

# President Obama's Economic Record and the Challenges Ahead

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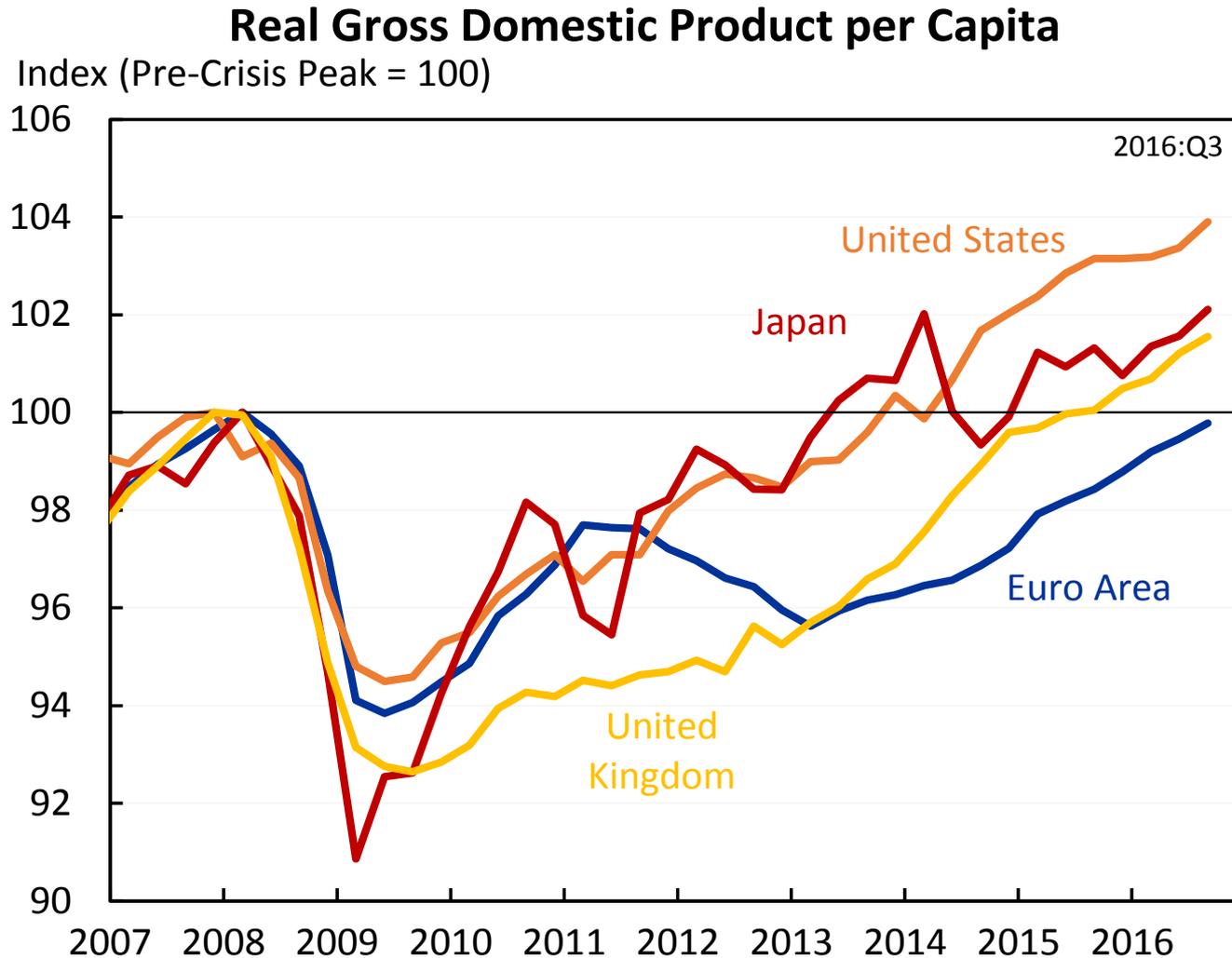
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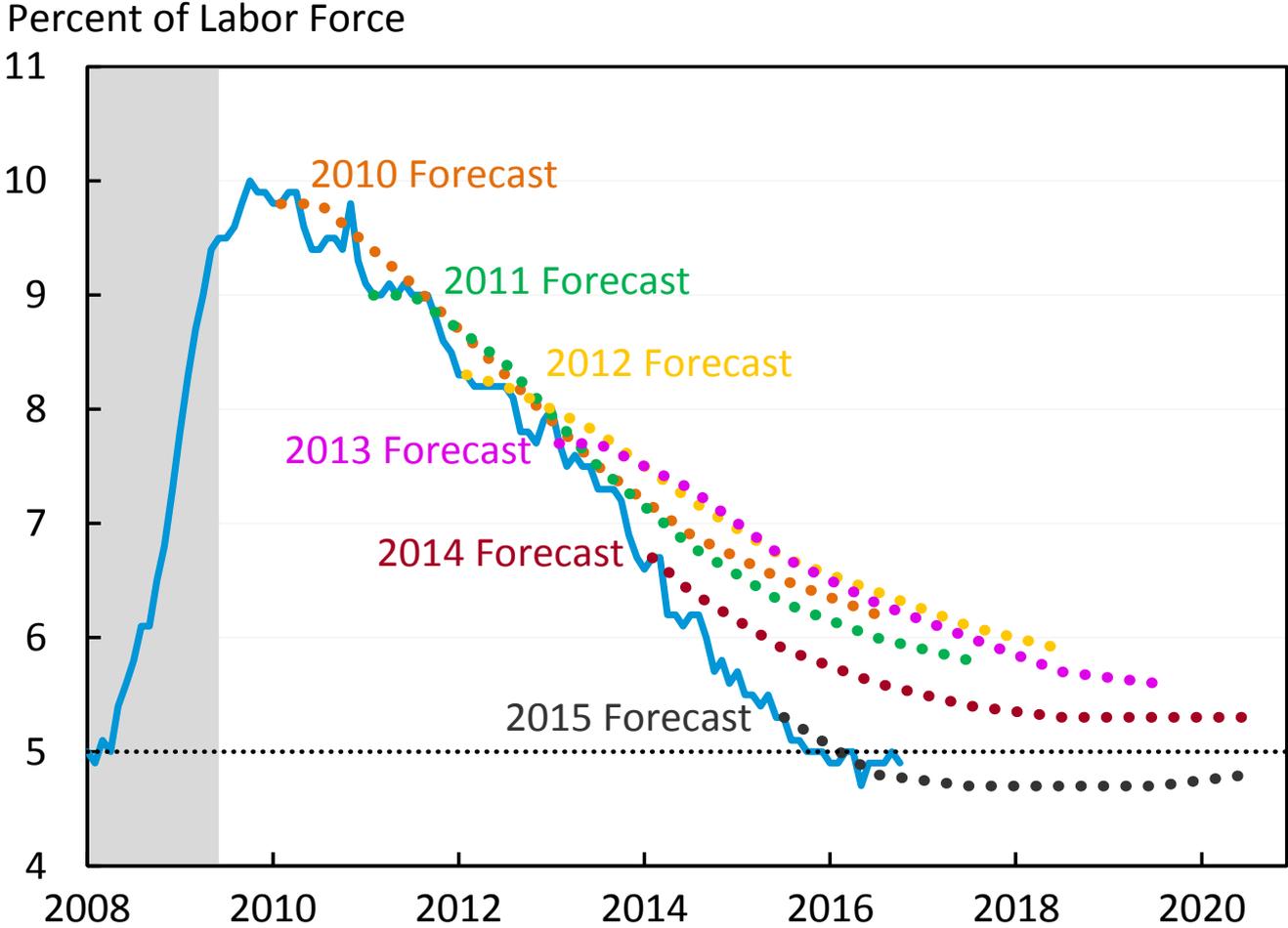
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# U.S. Recovery Comparatively Strong



# U.S. Unemployment Rate Has Consistently Fallen Below Expectations

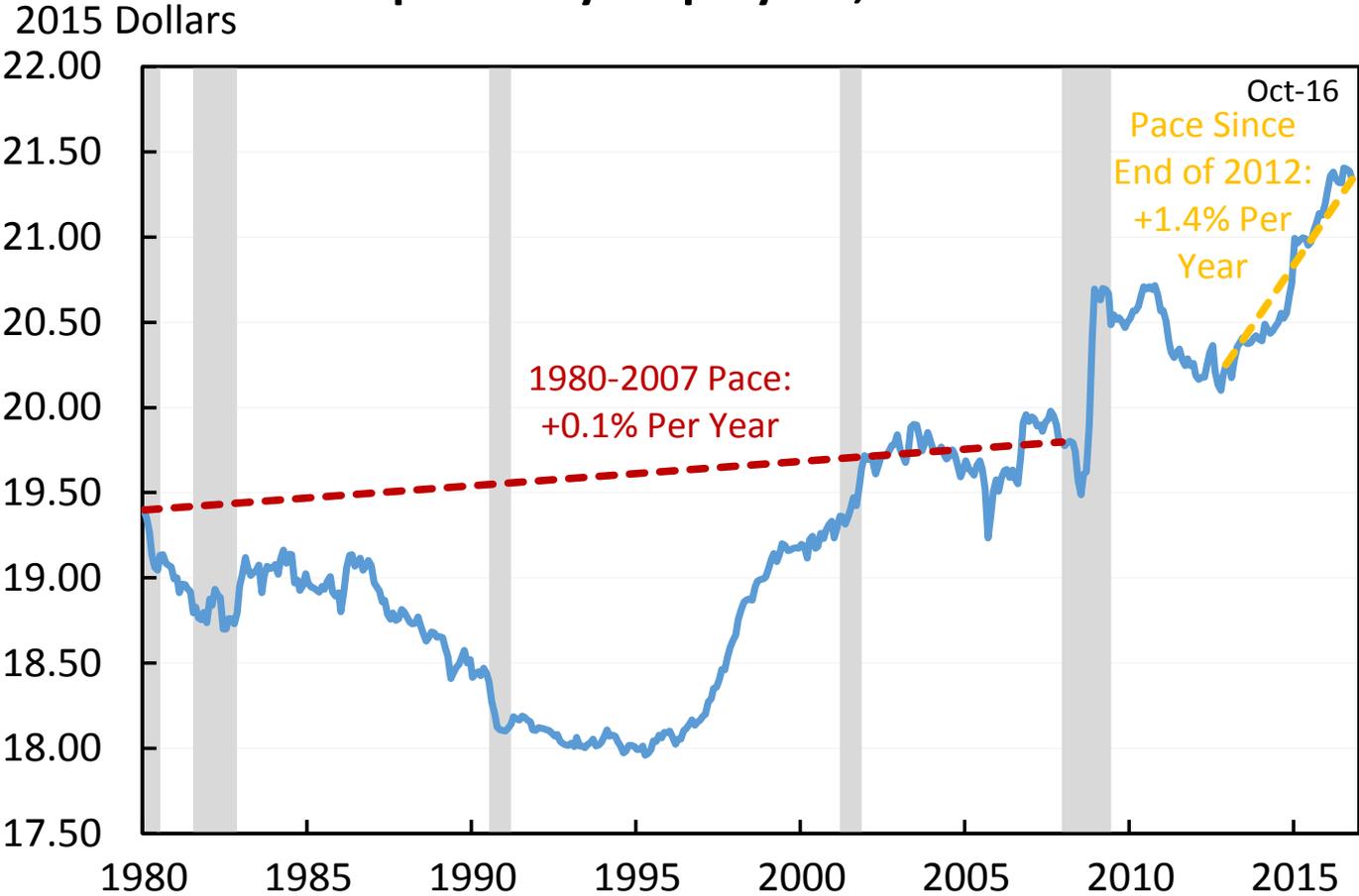
## Unemployment Rate and Consensus Forecasts



Note: Annual forecasts are current as of March of the stated year. Shading denotes recession.  
Source: Blue Chip Economic Indicators; Bureau of Labor Statistics, Current Population Survey.

# Since the End of 2012, Real Wages Have Grown Nearly 20 Times Faster than Between 1980 and 2007

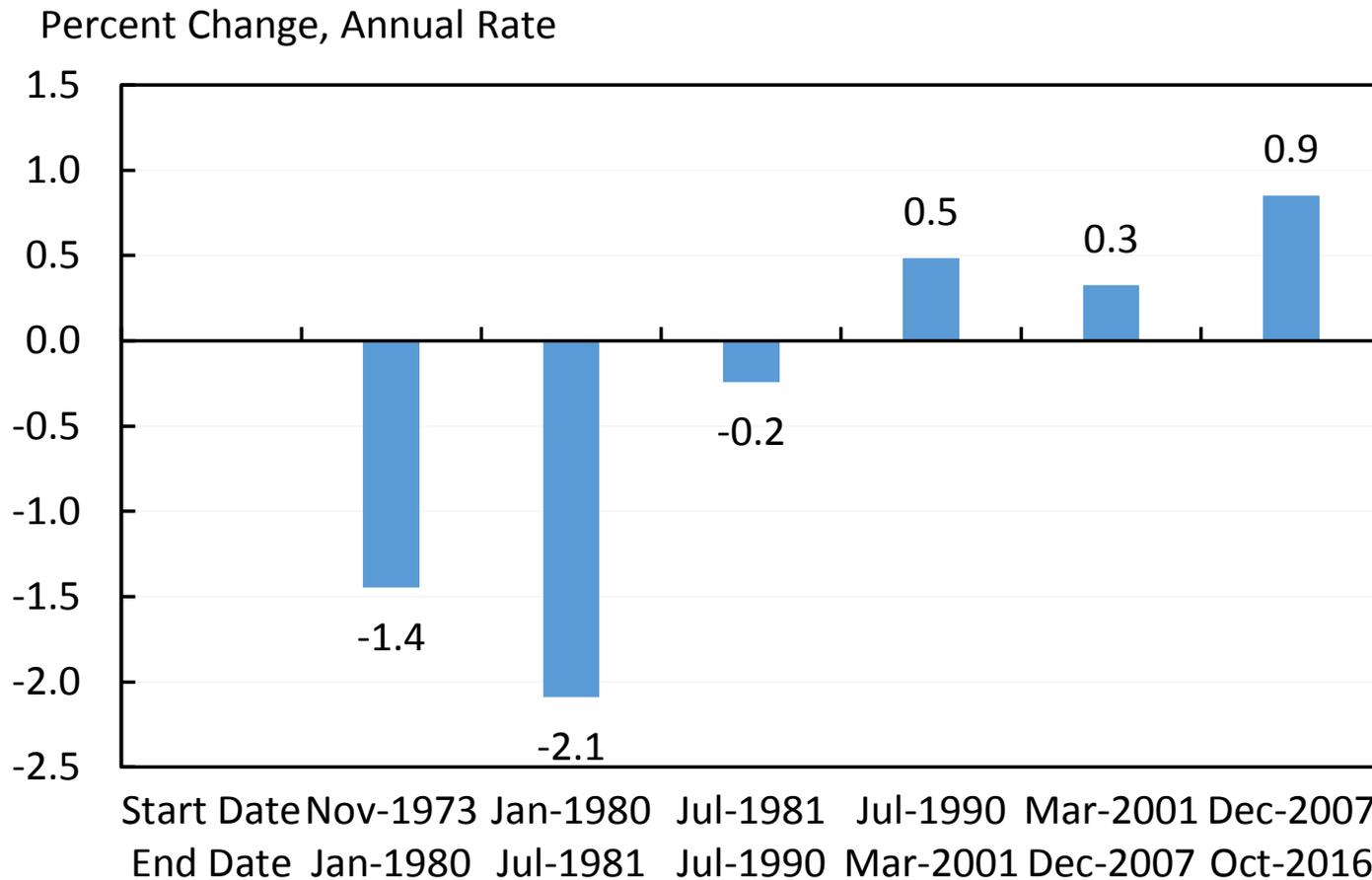
## Real Hourly Earnings for Private Production and Nonsupervisory Employees, 1980-2016



Note: Shading denotes recession.  
Source: Bureau of Labor Statistics; CEA calculations.

# Real Wages Have Grown Faster Over the Current Business Cycle Than in Any Cycle Since the Early 1970s

## Real Hourly Wage Growth Over Business Cycles (Cycle Peak to Cycle Peak)



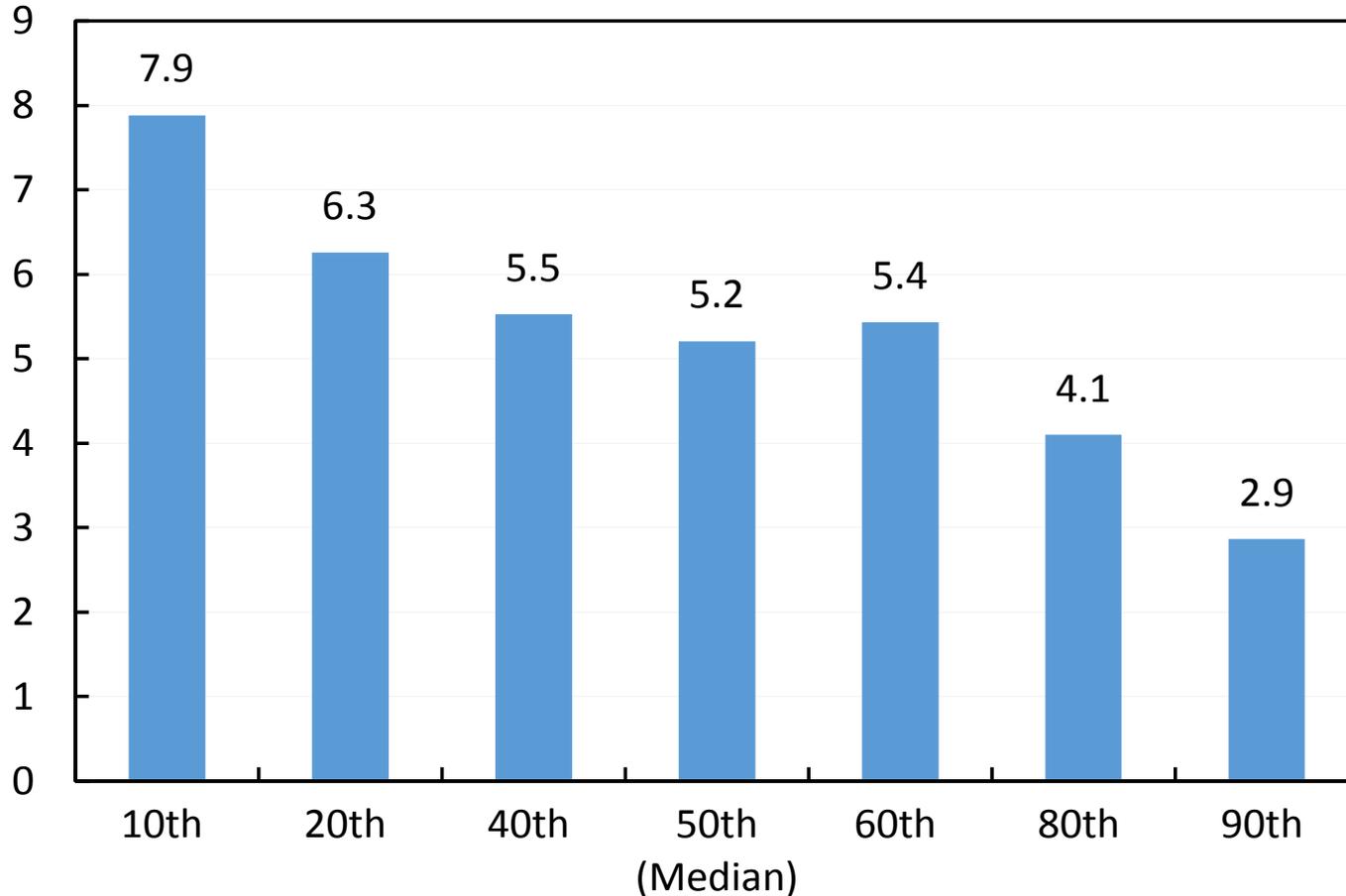
Note: Wages for private production and nonsupervisory workers.

Source: National Bureau of Economic Research; Bureau of Labor Statistics, Real Earnings; CEA calculations.

# In 2015, Income Increased for Households Across Distribution, With Largest Gains at Bottom and Middle

## Growth in Real Household Income by Percentile, 2014-2015

Percent



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# Middle-Class Income Growth Has Slowed in Recent Decades

## Annual Real Middle-Class Income Growth

|  | 1948-1973 | 1973-2015 |
|--|-----------|-----------|
| Median Family Income<br><i>(Census Bureau)</i>   | 3.0%      | 0.4%      |
| Median Household Income with Benefits<br><i>(CBO, adj. for household size)</i>                 | N/A       | 0.5%      |
| Median Household Income with Gov't<br>Transfers/Taxes<br><i>(CBO, adj. for household size)</i> | N/A       | 1.0%      |

Note: Income levels from the Census Bureau are deflated with the CPI-U-RS price index, and income levels from the Congressional Budget Office (CBO) are deflated with the personal consumption expenditures price index. CBO median income is extended before 1979 and after 2013 with the growth rate of Census median household income.

Source: World Wealth and Income Database; Census Bureau; Congressional Budget Office; CEA calculations.

# Drivers of Income Growth: Productivity, Inequality, and Participation

## Determinants of Middle-Class Income Growth

|   | 1948-1973 | 1973-2015 |
|---|-----------|-----------|
| <b>Labor Productivity Growth (Annual Average)</b> | 2.8%      | 1.8%      |
| <b>Income Shares</b>                              |           |           |
| Top 1 Percent                                     | 11% → 8%  | 8% → 18%  |
| Bottom 90 Percent                                 | 66% → 68% | 68% → 52% |
| <b>Labor Force Participation Rate</b>             |           |           |
| Men, 16 and Older                                 | 87% → 79% | 79% → 69% |
| Women, 16 and Older                               | 33% → 45% | 45% → 57% |

# Some Thought Experiments

## Counterfactual Scenarios for Productivity, Equality, and Participation

| Thought Experiment     | Factor                                | Base Period | Percentage Impact on 2015 Average Income | Income Gain to 2015 Typical Household |
|------------------------|---------------------------------------|-------------|--|---------------------------------------|
| <b>Productivity</b>    | Total Factor Productivity Growth      | 1948-1973   | 65%                                      | \$37,000                              |
| <b>Inequality</b>      | Share of Income Earned by Middle 20%  | 1973        | 19%                                      | \$10,000                              |
| <b>Participation</b>   | Female Labor Force Participation Rate | 1948-1995   | 6%                                       | \$4,000                               |
| <b>Combined Impact</b> | <b>All of the Above</b>               |             | <b>108%</b>                              | <b>\$61,000</b>                       |

Note: These thought experiments are intended to demonstrate the importance of these three factors for middle-class incomes. They do not consider second-order effects or interactive effects. The first thought experiment assumes that an increase in productivity is associated with an equal increase in the Census Bureau's mean household income. The second thought experiment uses the Census Bureau's mean income of the middle quintile as a proxy for median income. The third thought experiment assumes that newly-participating women will have the same average earnings as today's working women. The first and third thought experiments assume that income gains are distributed proportionally such that mean and median incomes grow at the same rate. Dollar gains are calculated off a base of the Census Bureau's median household income in 2013. The fourth thought experiment compounds the effects of the first three.

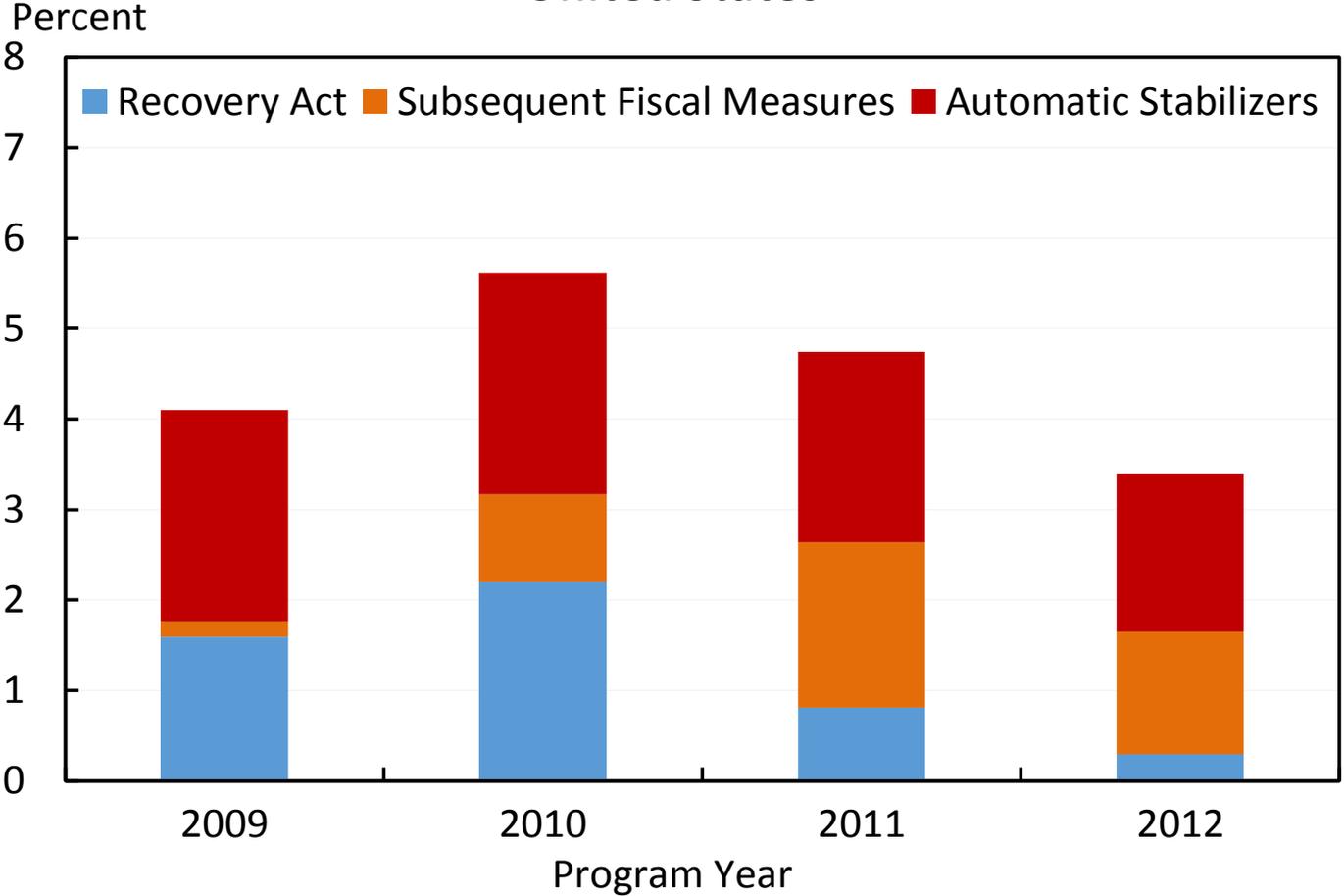
Source: World Top Incomes Database; Census Bureau; Congressional Budget Office; Bureau of Labor Statistics, Current Population Survey; Bureau of Economic Analysis; CEA calculations.

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# Fiscal Response to the Great Recession Was Larger and More Sustained Than Just the Recovery Act

## Fiscal Expansion as a Percentage of GDP in Each Program Year, United States

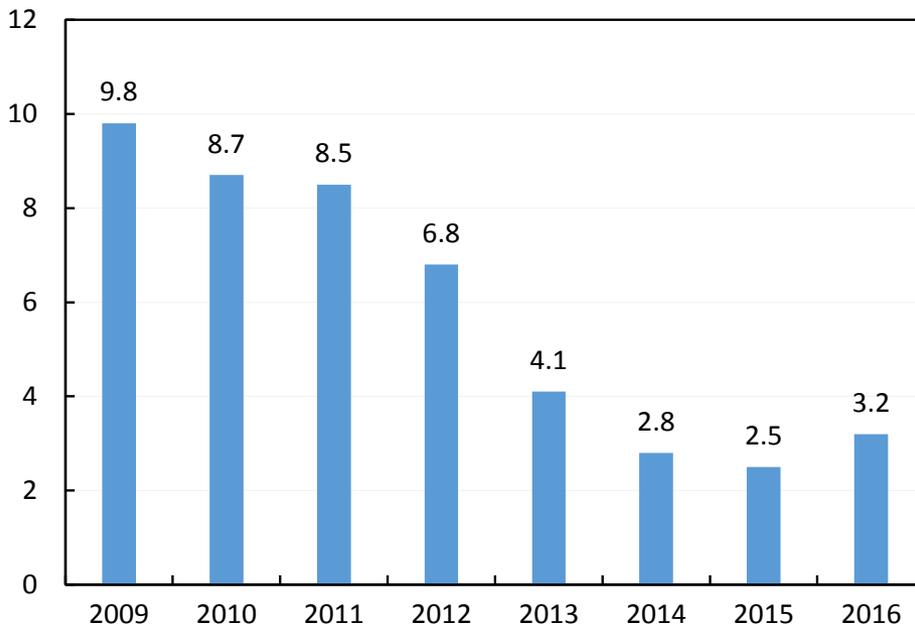


Source: Congressional Budget Office (2014); Bureau of Economic Analysis, National Income and Product Accounts; CEA calculations.

# Fiscal Situation Has Improved, But Debt-to-GDP Ratio Still Rising

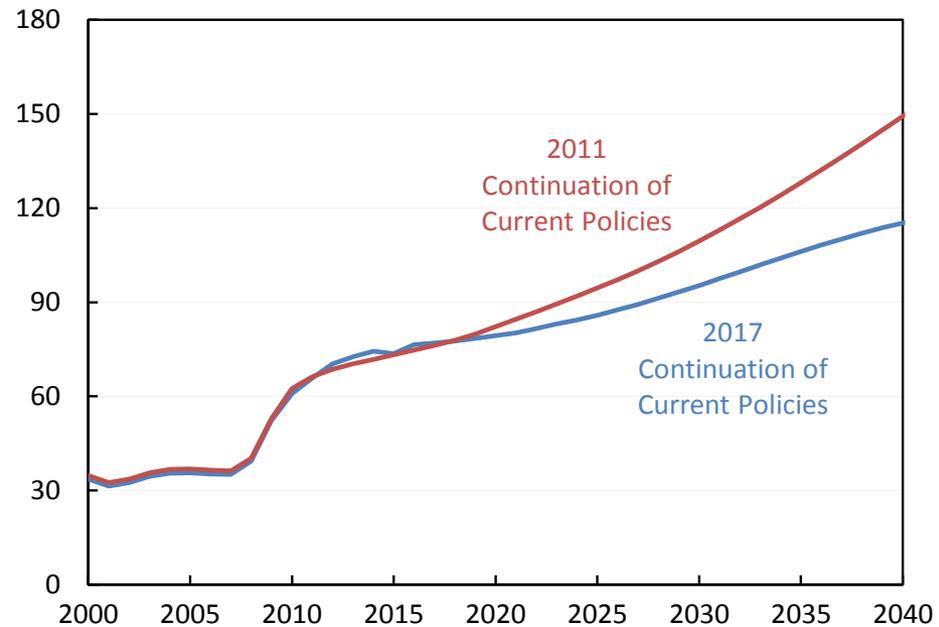
## Federal Budget Deficit

Percent of Fiscal Year GDP



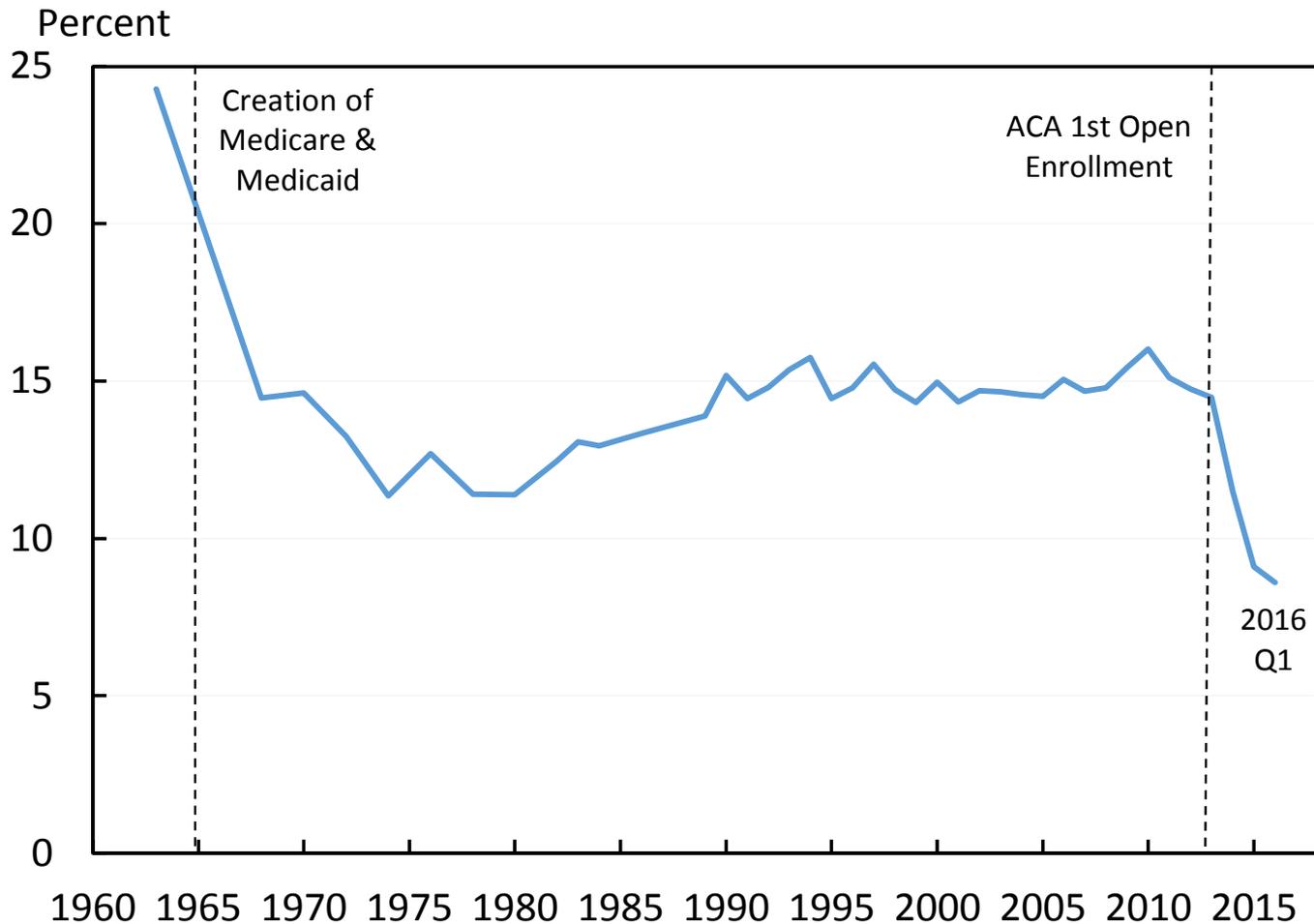
## Comparison of Publicly Held Debt

Percent of GDP



# The Affordable Care Act Has Driven the Uninsured Rate Below 10 Percent For the First Time Ever

## Share of Population Without Health Insurance

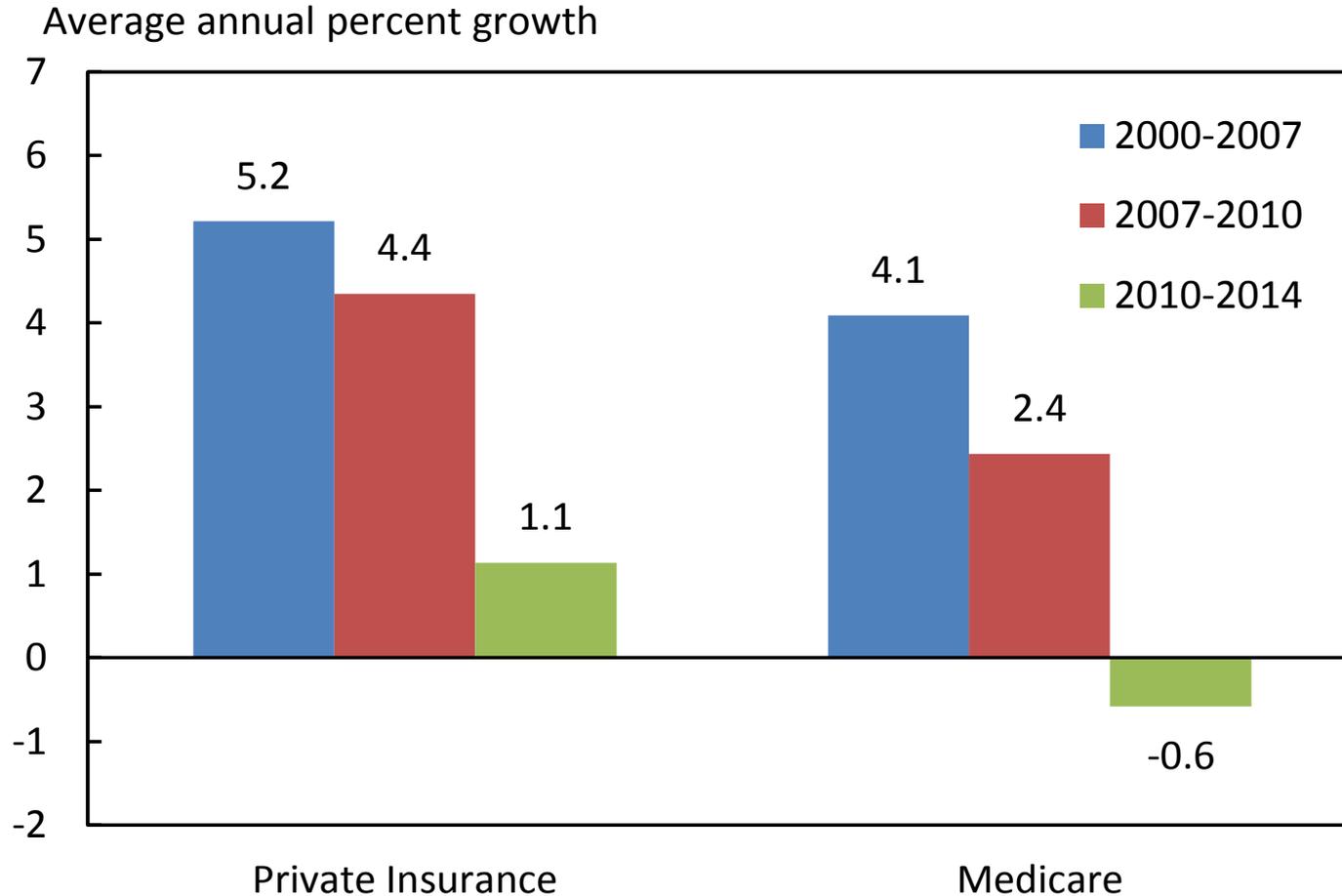


Source: CEA analysis of NHIS and supplemental data described in CEA (2014)

Note: Data are annual back to 1989 and generally bi-annual before that. Estimates for 2016 reflect only the first quarter.

# Health Care Spending Per Enrollee Has Grown Exceptionally Slowly in Both the Public and Private Sectors

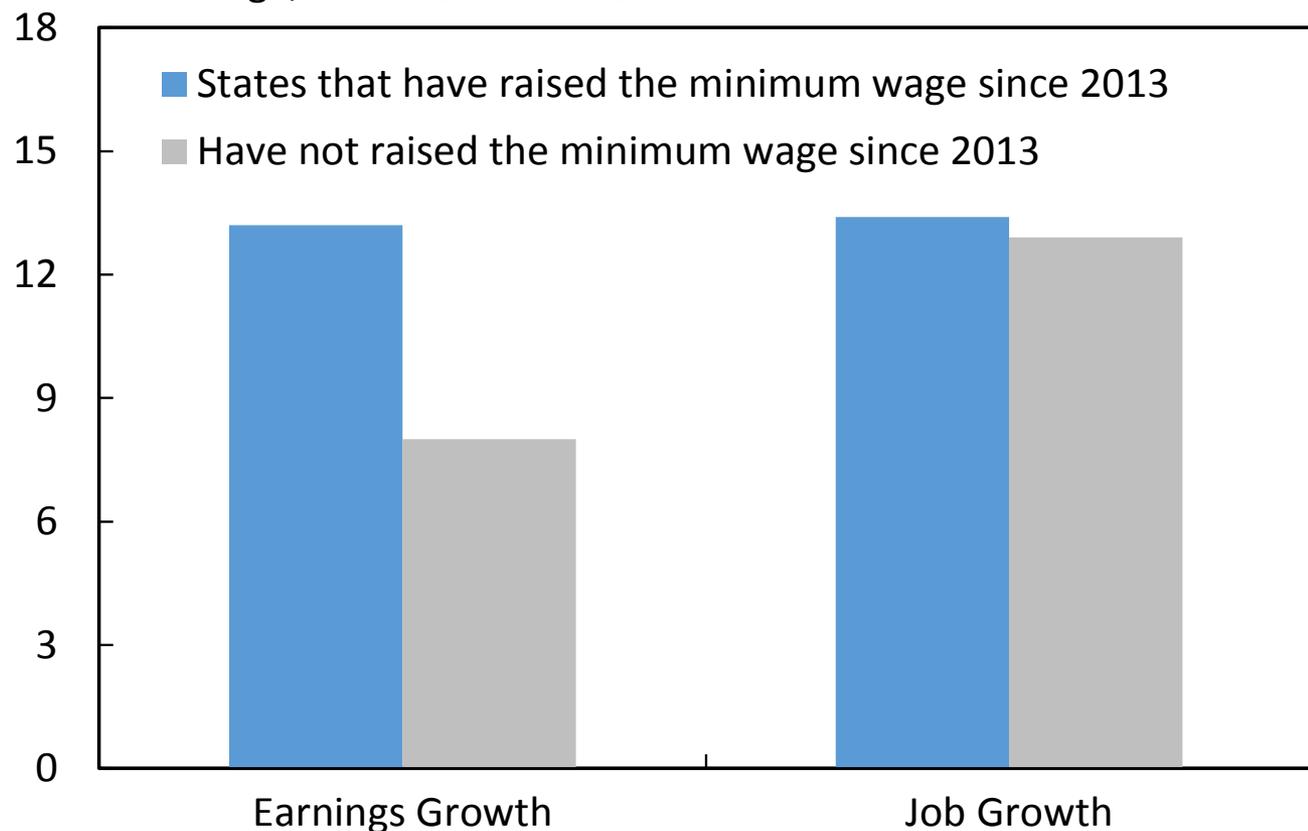
## Growth in Real Per-Enrollee Spending by Payer



# Higher State and Local Minimum Wages Have Driven Bottom-End Wage Growth

## Earnings and Job Growth in Leisure & Hospitality Since the President's 2013 Call to Raise the Minimum Wage

Percent Change, 2012:Q2–2016:Q2

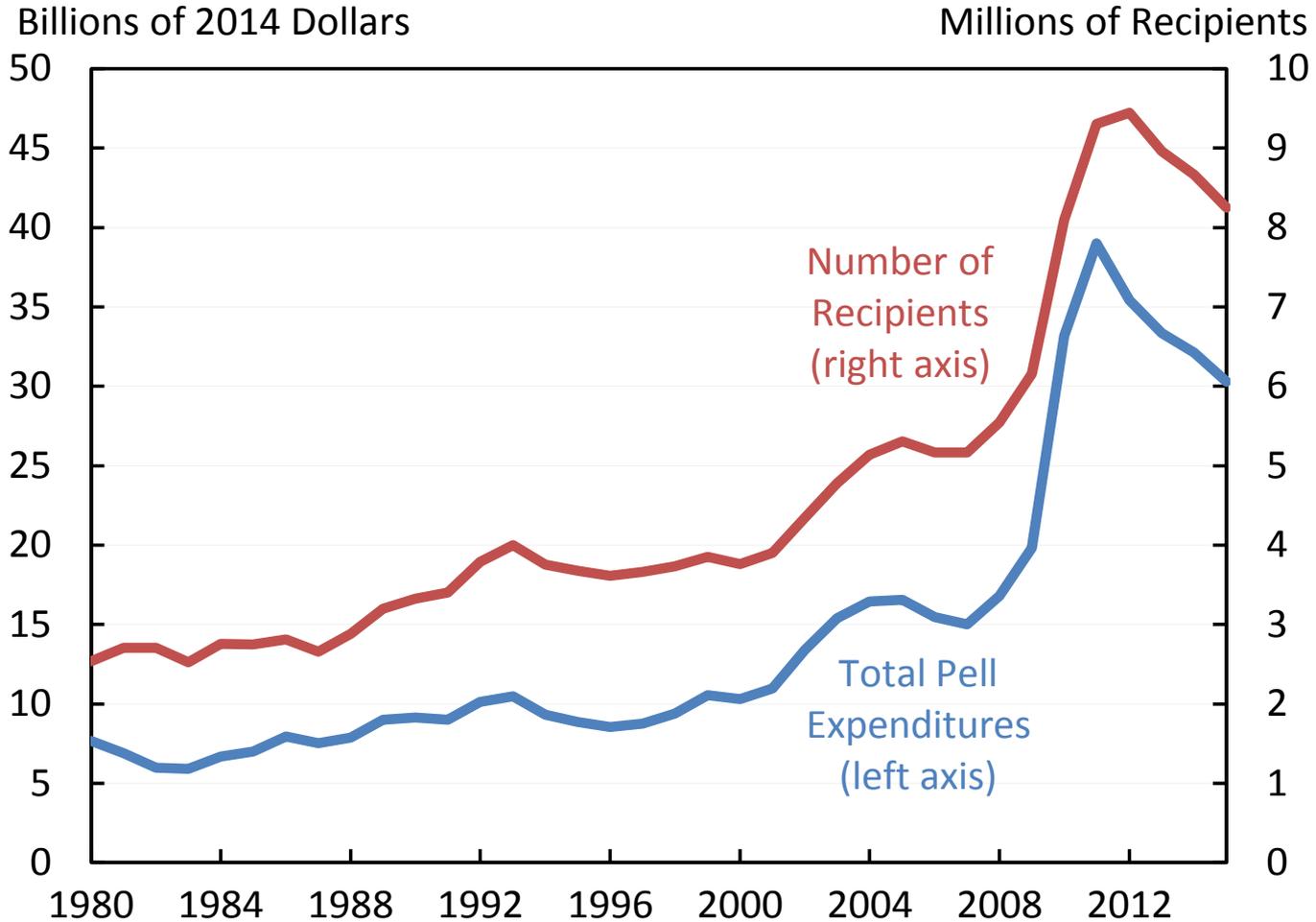


Note: Bars show percent changes from 2012:Q2 to 2016:Q2 using not-seasonally-adjusted average weekly earnings; the category of States that have increased minimum wages since 2013 excludes those that only index their minimum wage to inflation.

Source: Bureau of Labor Statistics, Current Employment Statistics; CEA calculations.

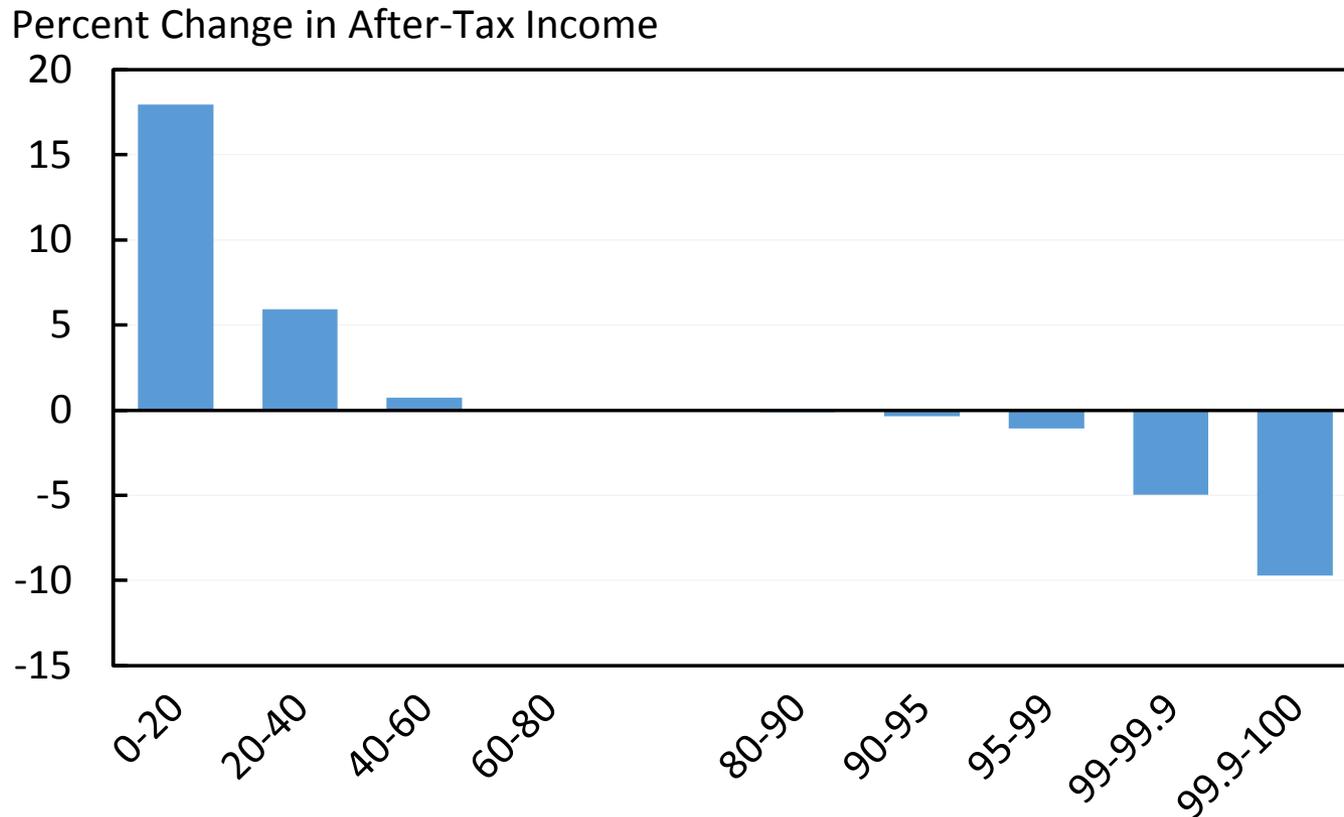
# Historic Investments in Higher Education

## Pell Expenditures Over Time



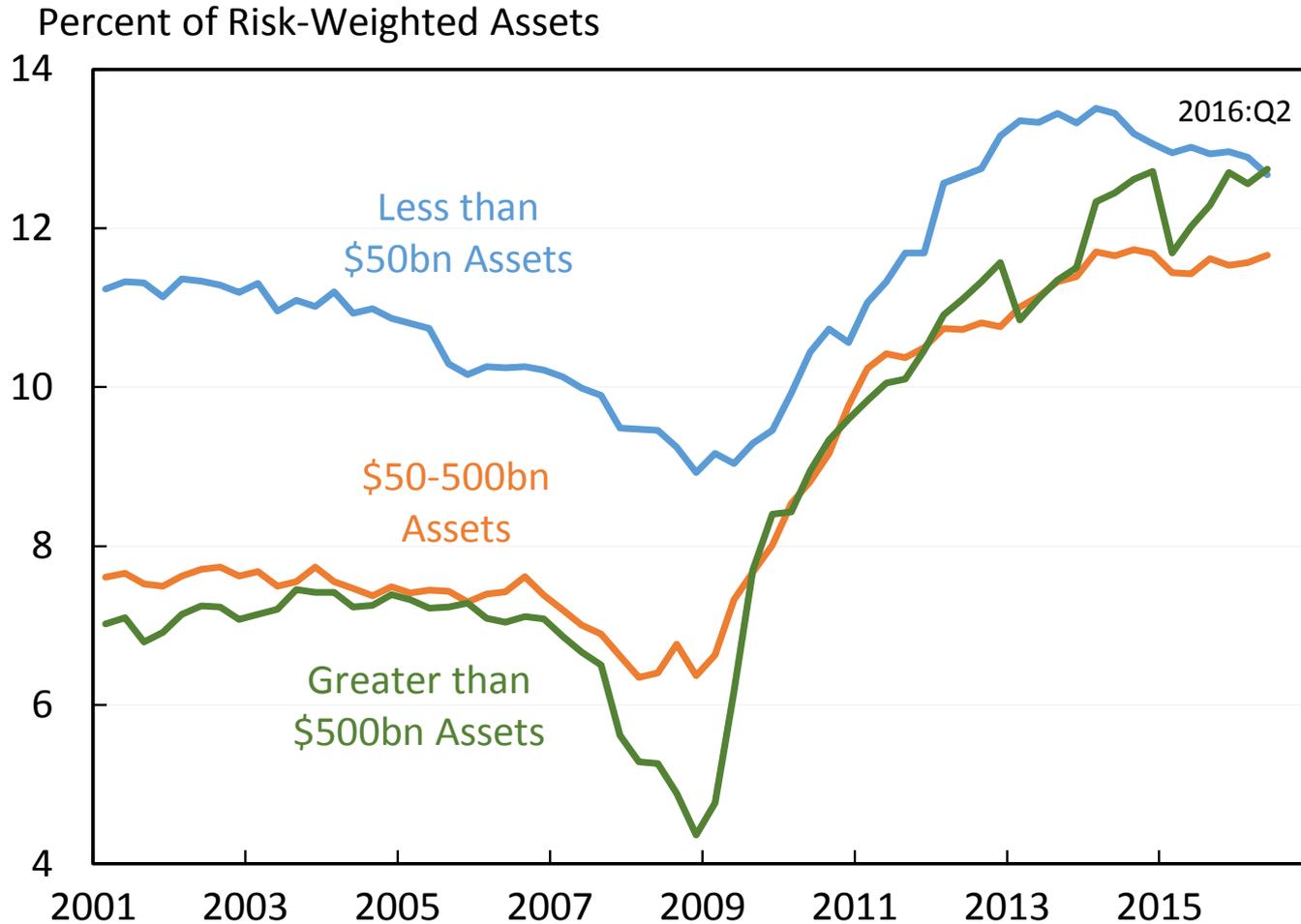
# A Historic Reduction in Income Inequality

## Change in After-Tax Income by Income Percentile: Changes in Tax Policy Since 2009 and ACA Coverage Provisions, 2017



# The Financial Sector is More Resilient, With Higher Minimum Capital Ratios for Banks

## Tier 1 Common Equity Ratios by Bank Size



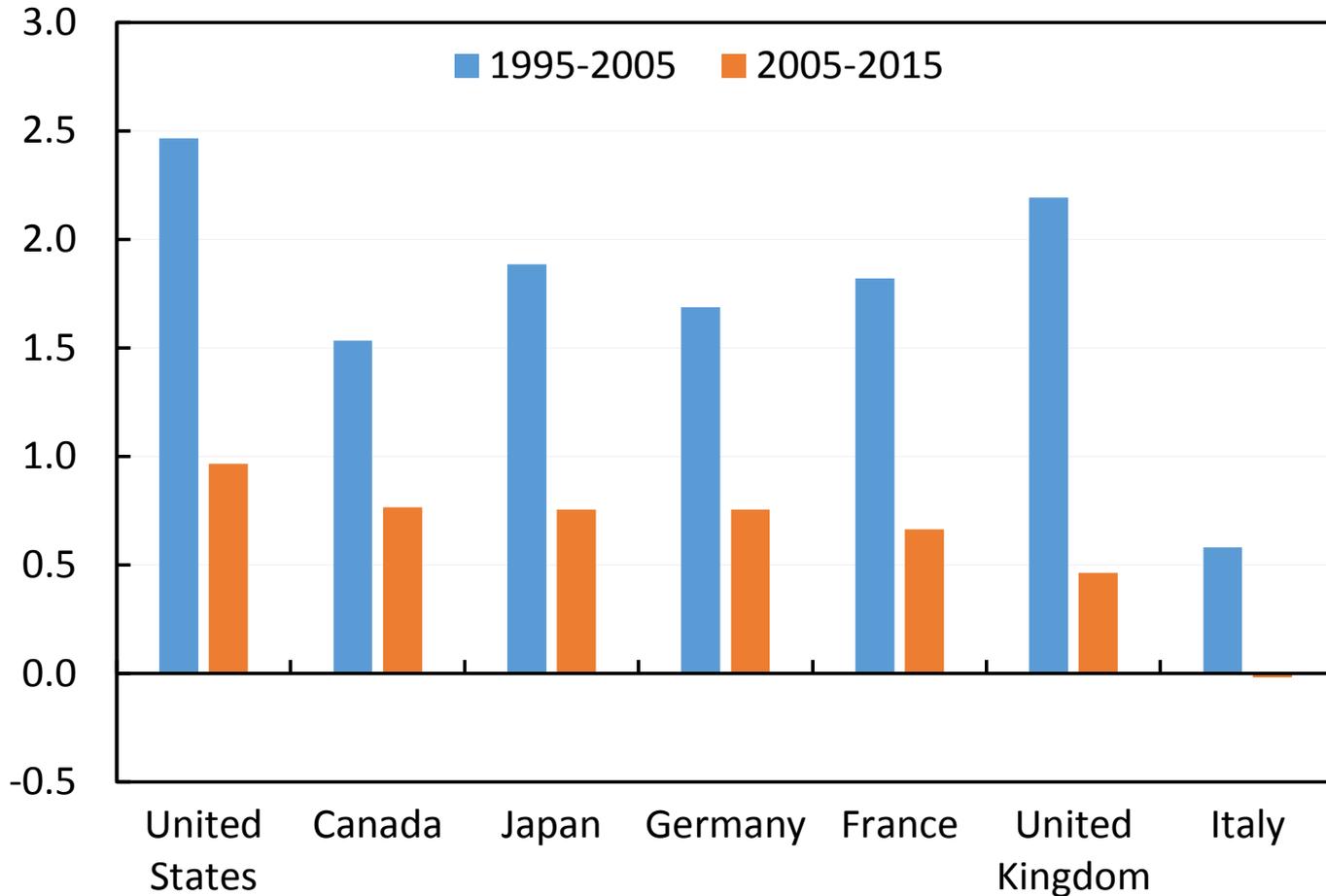
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# Average Annual Productivity Growth Has Slowed in All of the G-7 Economies

## Labor Productivity Growth, G-7 Countries

Percent, Annual Rate

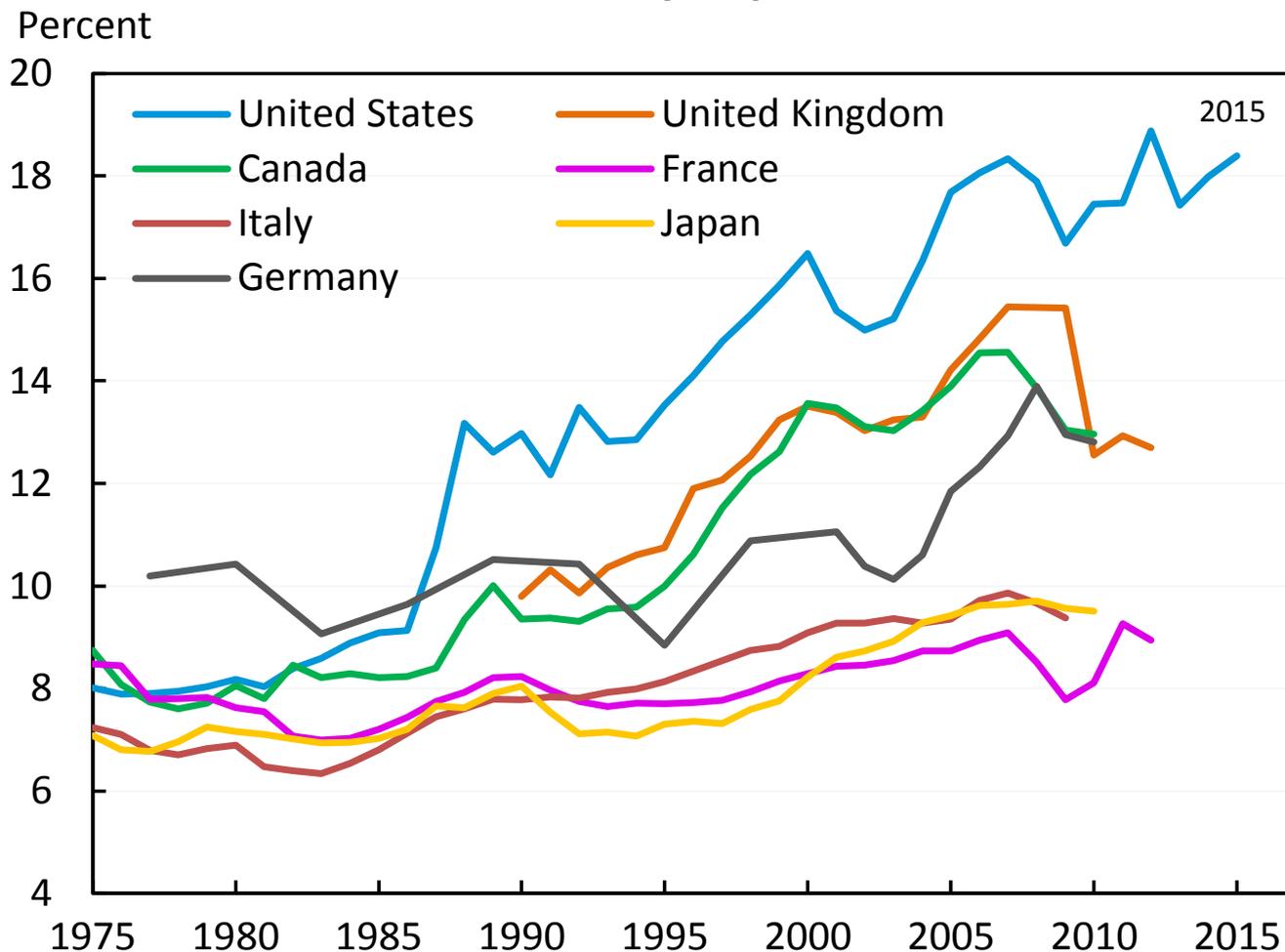


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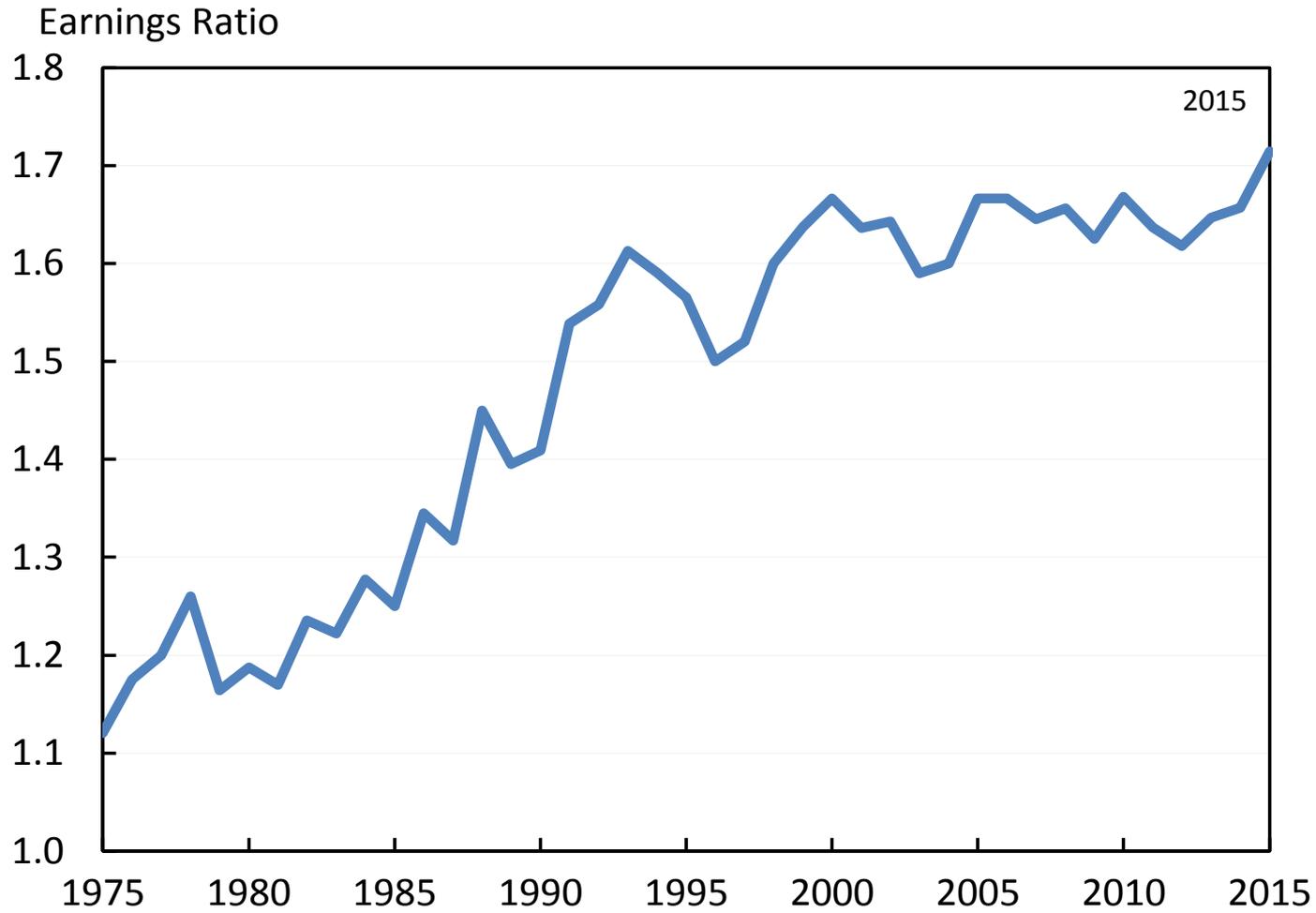
# The United States Has Seen Faster Growth and Higher Levels of Income Inequality Than Other Major Advanced Economies

## Share of Income Earned by Top 1 Percent, 1975-2015



# Competitive Explanation: Increased Demand for Skills

## College Earnings Premium, 1975-2015

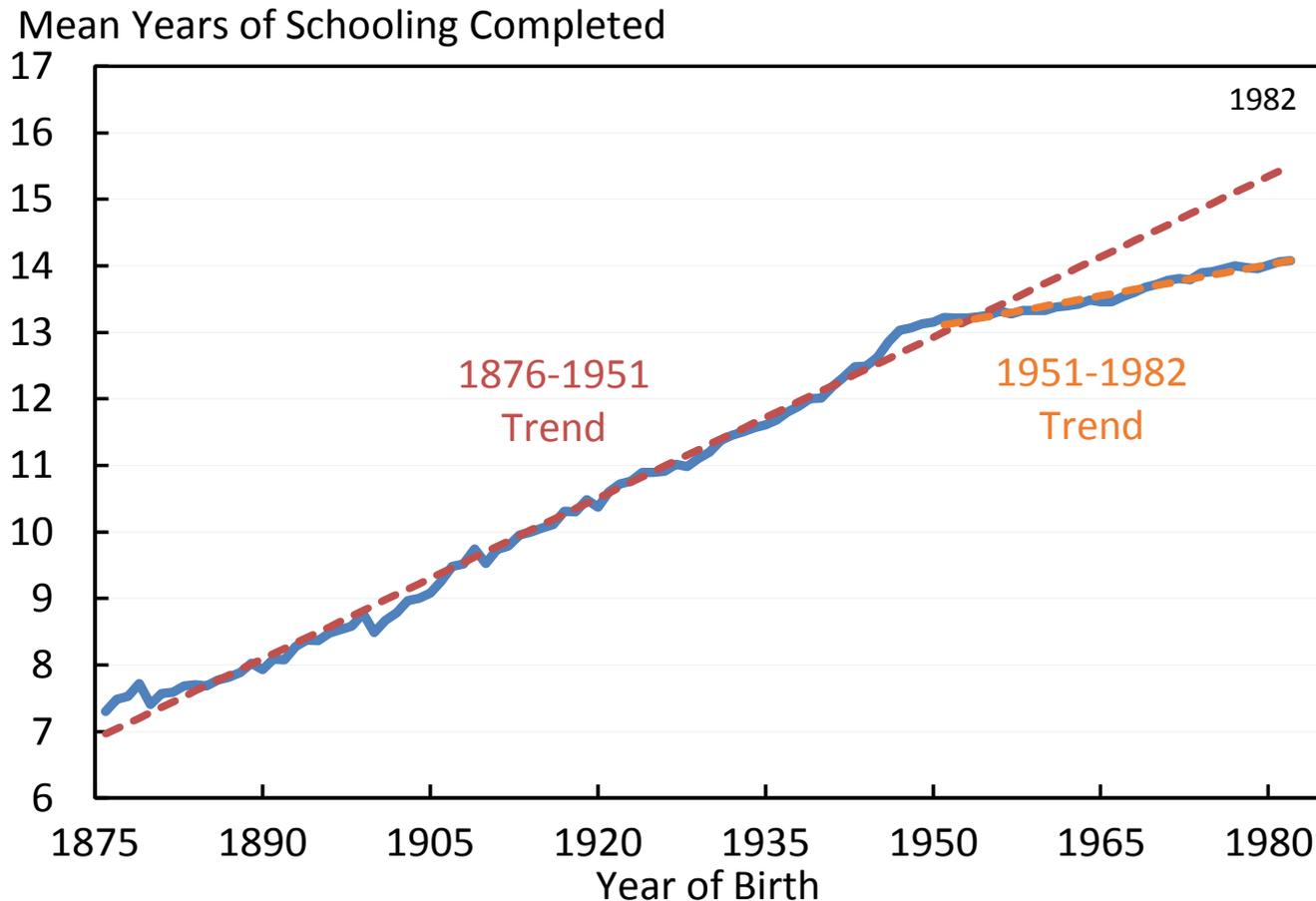


Note: Ratio of median annual earnings of full-time, full-year workers over age 25 with a bachelor's degree only to median annual earnings of full-time, full-year workers over age 25 with a high school degree only. Prior to 1992, bachelor's degree is defined as four years of college.

Source: Bureau of Labor Statistics, Current Population Survey (Annual Social and Economic Supplement); CEA calculations.

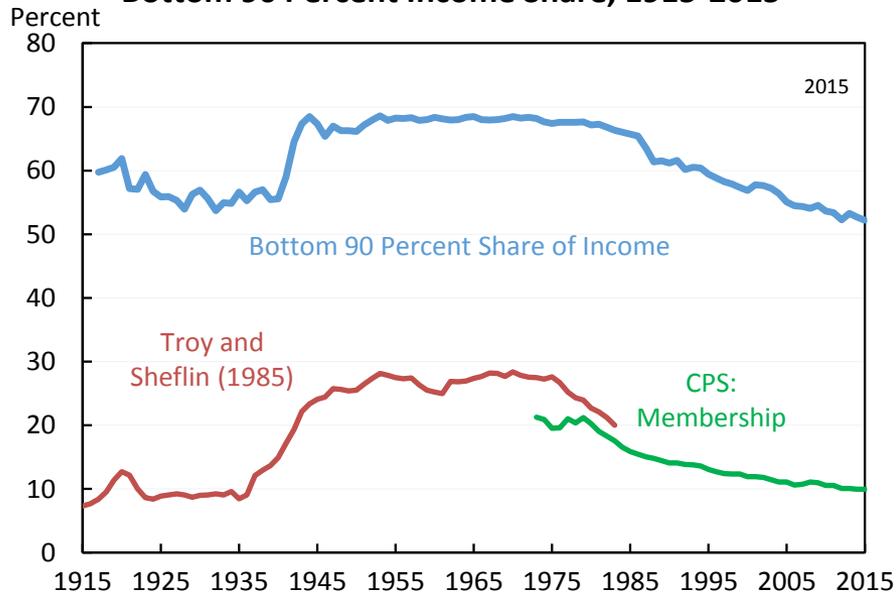
# Competitive Explanation: Slowdown in the Growth of the Supply of Skills

## Mean Years of Schooling at Age 30, U.S. Native-Born, by Year of Birth, 1876-1982

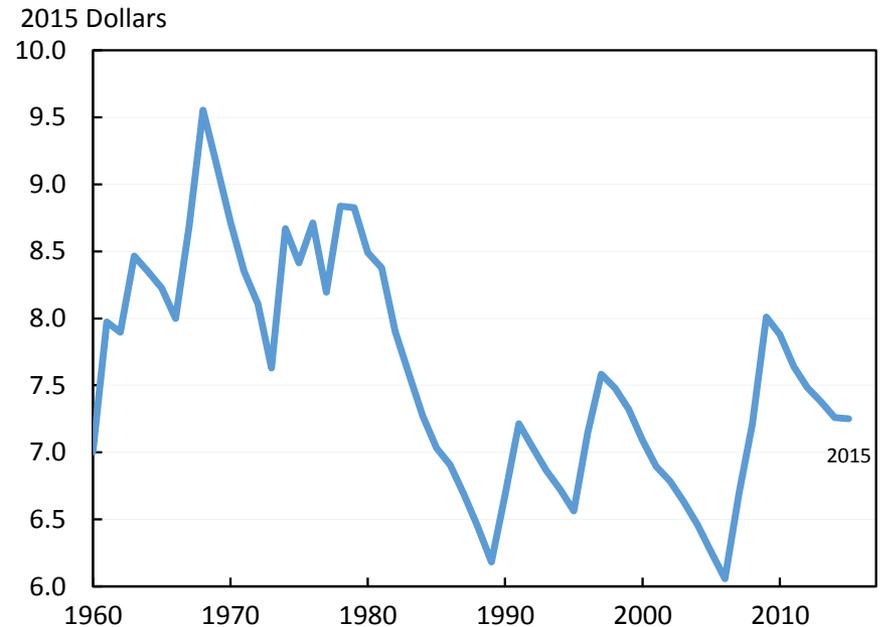


# Noncompetitive Explanation: Worker Bargaining Power Has Been Reduced

## Union Membership as a Share of Total Employment and Bottom 90 Percent Income Share, 1915-2015



## Real Value of the Federal Minimum Wage, 1960-2015

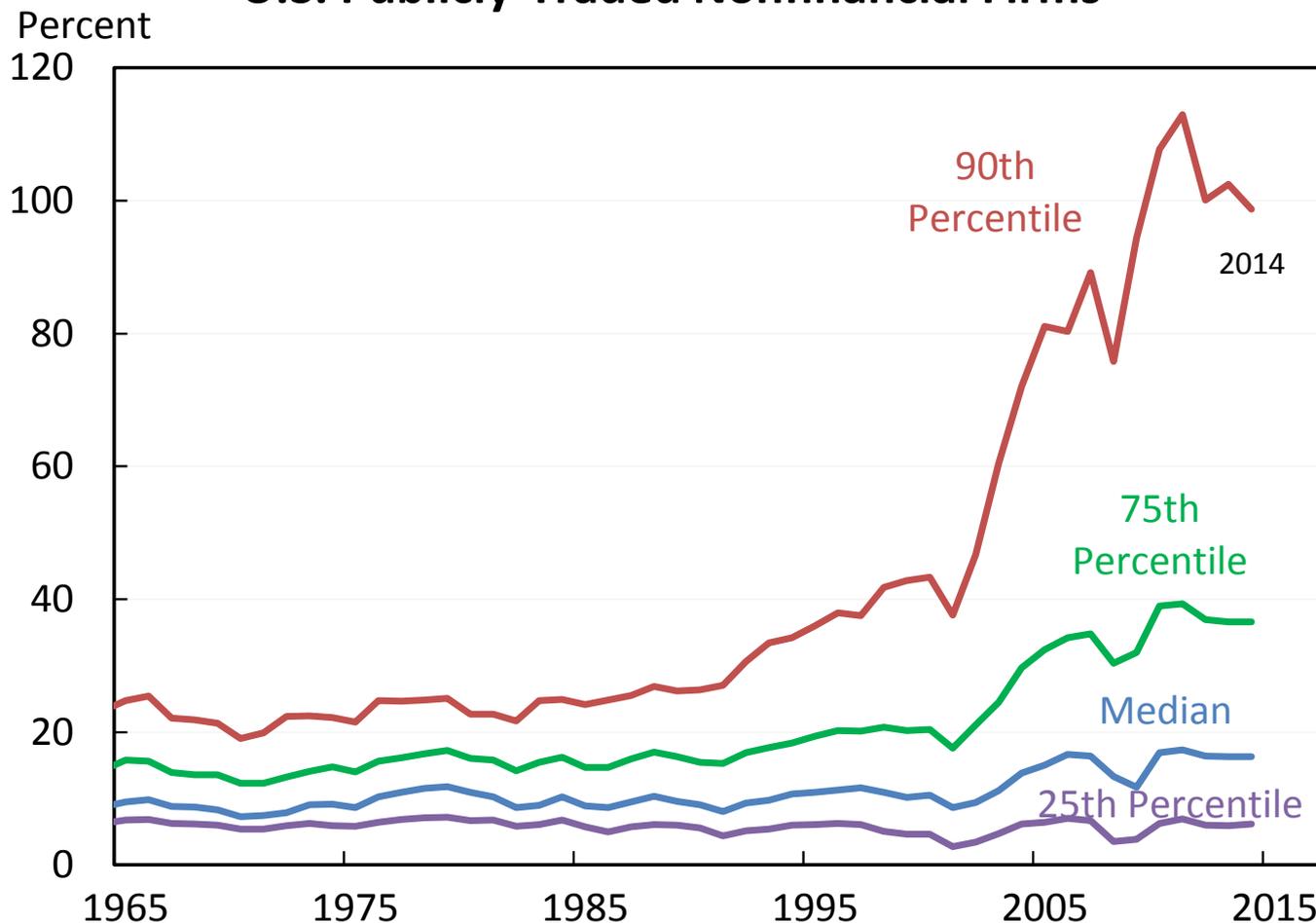


Note: Total employment from 1901 to 1947 is derived from estimates in Weir (1992). For 1948 to 2015, employment data are annual averages from the monthly Current Population Survey. Minimum wage adjusted for inflation using the CPI-U-RS.

Source: Troy and Sheflin (1985); Bureau of Labor Statistics, Current Population Survey; Weir (1992); World Wealth and Income Database; Department of Labor; Bureau of Labor Statistics, Consumer Prices; CEA calculations.

# Noncompetitive Explanation: Increasing Dispersion in Returns to Invested Capital Across Firms

## Return on Invested Capital Excluding Goodwill, U.S. Publicly-Traded Nonfinancial Firms



Note: The return on invested capital definition is based on Koller, Goedhart, and Wessels (2015), and the data presented here are updated and augmented versions of the figures presented in Chapter 6 of that volume. The McKinsey data includes McKinsey's analysis of Standard & Poor's data and exclude financial firms from the analysis because of the practical complexities of computing returns on invested capital for such firms.

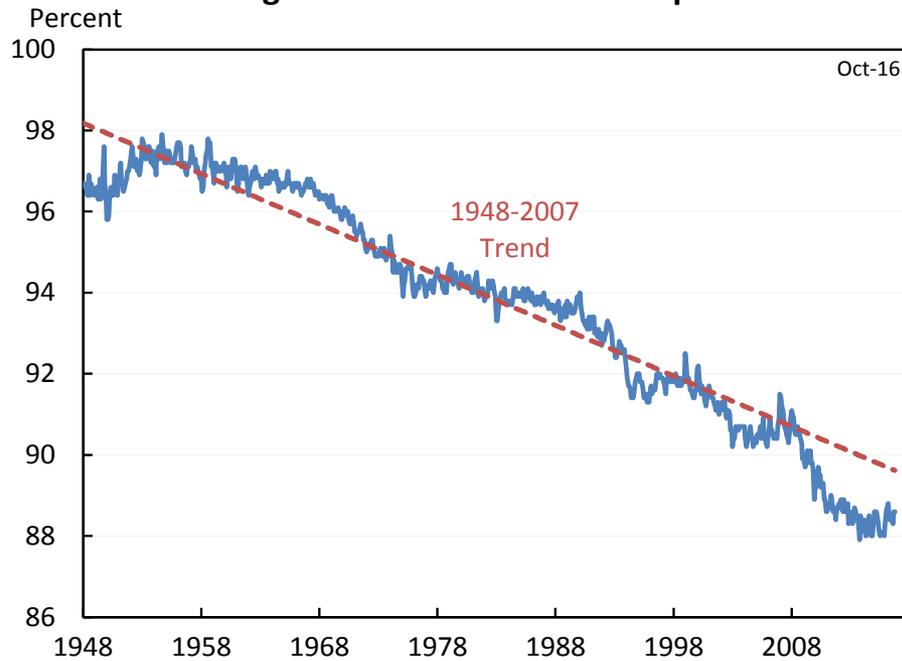
Source: Koller, Goedhart, and Wessels (2015); McKinsey & Company; Furman and Orszag (2015).

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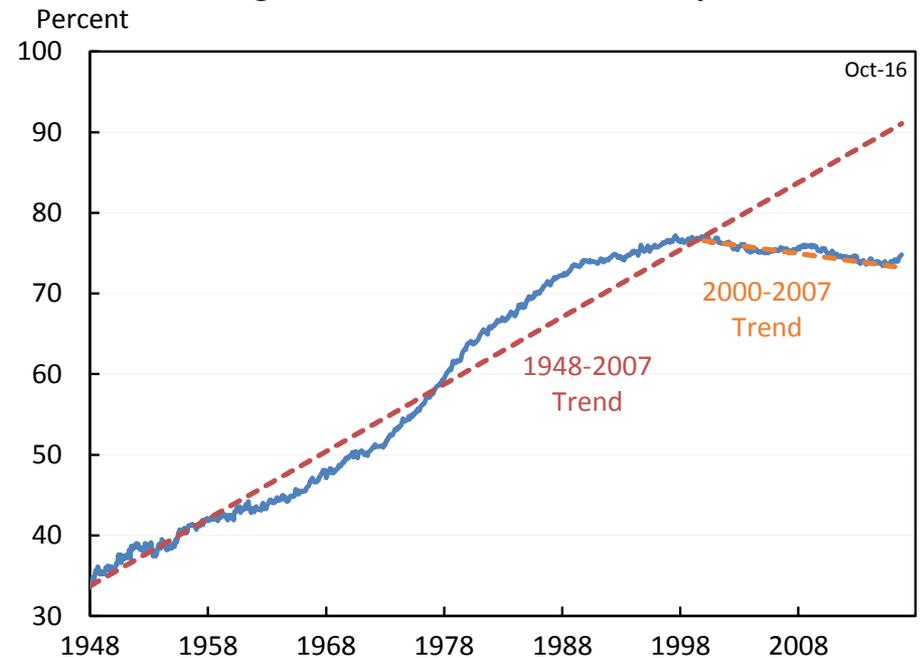
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# A Troubling Trend: Declining Prime-Age Labor Force Participation

## Prime-Age Male Labor Force Participation Rate

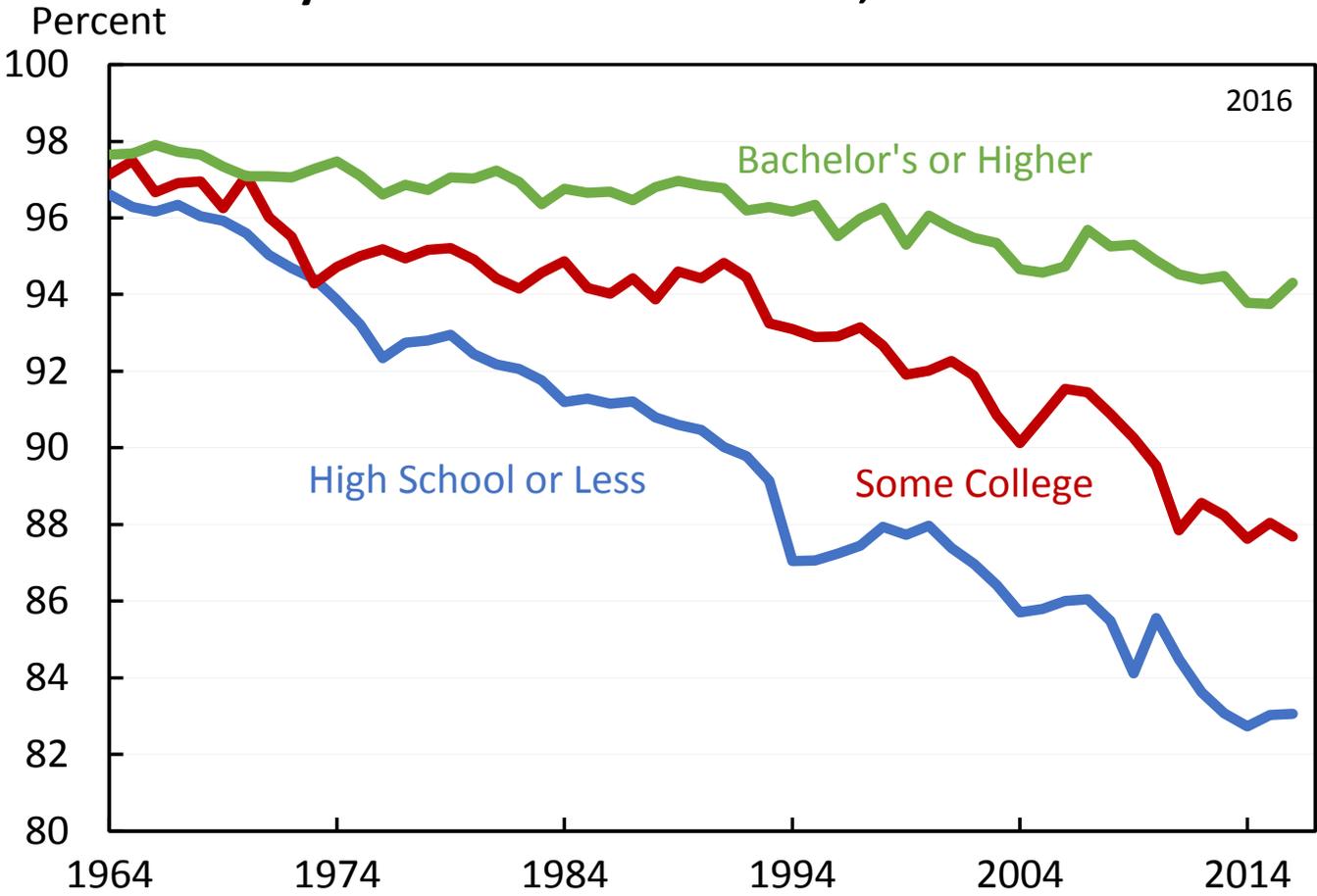


## Prime-Age Female Labor Force Participation Rate



# Declining Prime-Age Male Participation Has Been Concentrated Among Men with Less Educational Attainment

## Prime-Age Male Labor Force Participation Rate by Educational Attainment, 1964-2016

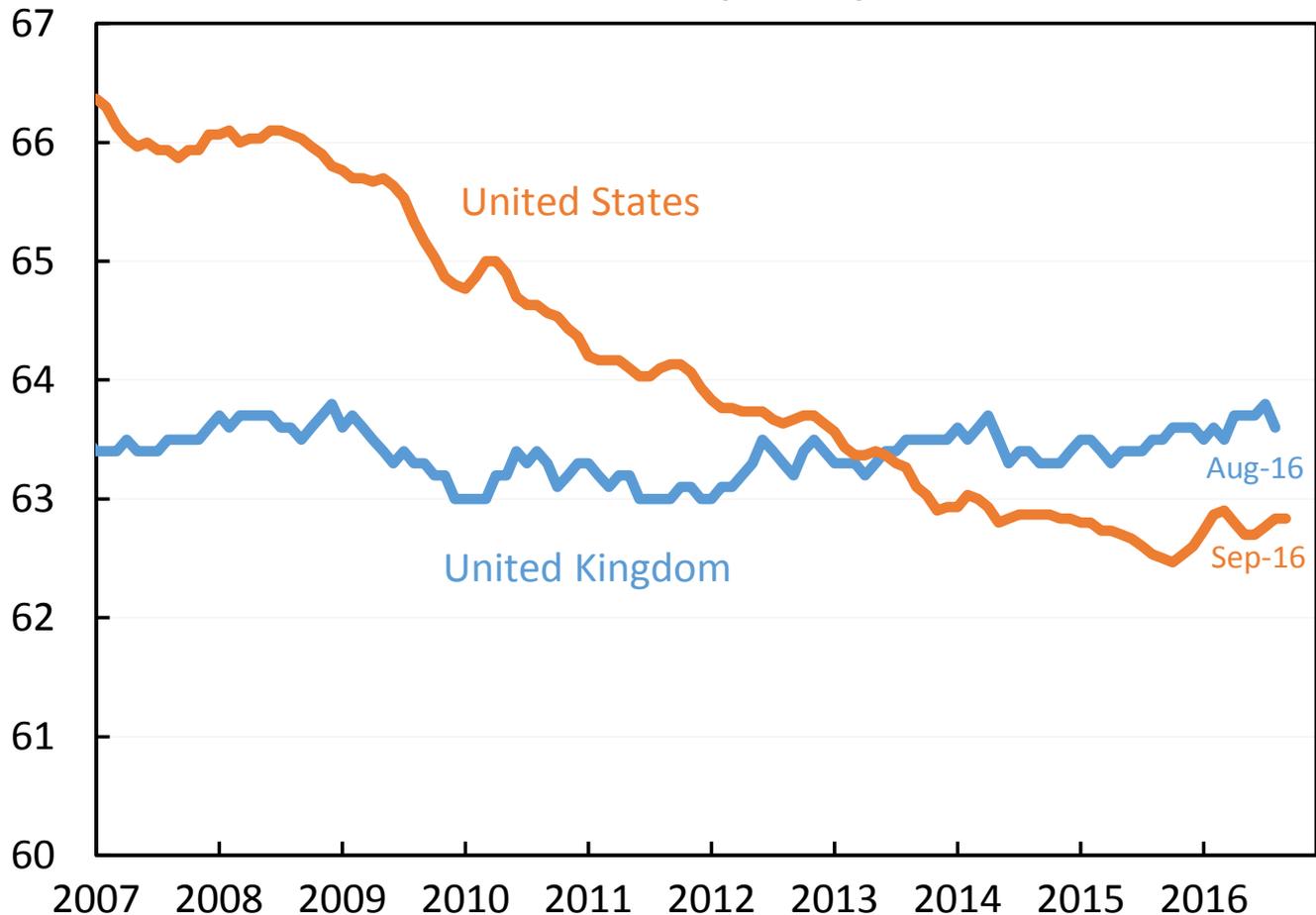


Source: Bureau of Labor Statistics, Current Population Survey (Annual Social and Economic Supplement); CEA calculations.

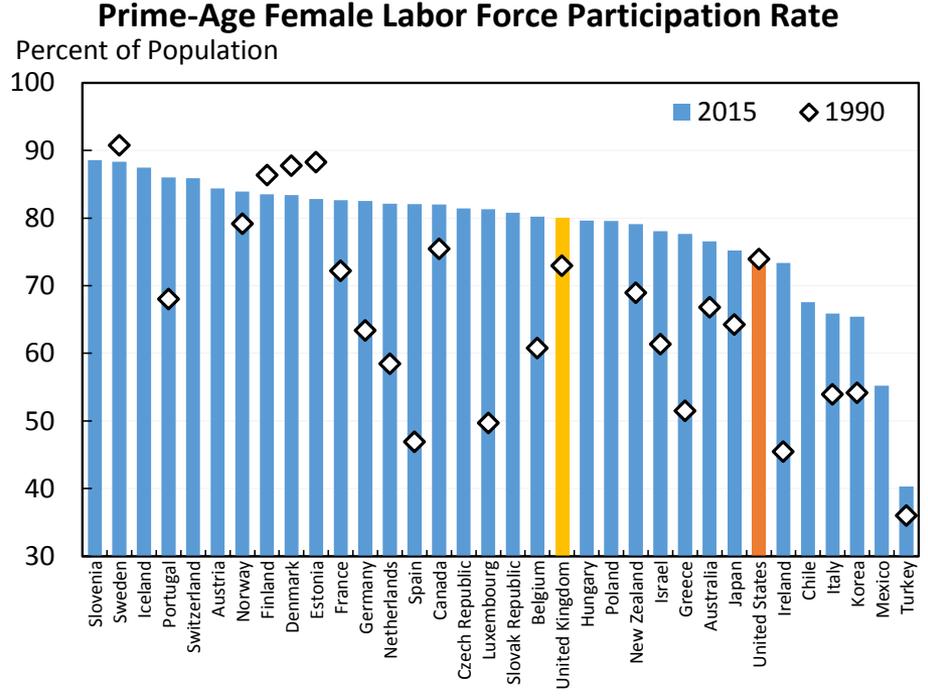
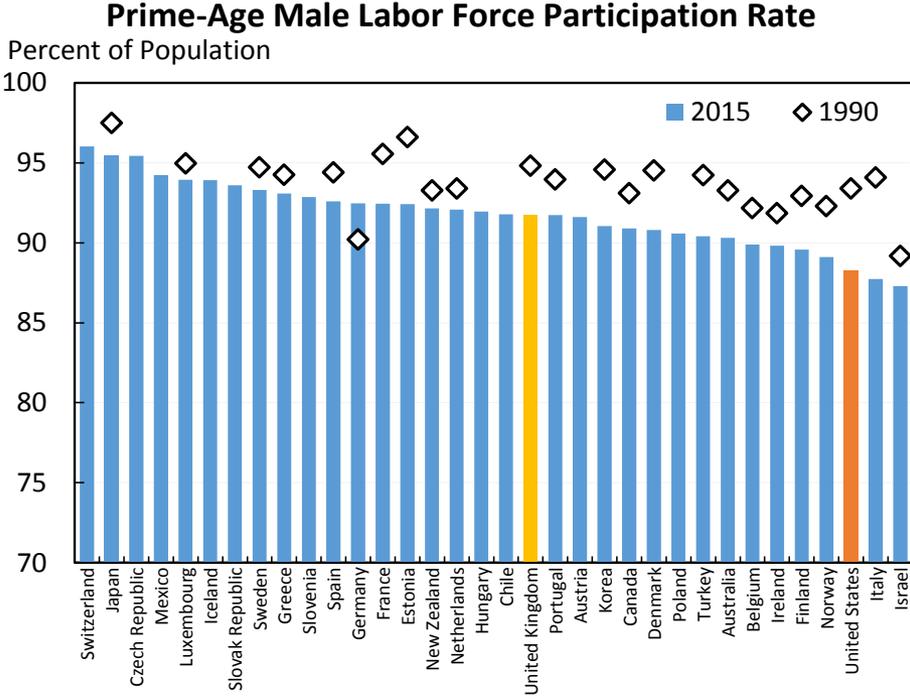
# Recent U.S. Experience Diverges from the United Kingdom

## Labor Force Participation, 2007-2016

Percent, Centered Three-Month Moving Average



# Despite Flexible Labor Markets, the United States Ranks Towards the Bottom of the OECD in the Share of Prime-Age Men and Women in the Labor Force



Source : Organisation for Economic Co-operation and Development.

# U.S. Labor Market Has High Flexibility But Low Supportiveness According to OECD's *Going for Growth* Indicators

## OECD *Going for Growth* Indicators

|   | Percentile Rank (100 =<br>Most Flexible/Most<br>Supportive) |
|---|---|
| <i>Measures of Labor Market Flexibility</i>                       |   |
| Overall Labor Market Regulation (2014)                            | 100   |
| Employment Protection for Regular Employment (2013)               | 100   |
| Minimum Cost of Labor (2014)                                      | 96  |
| Coverage of Collective Bargaining Agreements (2013)               | 94  |
| <i>Measures of Institutional Labor Market Support</i>             |   |
| Expenditure on Active Labor Market Policies per Unemployed (2013) | 6   |
| Net Childcare Costs, Couples (2012)                               | 10  |
| Implicit Tax on Returning to Work, Second Earner (2012)           | 10  |

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# Selected Policies for Inclusive, Sustainable Growth

## **Productivity**

- Investing in infrastructure, research, and education
- Expanding trade and immigration
- Reforming the business tax code

## **Inequality and Participation**

- Raising the minimum wage and expanding collective bargaining
- Reducing concentration of market power and rent-seeking via competition policy
- Deepening “connective tissue” in labor markets and expanding workplace flexibility
- Reforming the criminal justice system

## **Sustainability**

- Continuing to implement Wall Street Reform
- Improving automatic stabilizers and making more active use of fiscal policy
- Reducing the long-run deficit with a combination of reforms to entitlements and increased revenue
- Addressing climate change

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