Data Analysis Report* No. CDA09-04, August 6, 2009, at <http://www.heritage.org/Research/EnergyandEnvironment/cda0904.cfm>.

8. In particular, reductions in Medicare spending, while generally welcome, should not be used to offset other spending. To do so is analogous to paying down one credit card by increasing the outstanding balance on another credit card.