Obama's Legacy on the Economy Is Anything But a Mess

By Christian E. Weller and Brendan Duke June 2017

The economy improved markedly under former President Barack Obama, from the start of 2009 through the end of 2016. Faced with the specter of another Great Depression in winter 2009, President Obama enacted a series of policies that helped the economy avoid that fate. The economy was growing again by the second half of 2009, and jobs followed suit by early 2010. Economic growth continued apace for the rest of President Obama's time in office, and job growth logged its longest expansion on record by early 2017, dating back to 1939.[1] Employment opportunities improved, the unemployment rate fell, wages eventually increased, and household debt dropped sharply.

While things could have been better—faster growth, more jobs, and less inequality, for instance—the economic situation at the end of President Obama's second term does not resemble "a mess" or a uniquely poor performance, as the Trump administration likes to portray it.[2]

Instead, President Donald Trump inherited a solid economy after years of improvements, with the economy and the labor market headed in the right direction on all key economic indicators. The real danger at this point comes from the policy directions sketched out by the Trump administration. The policies that President Trump and his administration have advanced so far endanger economic and job growth by creating massive uncertainty for businesses. Trump's policies are likely to worsen inequality by weakening wage and benefit growth for middle-class Americans and possibly undoing the progress of the past few years.

The data for President Obama's two terms show unambiguously good trends on all key economic indicators:

- **Economic growth accelerated over time.** The U.S. economy was shrinking when President Obama took office in the first quarter of 2009.[3] By the end of his presidency, the economy was growing at about 2 percent in inflation-adjusted terms. In fact, President Obama's second-term economic growth per person was higher than the growth of several previous presidents, specifically President George W. Bush in both his terms, President George H.W. Bush in his term, Presidents Richard Nixon and Gerald Ford in their combined term, President Nixon in his first term, and President Dwight D. Eisenhower in his second term.

- **Job growth logged its longest winning streak.** The economy lost close to 800,000 jobs in January 2009, when President Obama took office. The job market started to expand by early 2010. And it consistently added jobs from October 2010 to January 2017, when President Obama left office; it continued to do so during the first months of President Trump's term. There has not been a consistent job market expansion on record, dating back to 1939, that lasted longer than the current expansion of 79 months.[4]

- **Employment opportunities expanded.** The share of people working expanded as the economy added new jobs. That is, job growth was faster than population growth—a key measure of a healthy job market expansion. When President Obama took office in January 2009, 77 percent of people between ages 25 and 54 had a job. This share dropped to 74.8 percent in the aftermath of the Great Recession by December 2009, before climbing to 78.2 percent in January 2017, when President Obama left office.[5]

- **Wages and incomes have been on the upswing.** The typical weekly pay of U.S. workers has been increasing since early 2013 and reached its highest level on record, dating back to 1979, at the end of 2016.[6] Household incomes, while still relatively low, have also experienced an upward trend since 2014.[7]

- **Household debt levels have been falling as employment opportunities and wages have gone up.** Household debt fell relative to after-tax income during both of President Obama's terms. Total debt amounted to 105.9 percent of after-tax income, the lowest level since mid-2002.[8] The massive and rapidly rising household indebtedness that characterized the years before the economic and financial crisis of 2007 to 2009 are behind us.

- **The passage of the Affordable Care Act (ACA) in 2009 has greatly expanded health care coverage.** TThe ACA made it possible for more than 20 million individuals to afford health insurance and decreased the share of Americans without health insurance to an all-time low.

- **Government finances also improved during the Obama years.** President Obama inherited a deeply distressed economy that necessitated a swift, decisive intervention, causing the deficit to rise to 9.8 percent of gross domestic product (GDP) in fiscal year 2009. By FY 2016, the deficit had fallen to less than one-third of that, at 3.2 percent of GDP.[9]

- **Measures to stabilize financial markets supported the economic recovery.** Bank lending cratered during the financial and economic crisis and its immediate aftermath, but thanks in large part to stabilizing policies such as the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, it quickly returned to its previous high and kept on going. Fewer financial constraints for businesses then allowed them to expand and hire.

What makes President Obama's economic record especially remarkable is that the economy faced major headwinds, particularly from slow growth overseas but also from tremendous domestic policy uncertainty and ill-timed austerity measures, such as budget cuts, that killed jobs and slowed wage growth.[10]

Contrary to the claims of President Trump and his officials, he did not inherit a mess on the economy. The economy has improved greatly since the dark days of the Great Recession, when President Obama took office. Moreover, the economy continues to be on a healthy trajectory thanks to a series of important policy interventions intended to strengthen economic growth; boost job creation; and protect consumers, for instance, from excessive and costly amounts of credit. By extension, a healthy economic trajectory also means that President Trump cannot take credit for the economy just continuing on its path.

However, a lot of work remains to be done. Economic growth is still fairly modest, making it more difficult to pay for the coming challenges of updating U.S. infrastructure and supporting an aging population. Widespread economic inequality by race, ethnicity, education, and geography leaves millions of middle-class Americans struggling with the high costs of housing, education, health care, and child care. This is especially true for single women, communities of color, those without a college degree, and much of rural America.[11]

The Trump administration and Congress would do well to build on the steady stewardship of President Obama on the economy, rather than undoing a wide range of sensible policies that helped stabilize and strengthen the economy and people's economic situation for the past eight years.

The economic outlook brightens

President Obama's first order of business when he took office in January 2009 was to save the economy from entering another Great Depression. The labor market was shrinking at a rate of around 700,000 to 800,000 jobs per month, economic growth had already declined in three out of four quarters of 2008, and the economy was still shrinking.[12] Entire communities were decimated by a massive spike in unemployment and a wave of foreclosures, following the financial and economic crisis that started in late 2007.

To stimulate the economy, Congress passed the American Recovery and Reinvestment Act (ARRA) in winter 2009. The country avoided another Great Depression, economic growth quickly returned, and massive job losses subsided, turning into actual job gains by 2010. ARRA consisted of a series of targeted tax cuts, such as new homeowners' tax credits, and of spending measures, such as higher unemployment insurance and Social Security benefits, in addition to a substantial infusion of infrastructure investments for a wide range of projects. These efforts were further aided by financial stability measures such as the Dodd-Frank Act, which helped establish the Consumer Financial Protection Bureau and included a number of measures to stabilize the banking sector after it cratered during the financial crisis of 2007 to 2009.[13] Thanks to these substantial and expeditious interventions, the economy stopped shrinking by June 2009, ending the longest recession since World War II.

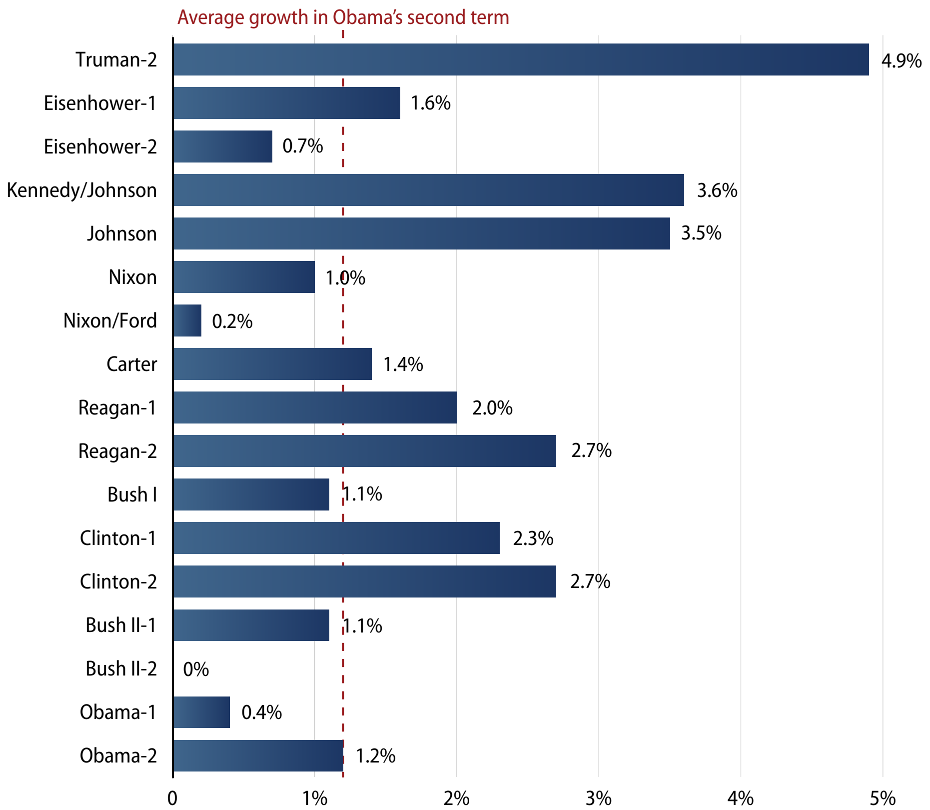
The economy subsequently entered a long period of expansion. The 31 quarters of economic growth from the second quarter of 2009, when the Great Recession ended, to the third quarter of 2017—including the first few months of President Trump's term—marked the third-longest economic expansion since World War II.[14]

Growth during President Obama's two terms was moderate, but not uniquely low, even though the beginning of his first term was overshadowed by the end of the Great Recession. Over the course of the first four years of Obama's presidency, the economy expanded at an average annual rate of 1.3 percent, and it grew by an average of 2.2 percent during his second term.

FIGURE 1

The economy performed better in Obama's second term than in several previous presidential terms

Average annual GDP per capita growth by presidential term



Sources: GDP data are authors' calculations from the Bureau of Economic Analysis, "National Data: Gross Domestic Product: GDP and the National Income and Product Accounts (NIPA) Historical Accounts," Interactive tables, available at https://www.bea.gov/iTable/index_nipa.cfm (last accessed May 2017); population data refers to people more than 16 years old, taken from the U.S. Bureau of Labor Statistics, "Databases, Tables & Calculators by Subject: Unemployment," available at https://www.bls.gov/data/#unemployment (last accessed May 2017).

The growth rate in President Obama's second term was in fact faster than the average growth during President Dwight D. Eisenhower's second term, President George H.W. Bush's term, and President George W. Bush's second term. And it equaled that of Presidents Nixon's and Ford's combined term.[15]

This is even clearer when one considers average per capita growth—the rate of economic growth relative to the growth of the population 16 years old and older. This is a more accurate measure for comparing presidents' economic performance, since some of the recent slowdown in gross domestic product growth simply reflects slower population growth. Average per capita GDP growth in President Obama's second term was higher than that of several previous presidential terms since World War II. (see Figure 1)

Presidents do not control all aspects of economic growth, but they can have substantial influence on how an economy performs during their time in the Oval Office as they shape fiscal and regulatory policies. President Obama encountered a particularly obstructionist Congress for most of his time in office and thus could not enact much of his economic policy agenda.

One is left wondering what growth would have looked like if President Obama had not faced as many obstacles to his policy agenda. President Obama, for example, proposed the American Jobs Act, which would have provided $447 billion in stimulus at a time when ARRA's effects were beginning to fade.[16] The passage of the American Jobs Act would have delivered even faster economic, employment, and wage growth. But the House of Representatives refused to even consider it, even though tax cuts made up more than half of the package. In fact, Congress used the threat of shutting down the government and refusing to raise the debt ceiling as leverage to enact ill-timed budget cuts starting in FY 2011 that slowed down economic, job, and wage growth.[17]

Put differently, President Obama's track record on economic growth is particularly remarkable given that he faced an uncooperative Congress that pushed for economic austerity and cuts to key sectors of the economy, just as the economy started to regain momentum after the Great Recession.

The labor market goes on a record expansion

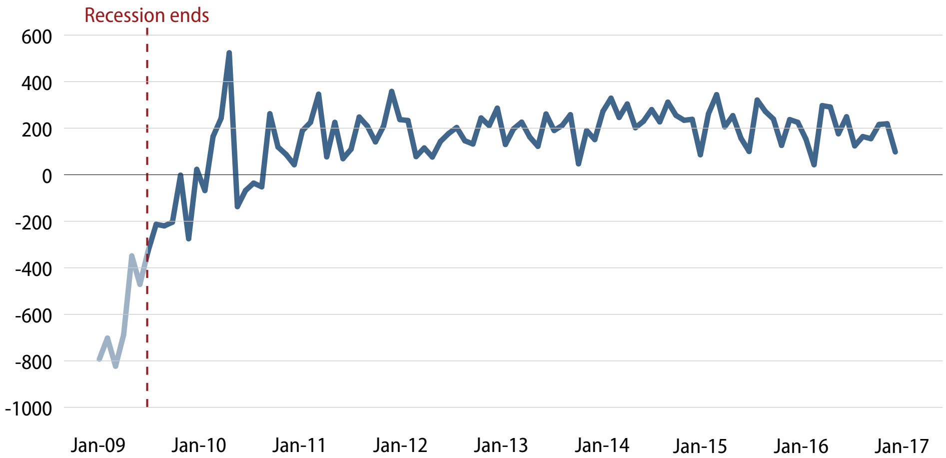
The labor market followed the economic trends, as is typically the case. Economic growth leads to more jobs, which then feed back into more growth through more jobs and ultimately higher wages. Job growth returned in early 2010, after economic growth had turned positive again. And from October 2010 to January 2017, the last month of the economy overseen by President Obama, the economy added jobs each month.[18] This job market expansion continued into the first months of President Trump's term, extending what was already the longest job growth streak on record, dating back to 1939.[19]

The long and steady growth of new jobs marked a remarkable turnaround from the depths of the Great Recession. When President Obama took office, the economy lost 700,000 to 800,000 jobs each month. (see Figure 2) During the first year of President Obama's term, from January 2009 to January 2010, the economy lost an average of 354,000 jobs per month. During the subsequent 12 months, from January 2010 to January 2011, the labor market added 90,100 jobs per month. By 2011, the labor market had set into a pace of modest yet extended job growth. It added an average of 194,000 jobs each month during the last 12 months of Obama's presidency, from January 2016 to January 2017.[20]

FIGURE 2

Nonfarm employment changes, from December 2008 to March 2017

Net monthly increase or decrease in the number of people with jobs in the U.S. economy, in thousands

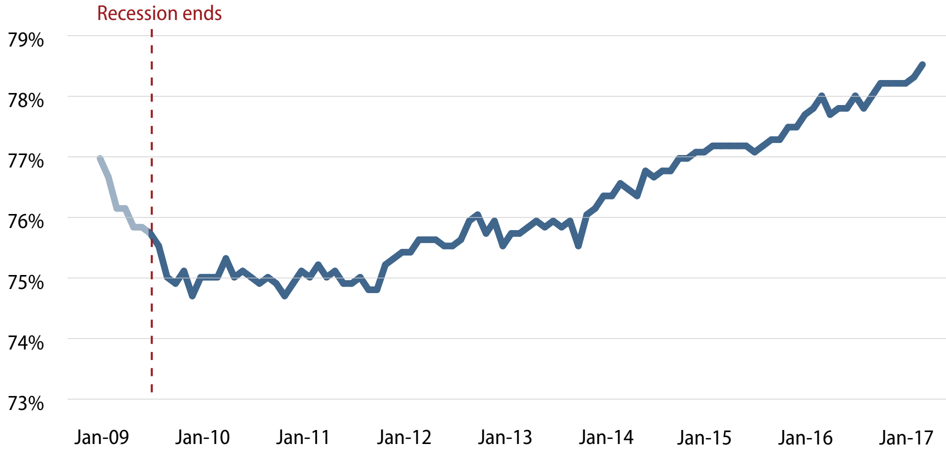


Source: U.S. Bureau of Labor Statistics, "Databases, Tables & Calculators by Subject: Employment," available at https://www.bls.gov/data/#employment (last accessed May 2017).

As jobs grew over an extended period of time, the unemployment rate fell. It rose from 7.8 percent in January 2009 to a high of 10 percent in October 2009—the immediate aftermath of the Great Recession—before dropping to a low of 4.8 percent in January 2017.[21] Equally important, employment opportunities for people in their prime earnings years—between ages 25 and 54—rose. In January 2009, 77 percent of people in this age group had a job. (see Figure 3) The employed share fell alongside the continued job losses to a low of 74.8 percent in November 2010 before climbing to 78.2 percent in January 2017. (see Figure 3)[22] Once job growth returned, its extended expansion meant that the employment opportunities lost during the latter part of the Great Recession and its immediate aftermath returned.

FIGURE 3

Employment-to-population ratio for workers between ages 25 and 54, 2009–2017



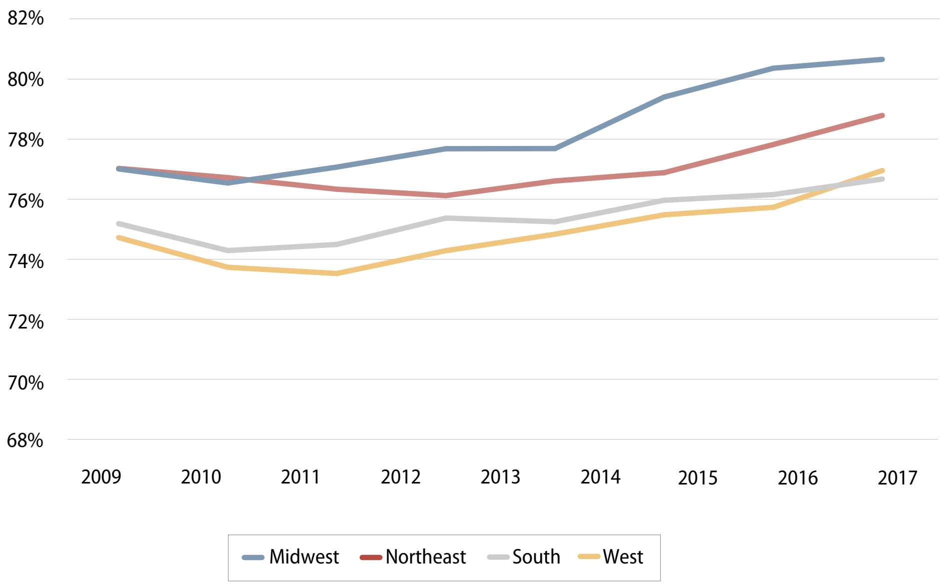
Source: U.S. Bureau of Labor Statistics, "Databases, Tables & Calculators by Subject: Employment," available at https://www.bls.gov/data/#employment (last accessed May 2017).

But more work needs to be done. The return of more and more job opportunities for millions of people who now have jobs that they otherwise would not is welcome news. Yet the employed share of workers in their prime earning years in early 2017—78.6 percent in March—is still below the level of about 80 percent in the two years before the Great Recession started at the end of 2007, and it is still far away from the high of 81 percent to 82 percent seen during the labor market boom of the late 1990s.[23] Ensuring that the job creation momentum of the past few years continues will go a long way toward bringing back those additional employment opportunities as well as wage growth, not just for prime-age workers but for all workers as well.

Breaking down the employment data by region also shows substantial variations. Some parts of the country typically have better employment opportunities than other parts. Take, for instance, the employed share of prime-age workers between ages 25 and 54 in each of four large census regions—Midwest, South, Northeast, and West. (see Figure 4) The employed share of the population tends to be highest in the Midwest and lowest in the South and West. In 2016, for instance, 80.7 percent of prime-age workers had a job in the Midwest, compared with only 76.7 percent in the South and 76.9 percent in the West. (see Figure 4)[24]

FIGURE 4

Employment-to-population ratio for workers between ages 25 and 54, by region, 2009–2017



Source: Authors' analysis of Center for Economic and Policy Research, "CPS ORG Data: 2009–2016," available at http://ceprdata.org/cps-uniform-data-extracts/cps-outgoing-rotation-group/cps-org-data/ (last accessed May 2017).

The gap between the Midwest and the rest of the country has actually grown since 2009, as the Midwest has experienced the largest increase in its prime-age employment-to-population ratio. (see Figure 4) Indeed, the prime-age employment-to-population ratios in the Midwest and Northeast were the same in 2009, but today the Midwestern ratio is almost two percentage points higher.

More jobs also meant higher wages and eventually more income for American families. Median usual weekly earnings (in 2016 dollars) rose to $843 by the end of 2016, up from $799 in the first quarter of 2013, the low point after the Great Recession. (see Figure 5)[25] A typical worker could expect an additional $2,267 (in 2016 dollars) per year by the end of 2016 than during the early years after the Great Recession. This rise in wages followed from both more hours and higher hourly wages for the typical worker. In fact, real median usual weekly earnings in the fourth quarter of 2016 were the highest on record dating back to 1979.[26]

FIGURE 5

Median usual weekly earnings in 2016 dollars, 2009–2017

Source: U.S. Bureau of Labor Statistics, "Databases, Tables & Calculators by Subject: Employment," available at https://www.bls.gov/data/#employment (last accessed May 2017).

Amid rising wages, family incomes eventually increased too. From 2014 to 2015, median family incomes increased by 5.2 percent above and beyond inflation.[27] This was the largest increase in typical family income on record, dating back to 1964. Yet income in 2015 was still short of that for the typical family in 2007, before the Great Recession started. Families desperately need more jobs and continued gains in wages—areas where policy can make a real difference, as the past years under President Obama have shown.

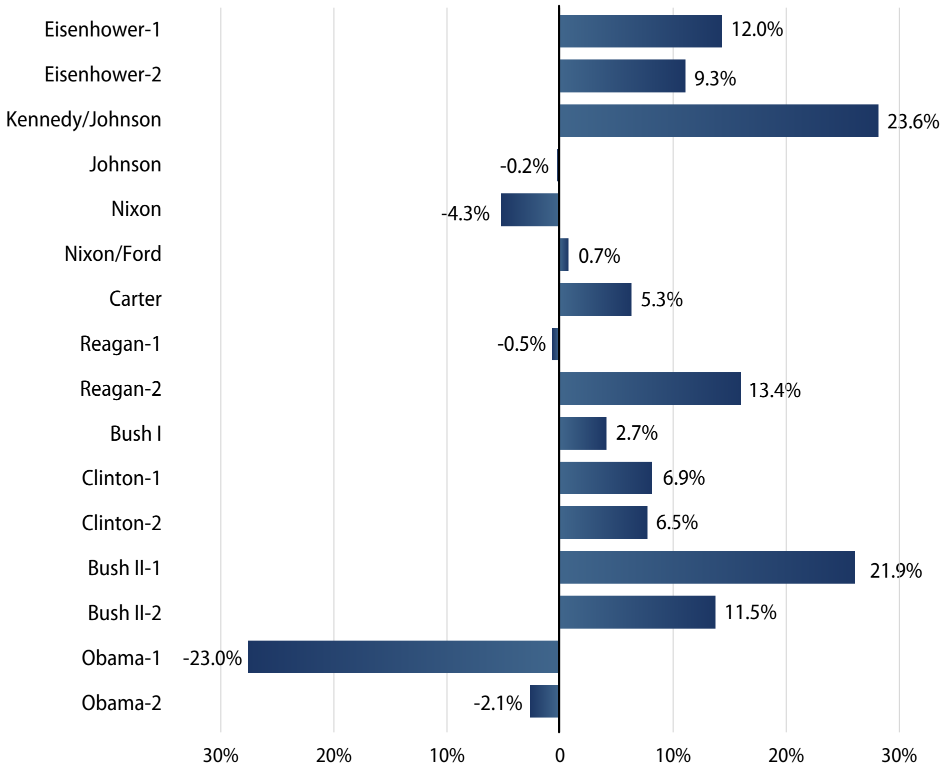
The biggest blight in the labor market is the continued unevenness of economic experiences. Many groups continue to struggle more than others, even after years of labor market growth. The African American unemployment rate, for instance, was 7.9 percent in April 2017, compared with 5.2 percent for Hispanics and 3.8 percent for whites at the same time.[28] And the unemployment rate for those with less than a high school degree was 6.5 percent in April 2017, compared with 2.3 percent for college graduates.[29] Extending the economic and job growth of the past few years is a crucial and necessary first step, though not the only one, to improve the lives of people who are traditionally economically vulnerable due to low wages, fewer benefits, and less savings.

The debt driven economy comes to an end

More jobs, higher wages, and income gains made it easier for families to get out from under the mountain of debt that had piled up before the Great Recession. Just as the recession started at the end of 2007, the average household owed 135.2 percent of its after-tax income in total debt—mortgages, car loans, student loans, and credit cards, to name the most important ones. By the fourth quarter of 2008, this debt level had slightly dropped to 130.9 percent. It fell to 105.9 percent by the second half of 2016 after declining during both of President Obama's terms. (see Figure 6) This marked the largest debt declines since the 1950s, when the data start. Consequently, by the end of 2016, household debt to after-tax income reached a level last seen in 2002, allowing families to breathe easier.[30]

FIGURE 6

Change in debt as a share of after-tax income, by presidential term



Source: Board of Governors of the Federal Reserve System, "Financial Accounts of the United States - Z.1," available at https://www.federalreserve.gov/releases/z1/current/default.htm (last accessed May 2017).

The decline in household debt is certainly good news after the havoc that massive mortgages wreaked on people's economic security during the financial and economic crisis of 2007 to 2009. Current debt levels, though, are still relatively high by historical standards. For instance, prior to 2001, household debt never exceeded 100 percent of after-tax income.[31]

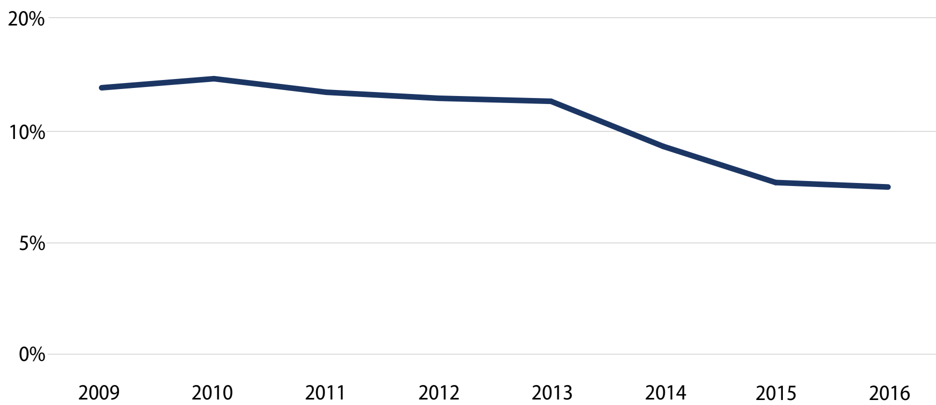
A lot of household debt is not particularly worrisome when interest rates are low, jobs are expanding, and wages are rising. The Federal Reserve has already started to raise interest rates, and costly forms of credit such as car loans and student loans have been on the rise for years, offsetting the declines in relatively less expensive mortgages. The president and Congress thus need to pay particular attention not only to creating more jobs but also to ensuring that those new jobs will be good jobs with decent wages and benefits. This will allow workers to further reduce their debt burden. Otherwise, the remaining debt will become an anchor holding back people's economic security and opportunities for the coming years.

Large increase in the share of Americans with health insurance

Perhaps the Obama administration's single greatest accomplishment for middle- and working-class families was the passage of the Affordable Care Act (ACA) in 2010. The ACA has expanded health care coverage to an estimated 20 million adults, resulting in the largest drop in the share of Americans without health insurance since the creation of Medicaid and Medicare in the 1960s.[32] Indeed, the uninsured rate has almost fallen by half, from 16 percent to 8.8 percent between 2010 and 2016. (see Figure 7)[33] At the same time, health care cost growth has moderated, some of which is attributable to the ACA.[34] For the millions of American workers who receive health insurance through their employer, slower cost growth also means that health costs take a smaller bite out of their paychecks than they otherwise would.

FIGURE 7

Share of U.S. population without health insurance, 2009–2016



Source: Council of Economic Advisers, *The Economic Record of the Obama Administration: Reforming The Health Care System* (Executive Office of the President of the United States, 2016), available at https://obamawhitehouse.archives.gov/sites/default/files/page/files/20161213_cea_record

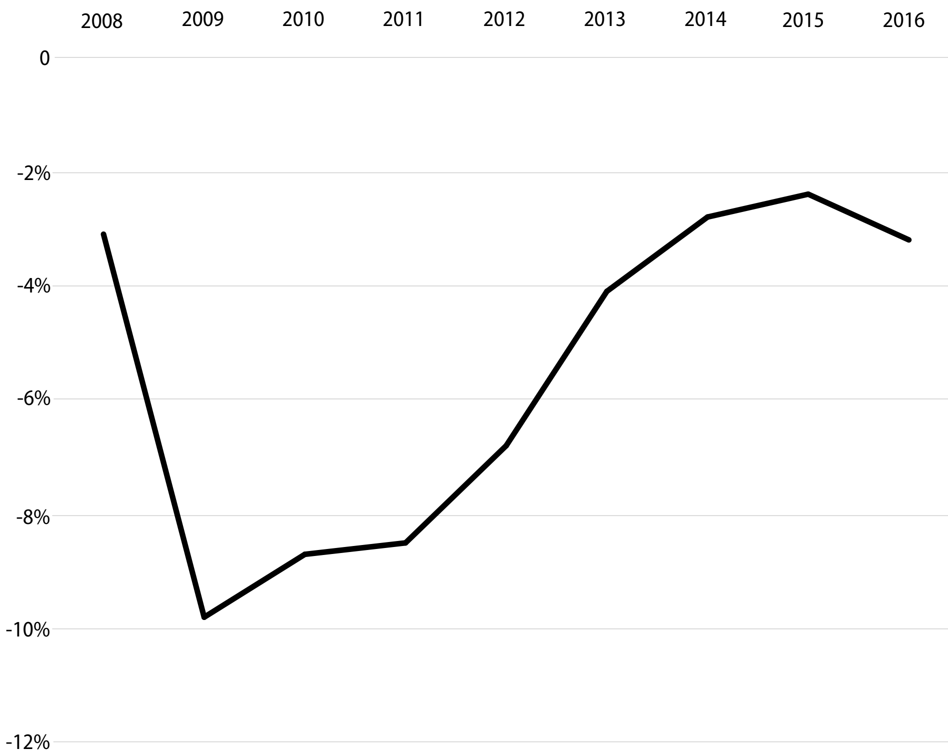
The intense public backlash in recent months to efforts to repeal the ACA demonstrate how it has improved the lives of millions of Americans. The coverage expansion has not only been improving access to care but is also protecting families from financial hardship. Fewer families—especially low- and moderate-income ones—report difficulty paying medical bills.[35] Indeed, one study comparing consumer credit reports in states that have and have not expanded Medicaid found that the Medicaid expansion reduced the amount of debt sent to collection by $600 to $1,000 per person who has gained coverage.[36]

Government finances in much better shape create room for investments

The continued economic and labor market expansion not only improved American families' economic security, but it also improved the government's finances. In the middle of the Great Recession, the government stepped in to fill the void left by private businesses that were failing and cutting back on their spending and hiring. The stimulus thus necessarily added to the deficit, which reached a high of 9.8 percent of gross domestic product in FY 2009. (see Figure 8) As the economy expanded, tax revenues increased, and spending—especially for unemployment insurance and other desperately needed social programs—slowly declined. The deficit fell below 3 percent of GDP in FY 2014 and FY 2015 before increasing again slightly to 3.2 percent of GDP in FY 2016.

FIGURE 8

Deficit as share of GDP, 2009–2016



Source: Congressional Budget Office, "Budget and Economic Data: Historical Budget Data," January 2017, available at https://www.cbo.gov/about/products/budget-economic-data#2._healh_care_reform.pdf.

These deficit figures, however, require some context. Most importantly, part of the deficit reduction followed from aggressive spending cuts in the immediate aftermath of the Great Recession—a move commonly referred to as austerity. It made the labor market recovery harder because the government did not hire people it needed and because many programs that people relied on to make ends meet amid still-high unemployment and limited job opportunities saw sharp cuts.

As the economy has gained momentum and the deficit has declined, there is room for the president and Congress to invest efficiently in faster growth and more jobs. This will require abandoning some of the ill-advised austerity measures of the past, restoring social programs so that the most vulnerable in our society have a real safety net, and putting money into well-designed infrastructure projects that will ultimately accelerate economic growth and sustain the labor market momentum of the past few years. If this fiscal potential is wasted on tax cuts for the wealthiest Americans, however, it will only serve to increase inequality without growing the economy.[37]

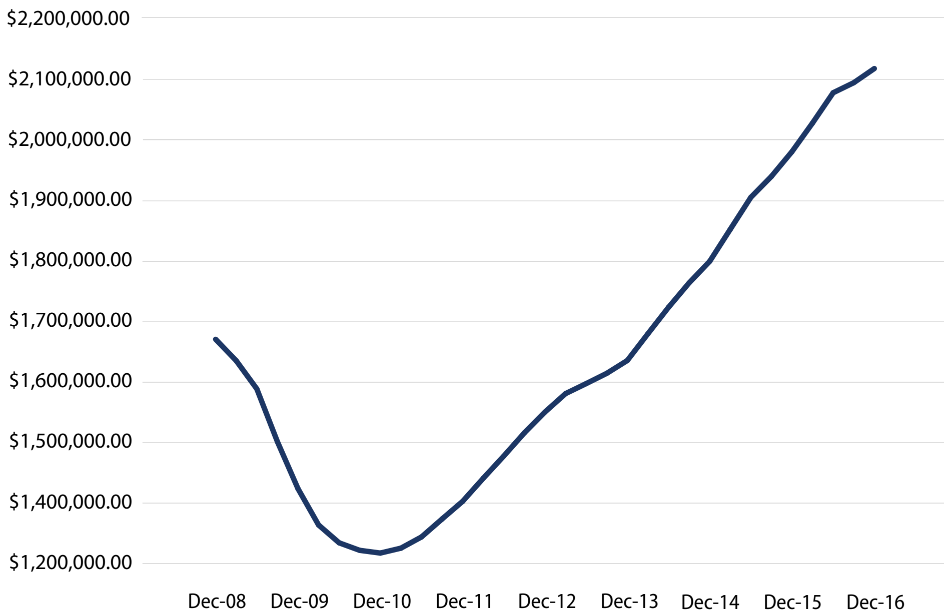
Financial stability returned

In the run-up to the 2007 to 2009 financial crisis, risks from predatory mortgage loans, securitization, the shadow banking sector, derivatives, and an overreliance on short-term debt all built up in the financial sector. While these and other risks developed, banks were funding themselves with too much debt and too little of their own money. That meant that they overextended themselves, became too deeply indebted, and could not absorb the financial losses that occurred when those risks soured and their investments started to lose value. The severe stress in the banking system led to a steep drop in lending, especially for smaller companies, furthering the decline of the economy. Essentially, worthwhile projects did not take off because firms could not get loans from their banks. The Obama administration and Congress quickly responded to the clear lessons demonstrated by the financial crisis and enacted the Dodd-Frank Act, which helped create a more stable financial system and put bank lending back on track.

As a result, business loans, known as commercial and industrial loans, recovered in the immediate aftermath of the Great Recession. (see Figure 9) Bank lending (in 2016 dollars) fell by 22.6 percent, or more than $350 billion, from the end of 2008—its highest point before and during the crisis—to its low point two years later at the end of 2010. By early 2014, lending had recovered all of these losses. Bank lending continued to grow and by the end of 2016 had grown by 66.3 percent from its low point in the intermediate aftermath of the crisis, helping fuel economic and job growth over the years.

FIGURE 9

Real commercial and industrial loans, all banks, seasonally adjusted



Note: Values deflated by the price index for nonresidential fixed investment.

Sources: Board of Governors of the Federal Reserve System, "Assets and Liabilities of Commercial Banks in the United States - H.8," May 12, 2017, available at https://www.federalreserve.gov/datadownload/Choose.aspx?rel=H.8; Bureau of Economic Analysis, "National Data: GDP & National Income," available at https://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1 (last accessed May 2017).

Conclusion

President Trump did not inherit a perfect economy—not enough Americans have jobs, and wages are not growing quickly enough—but he did inherit an improving one that has made a great deal of progress since January 2009. Indeed, per-capita gross domestic product growth during President Obama's second term was faster than that of several previous presidential terms since World War II. The share of 25- to 54-year-olds with a job has been rising, as have real wages and family incomes. Household debt has been falling, as has the budget deficit, and the share of Americans without health insurance is at an all-time low.

The important policy implication here is that President Trump and his administration need to build on the successes of the past. Wholesale undoing of Obama-era consumer protections and the enactment of supply-side fiscal policies—tax cuts for the rich—that have repeatedly shown that they do not live up to their promises of faster growth and job creation are the wrong way to go.

Christian E. Weller is a senior fellow at the Center for American Progress and a professor of public policy at the McCormack Graduate School of Policy and Global Studies at the University of Massachusetts, Boston. Brendan V. Duke is the associate director of economic policy at the Center.

Endnotes

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2 For comments from President Trump on inheriting "a mess," see Louis Jacobson, "Did Donald Trump inherit 'a mess' from Barack Obama?", PolitiFact, February 71, 2017, available at http://www.politifact.com/truth-o-meter/article/2017/feb/17/did-donald-trump-inherit-mess/. For comments from Treasury Secretary Steve Mnuchin on the Obama economy, see Kevin Drum, "Mnuchin: Obama Ruined the Economy, But the Economy Is Doing Great," *Mother Jones*, February 23, 2017, available at http://www.motherjones.com/kevin-drum/2017/02/mnuchin-obama-ruined-economy-economy-doing-great.

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15 The source for GDP data is Bureau of Economic Analysis, "National Income and Product Accounts: Interactive Tables," available at https://www.bea.gov/iTable/index_nipa.cfm (last accessed May 2017). "Population" refers to the noninstitutional population 16 years old and older. Data are seasonally adjusted and reported as quarterly averages. The source for population is Bureau of Labor Statistics, "Current Population Survey: Data Tools," available at https://www.bls.gov/data/#unemployment (last accessed May 2017).

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