

WebMemo



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Economic Recovery Stalled After ObamaCare Passed

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Private-sector job creation initially recovered from the recession at a normal rate, leading to predictions last year of a “Recovery Summer.” Since April 2010, however, net private-sector job creation has stalled. Within two months of the passage of Obamacare, the job market stopped improving. This suggests that businesses are not exaggerating when they tell pollsters that the new health care law is holding back hiring. The law significantly raises business costs and creates considerable uncertainty about the future. To encourage hiring, Congress should repeal Obamacare.

Initially Solid Job Growth. The economy is recovering at an unusually slow pace. Typically, employment grows strongly after a severe recession.¹ In the year and a half following the last comparable recession (1981–1982), the unemployment rate fell by 3.3 percentage points.²

Initially the economy appeared on track for a steady recovery. In August 2009, the White House projected the unemployment rate would fall to 8 percent by the end of 2011 and 7.5 percent by the end of 2012.³ This would represent a recovery roughly one-third slower than after the 1981–1982 recession.⁴

Job creation data supported these forecasts. The economy went from losing 841,000 jobs in January 2009—the recession’s low point—to gaining 229,000 jobs in April 2010.⁵ By the spring of 2010, the Administration confidently predicted a “Recovery Summer.”⁶

Obamacare Discourages Hiring. In March 2010, Congress passed President Obama’s health care reform legislation. The bill had appeared in serious jeopardy, and after the upset special election victory of Senator Scott Brown (R–MA), many analysts expected the bill to fail. Instead, it became law.

The law discourages employers from hiring in several ways:

- Businesses with fewer than 50 workers have a strong incentive to maintain this size, which allows them to avoid the mandate to provide government-approved health coverage or face a penalty;
- Businesses with more than 50 workers will see their costs for health coverage rise—they must purchase more expensive government-approved insurance or pay a penalty; and
- Employers face considerable uncertainty about what constitutes qualifying health coverage and what it will cost. They also do not know what the health care market or their health care costs will look like in four years. This makes planning for the future difficult.

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<http://report.heritage.org/wm3316>

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Recovery Stalls Post–Obamacare. Within two months of Obamacare’s passing, the recovery stalled. Figure 1 shows net private-sector job creation from January 2009 onward. The red line shows the trend in job creation before and after April 2010. Private-sector job creation improved by an average of 67,600 jobs per month before April 2010.⁷ That month, private-sector employers added 229,000 net jobs.

In May 2010, the job situation stopped improving. Employers created just 48,000 net jobs, and the trend in job creation changed. Starting in that month, private-sector hiring took a new course, improving by only 6,500 jobs per month—less than one-tenth the previous rate.⁸

This change in course is statistically measurable. Econometric testing shows that a structural break in job growth occurred between April and May 2010. The Heritage Foundation used the Bai–Perron breakpoint test to test for both the likelihood and location of a structural break in job growth.⁹ That test showed that both the level of and the

trend in job growth changed between April and May 2010.

The Obama Administration also altered its post–Obamacare economic estimates to forecast a significantly slower recovery. The Administration now projects unemployment of 9.1 percent at the end of 2011 and 8.2 percent by the end of 2012.¹⁰ The widely expected labor market recovery never happened.

Businesses Say Obamacare Is Holding Them Back. The fact that improvements in the job market ground to a halt after Congress passed Obamacare does not prove that the health care law caused it—correlation cannot prove causation. However, the fact does lend strong weight to the voices of businesses who say that the law is preventing hiring.

In a recent survey, 33 percent of business owners said the health care law was either their greatest or second-greatest obstacle to new hiring.¹¹ Federal Reserve officials report similar concerns. Den-

1. This happens because more unutilized capital and unemployed workers exist for businesses to put to new uses.
2. Unemployment fell from 10.7 percent in Q4 1982 to 7.4 percent in Q2 1984. Source: Department of Labor, Bureau of Labor Statistics, Household Survey, compiled by Haver Analytics.
3. Office of Management and Budget, “Mid-Session Review: Budget of the U.S. Government—Fiscal Year 2010,” August 25, 2009, Table 2, at http://www.whitehouse.gov/sites/default/files/omb/assets/fy2010_msr/10msr.pdf (July 19, 2011). Note that the Administration issued this forecast after it had time to assess the severity of the recession and the effectiveness of the stimulus.
4. The Administration projected that from its peak of 10 percent in Q4 2009, unemployment would fall 2.5 percentage points to 7.5 percent in Q4 2012. Three years after its peak of 10.7 percent in Q4 1982, the unemployment rate fell to 7 percent, a 3.7 percentage point drop.
5. Department of Labor, Bureau of Labor Statistics, Establishment Survey, January 2009–April 2010, compiled by Haver Analytics.
6. Mike Allen, “Obama, Biden Declare ‘Recovery Summer,’” Politico, June 17, 2010, at <http://www.politico.com/news/stories/0610/38654.html> (July 19, 2011).
7. Heritage Foundation calculations using data from the Bureau of Labor Statistics, Establishment Survey, January 2009–June 2011. The monthly net private-sector job creation figures from the Establishment Survey were regressed against a time trend variable.
8. Heritage Foundation calculations using data from the Bureau of Labor Statistics, Establishment Survey, January 2009–June 2011. The monthly net private-sector job creation figures from the Establishment Survey were regressed against a time trend variable.
9. See Jushan Bai and Pierre Perron, “Computation and Analysis of Multiple Structural Change Models,” *Journal of Applied Econometrics*, Vol. 18, No. 1 (2003), pp. 1–22.
10. Office of Management and Budget, “Analytical Perspectives, Budget of the United States Government, Fiscal Year 2012: Economic and Budget Analyses,” Table 2-1, February 14, 2011, at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/econ_analyses.pdf (July 19, 2011).

nis Lockhart, President of the Federal Reserve Bank of Atlanta, reports that:

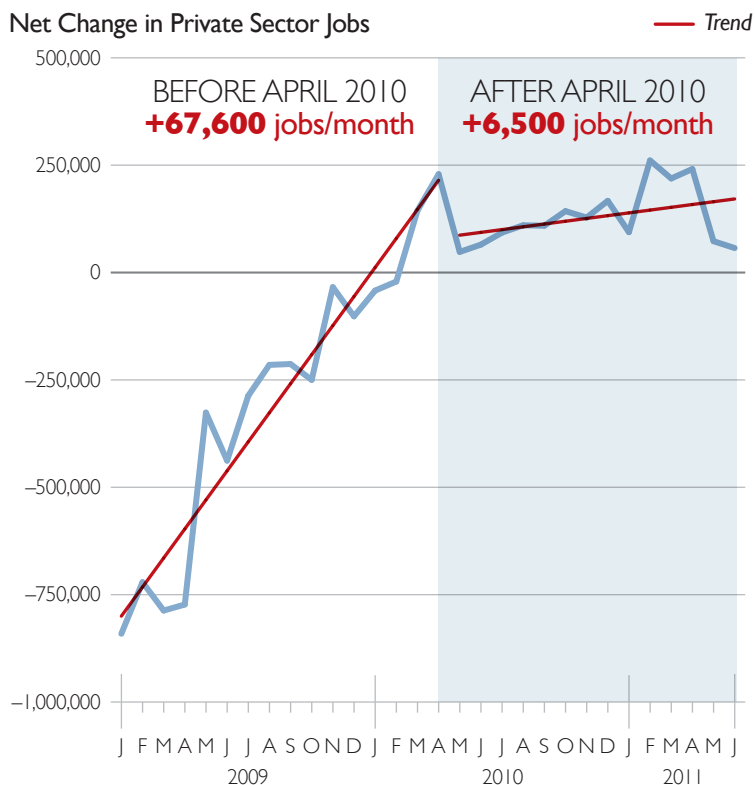
In addition to slow and uncertain revenue growth, contacts in this recovery are frequently citing a number of other factors that are impeding hiring. Prominent among these is the lack of clarity about the cost implications of the recent health care legislation. We've frequently heard strong comments to the effect of "my company won't hire a single additional worker until we know what health insurance costs are going to be."¹²

Data Show Reason for Concern. The economy is experiencing an unusually slow recovery. While the labor market improved steadily from January 2009 to April 2010, it suddenly stalled in May. This coincided with the passage of President Obama's health care overhaul, which significantly raised both the costs and uncertainty involved for businesses providing employer-sponsored health insurance. Many businesses report that this legislation is holding back hiring. The data suggest that these complaints are not idle.

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The Obamacare Effect on Employment

Between the recession's low point in January 2009 and April 2010, net private sector job creation improved by 67,600 jobs a month. President Obama signed his health care legislation into law on March 23, 2010. After April 2010, the improvement in net private sector job creation stalled, dropping to just 6,500 jobs a month.



Source: Heritage Foundation calculations using data from the U.S. Department of Labor; Bureau of Labor Statistics, Establishment Survey/Haver Analytics.

Chart 1 • WM 3316 heritage.org

11. Sample of 1,409 small business owners; margin of error + or - 2.5 percent. U.S. Chamber of Commerce, "Small Business Outlook Survey," July 2011, p. 8, at <http://www.uschambersmallbusinessnation.com/docs/US-Chamber-of-Commerce-Summit-Presentation-from-Harris-Interactive.pdf> (July 19, 2011).

12. Dennis Lockhart, "Business Feedback on Today's Labor Market," Federal Reserve Bank of Atlanta, November 11, 2010, at http://www.frbatlanta.org/news/speeches/lockhart_111110.cfm (July 19, 2011).