



Rescue And Recovery: Economy Stronger On Obama's Watch

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On a frigid morning in Washington nearly eight years ago, newly inaugurated President Barack Obama did not sugarcoat the state of the union he inherited.

“Our economy is badly weakened,” he said on Jan. 20, 2009, “a consequence of greed and irresponsibility on the part of some, but also our collective failure to make hard choices and prepare the nation for a new age.”

By then, nearly 4.4 million more Americans were unemployed than a year earlier, and the unemployment rate had spiked from 5 percent to 7.8 percent, on its way to 10 percent a few months later. A rising tide of middle-class families were losing homes, turning to food stamps and seeking government-sponsored health care for the first time.

Obama swept into office on a message of change, and during his campaign, the former Illinois senator with no business experience pledged a litany of government lifelines.

“The state of our economy calls for action, bold and swift,” Obama said after taking the oath of office. “And we will act, not only to create new jobs, but to lay a new foundation for growth.”

Almost two terms later, the statistics show that the American economy is in better shape overall. Obama beamed with good news at the 2016 Democratic National Convention: “After the worst recession in 80 years, we fought our way back.”

Yet the country remains anxious. On Jan. 20, a new president will be sworn in, one elected on a platform rejecting Obama's economic performance.

So which is it? Did Obama's agenda help turn things around? Or was his record, as Donald Trump said, a “disaster”?

On paper, Obama is leaving the economy in much better shape than he inherited it, even if it remains imperfect for every American. Experts say that was no foregone conclusion when he took office.

“In general, the response to the Great Recession was forceful but sensible,” said Edward Glaeser, a Harvard University economist. “There were few massive mistakes on his watch.”

The administration's response involved several programs on a scale not seen since the desperate days after the Great Depression.

Along with his predecessor, President George W. Bush, Obama implemented the Troubled Asset Relief Program, which helped keep the financial sector from spiraling into a freefall, as well as the auto industry bailout. Then, with two years of a Democratic-controlled Congress, Obama proceeded to enact other responses to the economic crisis, including a roughly \$800 billion stimulus bill that included federal spending on infrastructure, tax cuts and payments to states to continue services that would have been cut otherwise.

Obama also managed to enact the financial regulatory bill known as Dodd-Frank, as well as the Affordable Care Act, his signature initiative that helped provide options for people to keep health insurance even if they lost their job.

With Republicans opposed to much of his agenda, Obama and his Democratic allies did not get everything they wanted. He failed to enact his vision for an infrastructure bank, which could have increased working-class construction jobs. He failed to secure passage of legislation to end “tax deductions for companies shipping jobs overseas,” an issue Trump seized on. His pledge to establish a “small business and micro-enterprise initiative for rural America” only rated a Compromise.

Despite promises in the 2012 campaign to “create 1 million new manufacturing jobs by the end of 2016” and to “double American exports over the next five years,” Obama didn't reach either target, earning two Promises Broken.

Poverty rate through the Obama administration

The poverty rate has been one of the weakest economic statistics under Obama, falling only modestly since its 2011 peak.

Obama's Economy: The Good, The Bad, The Somewhere In Between

It's important to note that the president is not all-powerful in controlling the economy, since global market forces, changes in technology, oil shocks and random events overseas play roles as well. So any effort to assign a president full credit or blame for its performance is unwise.

That said, Obama has a right to take a share of the credit for how the economy did on his watch.

On the positive side of the ledger, Obama is handing Trump the reins of an economy with a 4.7 percent unemployment rate; 75 consecutive months of job growth; rising stock prices, home values, corporate profits and consumer confidence; and, following several years of sluggish income growth, a record spike in middle-class incomes. In 2016, increases in hourly earnings accelerated, which, when combined with increased rates of employment, helped boost overall household incomes. Real household debt is lower than it was in 2006.

“As 2016 ends, the U.S. labor market is in its best shape since the recession, with nearly every measure of the market at its most favorable level in years,” economist Jed Kolko concluded in his [end-of-the-year report](#) for the jobs website Indeed.

Unemployment rate through the Obama administration

Key unemployment measures have fallen slowly but steadily under Obama, with most measures now at or near their January 2008 levels.

Weeks that workers spent unemployed during Obama administration

While the median unemployment spell for Americans has declined consistently, it remains a bit higher than it was before the Great Recession.

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Despite these accomplishments, income inequality remains persistently high, with many rural and blue-collar areas of the country stuck in a decades-long economic rut.

Meanwhile, food stamp use and poverty rates have eased, but still haven't returned to their pre-recession levels.

Food stamp participation through Obama's presidency

The number of food stamp beneficiaries has risen by about a third during Obama's tenure.

Gross domestic product growth — the engine of long-term economic prosperity — remains sluggish even after the recession officially transitioned into the recovery.

GDP growth by quarter through the Obama administration

Economic growth has been sluggish since the Great Recession but gross domestic product has mostly grown from quarter to quarter.

After the turmoil of the Great Recession, the United States has generally enjoyed faster economic growth, bigger and more consistent drops in unemployment, and a faster return to previous income and output levels than almost any advanced, industrialized nation. The United States avoided the sort of meltdowns experienced by Greece, Spain, Italy, Ireland, Denmark and Portugal since the recession hit, experts said.

To a certain extent, where you stand on Obama's stewardship of the economy depends on where you sit. Liberal economists praised his policies, while conservatives savaged them.

PolitiFact interviewed [nearly 20 experts](#) about Obama's actions on the economy, and several said his moves were warranted — despite substantial disagreement among economists at the time, even among his own advisers.

“Things could have been much worse, and we are fortunate — and we owe it partly to the president — that they were not,” said Eric Rauchway, a University of California-Davis historian who specializes in studying the Great Depression and the intersection of presidential power and the economy.

The Stimulus: Successful, But Could It Have Done More?

The stimulus, a vast collection of tax, spending and fiscal transfer policies, became a vehicle for implementing a wide swath of Obama’s campaign promises -- from education to the electrical grid to transportation to space exploration.

Of course, the larger the bill grew, the more divisive it became. Free-market economists continue to view the stimulus as part of a creeping -- if not galloping -- expansion of government’s role in the economy.

“The president’s policies of more spending, more taxes, and more regulation are making the U.S. more like a European welfare state,” said Daniel Mitchell, a senior fellow at the libertarian Cato Institute.

And Chris Edwards, Cato's director of tax policy studies, is skeptical of evidence that the stimulus boosted the economy. “Models that claim it worked simply assume the result,” he said.

Other economists countered, however, that the stimulus was not only necessary, but was actually too small to slow down the recession’s headwinds.

“It was a big mistake to assume from the experience of the recessions of the decades prior to the 2008-09 crisis that only temporary government stimulus was needed,” said Steven Fazzari, a Washington University economist. “The weak conditions, especially in output growth, for most of the Obama years could have been better with more robust policies to stimulate both public and private demand. The dropoff in American household spending was unlike anything the economy has experienced since the 1930s.”

A greater share of infrastructure spending, some argued, could have aided future growth.

“With low interest rates, borrowing to make these improvements is an economics no-brainer, even if the politics are much tougher,” said Lawrence White, professor at New York University’s Stern School of Business.

In Obama’s defense, he barely scraped enough support within the Republican ranks with spending as high as it was.

“It is doubtful that GOP support would have been forthcoming for a larger stimulus package,” said economist Gary Burtless of the Brookings Institution.

Often overlooked, but just as important, Burtless argued, were the law’s tax provisions.

Obama earned a Promise Kept for extending unemployment insurance for an additional 13 weeks and temporarily suspending taxes on unemployment insurance benefits.

“The tax cuts, income and payroll, and the increases in government transfer payments largely succeeded in cushioning American households’ net after-tax incomes from the drubbing they would have received in the absence of the stimulus,” Burtless said.

Spending Big To Prevent More Chaos

Beyond the stimulus, Obama oversaw other far-reaching programs designed to prevent a chain reaction of collapse. Two began under Bush.

One was the \$426 billion Troubled Asset Relief Program, which helped stabilize the financial industry. It ended up making the government a \$15.2 billion profit, although some have questioned that figure.

The other was the auto bailout, which helped set the stage for a genuine rebound in the auto industry later in Obama’s tenure. The government spent almost \$80 billion on the bailout and managed to recoup all but \$9 billion through sales of shares in the reformulated companies. Within a few years, car sales were hitting record highs.

The intervention directly helped the ailing economy and stopped further shedding of jobs.

“Business and bank collapses lead to bankruptcies, creating further financial peril and unemployment, which is both bad in itself and also reduces consumer demand,” Rauchway said. “Since people without jobs will shop less, this creates further business peril.”

The number of bank failures plummeted after the crisis passed, and it has remained low.

Bank failures per year during the Obama administration

Bank failures skyrocketed during the Great Recession but fell quickly and have been at or below pre-recession levels since 2013.

The Dodd-Frank financial regulation law, which earned Obama a Promise Kept, is a potential target for repeal or a major overhaul under Trump. But the law has been a quiet success, Burtless said. “Most nonpartisan observers believe the law and its implementation have made the financial system, if not safe, then considerably safer than it was before 2009,” he said.

Of course, economists also say that Obama could have done more to help the economy as president.

Where The Obama Economy Fell Short

Obama can take credit for job growth during his tenure, economists say; it has been consistent for more than six years.

However, job gains have been relatively modest in scale compared to some previous recoveries, and even those who credit Obama's actions worry about a declining labor-force participation rate, which hasn't been this low since the 1970s. Part of this is due to retirements by baby boomers, but not all of it, and economists aren't entirely sure why a relatively large number of Americans have decided to do things other than work.

In the meantime, while home foreclosures fell significantly after the financial crisis settled down, some of Obama's policy responses that targeted the housing market ended up being underwhelming.

He failed to implement promises to create a foreclosure prevention fund for homeowners, to allow bankruptcy judges to modify terms of a home mortgage and to increase the supply of affordable housing throughout metropolitan regions.

Fannie Mae and Freddie Mac, the two giant mortgage-sector players whose troubles exacerbated the housing crash and the subsequent recession, "remain unreformed" as part of Obama's response to the housing crisis, said Harvard's Glaeser. (Republicans in Congress also promised reforms to Fannie Mae and Freddie Mac and did not deliver.)

In housing policy, as in other areas, "there were policies we wanted to do that we were unable to do," acknowledged Jason Furman, chairman of Obama's Council of Economic Advisers.

Economists also pointed to Obama for some of the blame for relatively slow economic growth.

On the campaign trail, Donald Trump pointed with some justification to sluggish growth in the gross domestic product. The nation's GDP has increased by more than 3 percent in just seven quarters out of the eight years Obama served as president. And Obama was the first president since Herbert Hoover, who presided over the start of the Great Depression, to fail to achieve 3 percent growth in any single year of his presidency.

"It is the case that the unemployment rate has fallen faster than expected and outperformed forecasts, and you can't say the same about GDP growth," Furman said. "That is a worldwide phenomenon. We have seen the most growth of any major economy, but we have not been immune to the worldwide slowdown in growth rates."

The outlook for growth after Obama's tenure is "scarily poor," said Harvey Rosen, a Princeton University economist who served in economic roles in both Bush administrations.

"Long-run growth ultimately depends on increases in productivity," Rosen said. "During the last eight years, the tax system has become even more distortionary than it was before, and the regulatory system has become a bigger mess as well." This has made it harder to increase productivity, the key to higher GDP growth, Rosen said. (A slowed increase in population -- a factor that's harder to control -- has also helped keep GDP growth lower in recent years.)

Dean Baker, a left-of-center economist with the Center for Economic and Policy Research, is generally supportive of Obama's policies. But he acknowledged that "there still has been a huge shift from wages to profits that has not yet been reversed."

Corporate profits have risen significantly under Obama, even as income growth has struggled.

Corporate profits during Obama administration

Corporate profits are two-thirds higher than they were before the recession, even rising as the economy turned sour.

As for the trends in inequality, Furman said that Obama's tax hikes for higher brackets and the Affordable Care Act have both produced improvements, even if only on the margins: "If the question is, 'Did he solve the problem that's been occurring since the 1970s,' then no, of course not. But he's moved things in the right direction," Furman said.

Other sources of economic anger in the 2016 election did not improve dramatically under Obama, such as student loan debt and significant changes to the tax system and entitlements.

On student loan debt, Furman touted the administration's efforts to increase regulation of for-profit colleges — a growing share of student debt load — and said that some of its initiatives, such as as repayment plans pegged to the borrower's income level, have only begun to operate and will have a big impact long after Obama is out of office.

As for taxes and entitlements, political accommodation between the parties was elusive. "Obama has done nothing to improve the tax system, despite the fact that a commission that he formed came up with some sensible suggestions," Rosen said.

The Bottom Line

On Jan. 20, 2017, Trump will recite the oath of office.

As Obama leaves the White House, the economy is chugging along. How long the modest but steady growth will last remains in doubt.

Economists agree that it is too early to say for sure how the economy will perform under Trump, since some of his comments and actions have been vague or contradictory. For instance, some of Trump's critics already see a disconnect between Trump's pro-working-class campaign rhetoric and a Cabinet heavy on Wall Street billionaires.

Chris Lafakis, director at Moody's Analytics, said the most worrisome threats to the economy under Trump would be a ballooning of the debt from a combination of spending increases and tax cuts, as well as the prospect of a trade war. The latter, he said, would spike interest rates and inflation, hurting consumer spending, and also invite retaliation, harming the very exporters that employ lots of blue-collar workers. Meanwhile, Trump's proposed stances against immigration could hurt industries that employ lots of immigrants, including scientific and technical fields, Kolko wrote for Indeed.

Ultimately, the epitaph for the Obama economy is more likely to be about perils avoided, said Tara Sinclair, a George Washington University economist.

“He could have done somewhat better,” she said, “but he also could have done a lot worse.”