# JOINT ECONOMIC COMMITTEE DEMOCRATS

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ECONOMIC FACT SHEET

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## HOW STRONG IS THE ECONOMIC RECOVERY AND IS EVERYONE BENEFITING?

Our economy has added jobs for 31 months in a row, creating more than 5.1 million new jobs for American workers. And the unemployment rate is now down to 4.7 percent, below the average rate for each of the past four decades. Real after-tax income per person has grown by more than 8 percent since I took office. And that means, on average, Americans have an income that is $2,100 higher this year than it was at the beginning of 2001, after adjusting for inflation…America's economy is strong and benefiting all Americans.

—President Bush's radio address, April 15, 2006

These economic statistics, regularly cited by President Bush, paint a rosy picture of the labor market and income growth. However, they ignore the fact that economic performance since 2001 remains weaker than in previous economic recoveries. And much as the Administration would like to argue that its policies are benefiting all Americans, the facts say otherwise. The benefits of productivity and economic growth are not being shared widely.

**Slow job growth and hidden unemployment**. The U.S. economy went through the longest jobs slump since the 1930s following the 2001 recession, with job losses continuing until August 2003. The creation of more than 5 million jobs since then works out to just 167,000 jobs per month. In past recoveries, growth of 200,000 jobs per month or more was typical. At this point in the recovery from the 1990-91 recession the economy had created 4.6 million more jobs than have been created in this recovery.

The unemployment rate is 4.7 percent, which is higher than the 4 percent rate achieved in the expansion of the 1990s, and there is still evidence of hidden unemployment. Both the percentage of the population in the labor force and the percentage with a job remain significantly lower than they were when the recession began in March 2001.

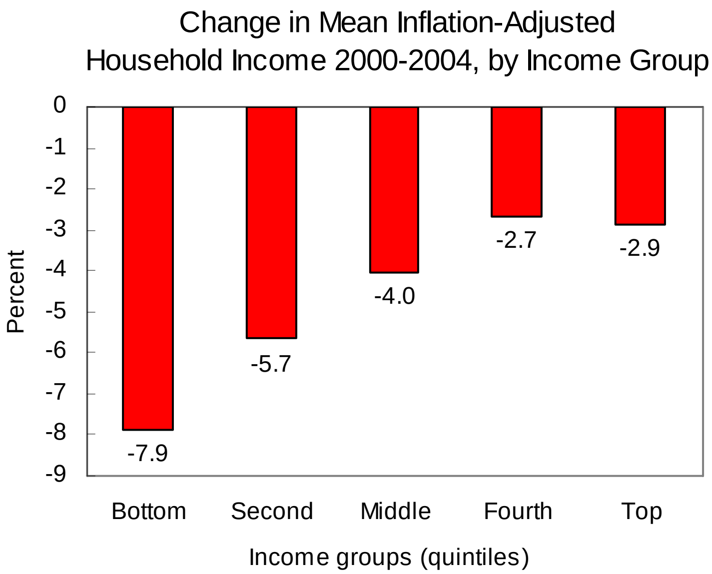
**Income growth, but not for all**. The 8.3 percent rise in real (inflation-adjusted) after-tax income per person since January 2001 works out to just 1.6 percent per year—about one third slower than the 2.3 percent per year growth under President Clinton. Moreover, an increase of $2,100 in average income does not mean that most Americans have seen an increase of that magnitude. In fact, with income growth concentrated in the upper strata of the income distribution, the average can increase even though most people see little or no gain (see Box: Mean versus Median Income).

**Mean versus Median Income**

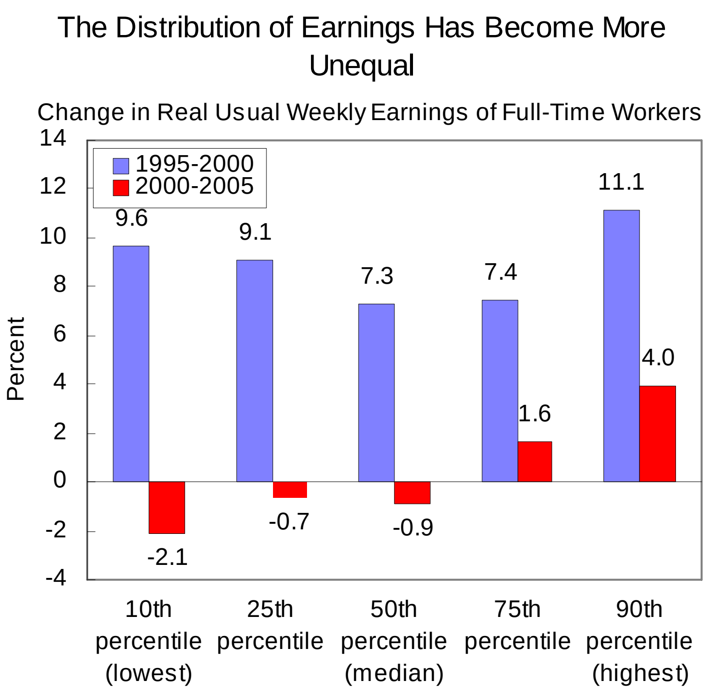
*Mean* (or average) income is total income divided by the total number of people (or households) receiving that income. *Median* income is the income at the exact middle of the distribution; half of all incomes are larger than the median and half are smaller.

Any growth in income, no matter where it takes place in the distribution, will raise the mean. However, if all the growth takes place among those in the upper half of the distribution, the median will be unaffected.

Another way to look at income distribution is to divide the population into income groups and talk about changes in the share of aggregate income going to different groups, or changes in the average level of income across groups. Widening disparities in income growth between higher- and lower-income groups are another measure of unequal growth.




Note: Each quintile contains 20 percent of households ranked by household income.
Source: Bureau of the Census, U.S. Department of Commerce.




Note: Changes are measured from the fourth quarters of 1995 to 2000 and from the fourth quarters of 2000 to 2005.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

**Trends in household income and its distribution**. Census statistics on the distribution of household income do not support the President's claim that the benefits of the economic recovery have been widely shared. Real median household income was $1,669 (3.6 percent) lower in 2004 than it was in 2000. Moreover, the decline in real household income was largest in the bottom 20 percent of the distribution (see top chart).

Census money income is a pre-tax measure, but measures based on after-tax income would likely show a similar pattern. (The Congressional Budget Office estimates the distribution of pre- and post-tax income, but their most recent estimates run only through 2003). The President's tax cuts have increased the after-tax income of upper-income taxpayers proportionately more than that of lower-income taxpayers. In addition, the Census data do not fully account for income earned by those at the very top of the income distribution, yet tax data indicate that that is where income growth has been concentrated in the recovery after the 2001 recession.

**Productivity and earnings**. Since the economic recovery began in late 2001, the output per hour produced by the American worker has been growing at a 3.2 percent average annual rate, but the real average hourly compensation (wages plus benefits) of that worker has been growing at only 1.6 percent per year after inflation. Moreover, most of the growth in compensation reflects rising employer contributions for health insurance and other benefits that have squeezed growth in wages.

The average hourly earnings of production and other nonsupervisory workers have fallen in each of the past two years. During the period of job growth touted by President Bush, real wages fell by 1 percent.

Not only have average hourly earnings failed to keep up with inflation, but earnings inequality has increased. The real median usual weekly earnings of full time wage and salary workers have declined 0.9 percent under President Bush. The largest declines in earnings have been at the bottom of the distribution and the only increases have occurred at the very top (see bottom chart). This pattern contrasts with the healthy growth in real earnings up and down the income distribution during the five years prior to President Bush's term.

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