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The economy isn't roaring back

By Rik W. Hafer

In every presidential race the incumbent takes credit for any good economic news under his watch. The challenger tries to find some chink in that narrative to exploit. The truth is somewhere in between. So what do the data tell us? Are you better off than you were four years ago?

Let's start with economists' favorite measure of economic success: Real Gross Domestic Product, or real GDP. It is the broadest measure of the nation's output of goods and services, adjusted for inflation. It is generally used as a barometer of an economy's overall economic well-being.

During the last four years of the Obama administration, real GDP grew at an average rate of 2.25 percent. In comparison, during the first three years of the Trump administration the average growth rate bumped up to 2.51 percent. It's slightly faster, but not statistically so: growth in real GDP is no faster or slower.

That comparison intentionally excludes the recent data. Add in the first half of 2020 and a very different picture emerges: real GDP growth under President Trump has averaged a negative 0.47 percent.

This change stems from the pandemic-induced plunge in the economy. Even though the economy has recovered some of that decline, estimates are that growth will be insufficient to regain all lost ground until well into next year.

Overall, then, real GDP growth under the current administration is at best no better than during the second term of the last president. Significantly worse if you include this year.

Why worry about real GDP? Because the growth in real GDP is a good predictor of overall economic well-being in the future. There is significant inequality in incomes in the United States, and a higher level of real GDP may not solve that problem. But inequality would become even worse if the economy doesn't expand at a sufficient rate. Faster growth in real GDP is preferable to slower growth, and that just hasn't happened, whether the Covid-19 induced recession is included or not.

How about unemployment? At the start of President Obama's second term, the overall unemployment rate stood at a little over 8 percent. By the time he left office it had declined to about 4.7 percent. This trend continued under the Trump administration, reaching an historic low of 3.5 percent last year. That decline in unemployment—an increase in employment—was enjoyed by many groups in the economy. Both administrations deserve credit for policies that improved employment opportunities for millions of workers.

That changed in 2020. Unemployment spiked to over 13 percent in May because of the pandemic-related shutdowns. It has receded to 8.4 percent in August. But it is unlikely to regain the lows of last year any time soon because of the continued slow growth in the economy.

My fellow conservatives pine for a smaller governmental footprint. One measure of government's role in the economy is the size of its budget deficit. (A budget deficit occurs when the government spends more than it takes in.)

Four years ago the federal budget deficit was a little over 3.0 percent of GDP. Last year, before the onset of the Covid-19 debacle, the deficit had increased to almost 4.6 percent of GDP. If you thought a Republican administration meant a smaller government, you were wrong. The bipartisan response to the pandemic will increase the role of government even more.

No doubt you are assessing these numbers through blue- or red-tinted glasses. Ignoring the elephant in the room—the handling of the Covid-19 pandemic and its consequent economic fallout—the economic achievements of the last three years reflect a continuation of established trends. Only the expanding role of government has bucked that trend. Are you better off now than four years ago?

EDITOR'S NOTE: Rik W. Hafer is a professor of economics and director of the Center for Economics and the Environment at the Hammond Institute for Free Enterprise at Lindenwood University in St. Charles, Mo.

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