President Obama’s Economic Record and the Challenges Ahead

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Note: Population data for euro area and United Kingdom are quarterly interpolations of annual data.
Source: National sources via Haver Analytics; CEA calculations.
U.S. Unemployment Rate Has Consistently Fallen Below Expectations

Unemployment Rate and Consensus Forecasts

Percent of Labor Force

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)

Percent Change, Annual Rate

Note: Wages for private production and nonsupervisory workers.
In 2015, Income Increased for Households Across Distribution, With Largest Gains at Bottom and Middle

Growth in Real Household Income by Percentile, 2014-2015

Source: Census Bureau; CEA calculations.
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Middle-Class Income Growth Has Slowed in Recent Decades

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Family Income</td>
<td>3.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td><em>(Census Bureau)</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median Household Income with Benefits</td>
<td>N/A</td>
<td>0.5%</td>
</tr>
<tr>
<td><em>(CBO, adj. for household size)</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median Household Income with Gov't</td>
<td>N/A</td>
<td>1.0%</td>
</tr>
<tr>
<td>Transfers/Taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>(CBO, adj. for household size)</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labor Productivity Growth (Annual Average)</strong></td>
<td>2.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td><strong>Income Shares</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top 1 Percent</td>
<td>11% → 8%</td>
<td>8% → 18%</td>
</tr>
<tr>
<td>Bottom 90 Percent</td>
<td>66% → 68%</td>
<td>68% → 52%</td>
</tr>
<tr>
<td><strong>Labor Force Participation Rate</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men, 16 and Older</td>
<td>87% → 79%</td>
<td>79% → 69%</td>
</tr>
<tr>
<td>Women, 16 and Older</td>
<td>33% → 45%</td>
<td>45% → 57%</td>
</tr>
</tbody>
</table>

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

- Recovery Act
- Subsequent Fiscal Measures
- Automatic Stabilizers

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

Source: Office of Management and Budget.
The Affordable Care Act Has Driven the Uninsured Rate Below 10 Percent For the First Time Ever

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

Average annual percent growth

<table>
<thead>
<tr>
<th>Year Period</th>
<th>Private Insurance</th>
<th>Medicare</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-2007</td>
<td>5.2</td>
<td>4.1</td>
</tr>
<tr>
<td>2007-2010</td>
<td>4.4</td>
<td>2.4</td>
</tr>
<tr>
<td>2010-2014</td>
<td>4.1</td>
<td>-0.6</td>
</tr>
</tbody>
</table>

Source: Centers for Medicare and Medicaid Services; Bureau of Economic Analysis; CEA calculations.
Note: Medicare spending growth for the 2000-2007 period has been adjusted to remove the effect of the creation of Medicare Part D.
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.

Historic Investments in Higher Education

Pell Expenditures Over Time

- Billions of 2014 Dollars
- Millions of Recipients

Source: College Board (2015).
A Historic Reduction in Income Inequality


Percent Change in After-Tax Income

Source: Department of the Treasury, Office of Tax Analysis.
The Financial Sector is More Resilient, With Higher Minimum Capital Ratios for Banks

Note: Includes data for banks and bank holding companies (BHCs).
Source: Federal Reserve Bank of New York.
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Average Annual Productivity Growth Has Slowed in All of the G-7 Economies

Source: Conference Board, Total Economy Database; CEA calculations.
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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](chart)

Source: World Wealth and Income Database.
Competitive Explanation: Increased Demand for Skills

College Earnings Premium, 1975-2015

Earnings Ratio

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.

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

Source: Calculations by Claudia Goldin and Lawrence Katz.
Noncompetitive Explanation: Worker Bargaining Power Has Been Reduced

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 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.

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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

Recent U.S. Experience Diverges from the United Kingdom

**Labor Force Participation, 2007-2016**

<table>
<thead>
<tr>
<th>Year</th>
<th>United Kingdom</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>66</td>
<td>67</td>
</tr>
<tr>
<td>2008</td>
<td>65</td>
<td>66</td>
</tr>
<tr>
<td>2009</td>
<td>64</td>
<td>65</td>
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<tr>
<td>2010</td>
<td>63</td>
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<tr>
<td>2011</td>
<td>62</td>
<td>63</td>
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<tr>
<td>2012</td>
<td>61</td>
<td>62</td>
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<tr>
<td>2013</td>
<td>60</td>
<td>61</td>
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<tr>
<td>2014</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>2015</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>2016</td>
<td>60</td>
<td>60</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Measures of Labor Market Flexibility</th>
<th>Percentile Rank (100 = Most Flexible/Most Supportive)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Labor Market Regulation (2014)</td>
<td>100</td>
</tr>
<tr>
<td>Employment Protection for Regular Employment (2013)</td>
<td>100</td>
</tr>
<tr>
<td>Minimum Cost of Labor (2014)</td>
<td>96</td>
</tr>
<tr>
<td>Coverage of Collective Bargaining Agreements (2013)</td>
<td>94</td>
</tr>
</tbody>
</table>

| Measures of Institutional Labor Market Support                                                      |                                                       |
| 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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