FLASHBACK ON THE CRISIS
Barack Obama became the 44th President of the United States under difficult conditions. By the end of George W. Bush’s presidency, the economy was in free fall and most of the efforts made to temper the recession fizzled. On January 20, 2009, the day of Barack Obama’s inauguration, almost every economic indicator pointed downwards. The ISM indexes were flirting with historical low points (graph 1)\(^1\) and the labour market had been contracting for a year. The steadily dwindling labour market was one factor that prompted the National Bureau of Economic Research (NBER) to state in December 2008 that the country had slipped into a recession in January 2008 (the peak of the previous cycle was reached in December 2007). In 2008, 3,600,000 jobs were wiped out. As 2009 unfolded, the layoffs accelerated and they were steep. The job losses that January reached 818,000 (graph 2 on page 2), more than in the first six months of the recession. In terms of job numbers, January 2009 was the worst month on record since monthly statistics have been published; proportionally speaking, it was the worst decline since 1974.

The concerns about financial markets, the state of corporations and the labour market clearly affected consumer confidence. In January 2009, the Conference Board index fell to a historical low as a result (graph 3 on page 2) and continued to deteriorate in the subsequent months. This situation also reflected the drop in stock markets. From the peak reached in summer 2007 to the end of 2009, the Dow Jones had shed 43% of its value, and half of this decline occurred in the last few months of 2008. Besides these stock market losses, household wealth took a beating due to plummeting home prices. From its peak in 2006 to January 2009, the S&P/Case-Shiller index of existing home prices tumbled by 28.6% (graph 4).

\(^{1}\) Most of the economic indicators for the United States are continually revised. The data of four years ago may not reflect the same results as when they were originally published. Since the most recent revisions usually provide a more accurate picture of the situation, these were used when drafting this document.
EFFORTS MADE BY PRESIDENT BUSH

This economic carnage led to political response before Barack Obama’s inauguration. In 2008, the Bush administration had ramped up its efforts to support economic growth. A retroactive tax cut was introduced in the spring and summer of 2008, much like the tax cut ushered in by the government in 2001. The net effect of this measure, which cost US$168B, was largely neutralized by gas prices, which started to climb in the first half of 2008 and peaked in July of that year, when oil prices reached a peak at US$145 per barrel. The increase in savings triggered by the drop in net household value and eroding consumer confidence also weakened the momentary uptick in disposable income (graph 5). In fall 2008, the Government took over Freddie Mac and Fannie Mae, the country’s biggest mortgage loan agencies, and the Troubled Asset Relief Program (TARP), the bailout plan for the banking sector, made its troubled debut. In the end, a large portion of the US$700B in TARP funds was injected into the banks directly. Henry Paulson, the Bush administration’s last Treasury Secretary, had orchestrated this bailout with the unshakable support of the Federal Reserve (Fed) and the somewhat mitigated backing of Congress. The direct impact of the economic stimulus put forth by the Bush administration was fairly modest overall. It can be argued though that the bank bailout plan was absolutely necessary, and that without these measures, including those instituted by the Fed, the financial and economic situation would have been much worse.

THE OBAMA PLAN

Once the November 4 election was relegated to history, any hope of turning the economic situation around depended on implementing an ambitious US$833B recovery program, the American Recovery and Reinvestment Act of 2009 (ARRA), which was originally slated to cost US$787B. Despite the urgency of the situation, the infighting in Congress made things relatively difficult, even if both houses were under Democratic control. As adopted, the ARRA was more ambitious than what was proffered during the transition period, when the figure was pegged somewhere between US$300B and US$500B. However, in the end the amount was less substantial than some advisors had hoped for, including Christina Romer, the leading economic advisor who argued in favour of an even more ambitious plan. To make sure Congress would adopt the plan quickly, the ARRA called for new
tax cuts in the short term and infrastructure expenditures (graph 6).

The Obama administration also tried to stimulate economic growth by improving credit conditions using funds left over from TARP. However, after a poorly-received initial announcement, the establishment by Timothy Geithner, the newly appointed Treasury Secretary, of the Public-Private Investment Program (PPIP), which was designed to help banks unload some of their assets, helped confidence to improve, especially with respect to financial institutions. Concerns about nationalization of the big commercial banks that were in trouble then disappeared, even though this new version of TARP never really got off the ground.

We glimpsed the first concrete evidence of the effects of the Obama administration’s new approach later on in 2009 with the bailout of the automobile sector. The “managed bankruptcy” of GM and Chrysler, subsidized by massive federal government support, ensured the survival of corporations that still had economic and cultural heft to Americans. This meant that car manufacturers had to severely slash their production (graph 7) and sales forces, but they were able to keep making cars.

Another measure that temporarily helped the automobile sector was the Cash for Clunkers program. At first, this program wasn’t even supposed to be part of the stimulus plan or the automobile companies rescue—it was designed as an environmental measure. This program, whereby buyers were given steep discounts to buy a new car in exchange for a gas-guzzler, boosted automobile sales considerably in July and August 2009 (graph 8). This program proved more popular than anyone anticipated, and the inventory that had been stockpiling to excess levels despite the drop in production was quickly being depleted. Once this program wrapped up, the level of sales quickly fell back again.

The home-buying incentives put in place in 2009 and 2010 are another temporary measure that had some impact. The first wave targeted first-time buyers, but the program was broadened and improved in 2010. Despite momentary upticks in sales and prices, the housing market did not show any signs of a sustainable recovery (graph 9).

GREEN SHOOTS AND THE END OF THE RECESSION
Due in part to some of these measures and new actions designed to boost consumer confidence, and with the substan-
tial backing of the Federal Reserve led by Ben Bernanke, little by little the clouds hanging over the economic situation in the U.S. started to clear. The stock markets and confidence indexes had reached their troughs by March 2009. The drastic drop in oil and gas prices in previous months also helped the recovery get on track.

These measures led to what Ben Bernanke referred to as green shoots—signs that a recovery is taking hold, much like green shoots bursting upon sensing spring. While many layoffs were still being announced, the numbers started to be less dramatic as of May 2009. Retail sales started to tick up in April and the ISM indexes were also looking better that spring.

Officially, the recession ended with the cyclical low point reached in June 2009 according to the NBER, although this was only formalized by the organization in September 2010. Capitalizing on the momentum seen that spring, most economic indicators for summer 2009 showed signs of a recovery. The ISM indexes broke the 50 mark and industrial output and real consumption both posted monthly consecutive increases. In a twist unique to this recovery, it took time for the data on jobs and housing (including housing starts) to show any genuine signs of improvement (graph 10).

A FRAGILE RECOVERY

Although the end of the recession and early recovery were encouraging, so far this new economic cycle has been quite disappointing overall.

Yet the second half of 2009 had us believing that a strong recovery, like many recoveries before that, was around the corner. Annualized real GDP growth that summer was 1.4%, the first increase since spring 2008. The 4.0% gain posted that fall was the sharpest since early 2006 (graph 11).

As 2010 unfolded however, growth slowed and the recovery ran out of steam. While economic cycles usually begin with several quarters of strong growth, an annualized gain over 3% was posted only once between the end of the recession and late 2011. When compared to the severity of the recession, the potency of this recovery is truly disappointing. This underperformance is explained by several factors.

First, the recession of 2008–2009 was not your typical recession; it was much more than a simple cyclical correction caused by corporations’ misreading demand for goods and services or an over-tightening of monetary or budget conditions. The origins of this recession ran much deeper: over-investment in real estate triggered by a financial bubble that had been swelling since the start of the decade. It is well known that recessions triggered by financial crises are more severe, and recoveries slower. Financial balance sheets have to be cleaned up and, when this happens, the monetary and budgetary policies are clearly less effective. The need to clear up debt reduced household demand for credit and the increase in personal savings offset the effect of the tax cuts (or increased transfers) included in the 2009 recovery plan.

Second, while the federal government made considerable efforts in 2008 and 2009, they were almost cancelled out by the budget restrictions imposed by the states and municipalities. Unable legally to post a general budget deficit and faced with a sharp drop in revenues during the recession, the states and municipalities had to resort to new taxes and spending cuts. All told, the governments only made one positive quarterly contribution to real GDP growth since early 2010 (graph 12 on page 5). Jobs in the public sector have also fallen steadily in 2010 and 2011 (excluding the impact of the 2010 census) (graph 13 on page 5).

Third, the real estate market is usually one of the cornerstones of any recovery. Since an expansionist monetary policy put in place by the central bank stimulates housing starts, they are usually the first indicators to rebound. Given the underlying causes of this crisis and the scope of the
excess that characterized the housing market in the last decade, we couldn’t very well count on the housing sector to revive the economy.

Lastly, several other factors hindered this recovery. Changes in oil prices, especially as of 2011, eroded consumer confidence and compromised any efforts to repair household real disposable income. The crisis in Europe was also a destabilizing factor for the global economy, including the United States. The negative effect was mostly driven by the financial markets while concerns about the survival of the euro rippled straight through to the portfolio of Americans. These factors may fall outside the policies adopted by the Obama administration, but other elements more closely tied to the decisions made by the White House and Congress also thwarted the recovery.

IMPACT OF OBAMA’S MEASURES

The ambitious recovery plan adopted in February 2009 is still the primary economic measure instituted by the Obama administration. Given the headwinds the U.S. and global economy were facing at the time, it is difficult to assess the net effect of this plan on jobs and growth. And since the progress made by these variables was disappointing in the end, the overall result is mixed. Congress had mandated the Congressional Budget Office (CBO) to determine the effects of the stimulus plan, which was expected to cost US$833B over 10 years, but most of it was spent in 2009 and 2010 (graph 14). Using quite a broad range of the plan’s contribution to real GDP advances, the CBO estimates that the impact on annual growth was between 0.4 and 1.8 percentage points in 2009 and between 0.7 and 4.1 points in 2010, with the maximum thrust occurring in the first six months of that year (graph 15). In terms of jobs, the CBO estimates that this measure helped create between 700,000 and 3.3 million jobs.

Obama’s stimulus plan has had its share of detractors, that’s for sure. Even if this plan depended largely on tax cuts (or increased transfers), not one Republican representative came out in support of this plan. Some of the more left-leaning economic commentators thought the plan wasn’t ambitious...
enough, especially if we consider the gap that was developing between actual GDP and its potential, while the right argued that Obama’s plan was a waste of public funds that would do little to spur growth.

THE 2010 ELECTIONS
Disappointing economic advances in 2010 and weak job creation quickly pushed the economy to the forefront of the political discourse after the hiatus that saw the White House fight for Congress to adopt reforms on healthcare and financial regulations. When the House of Representatives fell into the hands of a Republican majority that was particularly hostile towards the government, the half-term elections in November 2010 forced the Obama administration to focus on job creation. This also gave rise to a new debate on taxes, as the tax cuts announced in 2001 and 2003 were scheduled to end in late 2010. Just weeks before the end of the year, the Democrats and Republicans finally reached an agreement on the Jobs Creation Act of 2010, which extended the Bush tax cuts by two years, increased unemployment benefits, and cut payroll taxes paid by employees to finance social security from 6.2% to 4.2% for one year (this measure was extended by another year in 2011). The net effect of this new program to kick-start growth was very subtle. Real GDP in Q1 2011 grew a mere 0.1% at an annualized pace, the weakest rate since the end of the recession.

President Obama tried to launch a new stimulus plan in the fall of 2011—the American Jobs Act. This proposal, which was designed to increase some infrastructure spending, decrease payroll taxes paid by employers, and help local authorities hire workers was never adopted by Congress.

If it became more troublesome to institute measures to jumpstart the economy after the 2010 elections, this was nothing compared to the acrimonious debate on resolutions for government financing and—an even thornier issue—the debt ceiling. In 2011, the White House and Congress ended up adopting resolutions in the 11th hour on two separate occasions. The August 2011 agreement on the debt ceiling cannot be held up as an economic measure introduced by President Obama, but it is an important issue that is tainting his term in office, triggering the downgrade of the United States credit rating. In addition, if the so-called fiscal cliff—a bundle of spending cuts that were part of the debt ceiling agreement and the end of tax cuts announced in 2001, 2003 and 2010—is reached in 2013, it will be a determining factor in the strength of the U.S. economy next year.

COMPARISONS WITH OTHER PRESIDENTIAL TERMS
The severity of the recession Obama inherited certainly makes it difficult to draw comparisons on how well economic indicators performed in Obama’s first term in office vs. his predecessors. In recent years, the economy’s performance has also suffered because of the weak recovery; when previous presidents had to plough through recessions during their time in the White House, they also experienced more standard recoveries.

With real GDP, average annual growth has been only 0.7% in the 14 quarters published since Obama took office. This is clearly below the 3.1% average recorded since 1953 (graph 16). If we remove the first two quarters of 2009 from the equation, growth posted during the recovery under Obama doubles, to 1.5%, which is still weak. If we exclude all recessions from the records of other presidents, the average moves up to 3.6%.

Besides GDP, other quarterly economic indicators have performed far below average (graphs 17 and 18 on page 7) under President Obama. Surprisingly, the recent results have been less disastrous for housing starts (a less steep negative divergence) and profits (good positive divergence). In the first case, housing start levels are so depressed that each improvement seems quite strong in terms of annual change. On the profits side, Obama’s record benefited from a sharp rebound at the end of 2009 compared with the mediocre results at the end of 2008; the last two years have posted much more modest growth.

As indicated earlier, one of the reasons for this weak recovery was the need for Americans to clean up their balance sheets. In a first since the Nixon era, household debt levels have fallen throughout Obama’s term in office.

A total of 879,000 jobs have been lost since George W. Bush ceded power to Barack Obama, meaning that Obama and Bush are the only presidents who have suffered the spectre of net layoffs over one term (graph 19 on page 7). Many layoffs in the public sector in recent years have exacerbated the situation, however. The private sector has lost 325,000 jobs since January 2009. This number moves into positive territory if we
exclude the 839,000 layoffs in the private sector in January 2009. President Obama’s first year in office was obviously tarnished by his performance on jobs. And the labour situation only started looking better in March 2010 (excluding the effects of the federal government’s 2010 census). Since then, job gains have reached 4,296,000 and the private sector has grown by 4,726,000 new hires. This is equivalent to a monthly average of 152,000 jobs, which compares favourably to the monthly average of 137,000 jobs under George Bush between the start of the job recovery in August 2003 and the peak of the economic cycle reached in late 2007. Of course, these numbers pale considerably when compared with the monthly average of 220,000 seen during Bill Clinton’s two terms in office.

In terms of the jobless rate, the latest results under Obama gave his record a much needed boost with unemployment at 7.8% in September 2012, the exact same figure as in January 2009. Between these two dates, the jobless rate has climbed to 10.0% however, a level not seen since 1983 (graph 20). Another way to see how the job situation has evolved in recent years is to look at the rate of employment compared to total population, which remains close to its 30-year low (graph 21).

3 In September 2012, the Bureau of Labor Statistics announced that it would proceed, in February 2013, to review the employment levels based on the establishment survey. The preliminary estimate of this review would add 386,000 jobs to the level in effect for March 2012 (453,000 in the private sector).
While on the subject of jobs, the causes, consequences and severity of the crisis that Obama had to confront quickly skew any possibility of making comparisons. As such, instead of comparing the job market’s performance between presidential terms, comparing the recessions that have crippled the United States (graph 22) could prove more interesting. In this case, the current recovery is clearly disappointing compared to previous recoveries since the end of World War II. However, when compared against financial crises that have rocked other advanced nations, the recent economic situation in the U.S. does not look that bad (graph 23).

One of the fiercest criticisms of President Obama’s handling of this crisis is his poor management of public finances. The debt that blew up during Obama’s first term in office is seen as a consequence of his economic policies. While it is true that in recent years deficits have been very high, this trend became entrenched before Obama was inaugurated (graph 24). According to the calculations of the Center on Budget and Policy Priorities, while the federal debt held by the public has jumped from 35% of GDP to 70%, the net impact of the 2009 stimulus plan is fairly slim, about 4.9% of GDP (this includes servicing the debt tied to this program). The increased debt is mostly driven by the impact of the recession on incomes, current spending and the recurring cost of the Bush tax cuts (graph 25).

Sooner or later, solutions will be needed to repair the sorry state of public finances, and they might be drastic. If we reach the edge of the fiscal cliff, it will solve part of the problem, but it is hugely agreed that the economic situation in the U.S. is too fragile to support this without another contraction. Pressure from the bond market is almost non-existent, however. And due mostly to the Fed’s efforts, interest rates are still extremely low, as they have been throughout Obama’s term (graph 26 on page 9). The Fed’s actions and the rebound in corporate profits have been quite favourable to the stock market since Obama’s inauguration, or since the low point reached in March 2009 (graph 27 on page 9). Financial conditions have not been bad under President Obama, but the gains made on Wall Street have not trickled down to Main Street.

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Graph 22 – The employment situation is still vastly different vs. previous recoveries

Graph 23 – The current situation in the U.S. compares favourably to other financial crises

Graph 24 – The U.S. government deficit was already deteriorating greatly when President Obama was inaugurated

Graph 25 – Recovery plans are not the main driver of federal debt increases

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4 Kathy A. RUFFING, and James R. HORNEY, Downturn and Legacy of Bush Policies Drive Large Current Deficits, Center on Budget and Policy Priorities, October 10, 2012.
LOW MARKS, DESPITE THE EFFORT

Barack Obama arrived in the Oval Office under difficult circumstances. Elected during the worst economic and financial crisis since the Great Depression in the 1930s, with two ongoing wars in the Middle East and severely deteriorating public finances, things have not been easy for the current resident of the White House. In an article written on the 2008 election four years ago, we wrote that “Obama’s administration will be judged by its capacity to solve this economic upheaval.” While the economic situation was much more difficult than anticipated at that time, we cannot conclude that the president’s performance has been flawless. The recovery has been disappointing for several reasons, and this let-down is an integral part of our review of President Obama’s first term. The economic momentum that started to bubble in the second half of 2009 fizzled too quickly, despite the Fed’s efforts, and the new difficulties that cropped up were not handled with the strength and leadership the situation demanded.

In addition, some of this administration’s actions and decisions have no doubt hindered economic growth. Too many new governmental policies were too vague, creating even more uncertainty. Take healthcare reform, for example, a highly complex issue that was poorly communicated to the population. Few people doubted the need for new financial regulations, given the excess that caused the crisis in 2008, but the law that was adopted is also causing a great deal of confusion. Too many budget deadlines were introduced and the partisan infighting these triggered with Republican members of Congress created consistent uncertainty. The debt ceiling is still the best example, but now that the fiscal cliff is on the horizon, we may be in for another round of nightmarish debates. The debt ceiling is going to have to be raised soon, and this type of uncertainty can only undermine the confidence of economic agents, output growth and hiring intentions. The public policies put in place by the Obama administration would have been more effective if they had managed to dissipate uncertainties instead of intensifying them, as they did in many cases. Of course Congress is also guilty of doing so, before and after the 2010 elections.

In these circumstances, it is not surprising to see that Americans have been fairly disappointed with the way President Obama has managed the economy in his first term (graph 28). Of course, presidents deal with the hazards of economic activity which cannot be controlled, and no president runs the country on his own or holds sway over the economy or financial markets. The economic situation is shaped by a multitude of events that change every day. President Obama has very little to do with the situation in Europe, changes in oil prices, underlying trends on consumption, savings and investment. Even his authority over Congress and the Federal Reserve is minimal. The bigger question is this: Has Barack Obama misplayed his hand since his first term began or was he just dealt too many bad cards?

Francis Généreux
Senior Economist

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