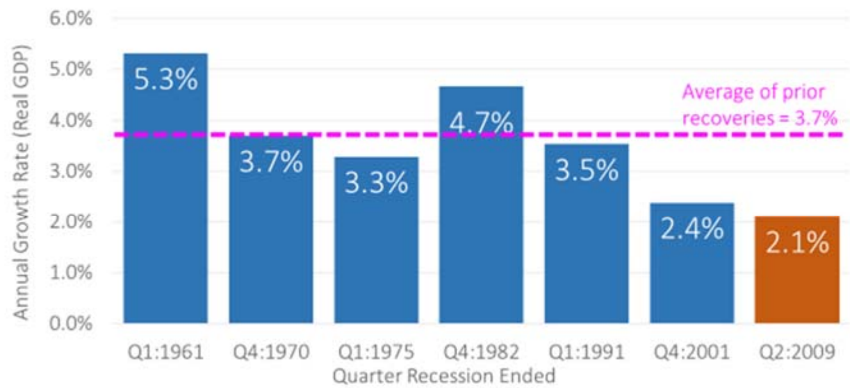
The 'New Normal'? Part 1: Economic Stagnation

The United States is in the midst of the most lackluster economic recovery in modern American history. Eight years of economic stagnation has cost the median American family a cumulative $69,000 of income.[1] In addition, effective tax rates on American businesses remain among the most burdensome in the world, and the Obama Administration continues to increase regulations at a record pace. Furthermore, the Administration's Keynesian approach to economic stimulus has failed to promote strong, sustainable economic growth.

A. Worst Recovery Ever

Figure 1 shows the current recovery from the most recent recession (December 2007-June 2009) is the worst of all recoveries occurring in the United States since 1960.[2]

Figure 1. Poor Growth



Note: Compared to other post-1960 recoveries lasting longer than 1 year. Source: Haver Analytics, BEA, JEC staff calculations.

As Figure 2 on the following page shows, real GDP growth following past severe recessions is very robust. Generally, this occurs because, the bigger the drop, the greater the potential there is for a bounce back. Noted Harvard economist Robert Barro finds a similar result after looking at 185 major economic contractions (defined as a decrease of GDP per capita of 10% or more) across 42 nations. Economies bounce back quickly following large drops. He estimates that American GDP per capita from 2009 to 2011 should have grown at 3 percent per year, rather than 1.5 percent per year.

Following a severe recession in 1920-1921, real GDP growth averaged 5.0 percent from 1922 to 1929.[3] During the initial phase of the Great Depression, real GDP collapsed 8.5 percent in 1930, 6.4 percent in 1931, 12.9 percent in 1932, and 1.3 percent in 1933. Once the monetary crisis caused by the Federal Reserve subsided, real GDP grew 10.8 percent in 1934, 8.9 percent in 1935, and 12.9 percent in 1936.[4] From 1934 to 1939, the average real GDP growth rate was 7.1 percent (this even includes another recession that occurred in 1938). In the 1970s, the Federal Reserve's attempts to quell stagflation produced two recessions.[5] Following a brief recession in 1980, and another more severe recession in 1982, real GDP grew 4.4 percent from 1983 through 1989.

The data in Figure 2 reveals severe busts are followed by large recoveries, except for this recovery. From 2010 to 2015, average annual real GDP growth was a feeble 2.1 percent. Arguments that the fiscal stimulus of 2009 (American Recovery and Reinvestment Act of 2009)[6] wasn't large enough to generate sustained growth are specious. During the worst part of the Great Depression (1929-1933), the deficit never exceeded 5.3 percent of GDP. Yet, when the downturn subsided, the economy averaged 7.1 percent real GDP growth. In contrast, during the Obama Administration, the deficit-to-GDP ratio shot up to 9.8 percent in 2009 and remained elevated at 8.6

percent, 8.4 percent, and 6.7 percent in 2010, 2011, and 2012, yet no robust recovery followed. Despite a smaller deficit-to-GDP ratio in the 1930s, the economy could still average a growth rate of over 7% when left to its own devices.

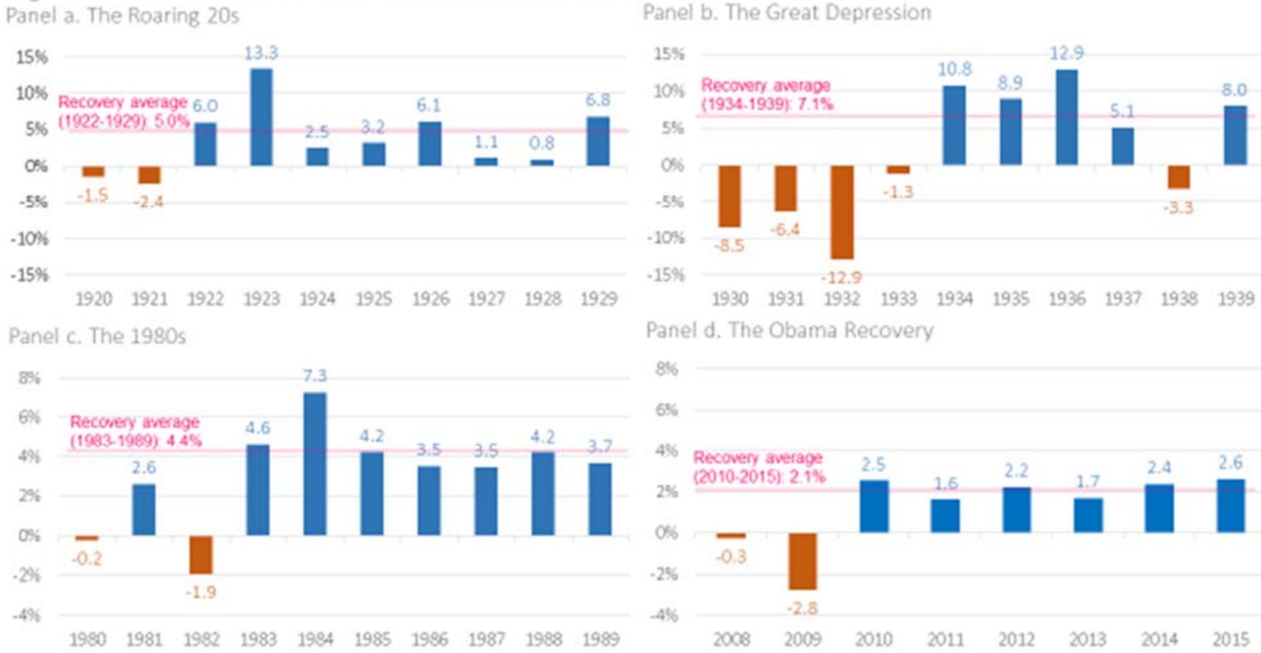


Figure 2. Real GDP Growth in Recessions and Recoveries

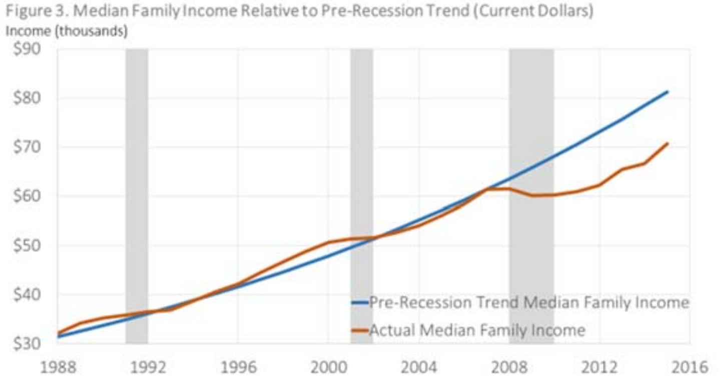
Source: BEA, JEC

B. Missing Incomes

Figure 3 shows median family income in current dollars.[7] The orange line depicts actual median family incomes, while the blue line depicts the normal trend rate of growth for median family income.[8] Note that even in the 1990-1991 and 2001 recessions, the actual median family income remained near the trend.

The reason for using current dollars rather than inflation-adjusted dollars is because the bills families face are stated in current dollars, such as mortgages, student loans, car loans, etc. The larger the gap from the trend, the greater the debt burden. Furthermore, this makes defaults more probable, which increases financial system risks, and constrains spending on currently produced goods and services, which in turn leads to lower employment.

Figure 3. Median Family Income Relative to Pre-Recession Trend (Current Dollars)



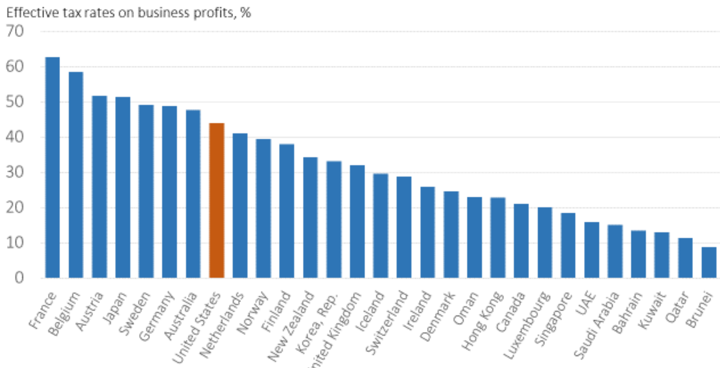
Source: Census Bureau/JEC Calculations

Note: Gray bars indicate recessions

A mortgage underwritten in 2006 would be based on the assumption income would continue to grow on trend, but the assumption has not proved true in this case. For example, had it followed trend, the median family income in 2016 would be $81,000 rather than the actual $71,000. Cumulatively, from the recession to the present, the median family lost $69,000 of income—about $8,600 per year. Had the recovery been robust we likely would be back on the trend line, as was the case following the recessions in 1991 and 2001.

C. The High Taxes on Businesses

Figure 4. Burdensome Taxes on Businesses



Source: World Bank, JEC

America has the highest [corporate tax rate in the developed world](). It's often argued that after various tax breaks, our companies pay much more competitive effective tax rates. Figure 4 shows the *effective* tax rate on businesses in the world's wealthiest nations in 2015.[9] The rate measures the amount of taxes and mandatory contributions paid by businesses *after allowing for deductions and exemptions* in proportion to business profits, and it does *not* include any related personal income taxes, value-added taxes, sales taxes, or excise taxes.

The effective tax rate on businesses in the United States is the eighth highest of the world's wealthiest twenty-nine nations. Of the 169 nations for which data was available, we tie with Tanzania as the nation with the fifty-fifth highest effective corporate tax rate. Notably, Canada's rate is half ours. In addition, Obamacare has imposed over $1 trillion in new taxes, according to the Congressional Budget Office and Joint Committee on Taxation, some of which hit businesses. Further, the top individual income tax rate paid by small businesses has risen substantially, from 35 percent at the start of this Administration to 44.6 percent.

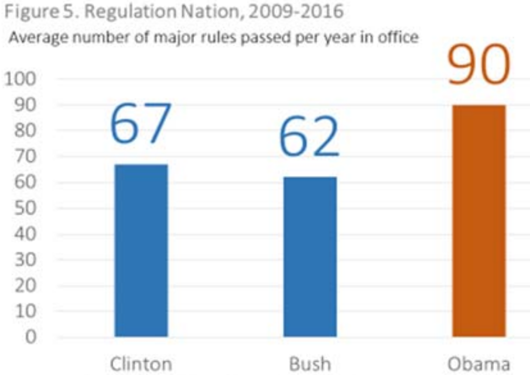
D. Regulation Nation

Figure 5 shows the number of major rules passed per year of a given administration. According to the Congressional Review Act of 1996, major rules are those likely "to result in an annual effect on the economy of $100 million or more; (2) a major increase in costs or prices for consumers, individual industries, federal, state, or local government agencies, or geographic regions; or (3) significant adverse effects on competition, employment, investment, productivity, or innovation, or on the ability of United States-based enterprises to compete with foreign-based enterprises in domestic and export markets."[10]

The Clinton Administration averaged 67 major rules per year. The Bush Administration came in lower at 62 major rules per year. The Obama Administration, in contrast, is a proverbial regulation factory, set to average 90 major rules per year. In the final year of a president's administration, the number of rules issued tends to increase 75 percent from the average non-final year. JEC estimates that the Obama Administration will have issued over 700 regulations by its end in 2016. In contrast, the Bush Administration issued 494 major rules. The American Action Forum estimates the cumulative economic costs of the rules passed by the Obama Administration to be "larger than the [GDP] of Norway and Israel combined."

The costs of regulations include not only the obvious enforcement, legal, and monitoring costs incurred by governments and businesses but also opportunity costs. Government bureaucracies divert resources and talented individuals from the more productive private sector. Faced with greater scarcity, businesses have fewer possibilities for investments in capital and research and development. Consequently, if things that lead to economic growth become less available, growth in wealth and prosperity will stagnate.

Figure 5. Regulation Nation, 2009-2016



Source: GAO, GWU Regulatory Studies Center, JEC

The Administration is also setting records for pages of additional regulations added to the *Federal Register* for all Presidents since 1980, at roughly 2,500 pages added per year. Cumulatively, the *Federal Register* now contains 178,277 pages. JEC estimates that by the end of 2016, this number will reach 182,937 pages.[11] If one spent eight hours per day, reading one-page per minute, it would take 381 consecutive days of reading to finish the document. If all these pages were printed and laid end-to-end, they would span 32 miles.

Obama's regulatory frenzy arises from his desire to circumvent Congress. To stem the executive branch's disregard of Congress and the rising tide of overly burdensome regulations, Senator Dan Coats, Joint Economic Committee Chair, has sponsored S.1927 the REVIEW Act of 2015. It proposes that any high-impact rules (any regulation that may impose an annual cost on the economy of at least $1 billion) be subject to a delay of effective date pending any judicial review.

Conclusion

This recovery is so far behind the average of other post-1960 recoveries that to catch up by 2016's end would require historically unprecedented rates of economic growth. Americans continue to await the strong economic growth and job creation they were promised. Unfortunately, many policies implemented by the Obama Administration and Congressional Democrats have stunted economic growth, discouraged job creation, and made more people reliant on government assistance. The opportunity to restore America's prosperity is still attainable, but commonsense action is essential. Lower tax rates, a simplified tax code, reduced government spending, free trade, and less burdensome regulation are the path to restoring American growth and opportunity.

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[1] Estimate is discussed in the section titled "B. Missing Incomes" of this report.
[2] This includes only recoveries lasting more than one year. Thus, the recovery between the two early 1980s recessions is excluded as it only lasted July 1980 to July 1981.
[3] For details regarding the Recession of 1920-1921, see the St. Louis Federal Reserve Bank's The International Gold Standard and U.S. Monetary Policy from World War I to the New Deal pp. 427-8 for more details.
[4] For details on the role of the Federal Reserve in the Great Depression, see the Richmond Federal Reserve Bank's The Great Depression for more details.
[5] See the Richmond Federal Reserve Bank's Volcker's Announcement of Anti-Inflation Measures for more details.
[6] For an analysis of the American Recovery and Reinvestment Act, please refer to the JEC's paper, "ARRA's Five Year Anniversary."
[7] The Census Bureau defines a family (or family household), as "a household in which there is at least 1 person present who is related to the householder by birth, marriage or adoption." Note: A household is defined as "an occupied housing unit."
[8] This is calculated by finding the average growth rate of median family income from 1987 to 2007. This average growth rate is than used to interpolate the trend level of median family income.
[9] The "wealthiest nations" are those with a 2015 natural logarithmic real GDP per capita at least one standard deviation above the average natural logarithm of real GDP per capita for the 169 nations with data available.
[10] See PL 104-121, Sec. 804.
[11] This estimate takes the average growth rate of the Federal Register pages for the last years of the Reagan, Bush Sr., Clinton, and Bush administrations, and using that average to estimate the number of pages to be added by the end of the Obama administration.