

NOVEMBER 8, 2004

ECONOMIC VIEWPOINT

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Debunking The Myths Of The Kerry Campaign

On average, postwar economic results under both parties are similar

The Bush Administration's economic policies are a mixed bag of sound tax and monetary policies offset by poor spending discipline and inconsistency on free trade. But there's nothing mixed about John Kerry's campaign criticisms: They're politically motivated economic myths. Myth No. 1 is that the new jobs being created are low-quality. Low-paying hamburger flippers are said to be replacing high-wage auto workers. We can check this claim by looking at real wage rates. Data from the Bureau of Labor Statistics show that the growth rate of average hourly earnings of production workers in the total private economy from January, 2001, to September, 2004, was 2.7% per year. To adjust for inflation, we subtract 1.9% per year for changes in the price deflator for personal consumer expenditures. Thus, real hourly earnings grew by 0.8% per year. Finally, we should adjust for fringe benefits. Because benefits rose faster than earnings, total real labor compensation per hour rose by 1.3% per year. Advertisement

HOW DOES THIS COMPARE with earlier times? The calculation for 1991 to 2000 shows that total real labor compensation per hour rose by 1.1% per year. For the 1980s, data on fringe benefits are less accurate. As an approximation, total real labor compensation per hour was virtually unchanged. Thus, 2001-04 had faster growth of real labor compensation than the 1990s or 1980s. Under Bush, the economy seems to be creating "good jobs with good wages."

Myth No. 2 is that the income-tax cuts of 2003 were a failure. In the period since the enactment of the tax law in May, 2003, real gross domestic product grew by 4.7% per year, real business investment expanded by 15.5% per year, labor productivity rose by 3.8% per year, and the unemployment rate fell from 6.3% in June, 2003, to 5.4% today. I cannot prove that the tax plan caused the strong economic performance, but the plan clearly enhanced incentives to work, produce, and invest. The marginal-income-tax rate cuts in the 2001 law were accelerated to 2003, tax rates on dividends and capital gains were reduced, and some depreciation allowances were liberalized.

Myth No. 3 is that the recent decline in the unemployment rate by nearly a full percentage point somehow does not count. The unemployment rate comes from the BLS' Household Survey, which also reports levels of employment and the labor force. These two variables are unreliable on a month-to-month basis. Nevertheless, the ratio of employment to the labor force, which determines the unemployment rate, provides a useful month-to-month gauge of the labor market. Despite revisions, the unemployment rate is a consistent indicator of the business cycle. When it fell from 6.3% in June, 2003, to 5.4%, it meant that typical job seekers had an easier time finding work.

Kerry supporters argue that, because of measurement error in household employment, we should ignore the relatively favorable movements in this indicator since January, 2001. Household employment rose by 1.7 million up to September, 2004, while payroll employment fell by 800,000. Kerry exaggerates the decline in payroll employment by focusing on the drop, by 1.6 million, in private-sector jobs. Does he really not want to count the new jobs for public school teachers, police officers, and mail carriers?

The Kerry people also argue that we should rely on changes in the reported labor force to discount the decline in the unemployment rate. But the labor force statistics have the same measurement problems as household employment. It is true that after rising sharply from the 1960s to the 1990s, mostly because of the increased participation of women, the participation rate seems to have leveled off. However, there is no evidence that anything special is going on with respect to discouraged workers.

Myth No. 4 is that Democrats do better than Republicans at managing the economy. The supporting evidence is that President Bill Clinton's two-term economic record was better than that of Bush I or Bush II. Yet considering inflation, unemployment, and growth, Reagan had better results than Clinton. And Carter had the worst economic performance of all 14 Presidential terms since 1949. For the entire post-World War II period, average economic results under Democrats have been similar to those under Republicans. I'm trying to be balanced here, but the Kerry economic myths are just myths.