

GRADING THE “JOBS AND GROWTH PLAN”

Generating 5.5 million new jobs by the end of 2004 is the test of success

by Lawrence Mishel, EPI President, November 3, 2003

The Bush Administration’s “Jobs and Growth Plan” has been at the center of the economic policy debate this year. As payroll employment declined by more than half a million in early 2003 and unemployment rose to 6.0%, Bush’s tax cut plan was promoted as a way to create jobs.

A White House press release dated April 24, 2003 was very specific about the additional jobs the president expects his tax cuts to create:

President Bush traveled to Ohio to discuss the benefits of his jobs and growth plan with local small business owners and workers at the Timken Company in Canton....The president is working to grow the economy and create the largest number of new jobs possible for America’s workers. He has proposed a jobs and economic growth plan that would help create 510,000 new jobs this year and a total of 1.4 million new jobs by the end of next year. The president will not be satisfied until everyone looking for work can find it.

Add the president’s 1.4 million jobs to be created by tax cuts to the 4.1 million jobs the economy would generate on its own without the tax cuts, and we see that for the administration’s plan to be successful, there will need to be 5.5 million new jobs created by the end of 2004.

Generating jobs in the near term is an appropriate goal of economic policy, especially when the needs are so great:

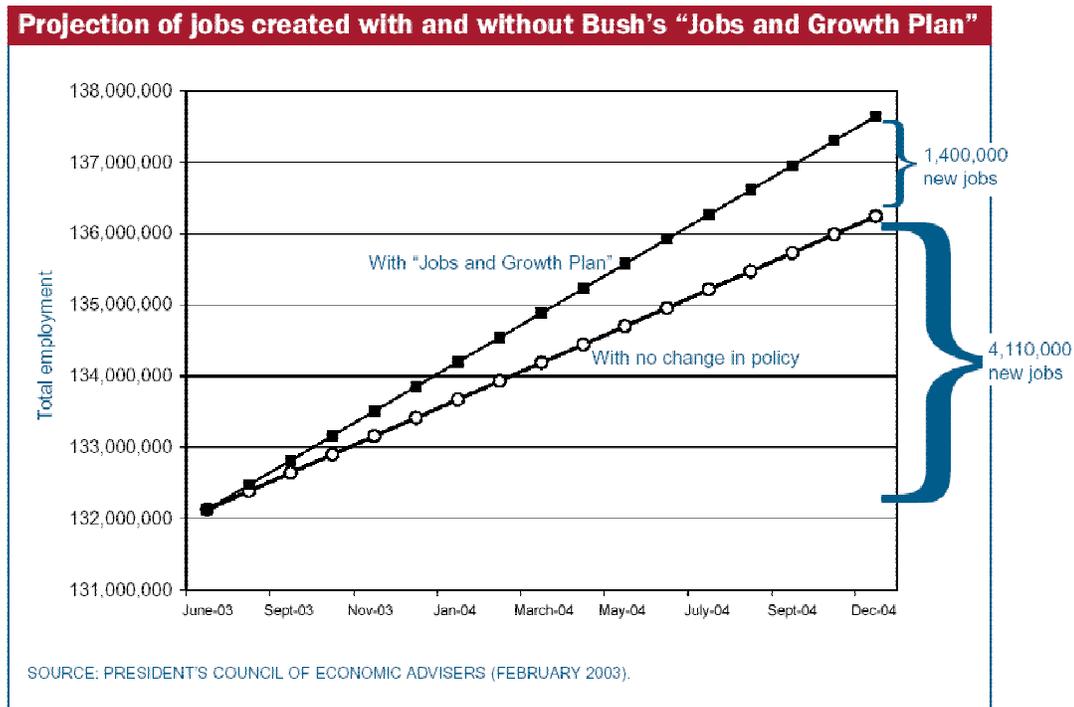
- Unemployment is two percentage points higher than in 2000.
- 3.2 million private-sector jobs have been lost so far in this recession.
- Real family incomes fell in 2001 and 2002.

It remains to be seen, however, whether the Bush Administration’s plan will work. How will we know whether the plan has succeeded or how well?

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It will not be possible to know whether these 1.4 million jobs were generated *as a result* of Bush’s tax cuts without knowing how many jobs would have been created *in the absence* of the tax cuts (the “baseline” growth, in technical jargon). As the accompanying table shows, the President’s Council of Economic Advisers (CEA) expect that, even without tax cuts, 4.1 million jobs would be created over the six quarters between the second quarter of 2003 and the fourth quarter of 2004 (see CEA’s [*Strengthening America’s Economy: The President’s Jobs and Growth Proposals*](#)). Thus, the additional 1,400,000 jobs President Bush is promising raise the total number of jobs to be created by the end of 2004 to 5,510,000. The CEA has informed EPI that it

views the months corresponding to these estimates to be the 18 months between June 2003 and December 2004. This means that, in monthly terms, the CEA projects the economy to generate 228,333 jobs each month even without passage of the “Jobs and Growth Plan,” and 306,111 jobs per month with its passage. These projections are based on the nonfarm payroll employment data published monthly by the Bureau of Labor Statistics.



So, the best yardstick for judging the success of the Bush Administration’s economic policy is its own CEA’s projections: if the economy generates the promised 5,510,000 jobs by the end of 2004, the plan and the president will have succeeded. The accompanying chart shows the CEA’s job growth projections both with and without the passage of the Bush plan.

Is this a fair metric of success?

Absolutely.

First, the baseline, or expected job growth (3.1% annual growth over 18 months) is certainly in line with recent history: job growth was 3.3% per year in the 18 months after unemployment reached its high point in June 1992, and averaged 2.5% per year over the 1993-2000 boom.

Second, the recently passed tax package actually has a larger fiscal impact in 2003 and 2004 than the initial Bush plan (\$210 billion versus \$154 billion) that was the basis for these projections.

Table 1				
Employment Growth, with and without Jobs and Growth Plan				
	Employment		Employment Growth	
Scenario	June 2003	December 2004	Total	Per Month
Baseline-No Policy Change	132,130,000	136,240,000	4,110,000	228,333
With Policy Change	132,130,000	137,640,000	5,510,000	306,111
Policy Impact	-	1,400,000	1,400,000	77,778
Source: President's Council of Economic Advisors (February, 2004) and communications with CEA staff				

Translating the projections to the states

The 306,000 jobs that the administration projected would be created if the tax cuts passed should be measurable in every state. There are several ways such job growth can be tracked on the state level. One way would be to distribute the expected national job growth to each state based on its share of total payroll employment. In this method, a state with 2% of the nation's jobs would expect to gain 2% of the 306,000 jobs each month, or 6,120 jobs per month. This method, however, does not take into account the underlying economic dynamics that might lead us to expect different results—factors such as industry composition and population growth can influence growth rates among the states.

A second method, which we adopt, takes into account the differences we can expect across states. We account for the differences among states by using the state-by-state employment forecasts of Economy.com, a leading economic forecaster of regional economics. Economy.com has kindly provided its employment projections, done in early 2003, for each state from the fourth quarter of 2002 to the fourth quarter of 2004. From these data we calculated each state's share of the total employment growth. We then applied this share to the projected 306,000 growth rate to calculate how much employment growth each state should experience if the administration's employment projections are realized.

The bottom line

The U.S. economy is in dire straits, undergoing a lengthy downturn, high unemployment, declining family incomes, and extensive job losses. Obviously, economic policy should be geared to job creation. The Bush Administration's plan makes choices about a lot of things: spending priorities (defense, homeland security, education, health, state fiscal relief, etc.), the course of fiscal deficits into the future, the distribution and timing of tax cuts, and the economic role of government. It is important to gauge whether this economic policy will keep the promises regarding job generation made by the Bush Administration.

The administration has projected that its growth plan will create 1.4 million jobs in addition to the 4.1 million jobs the economy was already expected to generate. The success of the Bush "Jobs and Growth Plan" can be fairly judged by whether, in fact, 5.5 million jobs are created by the end

of 2004. Every citizen can grade the Bush policy by checking the nonfarm payroll employment series each month. Any month that adds at least 306,000 jobs to the economy can be marked a success. And every month payrolls grow by less than 228,000 jobs, the policy is generating fewer jobs than would have been created without the “jobs and growth” plan.

Bibliography:

Council of Economic Advisers, *Strengthening America's Economy: The President's Jobs and Growth Proposals*, February 4, 2003.

EPI originally announced its effort to compare actual job creation to that projected by the Bush Administration if the tax cut package were legislated in June 2003. The method used to compute the monthly job creation projected by the CEA at that time was to divide the 5.5 million expected jobs by 16 months, the period from July 2003 to November 2004. This corresponded to the baseline employment data, which began in July 2003, provided by the CEA from its study. The end point was the last quarter of 2004, whose midpoint was November (July 2003 to November 2004 is 16 monthly changes). The CEA has since said that the projections should be calculated over 18 months, starting in June 2003 and running to December 2004.

Moving from a 16- to an 18-month period lowers the expected job growth from 344,000 per month to 306,000. However, adopting the 18-month time frame also leads to a larger cumulative shortfall in jobs relative to the Bush Administration's projection: an 18-month time frame starts the analysis a month earlier in June 2003. Since jobs actually declined by 57,000 from June to July 2003, the Jobs and Growth Plan was already 363,000 jobs behind its projected job growth expectations in its very first month. Starting in June means that the cumulative shortfall as of September 2003 is 959,000, whereas the cumulative shortfall in EPI's original computations, which started in July, would be 672,000.

TRACKING JOB GROWTH ONLINE

In addition to EPI's monthly [Jobs Picture](#)—an analysis of the Bureau of Labor Statistics employment data released on the first Friday of every month—the Institute will also begin tracking the success of the Bush Administration's “Jobs and Growth Plan” on [jobwatch.org](#). This site will post a new set of graphs like those in this report that compare the President's Council of Economic Advisers' projections for job growth against actual job growth every month throughout 2003 and 2004. The charts will show both how the economy performed in any given month as well as how close the economy comes to matching the job growth projections promised for the Bush tax cuts. Check [jobwatch.org](#) on the first Friday in September 2003 for the initial installment in this new monthly series.
