WebMemo
Published by The Heritage Foundation

No. 2947
July 2, 2010

Weak Economy, Failed Policies Keep Obama Jobs Deficit High at 7.4 Million

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Initial estimates from the Department of Labor (DOL) suggest the U.S. economy lost 125,000 jobs in June while the unemployment rate declined by 0.4 percent from May's highly elevated 9.9 percent.[1] Over the last two months the economy averaged only 58,000 private sector jobs created, suggesting a faltering economic recovery.

This data has two other important implications. First, it confirms once again that the $862 billion Obama stimulus legislation[2]—as well as all the subsequent budget-busting legislation Congress has enacted under the rubric of "jobs" bills—has failed, as expected. Second, the weak jobs data means the Obama jobs deficit (the difference between current employment and the jobs Obama promised to create by the end of 2010) now stands at almost 7.4 million workers.

A Faltering Recovery Creates Few Jobs. The U.S. economy has now grown for three consecutive quarters, and total employment has grown six months in a row. At first glance, this data suggests a recovery with some traction. However, real concerns lurk below the surface.

The four-week moving average for initial claims for unemployment insurance has increased steadily in recent weeks, reaching 466,500 in the latest reporting period, a level consistent with a trend growth rate in the economy of less than 1 percent. In fact, though topline Gross Domestic Product (GDP) growth for the first quarter was 2.7 percent, inventory accumulation accounted for 1.9 percentage points, leaving a trend growth of less than 1 percent. Over the past three quarters of reported positive overall growth, trend growth aside from inventory buildup has averaged a paltry 1.4 percent.

Other data, from plunging new home sales (down 33 percent from April to May) to plunging consumer confidence (down almost 10 points in a single month to 52.9 in June) tell a similar story of current weakness. A leading indicator of the economy, the S&P 500 stock index, is down over 8 percent from its first quarter average, suggesting possible continued weakness in the months ahead. While one should not read too much into one month of jobs data, the anemic jobs growth reported for June combined with the weakness in May and the other economic data strongly suggest the recovery remains weak and may be slowing.

Job growth will remain anemic as long as economic growth remains subdued, and the unemployment rate may even tick up over the coming months as what job growth does occur is inadequate to absorb the usual additions to the workforce. Furthermore, many workers who have left the workforce are likely coming to the end of their savings and unemployment benefits and may be forced to seek work at whatever positions and salaries they

This paper, in its entirety, can be found at:
http://report.heritage.org/wm2947

Produced by the Thomas A. Roe Institute for Economic Policy Studies

Published by The Heritage Foundation
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can obtain, a factor that will further push the unemployment rate upward.

Obama Failing to Make Good on Jobs Promises. The President's original target for jobs creation set during the campaign 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 jobs.[3] According to the DOL, at the time employment stood at about 134.3 million.[4] This establishes the Obama jobs target for December 2010 as 134.3 million plus 3.5 million, or 137.8 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 stood at almost 130.5 million in June, which means the cumulative Obama jobs deficit—the difference between the end target and the current employment level—stands at almost 7.4 million.[5]

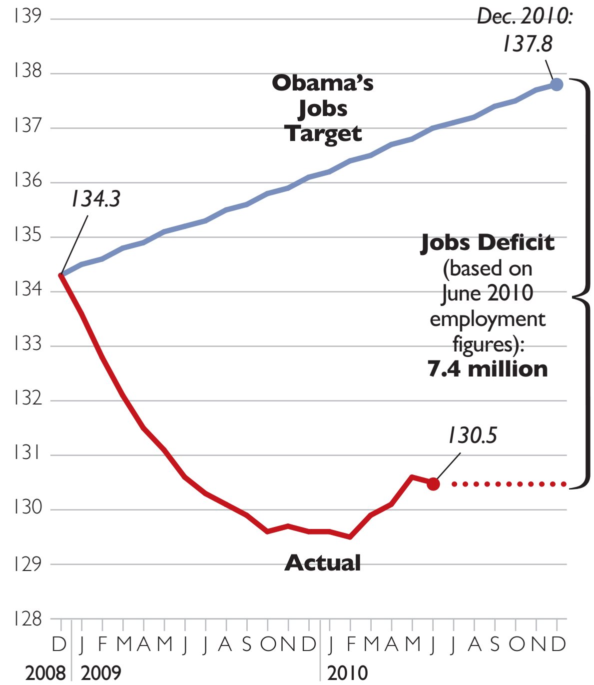
Appropriately, the President also emphasized accountability and measuring his presidency by results. By his own official forecast and by his own standard, the Obama jobs deficit attests to the failure of his policies.

Why Has the Obama Stimulus Failed? The centerpiece of Obama's short-term stimulus program was $862 billion in poorly targeted tax cuts and ineffectual spending increases he signed into law in February 2009, since supplemented by a number of smaller budget-busting "jobs" bills. Obama had one big shot at really helping the economy and he took it, holding nothing back. As short-term economic stimulus, it was doomed from the outset because it was based on the erroneous assumption that deficit spending can increase total

Obama Jobs Deficit: 7.4 Million Jobs

President Obama pledged to create 3.5 million new jobs by 2010, which would place total U.S. employment at 137.8 million. Using that figure as a target, Obama's jobs deficit currently stands at 7.4 million.

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



Note: Figures have been rounded.

Source: Heritage Foundation calculations and U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation—June 2010," Table A-1, at *http://www.bls.gov/news.release/pdf/empsit.pdf* (July 2, 2010).

Chart 1 • WM 2947 heritage.org

1. Press release, "Commissioner's Statement on the Employment Situation," U.S. Department of Labor, Bureau of Labor Statistics, July 2, 2010, at *http://www.bls.gov/news.release/pdf/empsit.pdf* (July 2, 2010).
2. The original Congressional Budget Office (CBO) estimate of the bill was $787 billion, but CBO included a re-estimate in its January 2010 Budget and Economic Outlook report. See Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2010 to 2020," January 2010, at *http://www.cbo.gov/ftpdocs/108xx/doc10871/frontmatter.shtml* (May 7, 2010).
3. *The Boston Globe*, "Obama's Goal Is 3.5 Million Jobs," January 10, 2009, at *http://multimedia.boston.com/m/21747745/obama-s-goal-is-3-5-million-jobs.htm?col=en-vid-pod_bcom-ep#q=creation* (May 7, 2010).
4. The actual figure at the time was 135.1 million, but the DOL subsequently revised the level of employment down to 134.3 million.
5. The actual figure is 7.58 million (138.58 million in December 2010 minus 131 million in November 2009).

The theory underlying Obama's stimulus is that the economy was weak because total demand was too low. The suggested solution is then to increase demand by increasing government spending, exploding the deficit in the process.

This theory of demand manipulation through deficit spending ignores the simplest of realities: Government spending must be financed. So to finance deficit spending, government must borrow from private markets, thereby reducing private demand by the same amount as deficit spending increases public demand.[6] In effect, the theory says that if I take a dollar from my right pocket and put it my left, then I am a dollar richer. No wonder it always fails.

What Works, What Does Not. The federal government cannot stimulate the economy in the short term by increased borrowing and shuffling demand across the economy through wasteful deficit spending. But government can stimulate the economy by improving incentives and the general economic environment.

Businesses invest not when they are manipulated by Washington but when they are confident enough to take risks in pursuit of opportunity. Individuals and businesses across the nation see tremendous opportunities for starting new businesses, investing, hiring new workers, and 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 because existing tax and regulatory burdens are already excessive.

Obama and friends' failure to understand this fundamental reality is demonstrated clearly in their efforts to pass a "Small Business Lending Fund Act of 2010." As explained by Senate Committee Chairman Baucus (D–MT), "When we help small business, we help Americans get back to work." Among other mostly small-bore but beneficial provisions, the legislation would improve small business investment incentives through 2010. Meanwhile, the President has called for raising tax rates on small businesses beginning in 2011, a policy Congress clearly intends to carry out. Dangling tax baubles while threatening a crushing tax hike is no way to help small business and exemplifies a great disconnect in Washington policymaking.

Next Steps. For private sector job creation to accelerate to bring down the Obama jobs deficit, step one is for Washington's job-destruction machine to take a long vacation. Facing such a weak economy, the intentions of Obama and his congressional allies to raise tax rates on small businesses, on capital gains and dividends, and through the death tax goes well beyond ideology to economic policy malpractice. Obama should call on Congress to forgo all tax hikes—especially those on work effort, small businesses, savers, and investors—at least until the economy has created enough jobs to return the country to full employment.

Next, Obama should take his chokehold off the Gulf Coast economy by lifting the moratorium on deepwater exploration and drilling. Worldwide experience with deepwater drilling confirms that the BP oil disaster was a "black swan" in the truest sense. It is bad enough that the Gulf region's economy has been gummed up with tar balls; Obama's reactionary assault on the Gulf oil industry just adds injury to insult.[7]

Finally, Obama and Congress should get busy reversing the federal spending surge to get the budget deficit under control. Perhaps the greatest uncertainties hanging over the economy involve questions about the budget deficit, how high the national debt will soar before Obama finally acts, and what he and the Congress choose to do about it. The answers are simple: act now, cut spending now.

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6. 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.*
7. See David Kreutzer and John Ligon, "The Economic Impact of an Offshore Drilling Ban," Heritage Foundation *WebMemo* No. 2945, July 2, 2010, at *http://www.heritage.org/Research/Reports/2010/06/The-Economic-Impact-of-an-Offshore-Drilling-Ban.*