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MANHATTAN INSTITUTE FOR POLICY RESEARCH

ROUNDTABLE:
Are You Better Off than You Were Four Years Ago?

In his 1980 presidential debate with Jimmy Carter, Ronald Reagan looked directly into the television cameras and asked the American public, simply, "Are you better off than you were four years ago?" The question—posed by incumbent and challenger alike—has since become a recurring feature of presidential campaign season. Now, with Election Day 2012 nearly upon us, the Manhattan Institute has enlisted six of its fellows to take up the question anew. On issues such as housing prices, energy prices, unemployment, bank regulation, and America's reputation in the Muslim world, the news is not good. We are not better off than we were four years ago and in some cases we are worse off—far worse off. However, the last four years have seen significant improvement in one issue area of historic concern to the Manhattan Institute: education.

Published by the Manhattan Institute

YOUR HOUSE IS WORTH LESS THAN IT WAS

Jacob Vigdor, *Adjunct Fellow*

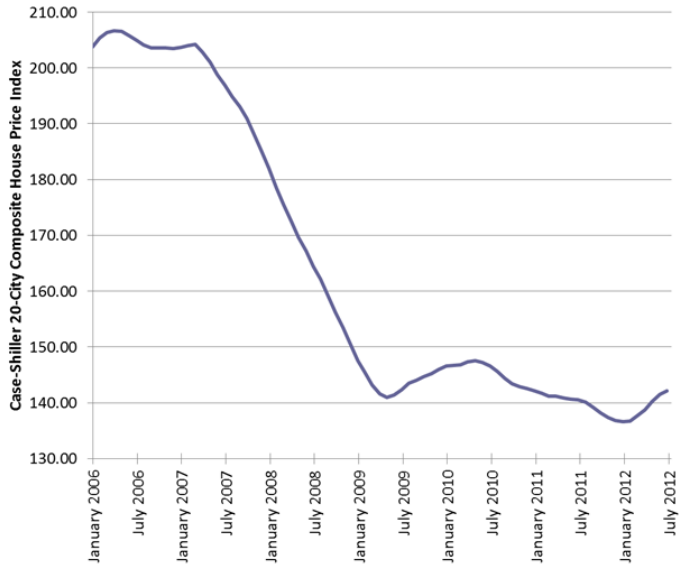
Most American families own their home. Home equity is by far the dominant source of wealth for the typical family. Housing prices, measured by indicators such as the Case-Shiller Home Price Index, are to Main Street what the Dow Jones Industrial Average is to Wall Street.

On Election Day 2008, the American housing market was in post-bubble free fall. Prices across 20 major markets fell an average of 25 percent over the preceding two and a half years. Since that time, the good news from a homeowner's perspective is that the period of free fall stopped—in spring 2009. The bad news is that once the housing market hit bottom, it didn't really bounce back up again. Nearly four years later, we have yet to see housing prices regain even the mostly deflated levels of late 2008. By contrast, the Dow Jones Index hit bottom around the same time but now stands more than 50 percent higher than it did when Barack Obama was inaugurated on January 20, 2009.

Government intervention to arrest the slide in the housing market began before Obama took office and continued afterward. Temporary tax credits for first-time home buyers infused cash into the market, and government-sponsored enterprises were authorized to underwrite loans that had previously been considered too risky.

These measures temporarily buoyed the market, but when they started to expire, prices started falling again. This decline continued through early 2012. In hindsight, it appears that we didn't gain much through taxpayer support of the housing market. Had government permitted the market to work itself out, the "bottom" might have come much earlier than it did, and we would now be years, rather than months, into recovery.

Case-Shiller Home Price Index, 2006–12



ONE-THIRD OF ADULT MEN ARE OUT OF WORK

Diana Furchtgott-Roth, *Senior Fellow*

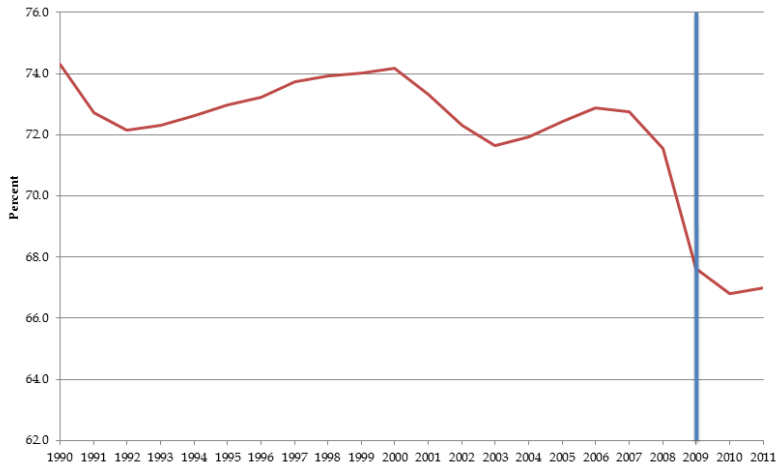
Everyone knows that the unemployment rate increased once President Obama took office. On Inauguration Day, 2009, it stood at 7.8 percent and has just come back down to the same level, with September's jobs report. In between, it remained above 8 percent for 43 consecutive months.

But the high unemployment rate does not paint the entire picture of the problems of the job market because the labor-force participation rate was also declining, from 65.7 percent in January 2009 to 63.6 percent today. A lower labor-force participation rate lowers the unemployment rate because the unemployment rate only includes people in the labor force. So there are two ways to reduce unemployment: find workers jobs; or get them to drop out of the labor force. About 2 percent of the population dropped out during President Obama's tenure.

A better way to measure the state of the labor force is by looking at the percentage of adult men who are working, known as the employment-population ratio. Adult men tend to have stable employment: they do not move in and out of the labor force because of child rearing, as is often the case for women. They do not prefer part-time jobs, as do teens. So the percentage of men employed is an excellent reflection of the state of the labor market.

The chart below shows men's employment-population ratios from 1990 to 2011. The percentage of men employed has been declining because of increased college and graduate school attendance, along with earlier retirement. But a substantial decline was observed between 2008 and 2011, the latest year available. In 2008, 72 percent of adult men were employed—about 75 million men. By 2011, this figure had declined to 67 percent, or 72 million men. This means that about a third of adult men were not working, a record high.

Employment-Population Ratio of Men 20 and Older, 1990–2011



"TOO BIG TO FAIL" BANKS ARE EVEN BIGGER THAN THEY WERE

Nicole Gelinas, *Searle Freedom Trust Fellow*

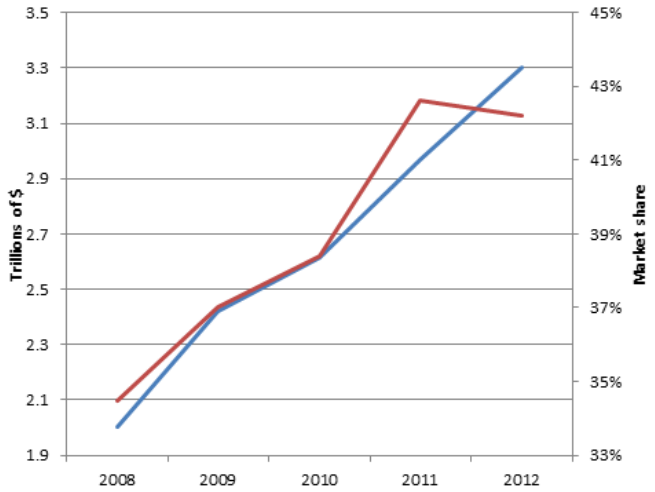
Today, the nation's top five banks have a 42.2 percent share of the country's total domestic deposits, up from 34.5 percent just before President Barack Obama took office. The top five banks—Bank of America, Wells Fargo, JPMorgan Chase, Citigroup, and Capital One—have increased their deposit share by 22.4 percent in the past four years.

Moreover, the names at the top have largely stayed the same. Bank of America, JPMorgan Chase, and Wells Fargo all increased their deposits through purchases of failed or flailing financial institutions during the financial crisis (most notably, Countrywide Bank, Washington Mutual, and Wachovia, respectively). Capital One is the only new entrant into the top five.

Such concentration harms competition. Size is not the only barrier to new competitors: few people would advocate that the government break up big companies such as Walmart or Amazon.com because smaller companies find it difficult to compete with them. The barrier, rather, is the perception of "too big to fail." Many investors do not believe that the U.S. government would ever allow the holding company of a firm such as JPMorgan Chase or Citigroup to enter bankruptcy, in part because such a bankruptcy would force the government to step in and cover deposits insured by the government-chartered Federal Deposit Insurance Corporation (FDIC).

President Obama's Dodd–Frank Wall Street Reform and Consumer Protection Act, signed in July 2010, did not change this perception but rather solidified it. Indeed, the law directs regulators to consider all top five banks "systemically important financial institutions." This designation does allow for more regulation; but it also gives credence to investors' perception that the government, not the free marketplace, is responsible for these financial institutions' success or failure.

Market Share of the Nation's Top Five Banks (Domestic Deposits), 2008–12



Source: Author's calculations, based on FDIC data

YOUR CITY AND STATE ARE BROKE AND CUTTING SERVICES

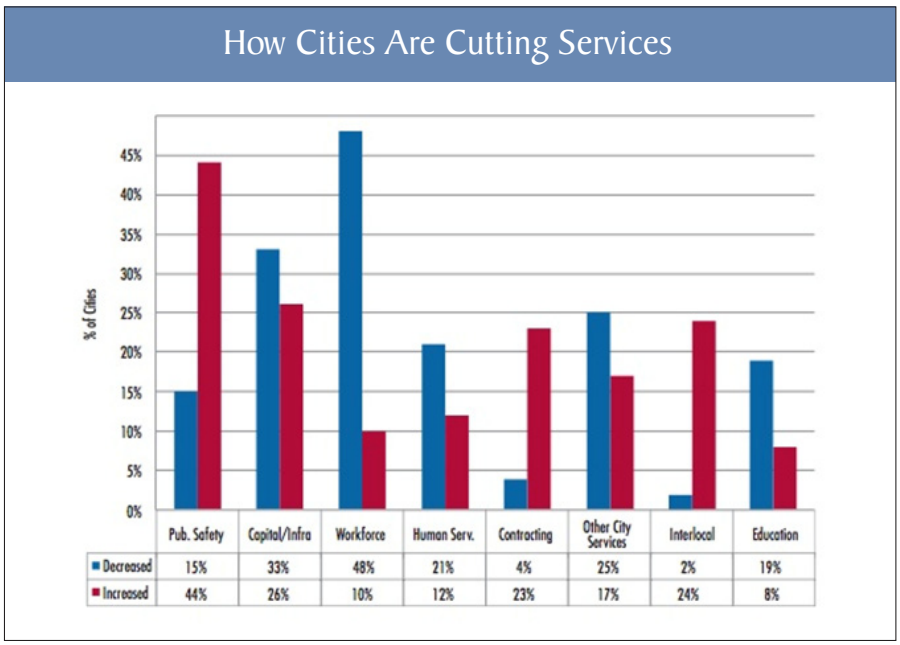
Steven Malanga, *Senior Fellow*

Tax collections are a reflection of economic activity. Since 2008, tax collections of America's states and their municipalities have been stagnant, thanks to the struggling economy, producing an unprecedented extended period of fiscal pain for local governments. State tax collections plunged starting in late 2008, and they have remained at historically low levels since then.

Last year, tax revenues were still below their peak of 2008, even as costs—especially those associated with pensions and employee health care—continued to rise. Meanwhile, property taxes, which are largely collected by local governments, have also declined and are likely to take years to recover, thanks to the continued struggles of the home-buying market. This has clearly left state and local governments, which rely on aid from state transfers, worse off today than four years ago.

The result of this extended period of financial constriction has been a painful retrenchment at the state and local levels. This financial squeeze has probably mattered more to the average American household than even the financial health of the federal government because most Americans interact with government on a local level every day. Local government, after all, picks up the trash, provides public safety, and educates children.

According to a survey by the National League of Cities, this year—five years after the financial bubble exploded in 2008—cities are still cutting services to constituents, thanks to the squeeze on state and local spending. As the chart below illustrates, 33 percent of cities are cutting their spending on infrastructure, 48 percent are continuing to reduce their workforce, and 19 percent are making further cuts in education. This is the fallout of the long economic downturn.



YOU PAY MORE FOR ENERGY

Diana Furchtgott-Roth, *Senior Fellow*

Energy prices increased between 2008 and 2011, and with them, the percentage of after-tax income that low-income Americans spend on energy. Gasoline prices rose by over 8 percent, and the residential price of electricity rose by 4 percent.

With data showing that low-income earners spent 24 percent of their 2011 income on energy, it's time to rethink government subsidies for alternative energy—wind, solar, and biomass—and electric vehicles. Renewable energy raises prices, slowing economic growth and disproportionately hurting the poor.

Green energy received $6 billion in tax breaks in fiscal year 2012, according to the Joint Tax Committee. In addition, the federal government has spent $6.3 billion on green energy projects.

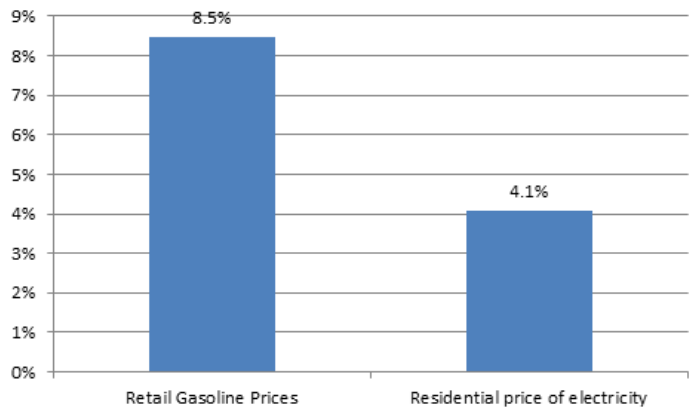
Much of this money was wasted. Of the 33 energy loan guarantees made under the Energy Department's programs, 26, or almost 80 percent, have filed for bankruptcy or have missed production goals.

Most people think that green is good, but they pay little attention to associated increases in costs. Generating a megawatt hour of electricity from natural gas in 2015 will cost between $49 and $79. A megawatt hour from onshore wind will cost $75–$138, and from solar photovoltaic it will cost $242–$455.

As well as harming poorer Americans, higher energy prices slow our economy. Compared with most major economies, the United States is relatively energy-intensive, and an increase in prices raises the cost of doing business here more than elsewhere. As a result, America becomes a less attractive place to invest.

With higher energy prices and the poorest fifth of American households spending almost a quarter of their income on energy, America shouldn't waste taxpayer dollars making it more expensive.

Percentage Change in Energy Prices, 2008–11



Source: U.S. Department of Labor, Bureau of Labor statistics, Consumer Expenditure Survey 2008–11, and Manhattan Institute calculations

TEACHER QUALITY IS IMPROVING

Marcus Winters, *Senior Fellow*

Educational outcomes change slowly. Until about a decade ago, the process of reforming how schools operate was extremely slow. The last four years have continued, and even increased, the trend of remaking the public education system to put the interests of kids above those of the adult employees.

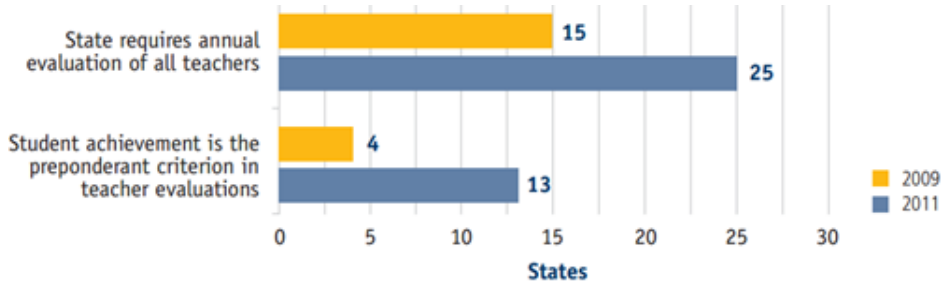
Once-taboo education reforms are now cropping up across the nation. There is perhaps no better example of how far the pendulum has swung toward reform than the massive increase in policies intending to improve teacher quality.

For decades, evaluation systems for public school teachers have been little more than rubber stamps. But buoyed by a wide body of empirical research showing that teacher quality varies dramatically and is enormously important for student achievement, policymakers in both parties are pursuing policies to identify the best and worst teachers in their school systems.

According to an analysis by the National Council on Teacher Quality (NCTQ), in 2009 only four states required some measure of student achievement—what policymakers and parents care about most—to be the preponderant criterion by which to evaluate public school teachers. As of 2011, 13 states and the District of Columbia had prioritized measures of student achievement when evaluating teachers. The number of states (and D.C.) that require annual evaluations for teachers increased from 15 in 2009 to 25 in 2011.

There is still a long way to go. But in the last four years, America's public schools have been trending in the right direction.

Number of States with Teacher Evaluation Policies, 2009–11



Source: NCTQ 2009 State Teacher Policy Yearbook, research for 2011 State Teacher Policy Yearbook, http://www.nctq.org/p/publications/docs/nctq_stateOfTheStates.pdf

ANTI-AMERICANISM IS ON THE RISE IN THE MUSLIM WORLD

Edward Glaeser, *Senior Fellow*

President Obama rose to prominence in the Democratic Party because of his early opposition to the Iraq War, and his supporters hoped that he would be able to quell the anti-Americanism that is so common in the Middle East. While the sputtering economy and increasing public debt are the most obvious disappointments of the past four years, we are also worse off because anti-American feeling in the Islamic world seems to have grown between 2008 and 2012. Widespread dislike of the United States is the soil that grows terrorism, and finding sensible ways to reduce that dislike is a central task facing U.S. foreign policy.

The Pew Research Center's Global Attitudes Project provides us with a regular snapshot of opinions toward the U.S. throughout the world. It includes data for five Islamic countries (Egypt, Jordan, Lebanon, Pakistan, and Turkey) for 2008 and 2012.[1] In 2008, the United States was hardly beloved: in spring 2008, only 22 percent of Egyptian respondents had a very or somewhat favorable opinion of the U.S., while 75 percent of respondents had a very or somewhat unfavorable opinion of our country.

Many thought that President Obama's more conciliatory approach to the Arab world would generate goodwill toward the United States. Indeed, in four of the Islamic nations in the sample (Pakistan was the exception), the share of respondents viewing the U.S. very or somewhat favorably increased between 2008 and 2009. But President Obama's Middle Eastern honeymoon was short-lived. By 2012, the share of respondents viewing the U.S. very or somewhat favorably was less than it had been in 2008 in four of the five countries. The share of respondents viewing the U.S. very or somewhat unfavorably went up in four of the five countries. In Lebanon, the figure was flat.

In some cases, the decline in favorability was insignificant. For example, the share viewing the U.S. somewhat or very favorably in Egypt declined from 22 percent to 19 percent. In other cases, the drop has been more severe. In both Jordan and Pakistan, the share viewing the U.S. somewhat or very favorably dropped from 19 percent to 12 percent. The overall result is that America remains profoundly disliked. In 2012, in four out of five of the countries, more than half of the population had a very unfavorable opinion of the U.S., and in nuclear-armed Pakistan, 66 percent of respondents reported viewing the United States very unfavorably, up from 52 percent four years ago.

Anti-Americanism can have terrible consequences, as the terrorist attack of September 11, 2001, illustrated, and it isn't obvious how America can reduce these feelings, which are largely generated by the internal politics of the region. Many hoped that President Obama would radically increase our popularity in the Islamic world, but he hasn't. On this issue, the country is no better off today than it was four years ago.

[1] See http://www.pewglobal.org/files/2012/06/Pew-Global-Attitudes-U.S.-Image-Report-FINAL-June-13-2012.pdf.