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What do lackluster jobs reports mean for Biden's economic 'transformation'?

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President Joe Biden has proposed substantial spending increases he says will transform the economy, but a pair of recent disappointing jobs reports have some analysts wondering whether these investments will really pay off.

Biden has already signed a \$1.9 trillion spending bill he called the “American Rescue” plan into law and has jobs, infrastructure, childcare, and social welfare plans waiting in the wings that will total \$4 trillion. His first budget blueprint clocks in at \$6 trillion and runs a \$1.8 trillion deficit in a single year.

Monthly job creation fell short of economists’ and Wall Street’s expectations in both April and May. March’s numbers were also revised downward from 960,000 to 770,000. One analyst called April’s numbers, in which only 266,000 jobs were added despite hopes the number would exceed 1 million, “the most disappointing jobs report of all time.” May was better, and the unemployment rate fell, but it was not close to 1 million new jobs.

Republicans point to the additional unemployment benefits essentially paying workers to stay home. They question whether trillions of dollars in new spending is necessary — or creates the right incentives — as economic reopening from the pandemic yields enhanced growth. Last month, the White House said there was no evidence that policy kept people from going back to work, especially compared to other factors such as childcare and vaccination status.

But that added benefit may be expiring after Friday’s jobs report.

“The president believes that the temporary unemployment benefits and the temporary boost to those benefits has provided a critical lifeline, that that lifeline was designed to be temporary and to expire in about 90 days,” National Economic Council Director Brian Deese told reporters at the White House. “And that’s — that’s appropriate.”

White House press secretary Jen Psaki noted that although there are Republican governors who have decided “as they have every right to do, to pull back on unemployment benefits — or not accept them,” none of these changes have taken effect yet.

“So, in terms of how we’re evaluating the impact, we haven’t even seen the impact yet; that takes effect in June,” she said. “It is important for people to understand, factually, that the president, no one from the administration has ever proposed making these permanent or doing it over the long term.”

While it's less than the full-throated defense the White House offered of the extra unemployment money a month ago, the administration argues that most of the economic news is good, and it is just getting started with their plans. Deese argued May saw “the largest one-month decline in long-term unemployment” and said the United States is “the only G7 country, the only OECD country in a position where our future growth prospects are actually stronger today than they were pre-pandemic in January 2020.”

“The jobs reports demonstrate that there's still a lot of work to do to recover the millions of jobs that disappeared before Joe Biden became president four months ago,” said Democratic strategist Brad Bannon. “Aggressive federal action is necessary to restore the fortunes of middle-class families who took a big financial hit while Donald Trump was in the White House.”

Biden has described even bigger goals.

“I believe this is our moment to rebuild an economy from the bottom up and the middle out, not a trickle-down economy from the very wealthy,” he said in his major economic address in Cleveland last month. “That has never benefited people who are at this college or any other place where they're trying to make a living.”

Even after trillions of dollars in new spending, the Biden budget predicts rapid growth in GDP this year and next as the country moves out of the pandemic before cooling off considerably afterward. However, Biden’s own forecasters estimate the economy will grow at less than a 2% annual rate through 2031.

Chris Edwards, a tax and budget expert at the libertarian Cato Institute, argues that much of Biden’s spending actually undermines growth and will lead to the misallocation of resources.

“Then there is the general problem that federal spending is plagued by failure and inefficiency,” he said.

Congress has yet to act on most of Biden’s spending proposals. Democratic majorities in both houses are small and the Senate parliamentarian has ruled that the reconciliation process — a budgetary tool that eliminates potential for a filibuster and therefore the need for Republican votes — can be used only one more time this year. That is how the “American Rescue Plan” was passed.

Biden has been negotiating with Senate Republicans on infrastructure, but the two sides remain far apart on total spending regarding how to pay for the plan.