



JOINT ECONOMIC COMMITTEE
SENATOR CHARLES E. SCHUMER, CHAIRMAN
REPRESENTATIVE CAROLYN B. MALONEY, VICE CHAIR



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JOINT ECONOMIC COMMITTEE: PRESIDENT'S ECONOMIC REPORT WRONGLY INSISTS ECONOMY IS SOUND, DESPITE SERIOUS WORRIES IN HOUSING, CREDIT, JOBS MARKETS

*President's Report Predicts Higher than Expected GDP Growth, Admits to Higher
Deficits, Suggests Housing Market Decline May Aid Growth in Other Sectors*

*Schumer and Maloney Urge a New Direction on Economic Policy to Help Middle Class
Families*

Washington, D.C. – Senator Charles E. Schumer and Representative Carolyn B. Maloney, the Chairman and Vice Chair of the Joint Economic Committee respectively, responded to the 2008 Economic Report of the President (ERP), delivered to Congress today. The report, authored by the President's Council of Economic Advisers, summarizes the Administration's views on the state of the United States economy. The report reviews the last year of economic data and projects the economic health of our country in the future.

Sen. Schumer said, “Despite agreeing to a much-needed economic stimulus package, the President still seems to be looking at our economy with rose-colored glasses. The Administration needs to recalibrate its overly-optimistic economic assumptions in order to seriously address the declining fortunes of the middle class families. The crisis in the housing and credit markets and the weakening jobs market should have been a wake up call for this Administration to jump into action and shed its ideological blinders. This report indicates that the last year of the Bush presidency will be more of the same – more economic anxiety for American families and slower economic growth for the nation.”

“This year's Economic Report of the President predictably examines many aspects of the economy, but also predictably fails to recognize the depth of the problems that American families face as the housing and labor markets weaken and the economy slows,” said Rep. Maloney. “The report predicts anemic job growth and rising unemployment, and provides little hope that wages will be able to outpace rising living expenses in the coming year. The President has worked with Congress to implement a stimulus plan to temporarily boost the economy, but he offers no proposal to bring lasting relief to the millions of Americans who are feeling the squeeze of high energy costs and falling real wages. The President's rationale for making his tax cuts permanent lacks credibility as we teeter on the brink of an economic downturn. Middle- and

lower-income families continue to pay the price for the President's tax cuts and the costly war in Iraq, as programs that help ordinary Americans cope with economic or health care insecurity have become candidates for budget cutting. The Bush economy simply continues to leave behind most American families."

Overly-Optimistic Assumptions in the President's Economic Report:

- The report suggests it is "[b]ased on conservative economic assumptions that are close to the consensus of professional forecasters. The assumptions provide a sound basis for the Administration's budget projections."¹ However, key report assumptions appear excessively optimistic and call into question the Administration's budget and deficit projections.
- It assumes that real Gross Domestic Product (GDP) will grow by 2.7 percent in 2008 and 3.0 percent in 2009.² Other forecasters are far less sanguine about the likely rate of growth. For example, the February consensus Blue Chip forecast for GDP growth was 1.7 percent, and the consensus forecast for 2009 was 2.6 percent.³ In January the Congressional Budget Office (CBO) forecast 2008 GDP growth of 1.7 percent and 2009 growth of 2.8 percent.⁴
- It states that productivity will grow at 2.5 percent from the third quarter of 2007, despite contrary developments over the last three years. Productivity growth in the nonfarm business sector has slowed significantly since 2005. In 2005 the annual rate of productivity growth was 1.9 percent, in 2006 it was 1.0 percent, and in 2007 it was 1.6 percent. The compound rate of growth for the period 2005-2007 was 1.29 percent, below the 1996-06 growth rate.⁵
- According to estimates by the Office of Management and Budget deficits will grow rapidly in the next two years, with the 2008 deficit projected to rise to \$410 billion, or 2.9 percent of GDP; and the 2009 deficit projected to be \$407 billion, or 2.7 percent of GDP.⁶
- The estimates of budget deficits are likely to be significantly understated because they omit the full budgetary costs of the ongoing Iraq war, and they do not account for changes to the tax code to reduce the burden of the alternative minimum tax (AMT) on middle class households.

Weak Housing Market:

- Rather than "provid[ing] room for other sectors to grow" as stated in the 2008 Economic Report of the President, the decline in the housing market appears to have spread to other sectors.⁷ Declines in the housing market continue to have a widespread negative impact on the economy. During 2007 declines in residential fixed investment subtracted almost one percent from GDP.⁸

¹ Council of Economic Advisers, 2008 Economic Report of the President, p. 43

² Council of Economic Advisers (2008), op.cit, p. 38

³ Blue Chip Economic Indicators, Top Analysts Forecasts of the U.S. Economic Outlook for the Year Ahead, Vol. 33, No. 2 February 10, 2008, pp. 2-3

⁴ Congressional Budget Office (2008), The Budget and Economic Outlook: Fiscal Years 2008 to 2018, p. 5, available at http://www.cbo.gov/ftpdocs/89xx/doc8917/01-23-2008_BudgetOutlook.pdf.

⁵ Bureau of Labor Statistics, Productivity and Costs, February 6, 2008, available at <http://stats.bls.gov/news.release/pdf/prod2.pdf>, and JEC calculations.

⁶ Office of Management and Budget, Fiscal Year 2009 Budget of the U.S. Government, pp. 15-16.

⁷ Council of Economic Advisers, op. cit, p. 31.

⁸ Bureau of Economic Analysis, National Economic Accounts. Numbers are in 2000 dollars. 2007 figures are based on the Advance GDP release of the fourth quarter, 2007 data, Table 2.

- Housing prices continue to fall from peak values reached in 2006. The S&P/Case-Shiller national home price index has fallen five percent since 2006, and the S&P/Case-Shiller 20-city index has fallen by 8.6 percent. These price declines have had a significant negative impact on household wealth. Given that housing wealth was about \$23 trillion in 2006, the decline in household balance sheets is now between one and two trillion dollars.⁹ Declines in house prices are likely to have significant negative effects on household consumption demand.¹⁰

Rising Unemployment:

- Unemployment in January 2008, at 4.9 percent, was 0.7 percentage points higher than when President Bush took office in January 2001.¹¹
- The report states that unemployment rates have “edged up.”¹² When we examine these unemployment numbers by race/ethnicity during this Administration, it is clear that almost everyone has suffered. While the unemployment rate for whites, which stands at 4.4 percent, is low, it represents an increase of 0.8 percentage points from when the President took office. In January 2008, the unemployment rate for African Americans was 9.2 percent, up a full percentage point from when President Bush took office.¹³
- Since the President took office, the number of American citizens who experience long-term unemployment has risen from 1,372,000 in January 2001 to 2,503,000 in January 2008—an increase of more than 1 million Americans who are without work for a lengthy period of time.¹⁴

Tax Cuts for Individuals and Businesses:

- The report rightly notes that long-run impacts of permanent tax cuts depend critically on how they are paid for.¹⁵ The Administration has argued that the tax cuts promote long-run economic growth, but has not specified how it would finance the cuts over the long run. Non-partisan analyses have found that permanent tax cuts will have a negative impact on long-run economic growth unless they are financed through cuts in government spending.¹⁶ To extend the Bush tax cuts, it would cost up to \$2.3 trillion over the next ten years, not including an additional \$400 million in interest.
- The report claims the tax cuts increased the share of Federal taxes being paid by high-income taxpayers.¹⁷ In fact, tax cuts disproportionately benefit the very wealthiest Americans. When fully phased in, the tax cuts will boost the income of the top one percent of earners by 6.7 percent, almost triple the 2.3 percent increase in the income of middle class families due to the

⁹ Estimate of housing wealth from Statement of Robert Shiller, before the Joint Economic Committee, September 19, 2007, p. 2.

¹⁰ Frederick Mishkin (2007). Housing and the Monetary Transmission Mechanism, Federal Reserve Finance and Economics Discussion Series, 2007-40, pp. 33-36

¹¹ Bureau of Labor Statistics (2008), “The Employment Situation, historical information,” Table A-1 available at <http://www.bls.gov/cps/cpsatabs.htm>.

¹² Council of Economic Advisers, op. cit p. 38.

¹³ Bureau of Labor Statistics (2008), “The Employment Situation, historical information,” Table A-2 available at <http://www.bls.gov/cps/cpsatabs.htm>.

¹⁴ *Ibid* Table A-9

¹⁵ Council of Economic Advisers, op. cit, p. 129

¹⁶ Joint Committee on Taxation, 2006 Tables 2 and 3 available at <http://www.house.gov/jct/x-19-06.pdf>

¹⁷ Council of Economic Advisers, op. cit, p. 128

tax cuts. Almost 40 percent of total tax cut benefits of \$255 billion will go to the top one percent of earners.¹⁸

- Further, the tax cuts have not delivered promised increases in capital investment. In fact, business expenditures on fixed investment have been especially weak during the Bush administration. Non-residential fixed investment – gross business spending on productive capital stock, such as plant and equipment – has performed poorly since the economic peak in 2001. Remarkably, 27 quarters into the current economic expansion, this measure of investment is only 14.4 percent above its value in 2001. In the three business cycles of comparable length, the average increase was 45.7 percent.¹⁹

Family Incomes Have Fallen:

- According to the latest Census data from 2006, median household income (in 2007 dollars) is \$982 below where it had been in 2000 at the end of the last economic peak.
- Since 2000, families in the top fifth of the economic ladder have seen their income rise by 1.0 percent, while those in the bottom fifth have seen their income fall by 4.5 percent.²⁰
- Job growth has now come to a halt and wage growth has stalled. The economy lost 17,000 jobs in January 2008 after adding only an average of 95,000 jobs each month in 2007 — far below the number needed just to keep up with population growth – and inflation-adjusted wages are back to where they had been at the end of 2003.²¹

More Americans Are Without Health Care:

- The Administration states that the uninsured are “a major concern”. Yet the Administration is proposing a total of \$31 billion in five-year Medicaid cuts.²² Some 13 percent of all Americans and 27 percent of all American children receive coverage through the Medicaid program.²³

A more complete response to the Economic Report of the President will be submitted officially by the Joint Economic Committee in the coming months.

The Joint Economic Committee, established under the Employment Act of 1946, was created by Congress to review economic conditions and to analyze the effectiveness of economic policy.

www.jec.senate.gov

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¹⁸ Brookings Tax Policy Center (TPC) Table T06-0041 available at

<http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=1106&topic2ID=40&topic3ID=57&DocTypeID=2>

¹⁹ JEC calculations. The three previous cycles used for comparison began in 1960 Q2, 1981 Q3 and 1990 Q3.

²⁰ Bureau of Labor Statistics, “Current Population Survey Annual Social and Economic Supplement, August 2007.”

²¹ Bureau of Labor Statistics (2008) “Employment Report, January 2008”

²² This figure includes a net total of \$17.7 billion in legislative and regulatory changes proposed in the FY 2009 budget (see Office of Management and Budget, “Budget of the United States, 2009”), and \$13.9 billion due to previously proposed regulatory changes. See Senate budget Committee, “Brief Analysis: President Bush’s FY2009 Budget,” February 5, 2008.

²³ Kaiser Commission on Medicaid and the Uninsured (2006), “Health Insurance Coverage in America,” October.

Available at http://www.kff.org/uninsured/upload/2006_DATA%20UPDATE.pdf