President Obama’s Economic Record and the Challenges Ahead

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   b. Inequality
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In Critical Ways, the Shock that Precipitated the Financial Crisis Was Larger than the One that Precipitated the Great Depression

**Note:** *For financial crisis, change in net worth shown is from 2007 to 2008. Civilian employment of those ages 16 and older for financial crisis; ages 14 and older for Great Depression.

Source: Federal Reserve Board of Governors; Mishkin (1978); Bureau of Labor Statistics; CPB World Trade Monitor; Statistical Office of the United Nations; Bureau of Economic Analysis; CEA calculations.
The U.S. Recovery Has Been Comparatively Strong

Real Gross Domestic Product per Capita

Index (Pre-Crisis Peak = 100)

2016:Q3


United States
Japan
Euro Area
United Kingdom

Note: Population data for euro area and United Kingdom are quarterly interpolations of annual data. Source: National sources via Haver Analytics; CEA calculations.
The 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.
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

1980-2007 Pace: +0.1% Per Year

Pace Since End of 2012: +1.4% Per Year

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

Note: Wages for private production and nonsupervisory workers.

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

Percent Change, Annual Rate


-1.4 -2.1 0.5 0.3 0.9

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.
Still, the Recovery is Not Complete

Composition of U-6 "Underemployment" Rate
Percent of Labor Force plus Marginally Attached Workers

- Part-Time for Economic Reasons
- Discouraged Workers and Other Marginally Attached
- Unemployed

Pre-Recession Average:
- Part-Time for Economic Reasons: 2.9
- Discouraged Workers and Other Marginally Attached: 1.0
- Unemployed: 5.2
- Total: 9.1

October 2016:
- Part-Time for Economic Reasons: 3.6
- Discouraged Workers and Other Marginally Attached: 1.1
- Unemployed: 4.8
- Total: 9.5

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Middle-Class Income Growth Has Slowed in Recent Decades

Annual Real Median Family Income Growth

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<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>3.0</td>
<td>0.4</td>
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</table>

Source: Census Bureau; CEA calculations.
Drivers of Middle-Class Income Growth

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Labor Productivity Growth (Annual Average)</td>
<td>2.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Bottom 90 Percent Income Share</td>
<td>66% → 68%</td>
<td>68% → 52%</td>
</tr>
<tr>
<td>Labor Force Participation Rate</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>
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Some Thought Experiments

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

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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.

Labor Productivity Growth, G-7 Countries

Percent, Annual Rate

-0.5
0.0
0.5
1.0
1.5
2.0
2.5
3.0

United States, Canada, Japan, Germany, France, United Kingdom, Italy

Over the Last 35+ Years, Firm Exit Has Remained Relatively Steady But the Firm Entry Rate Has Decreased Substantially

Source: Census Bureau, Business Dynamics Statistics; CEA calculations.
Labor Market Dynamism Has Been Declining for Decades

Source: Census Bureau, Business Dynamics Statistics; CEA calculations.
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The United States Has Seen Faster Growth and Higher Levels of Income Inequality Than Other Major Advanced Economies

Source: World Wealth and Income Database.
Competitive Explanation: Increased Demand for Skills and Slowdown in the Supply of 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.
Noncompetitive Explanation: Worker Bargaining Power Has Been Reduced

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


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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The Labor Force Participation Rate Peaked in 2000 and Has Declined Since (Though Has Been Stable Since 2013:Q4)

Labor Force Participation Rate, 1948-2016

Note: Shading denotes recession.
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

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

### Indicators of Labor Market Flexibility and Institutional Labor Market Support

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<tr>
<th>Measures of Labor Market Flexibility</th>
<th>Percentile Rank (100 = Most Flexible/Most Supportive)</th>
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</thead>
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<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>

<table>
<thead>
<tr>
<th>Measures of Institutional Labor Market Support</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Nationwide Paid Leave Policy (2016)</td>
<td>0</td>
</tr>
<tr>
<td>Expenditure on Active Labor Market Policies per Unemployed (2013)</td>
<td>6</td>
</tr>
<tr>
<td>Net Childcare Costs, Couples (2012)</td>
<td>10</td>
</tr>
<tr>
<td>Implicit Tax on Returning to Work, Second Earner (2012)</td>
<td>10</td>
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The Fiscal Response to the Great Recession Was Substantial

Fiscal Expansion as a Share of GDP

- Recovery Act
- Subsequent Fiscal Measures
- Automatic Stabilizers

Source: Congressional Budget Office (2016); Bureau of Economic Analysis, National Income and Product Accounts; CEA calculations.
The Affordable Care Act Has Driven the Uninsured Rate Below 10 Percent For the First Time Ever

Share of Population Without Health Insurance

Note: Data are annual back to 1989 and generally bi-annual before that. Estimates for 2016 reflect only the first quarter.
Source: CEA analysis of NHIS and supplemental data described in CEA (2014)
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

- Private Insurance
  - 2000-2007: 5.2%
  - 2007-2010: 4.4%
  - 2010-2014: 1.1%

- Medicare
  - 2000-2007: 4.1%
  - 2007-2010: 2.4%
  - 2010-2014: -0.6%

Note: Medicare spending growth for the 2000-2007 period has been adjusted to remove the effect of the creation of Medicare Part D.
Source: Centers for Medicare and Medicaid Services; Bureau of Economic Analysis; CEA calculations.
Premium Growth for Employer Coverage Has Slowed—Even Counting Out-of-Pocket Payments

Growth in Real Costs for Employer-Based Family Coverage

Average Annual Percent Growth

- Total Premium
  - 2000-2010: 5.6%
  - 2010-2016: 3.1%

- Worker Contribution + OOP Cost (Approximate)
  - 2000-2010: 5.2%
  - 2010-2016: 1.5%

Note: Inflation adjustments use the GDP price index. GDP price index for 2016 is a CBO projection.
Source: KFF/HRET Employer Health Benefits Survey; Medical Expenditure Panel Survey, Household Component; CEA calculations.
Since the President’s Call to Action, 18 States and the District of Columbia Have Raised Their Minimum Wages

Note: Average State and Federal minimums (available 1974-2017) are weighted by statewide weekly worker hours as recorded in the CPS and described further in Autor, Manning, and Smith (2016). For the combined trendline, the Federal minimum is recorded in place of State minimums where the former binds. All values inflation-adjusted using CPI-U. Source: Autor, Manning, and Smith (2016); Bureau of Labor Statistics; Congressional Budget Office; CEA calculations.
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

States that have raised the minimum wage since 2013

Have not raised the minimum wage since 2013

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.

Large Investments in Higher Education

Pell Expenditures Over Time

- Billions of 2014 Dollars (left axis)
- Millions of Recipients (right axis)

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

Change in After-Tax Income by Income Percentile:

Percent Change in After-Tax Income

Source: Department of the Treasury, Office of Tax Analysis.
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We Cannot Engage in the Same Magnitude of Conventional Monetary Policy Used to Deal With Previous Recessions

Note: Bars represent the difference between peak Federal funds rate prior to onset of recession and trough Federal funds rate during or after recession. For 2007-09 recession, the trough rate used is the lower bound set by the FOMC (0.00 percent).
Source: Federal Reserve Board; CEA calculations.
Fiscal Situation Has Improved, But Debt-to-GDP Ratio Still Rising

Comparison of Publicly Held Debt

Source: Office of Management and Budget.
The Financial Sector is More Resilient, But Still Faces Risks

Note: Includes data for banks and bank holding companies (BHCs).
Source: Federal Reserve Bank of New York.

**Tier 1 Common Equity Ratios by Bank Size**

Percent of Risk-Weighted Assets

- Less than $50bn Assets
- $50-500bn Assets
- Greater than $500bn Assets

- 2001 - 2016:Q2

Note: Includes data for banks and bank holding companies (BHCs).
Source: Federal Reserve Bank of New York.
Emissions are Declining, But More Work Remains to Be Done

U.S. Net Emissions

Millions of metric tons of CO₂ equivalents

Note: Projections for 2014 and 2016 shown are the "high-sequestration" scenario for each year.
Source: Department of State (2016).
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