The Daily Dish

Parsing the Economic Debate

DOUGLAS HOLTZ-EAKIN | FEBRUARY 6, 2020

Eakinomics: Parsing the Economic Debate

There is something about the president that drives people over the edge. Yes, his core State of the Union assertion – "I am thrilled to report to you tonight that our economy is the best it has ever been" – is a bit over the top. But there is no reason for former Obama Administration Treasury official Steven Rattner to overreact and embarrass himself in this piece ("The Economy Is Not as Good as It Looks") in *The New York Times* (as well as in this appearance on Morning Joe). Since we are likely to criss-cross this terrain quite a bit in the months to come, let's take a look at some of the arguments he floated.

> *In Mr. Trump's 35 months as president, the economy added an average of 191,000 jobs per month and the unemployment rate fell by 1.2 percentage points. Sounds pretty good, right? But during the last 35 months of the Obama presidency, new jobs averaged 227,000 per month and the unemployment rate dropped by 2 percentage points.*

The main problem here is that job increases are not comparable at different points in a cyclical recovery. Early on, it is relatively easy to put large numbers of unemployed workers back on the job. As the expansion ages, the low-hanging fruit is gone, and the only way to keep job creation at the same pace is to attract those disconnected from work into the labor force. That's a much harder policy challenge.

> *As for overall economic growth: essentially the same under Mr. Trump as under Mr. Obama.*

Again, there is the issue of what constitutes a fair comparison. President Obama inherited an economy in downturn. Using his entire presidency, year-over-year (which smooths out the noise) quarterly growth averaged 1.6 percent at an annual rate. President Trump has averaged 2.5 percent. To be more fair, start in the 1st quarter of 2010 and President Obama averaged 2.2 percent. Is that fair? Well, maybe not, because President Obama got the relatively easy part of the early cyclical recovery. Is it a big difference? Well, yes, because from 1776 to the end of the 20th century the United States grew 0.2-0.3 percentage points faster per capita than Great Britain. That difference allowed the United States to become the world's greatest economic power.

> *Unemployment may be low but wages, adjusted for inflation, have barely grown. Once again, the headline numbers — a roughly 3 percent annual growth rate — seem reassuring. But add in the effect of inflation and the picture looks quite different. On average, real wages have risen at just a 0.8 percent rate under Mr. Trump, compared with 1.3 percent over a similar period under Mr. Obama.*

Again, this looks like an artifact of selectively choosing the period and the data. If one looks at the best measure of compensation – the employment cost index – and chooses total compensation, it is rising at 2.7 percent under Trump versus 2.0 under Obama (starting in 2010). Adjusting for inflation using the core consumer price index for urban consumers still gives Trump the edge with 0.6 percent versus 0.3.

I could go on. Rattner focuses on manufacturing, but why? For every 1 manufacturing worker there are 11 other types of workers elsewhere in the economy. He argues the economy is worse in “Trump country.” Who cares? Isn’t he the president of all Americans? Rattner points out the inequality is unchanged. Right, but did you expect the forces that have been at work since the mid-1980s to suddenly do a U-turn in three years?

Finally, he complains that the president did not keep his promise of “growth of “4, 5, 6 percent.” Uh, you got him! But it is exactly that kind of Trump hyperbole that generates an overreaction that is a disservice to the facts.