

# President Obama's Economic Record and the Challenges Ahead

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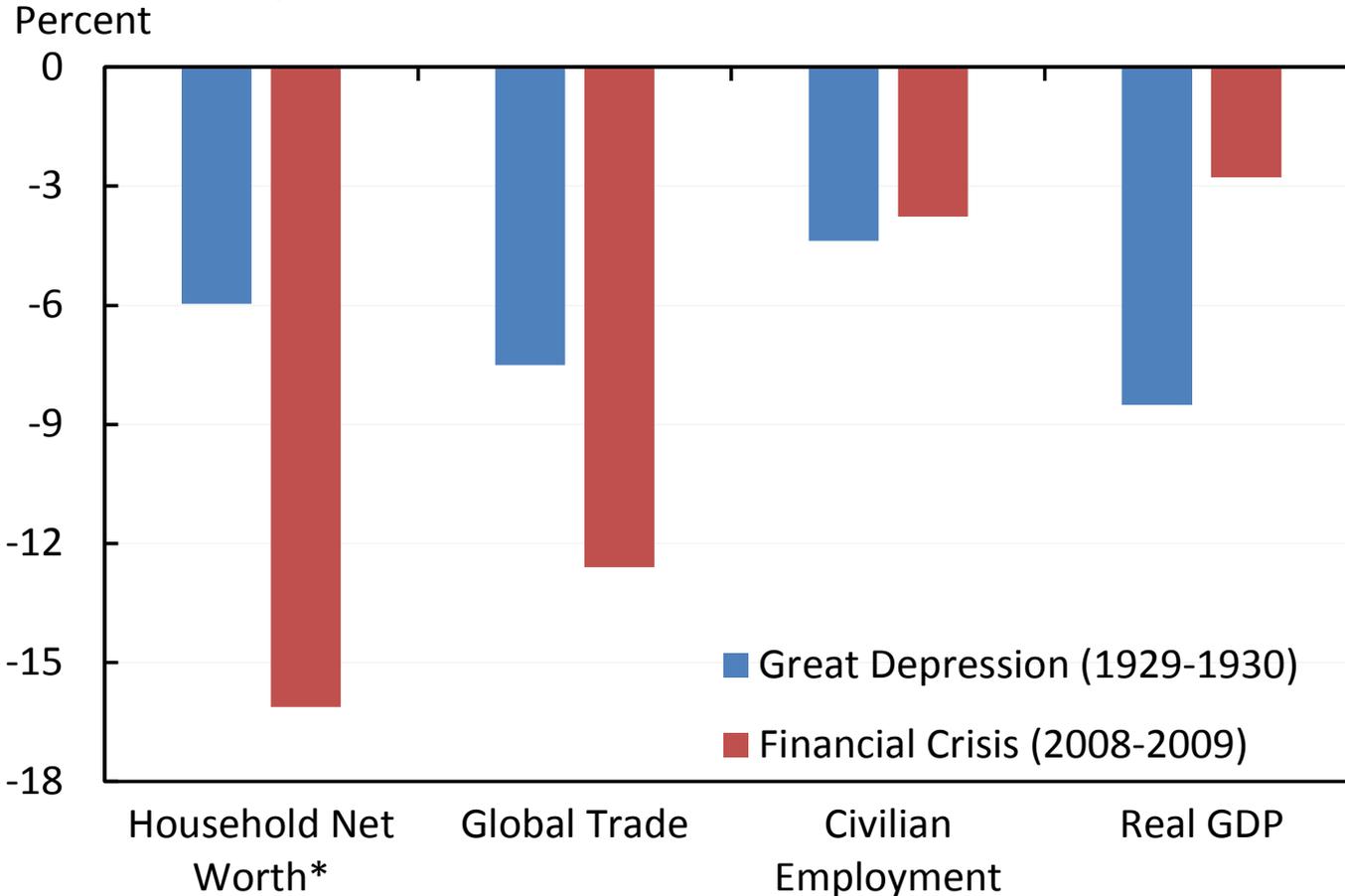
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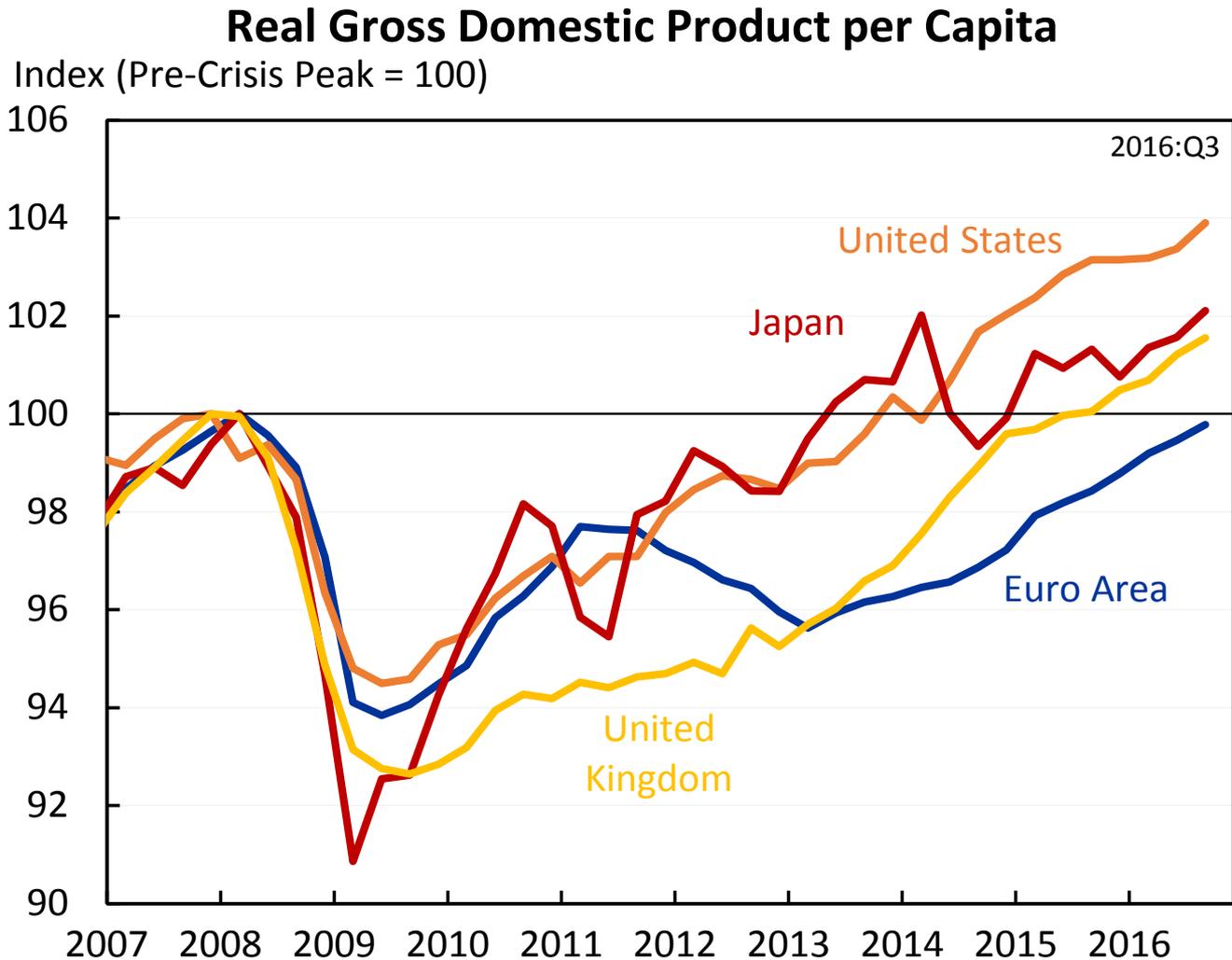
# In Critical Ways, the Shock that Precipitated the Financial Crisis Was Larger than the One that Precipitated the Great Depression

## Declines in Macroeconomic Indicators, First Year of Great Depression vs. First Year of Financial Crisis



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.

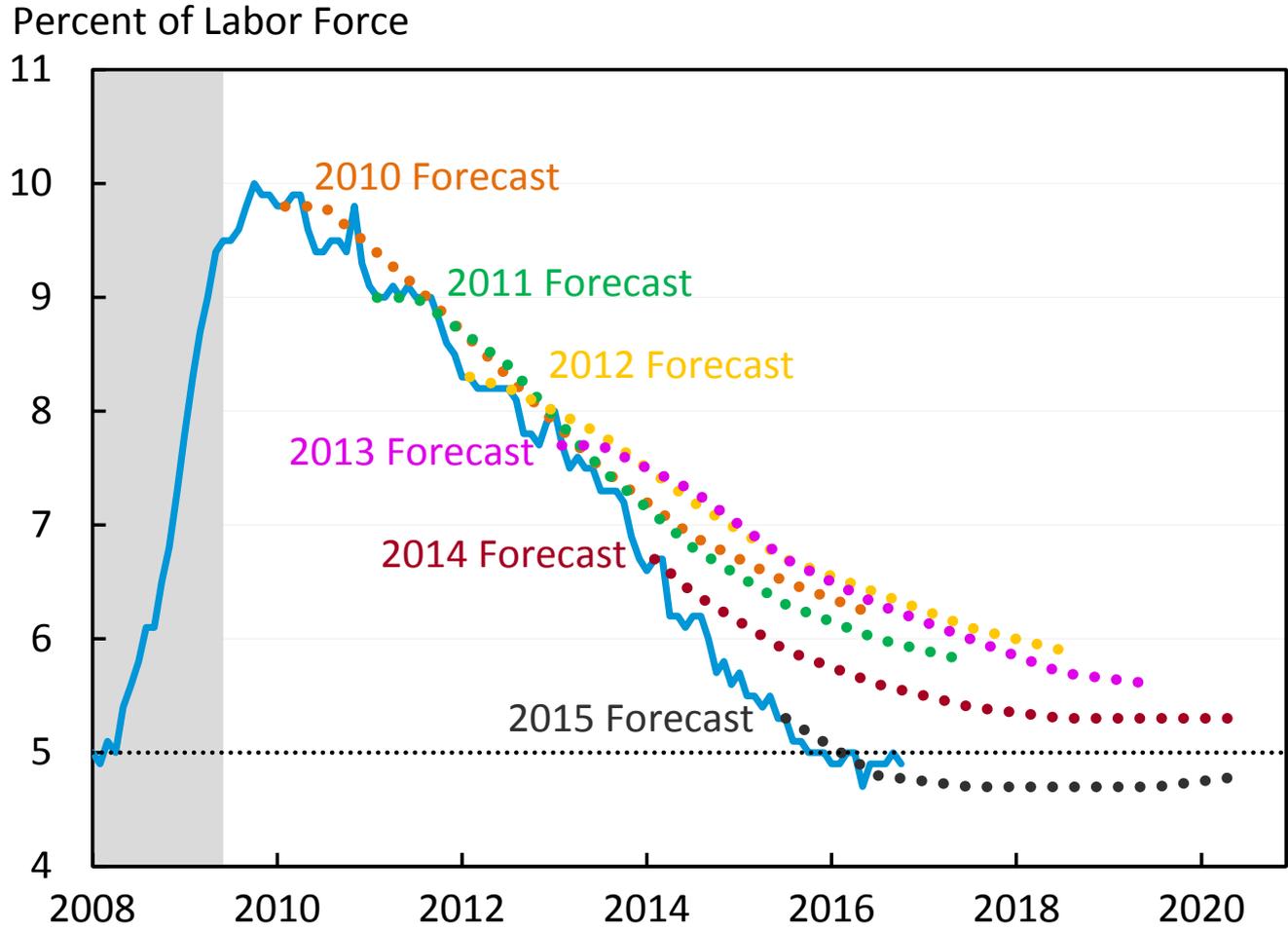
# The U.S. Recovery Has Been Comparatively Strong



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

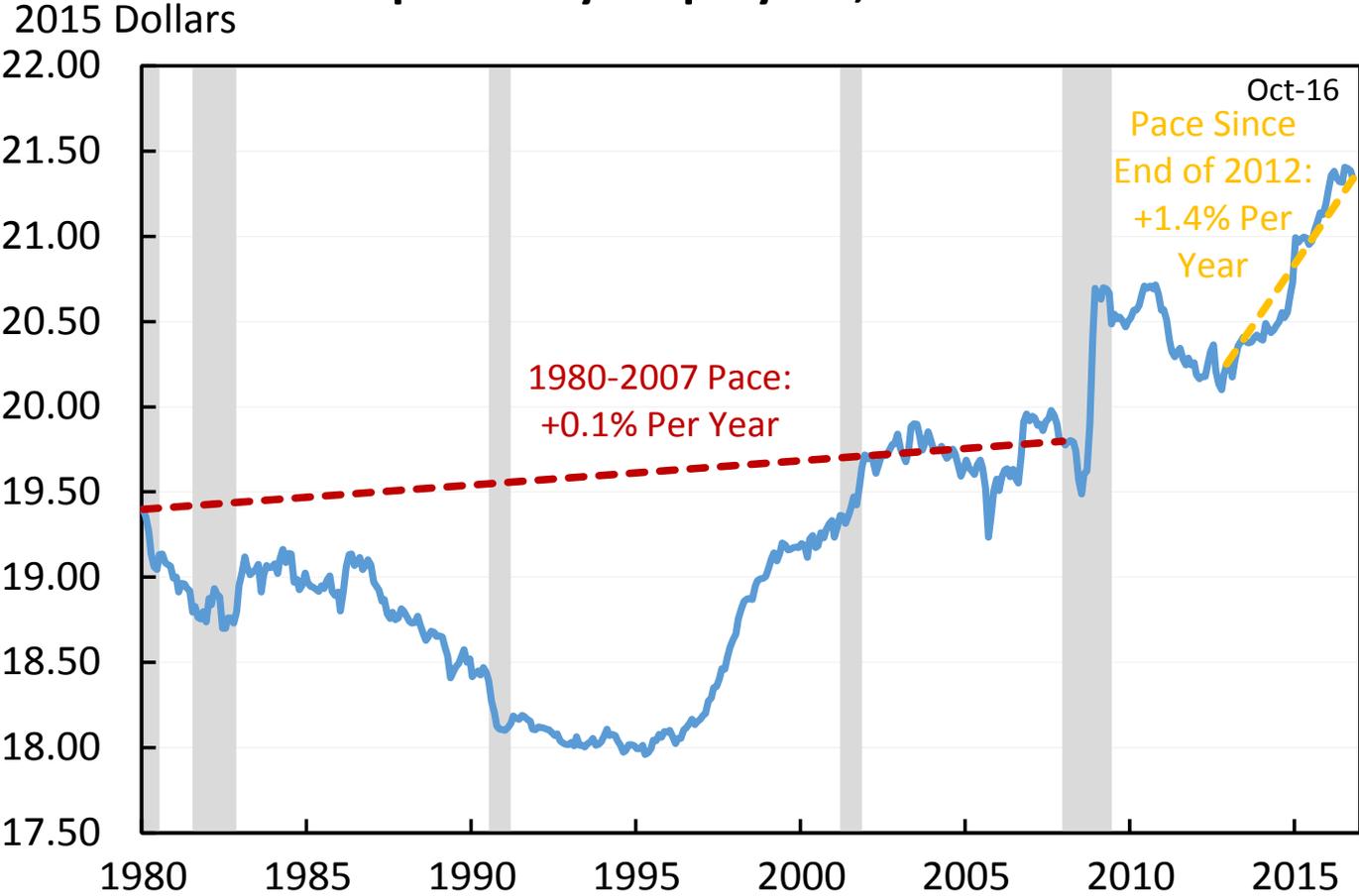
## Unemployment Rate and Consensus Forecasts



Note: Annual forecasts are current as of March of the stated year. Shading denotes recession.  
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

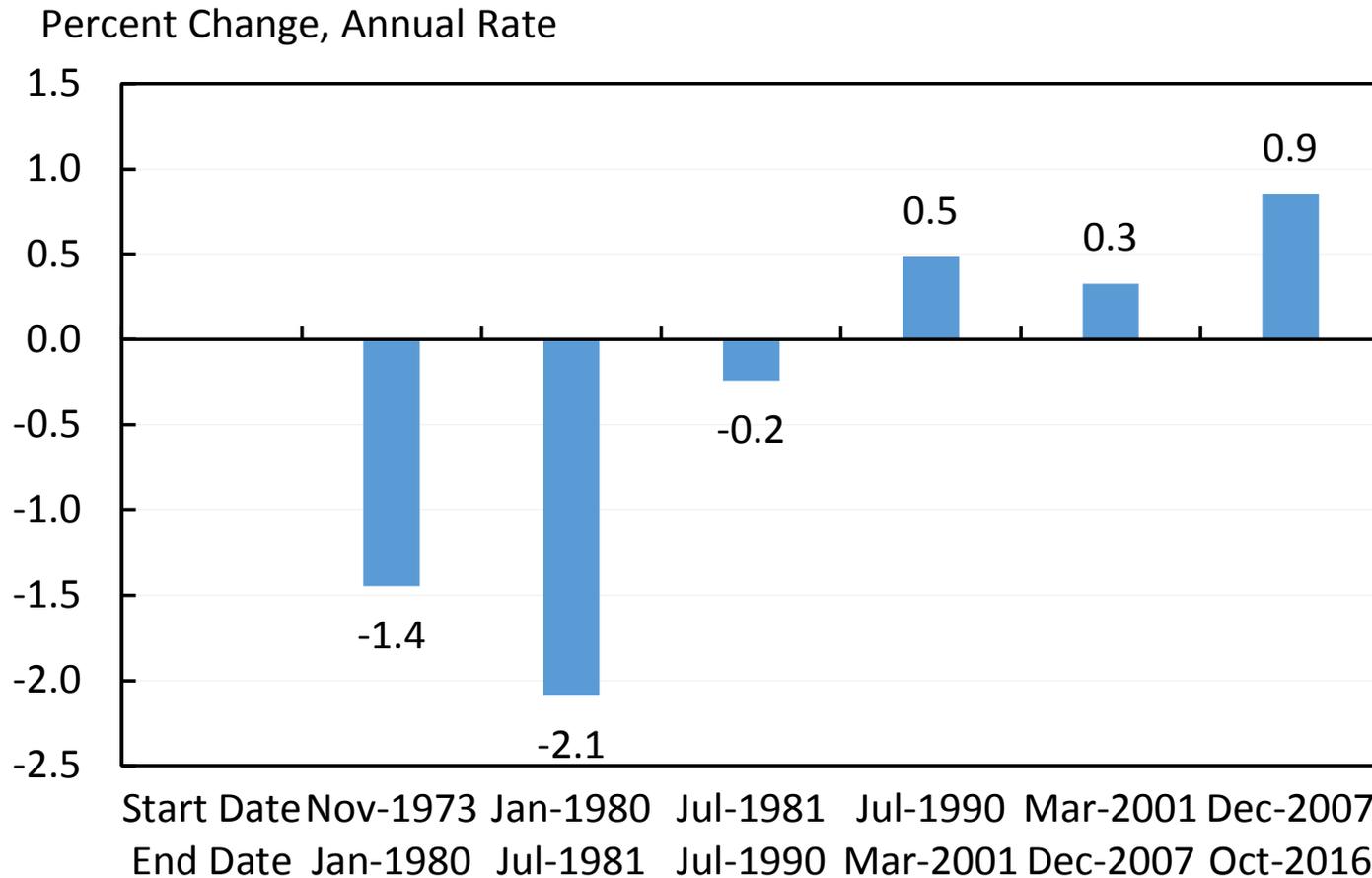
## Real Hourly Earnings for Private Production and Nonsupervisory Employees, 1980-2016



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)



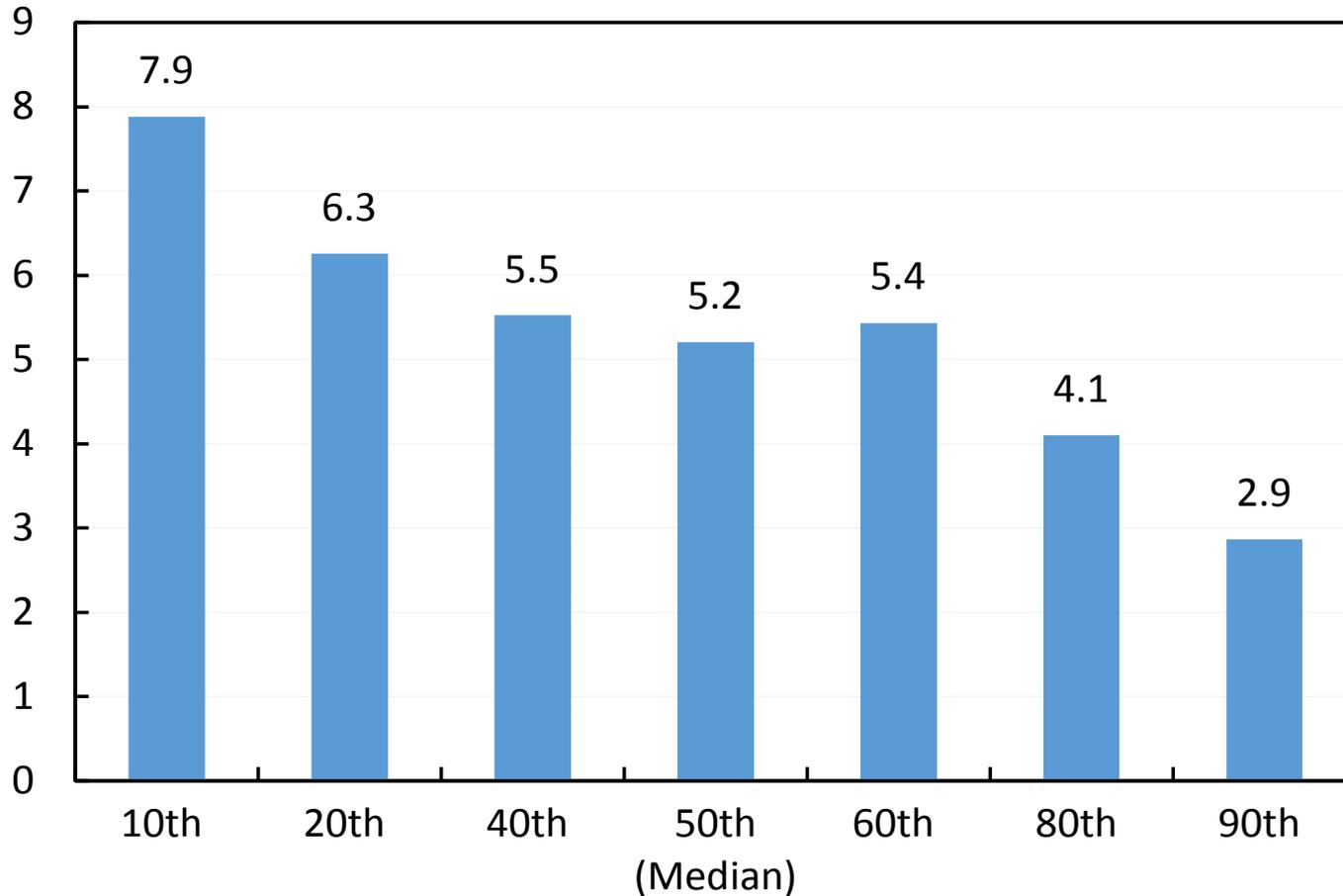
Note: Wages for private production and nonsupervisory workers.

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

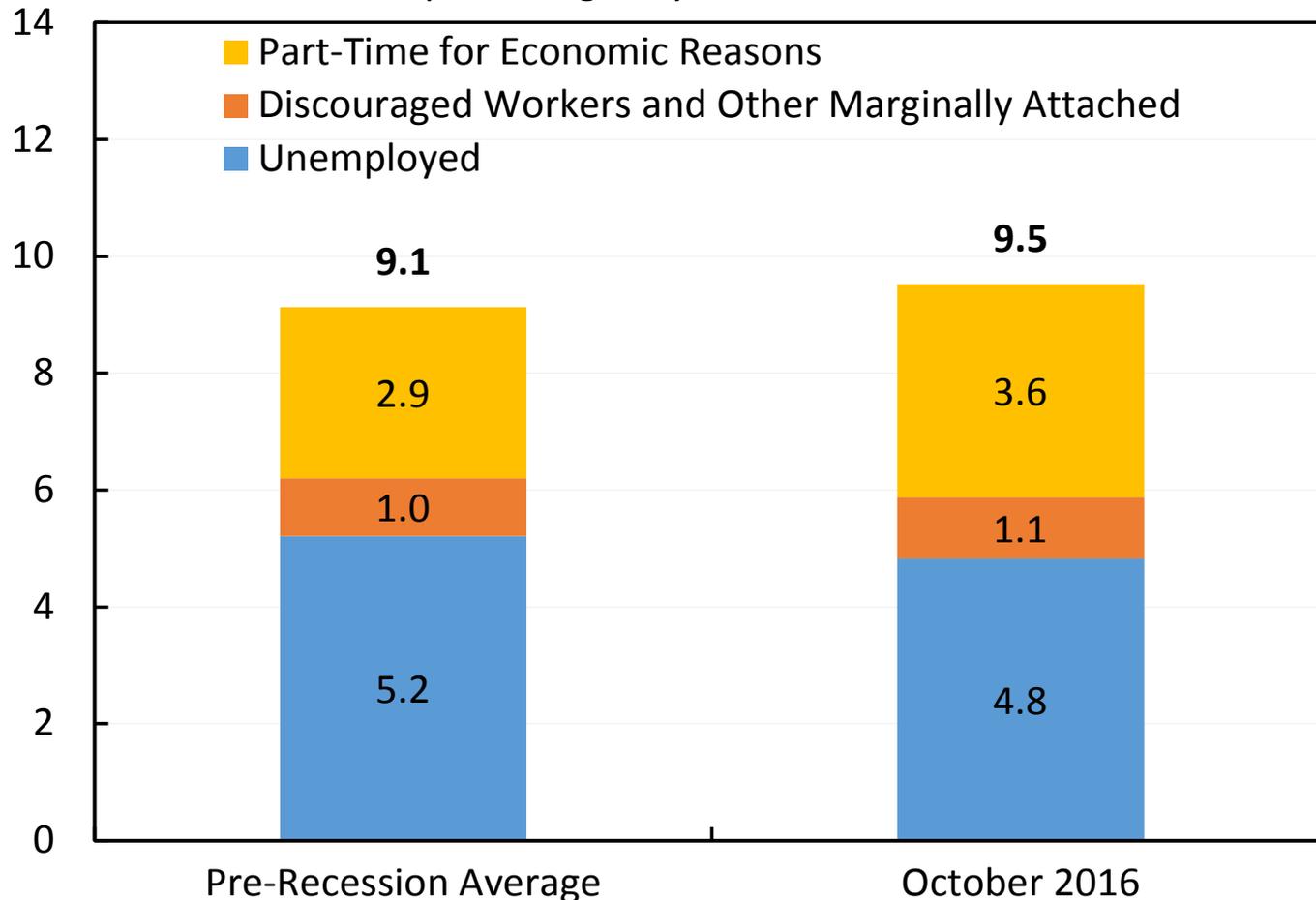
Percent



# Still, the Recovery is Not Complete

## Composition of U-6 "Underemployment" Rate

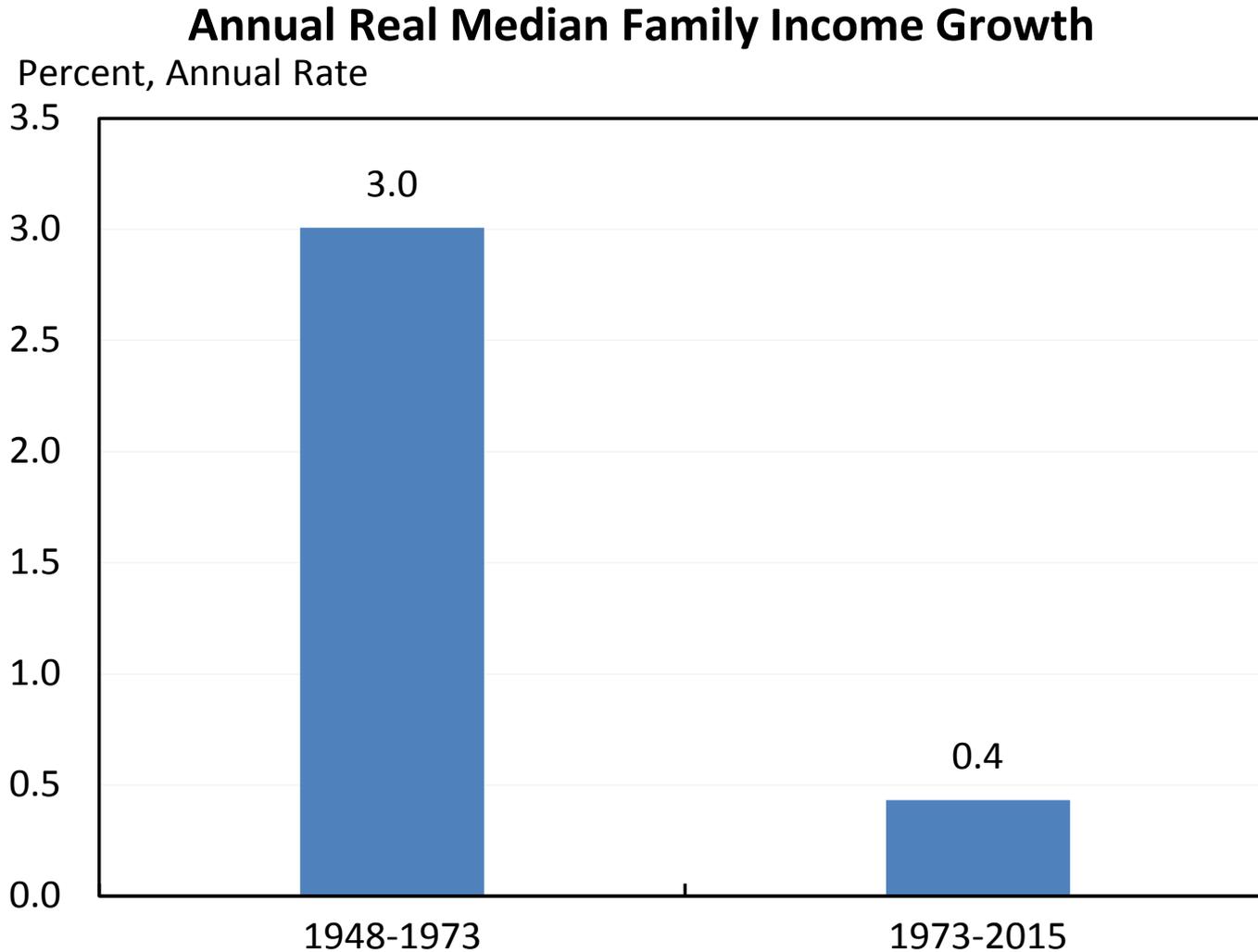
Percent of Labor Force plus Marginally Attached Workers



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# Middle-Class Income Growth Has Slowed in Recent Decades



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

## Drivers of Middle-Class Income Growth

	1948-1973	1973-2015
<b>Labor Productivity Growth (Annual Average)</b>	2.8%	1.8%
<b>Bottom 90 Percent Income Share</b>	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.

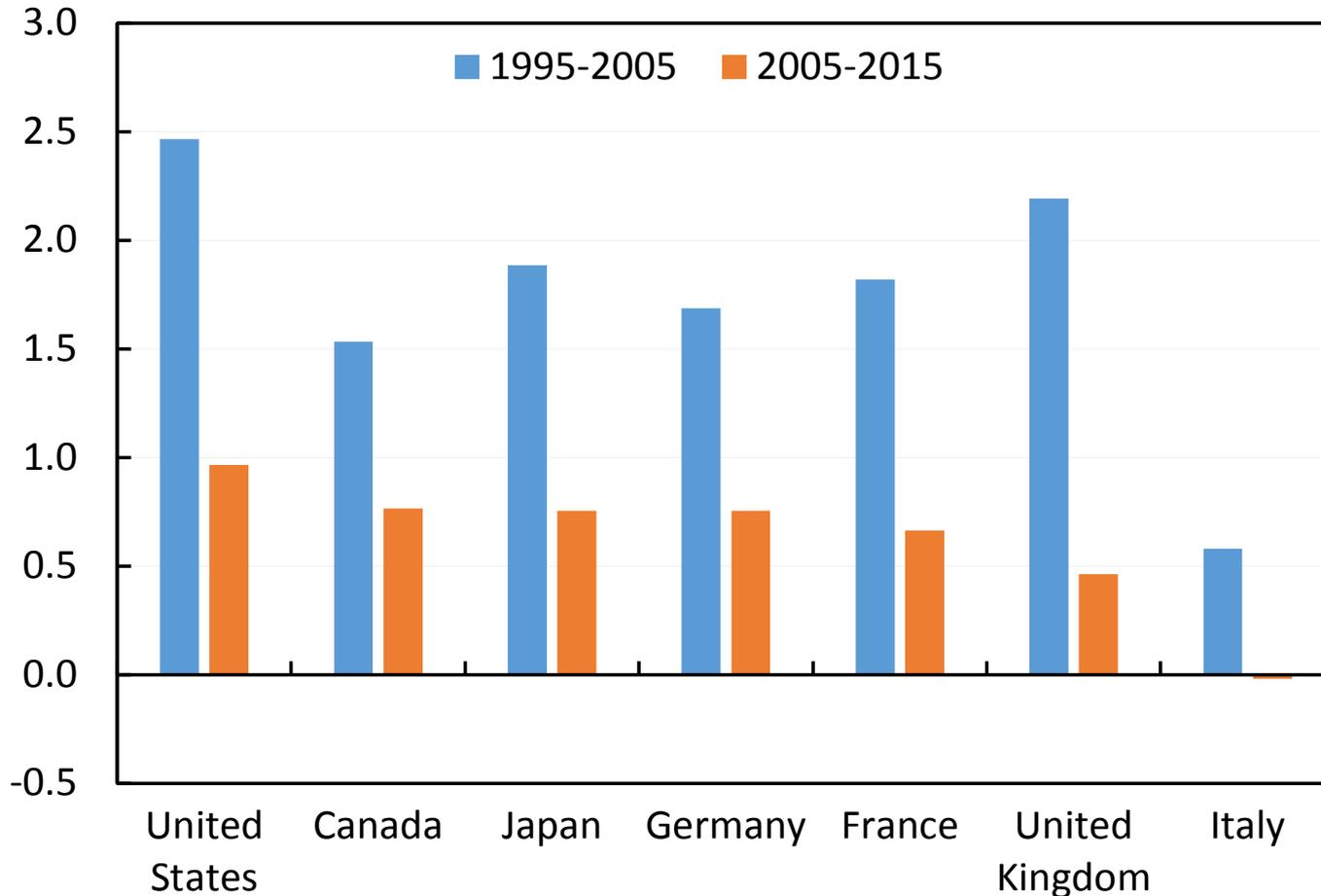
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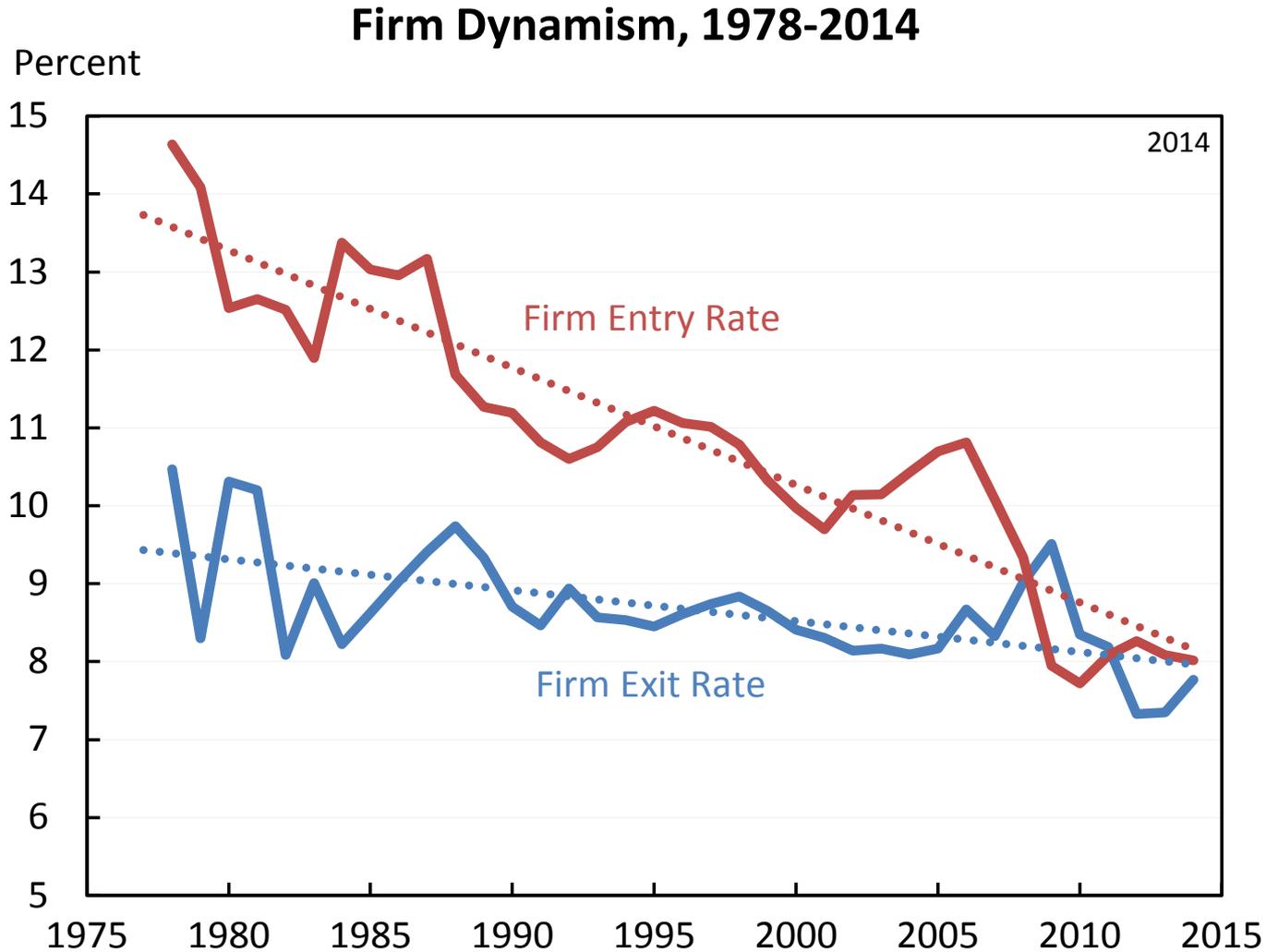
# Average Annual Productivity Growth Has Slowed in All of the G-7 Economies

## Labor Productivity Growth, G-7 Countries

Percent, Annual Rate

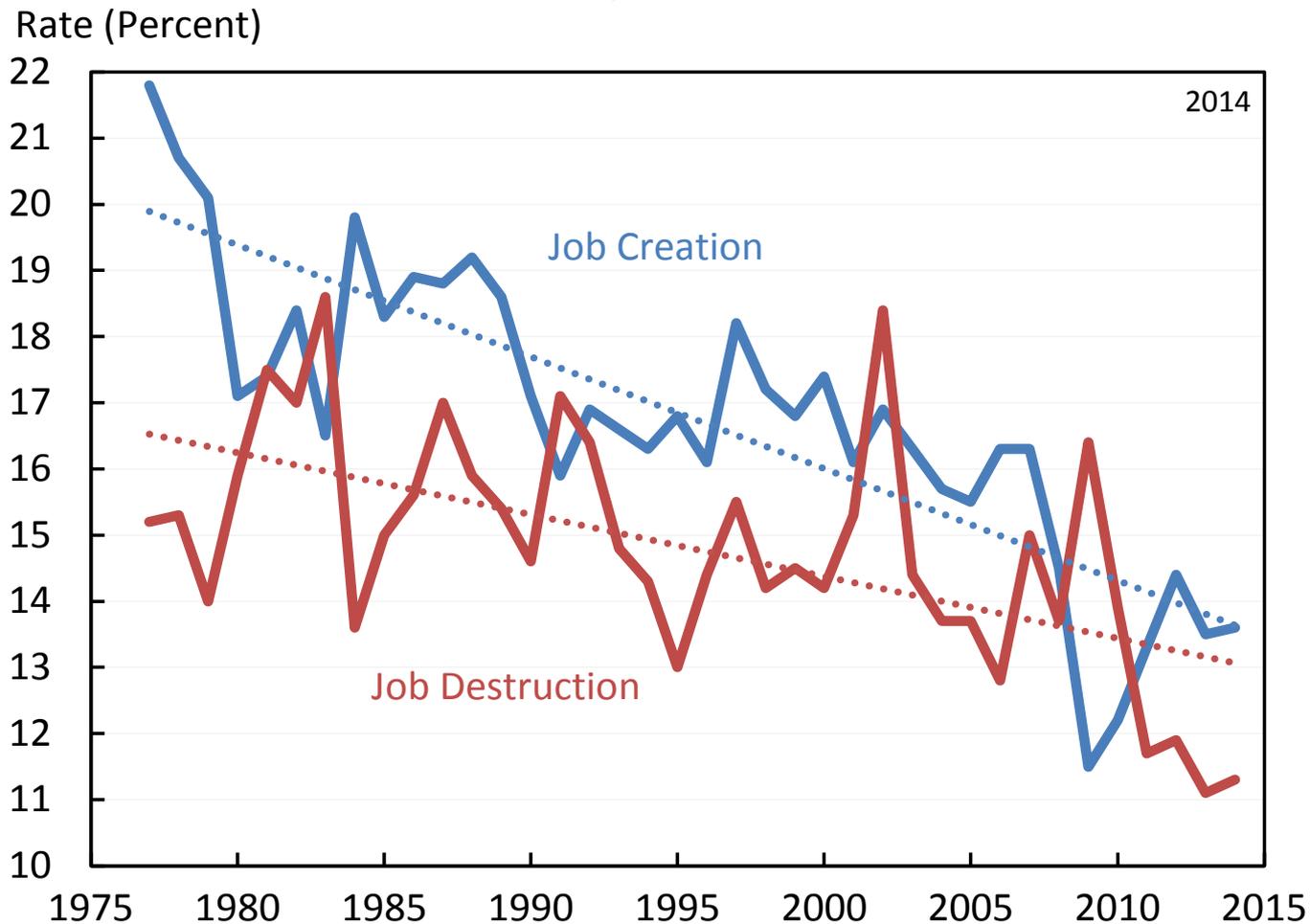


# Over the Last 35+ Years, Firm Exit Has Remained Relatively Steady But the Firm Entry Rate Has Decreased Substantially



# Labor Market Dynamism Has Been Declining for Decades

## Labor Market Dynamism, 1977-2014

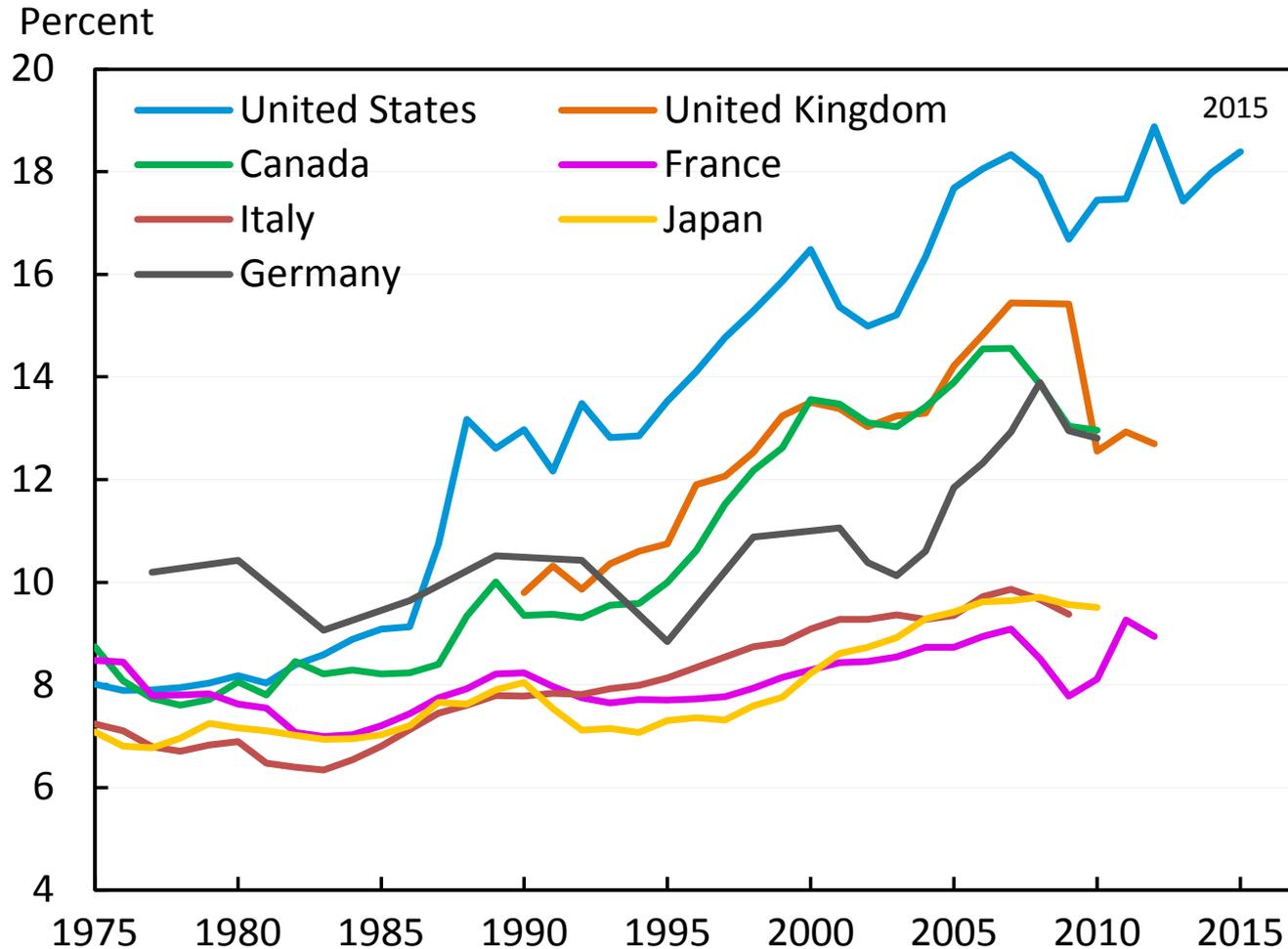


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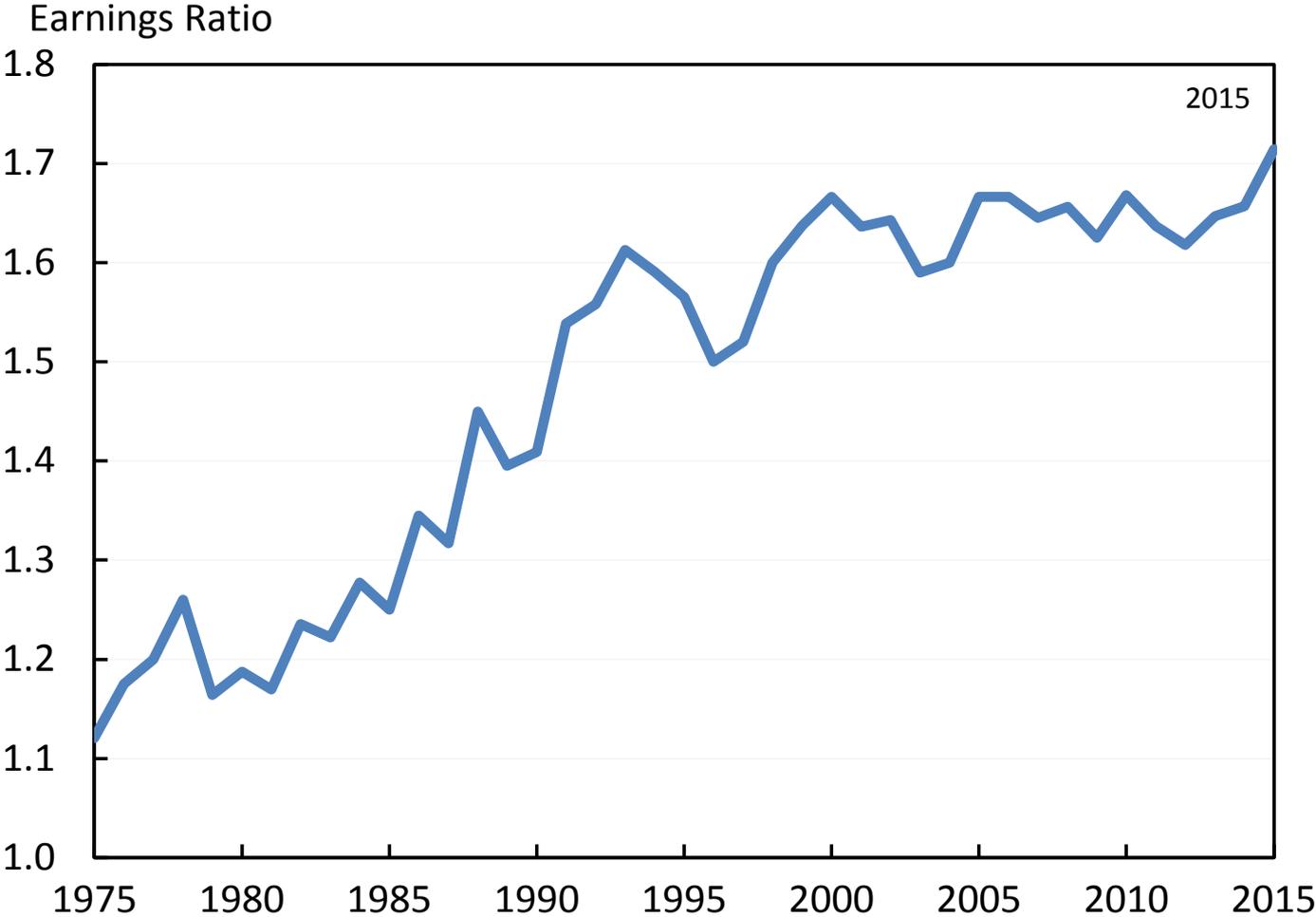
# The United States Has Seen Faster Growth and Higher Levels of Income Inequality Than Other Major Advanced Economies

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



# Competitive Explanation: Increased Demand for Skills and Slowdown in the Supply of Skills

## College Earnings Premium, 1975-2015

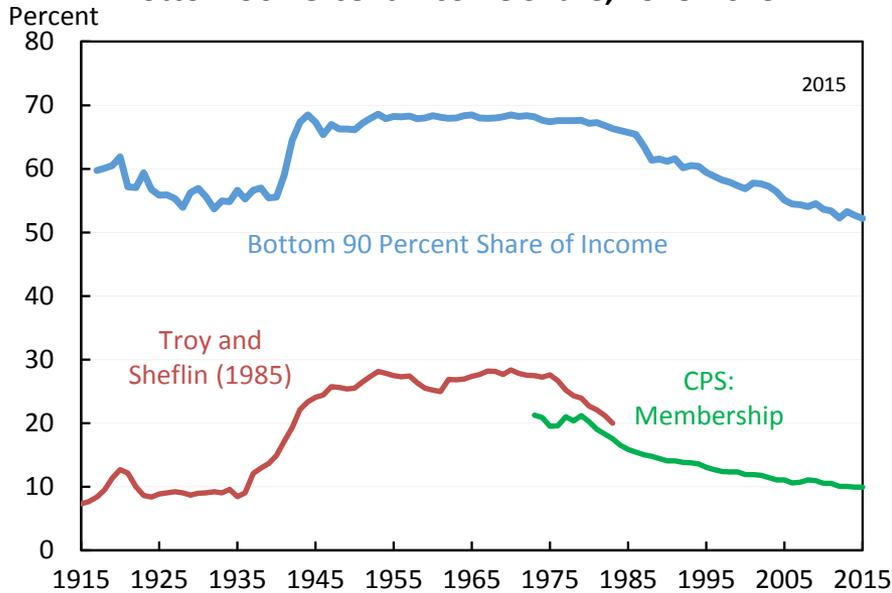


Note: Ratio of median annual earnings of full-time, full-year workers over age 25 with a bachelor's degree only to median annual earnings of full-time, full-year workers over age 25 with a high school degree only. Prior to 1992, bachelor's degree is defined as four years of college.

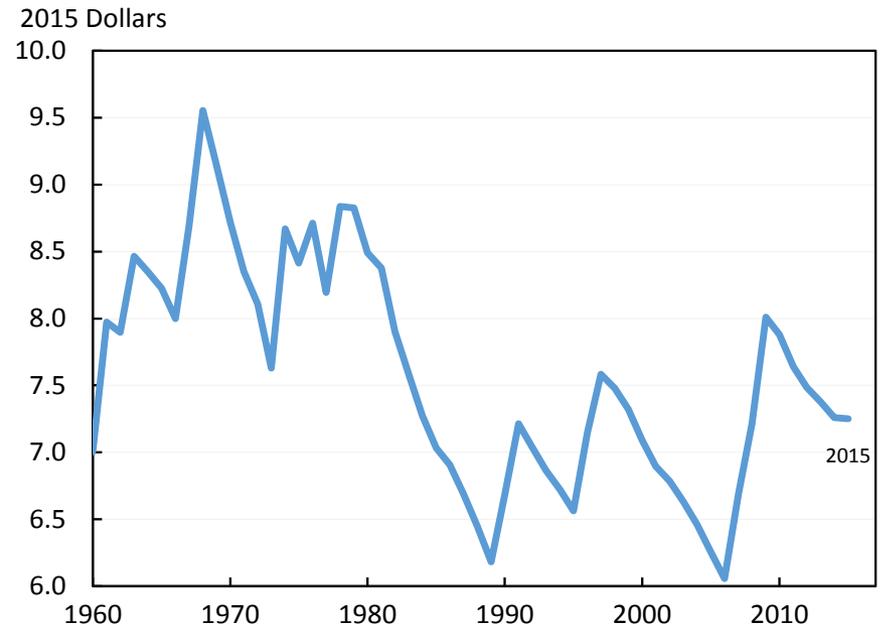
Source: Bureau of Labor Statistics, Current Population Survey (Annual Social and Economic Supplement); CEA calculations.

# 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**

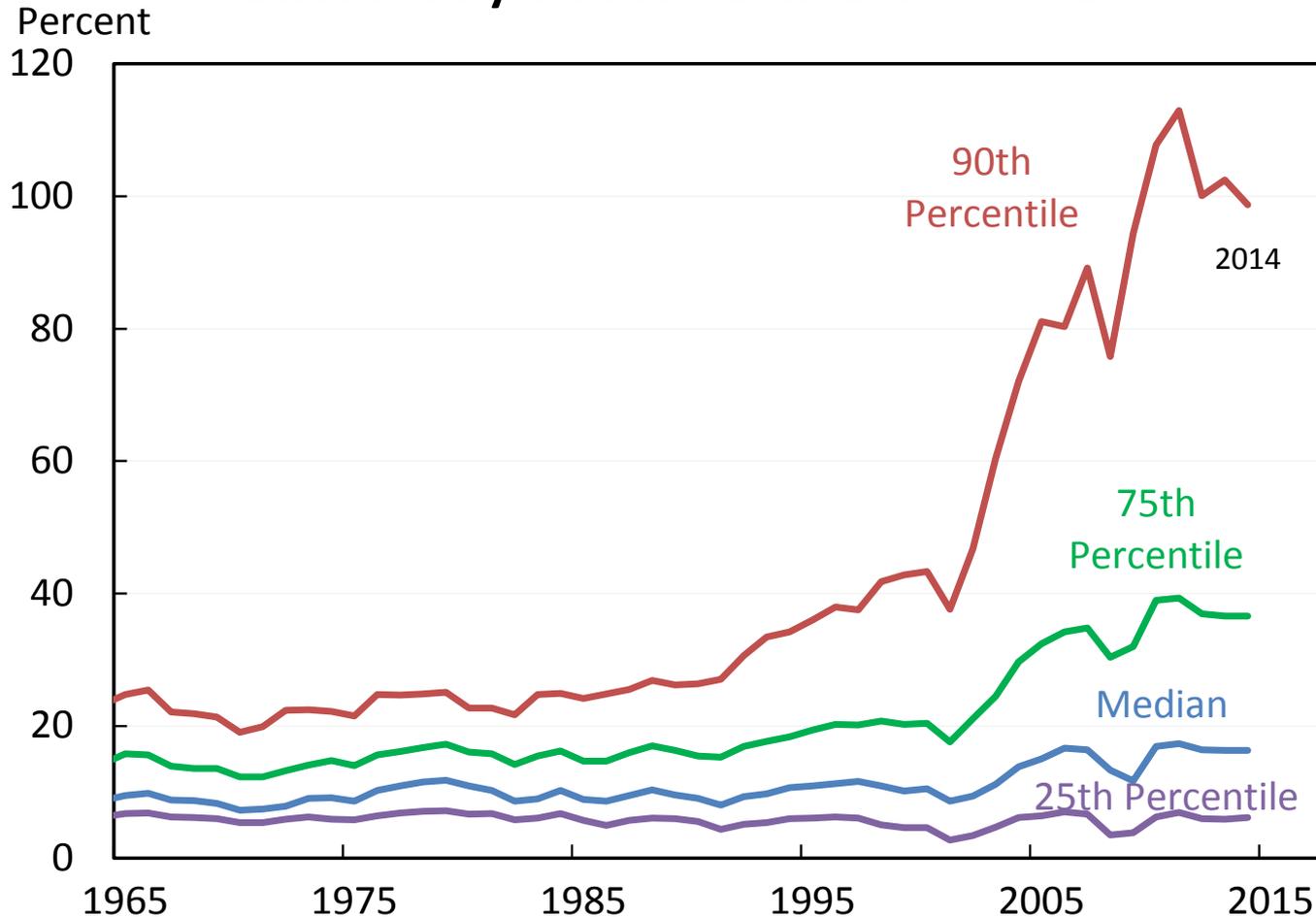


Note: Total employment from 1901 to 1947 is derived from estimates in Weir (1992). For 1948 to 2015, employment data are annual averages from the monthly Current Population Survey. Minimum wage adjusted for inflation using the CPI-U-RS.

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



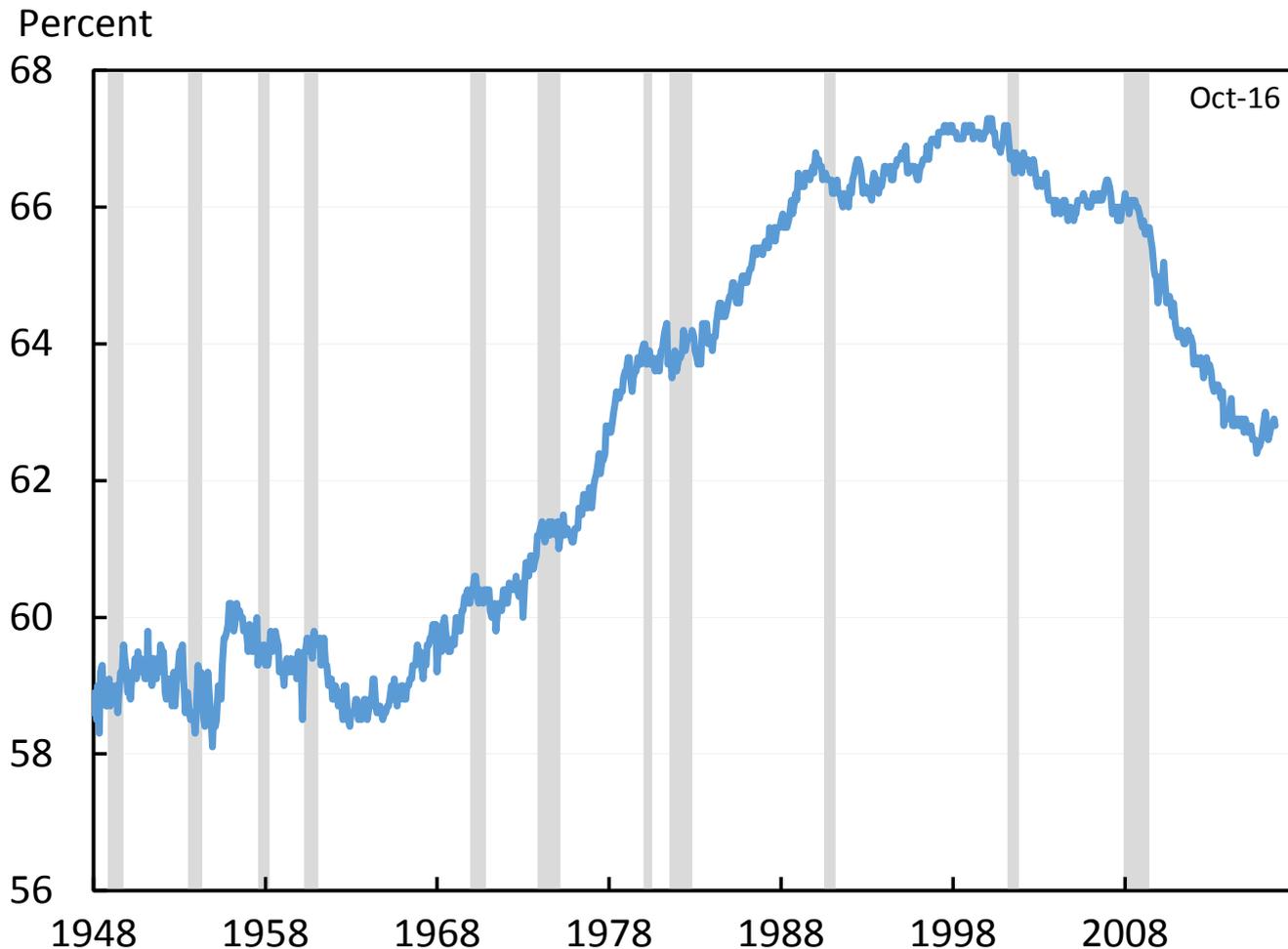
Note: The return on invested capital definition is based on Koller, Goedhart, and Wessels (2015), and the data presented here are updated and augmented versions of the figures presented in Chapter 6 of that volume. The McKinsey data includes McKinsey analysis of Standard & Poor's data and exclude financial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

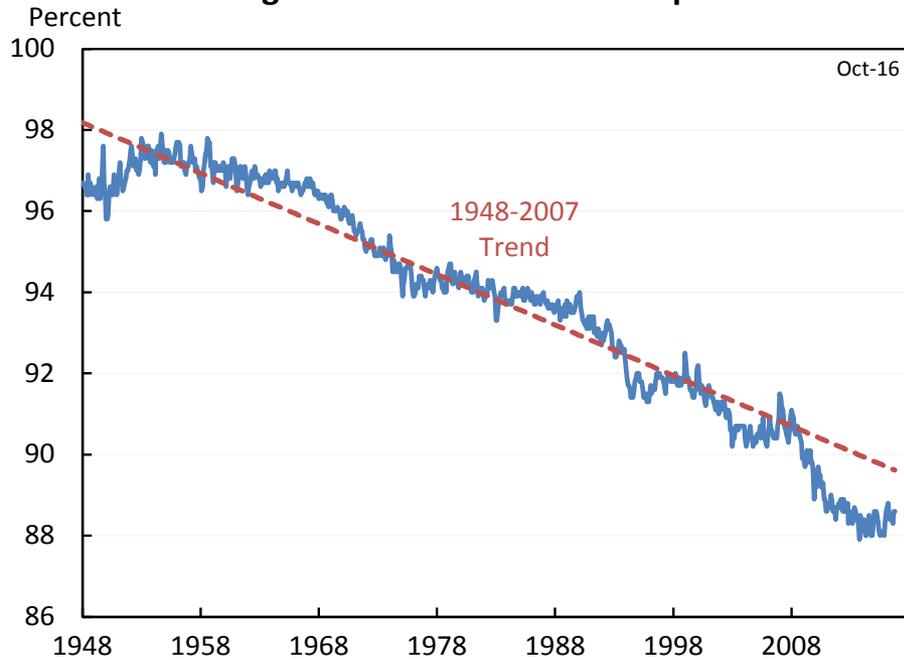


Note: Shading denotes recession.

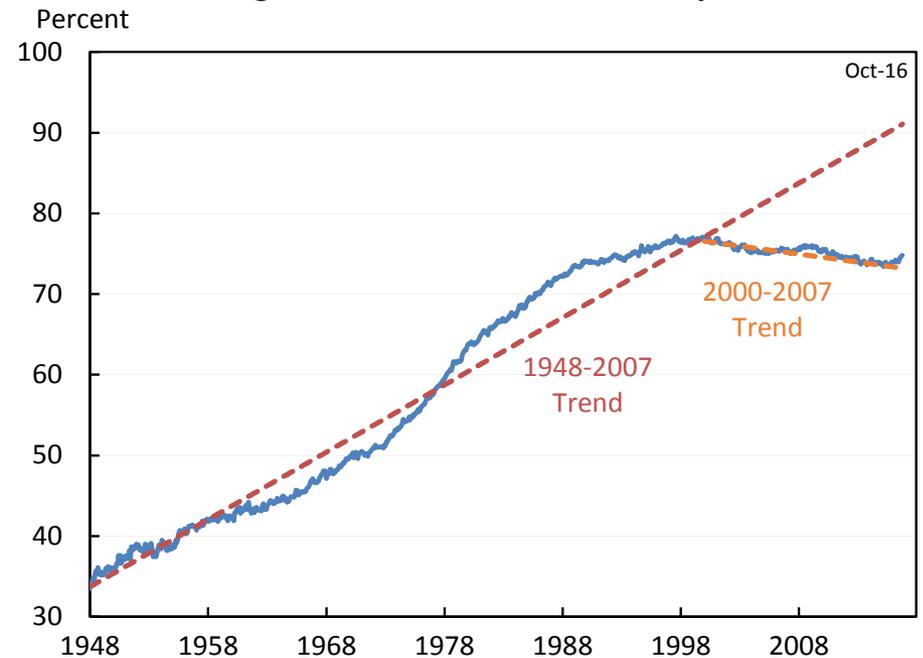
Source: Bureau of Labor Statistics, Current Population Survey.

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

## Prime-Age Male Labor Force Participation Rate

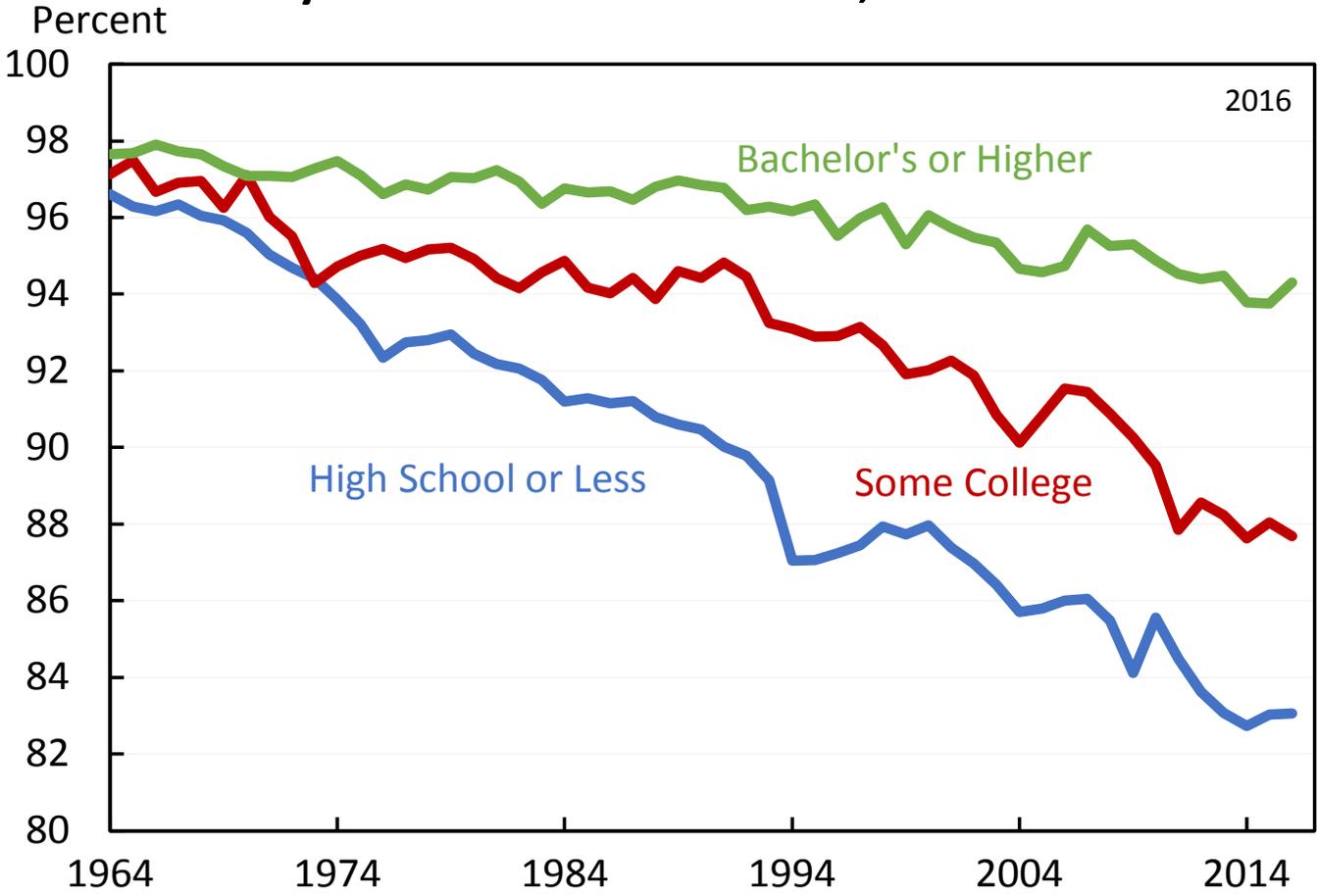


## Prime-Age Female Labor Force Participation Rate



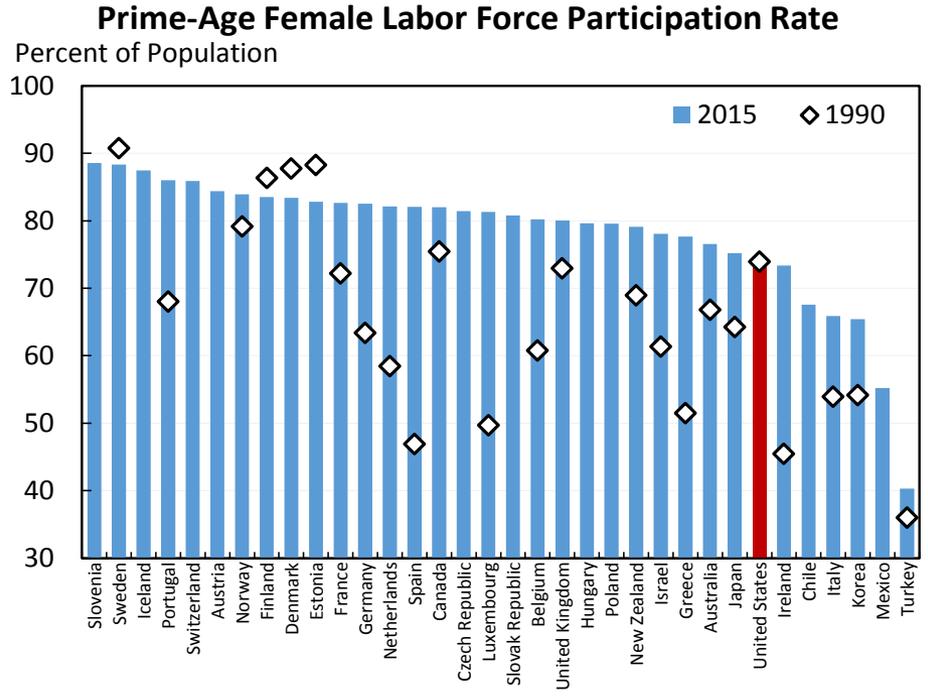
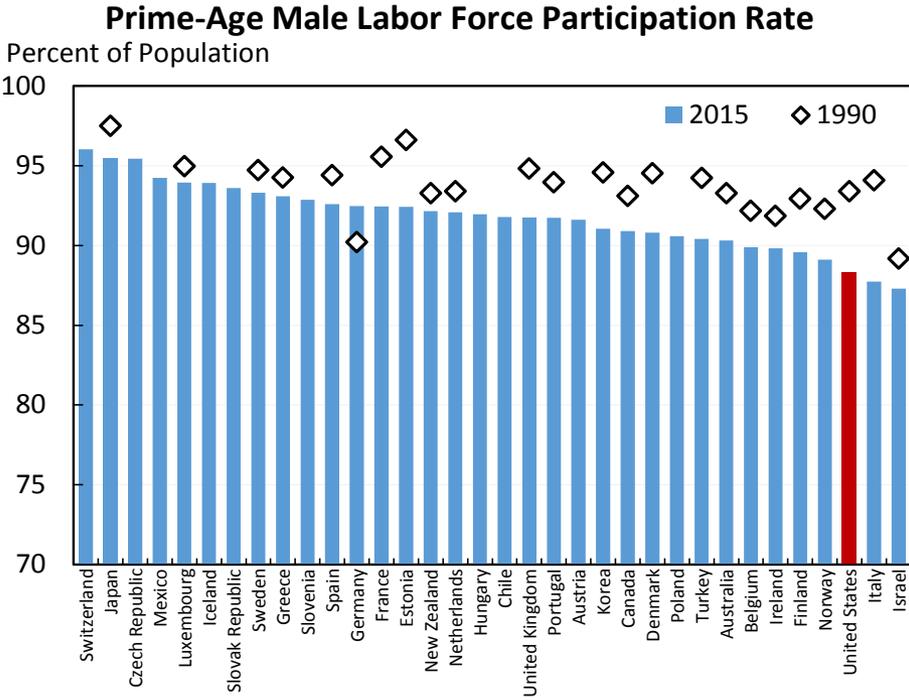
# Declining Prime-Age Male Participation Has Been Concentrated Among Men with Less Educational Attainment

## 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.

# 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

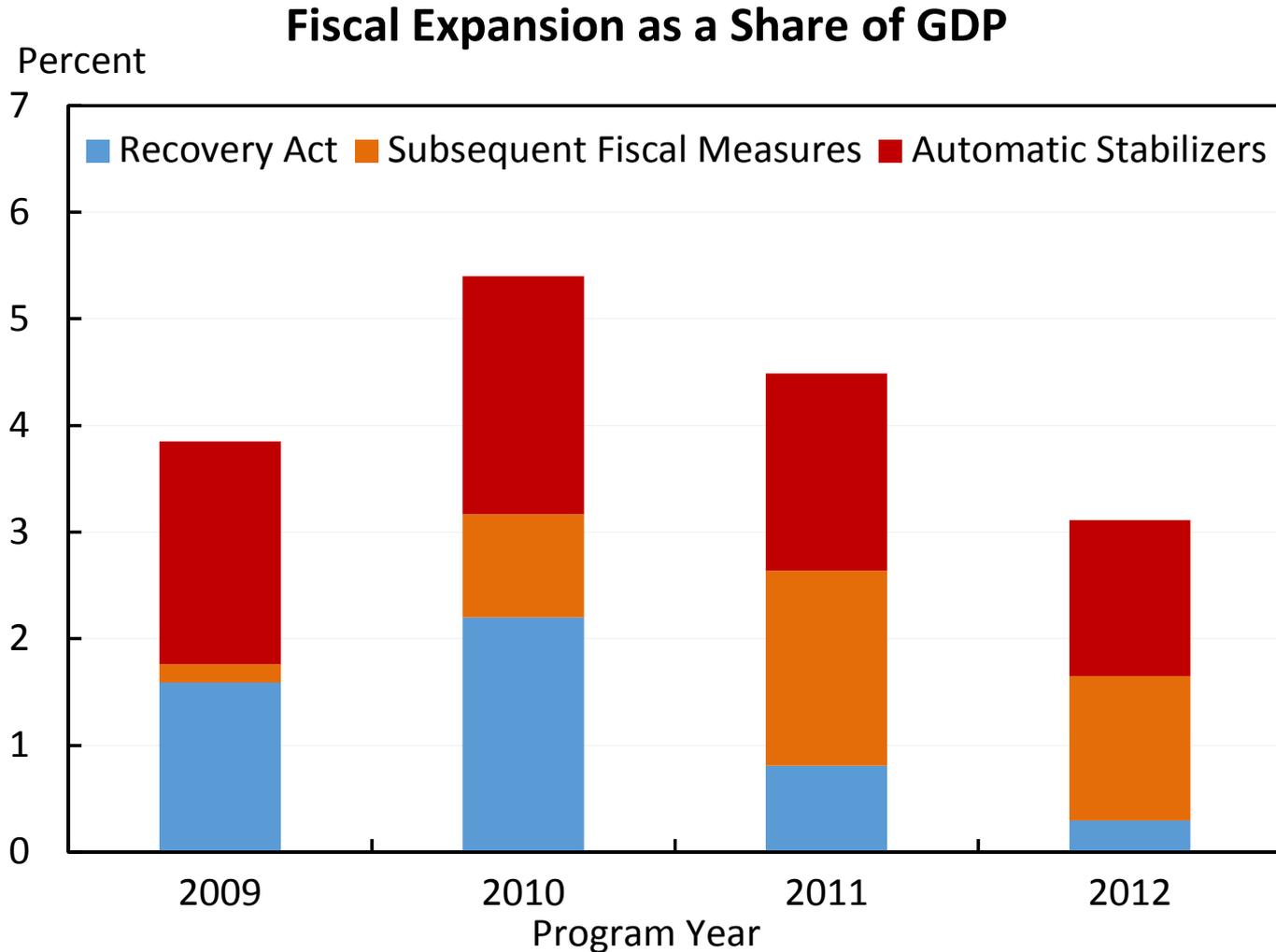
## Indicators of Labor Market Flexibility and Institutional Labor Market Support

	Percentile Rank (100 = Most Flexible/Most 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>	
Nationwide Paid Leave Policy (2016)	0
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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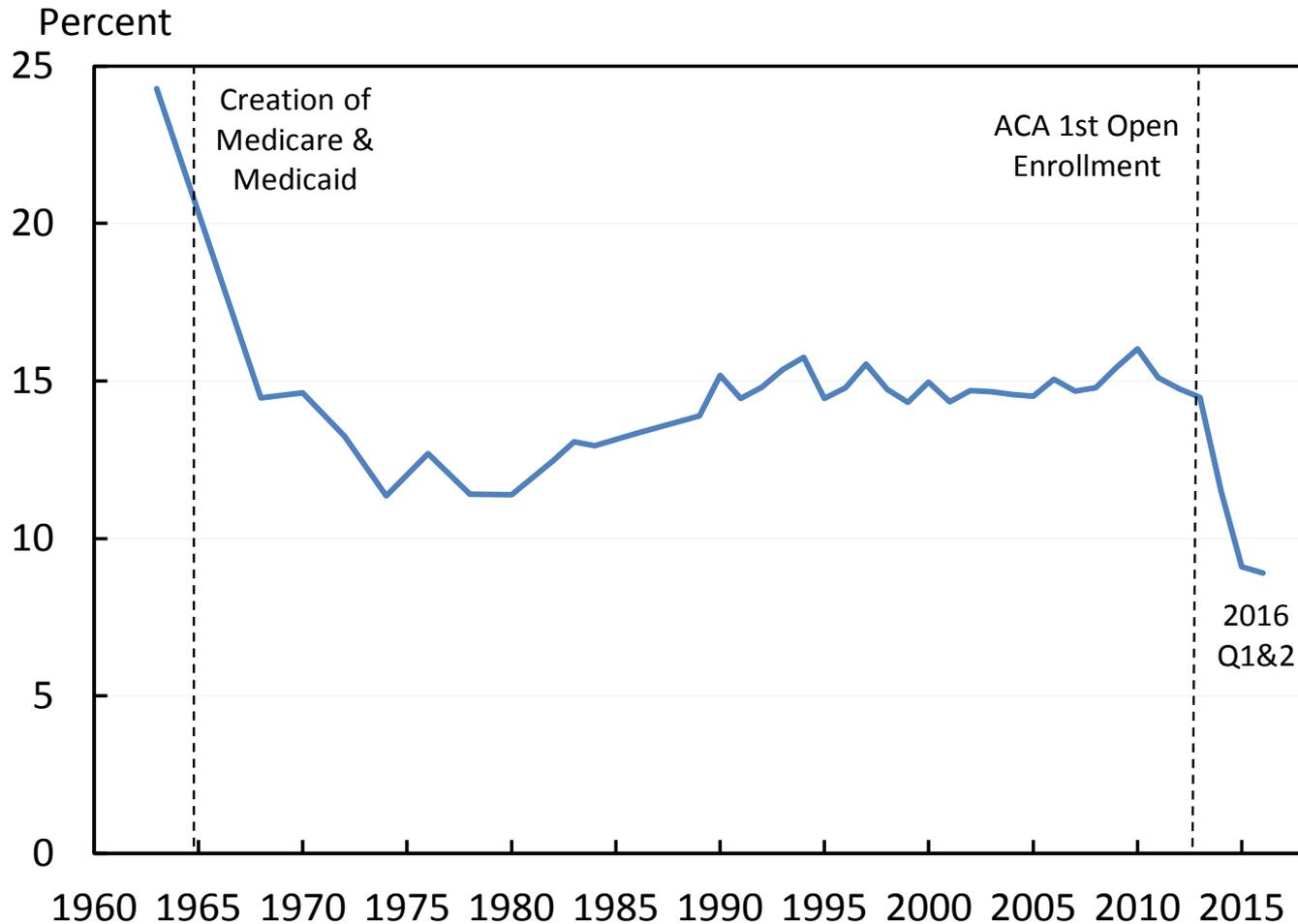
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# The Fiscal Response to the Great Recession Was Substantial



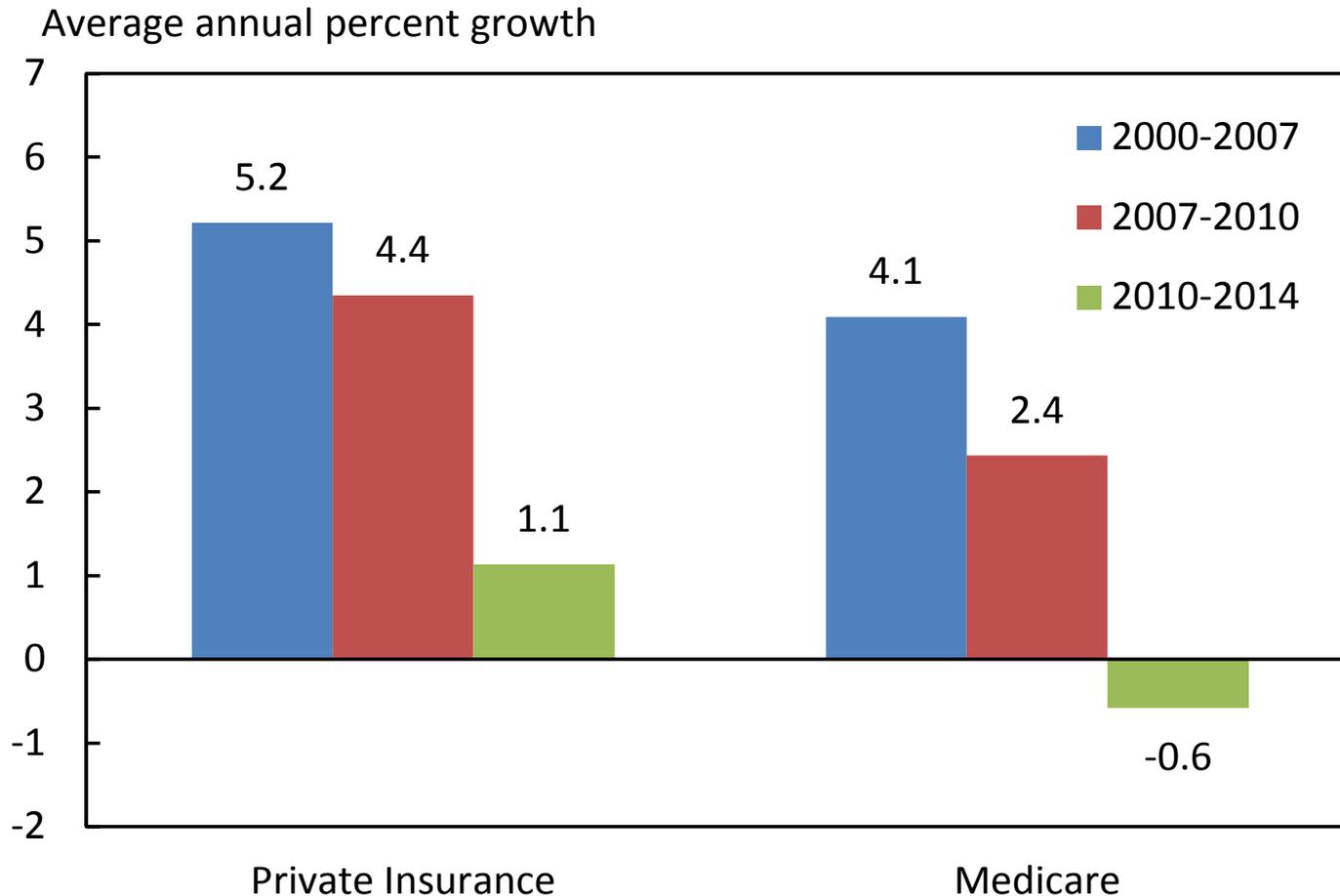
# The Affordable Care Act Has Driven the Uninsured Rate Below 10 Percent For the First Time Ever

## Share of Population Without Health Insurance



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

## Growth in Real Per-Enrollee Spending by Payer



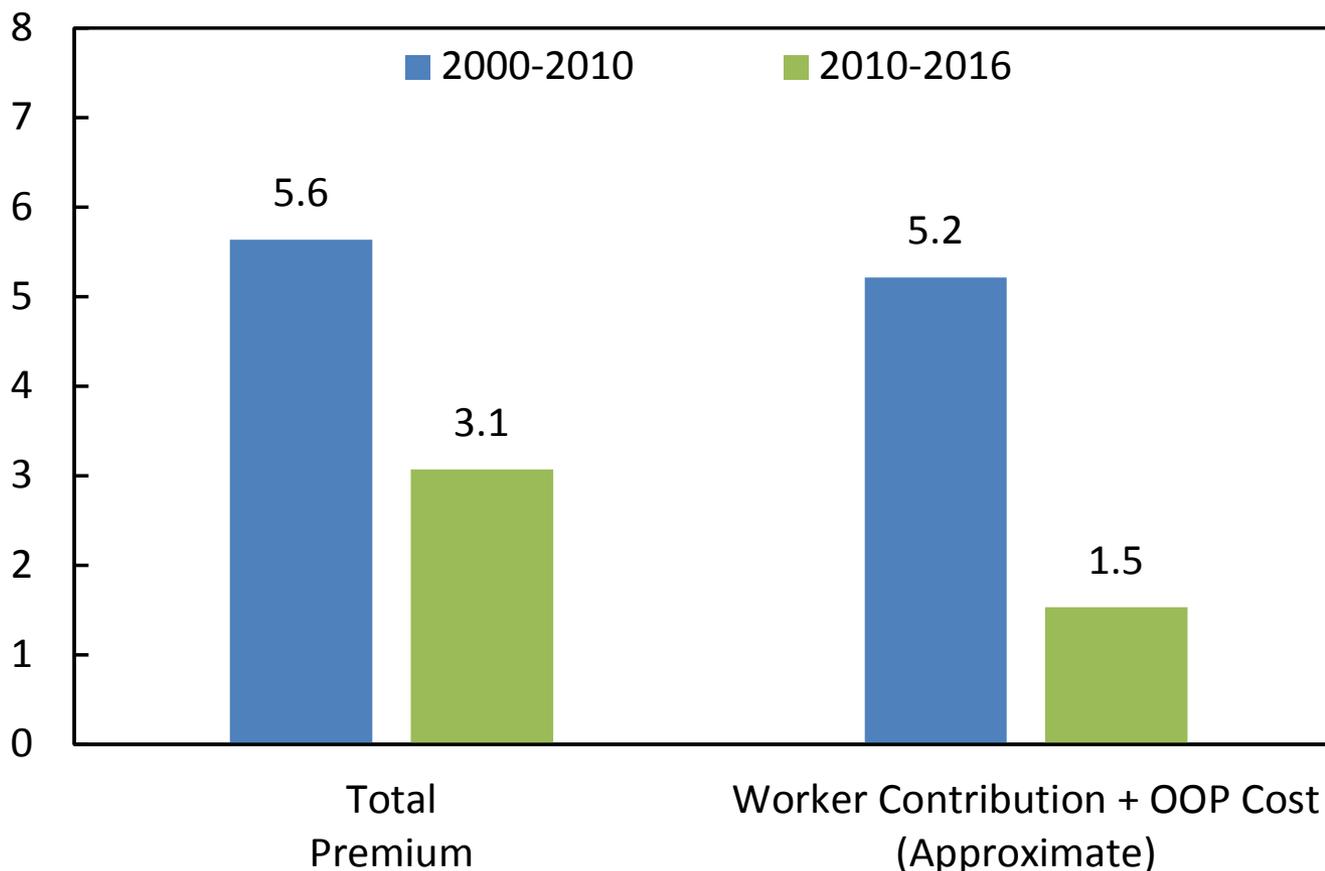
Note: Medicare spending growth for the 2000-2007 period has been adjusted to remove the effect of the creation of Medicare Part D.

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

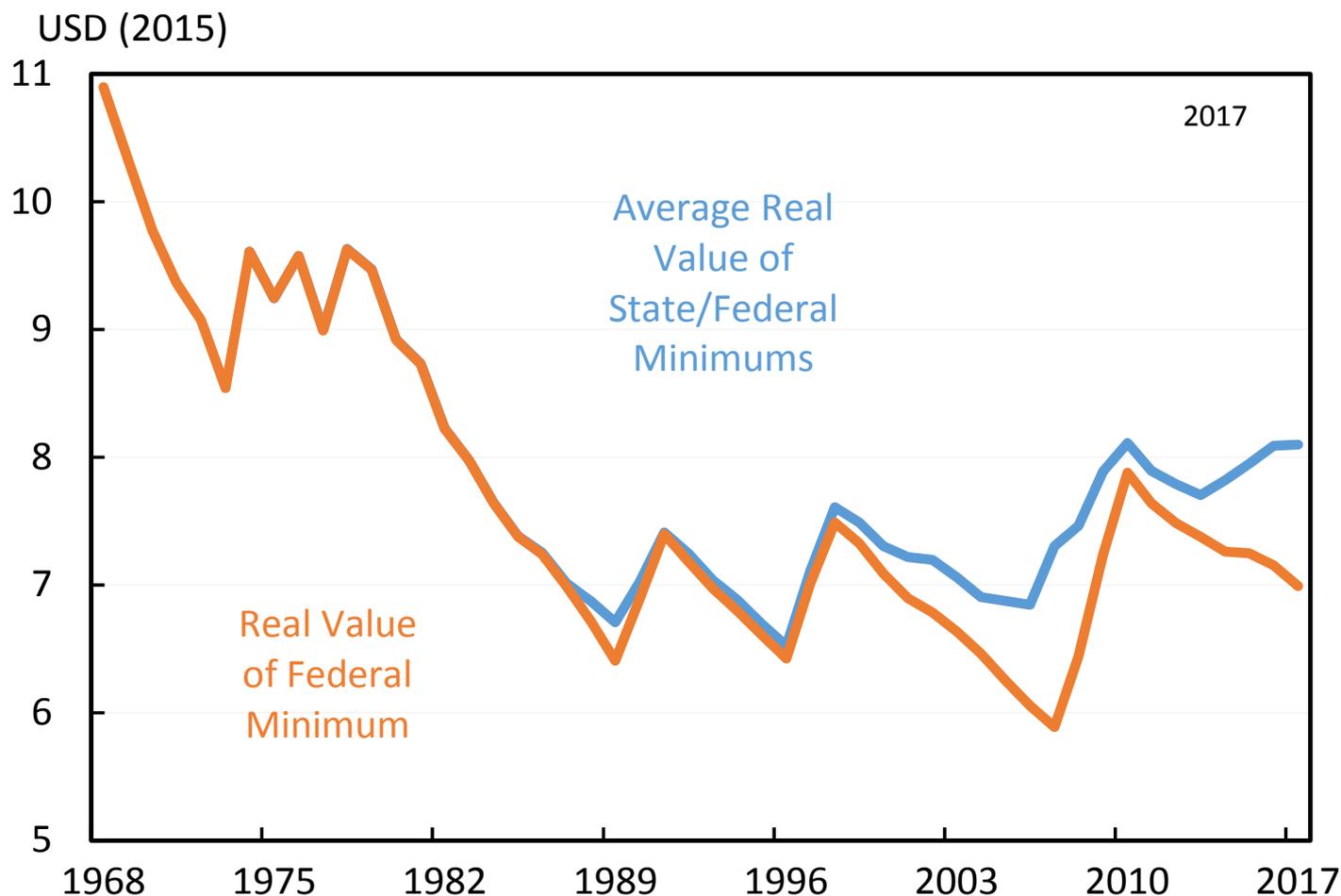


Note: Inflation adjustments use the GDP price index. GDP price index for 2016 is a CBO projection.

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

## Real Value of Federal and State Minimum Wages, 1968-2017



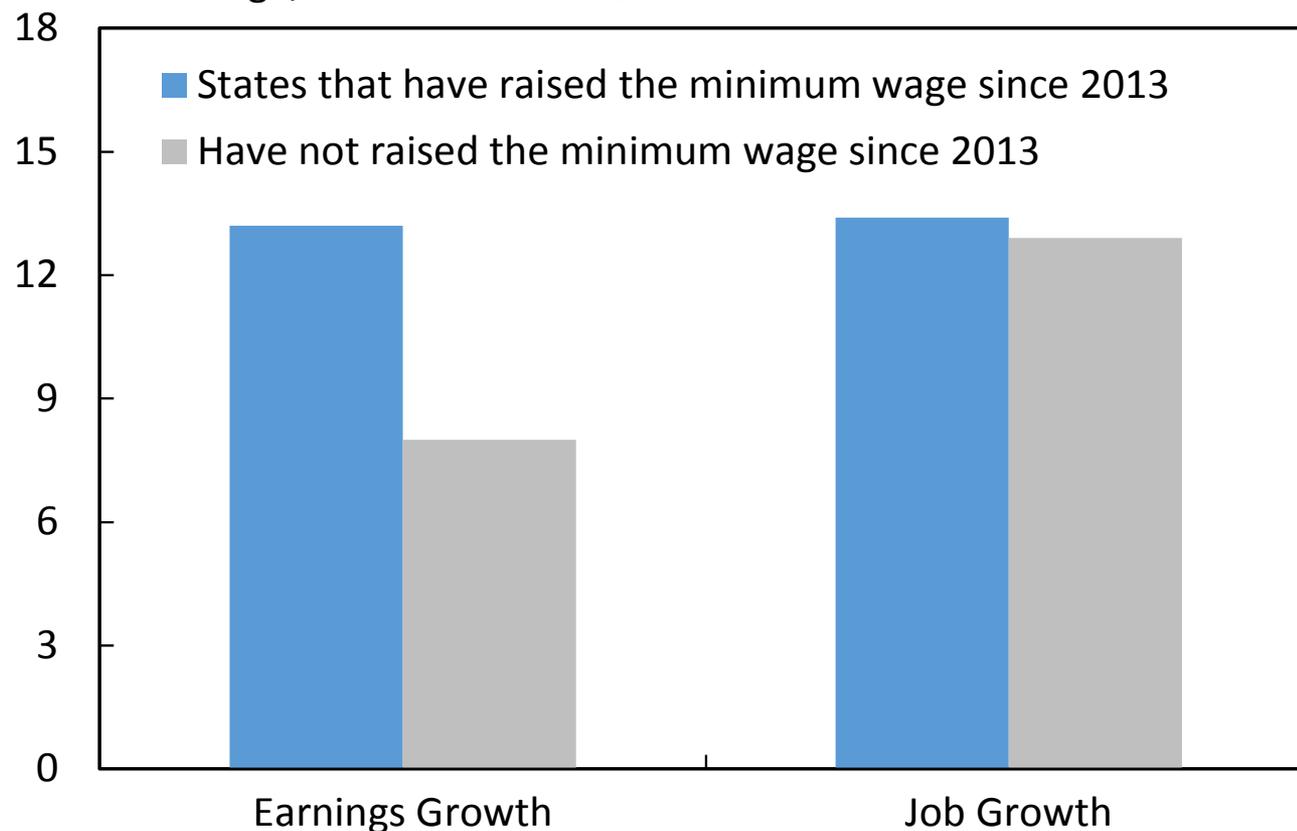
Note: Average State and Federal minimums (available 1974-2017) are weighted by statewide weekly worker hours as recorded in the CPS and described further in Autor, Manning, and Smith (2016). For the combined trendline, the Federal minimum is recorded in place of State minimums where the former binds. 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

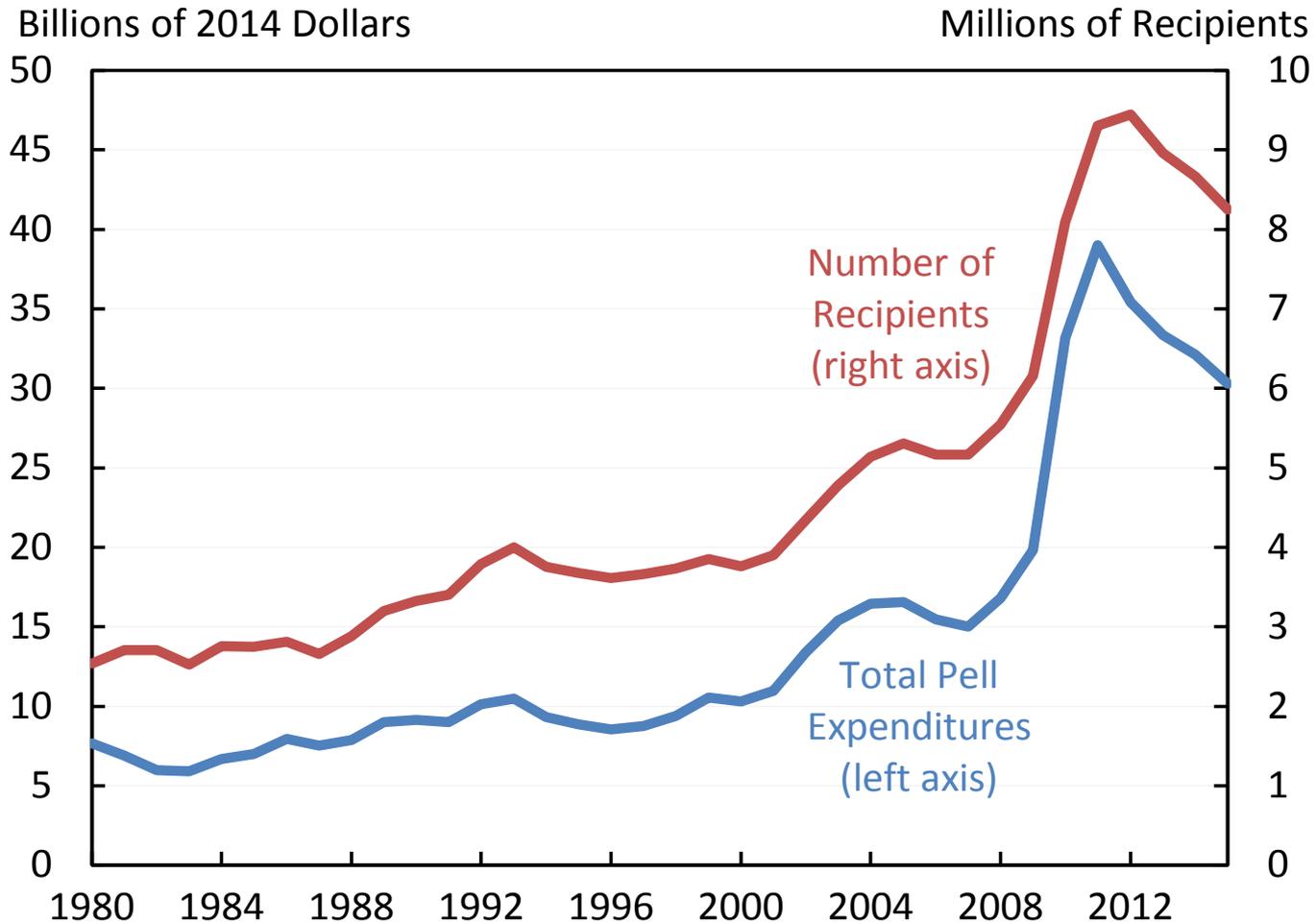


Note: Bars show percent changes from 2012:Q2 to 2016:Q2 using not-seasonally-adjusted average weekly earnings; the category of States that have increased minimum wages since 2013 excludes those that only index their minimum wage to inflation.

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

# Large Investments in Higher Education

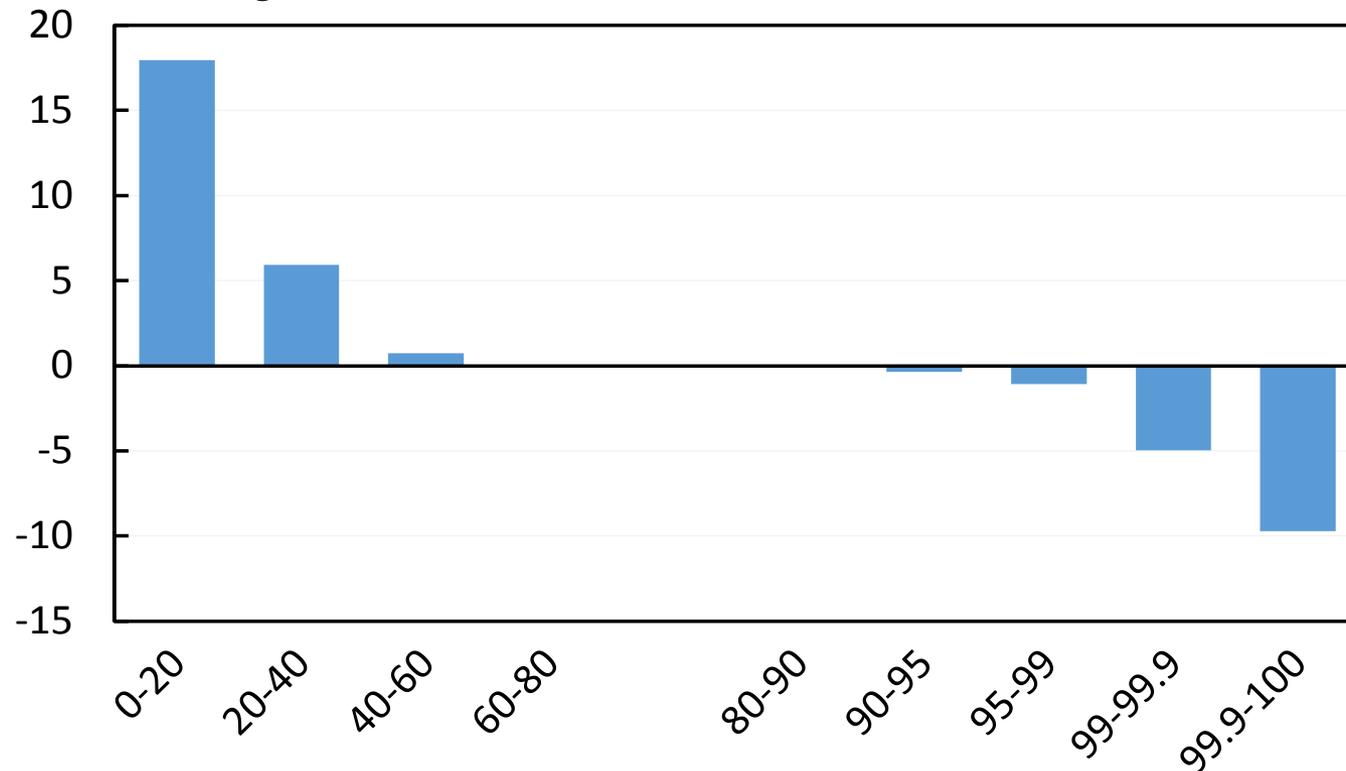
## Pell Expenditures Over Time



# A Historic Reduction in After-Tax Income Inequality

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

Percent Change in After-Tax Income

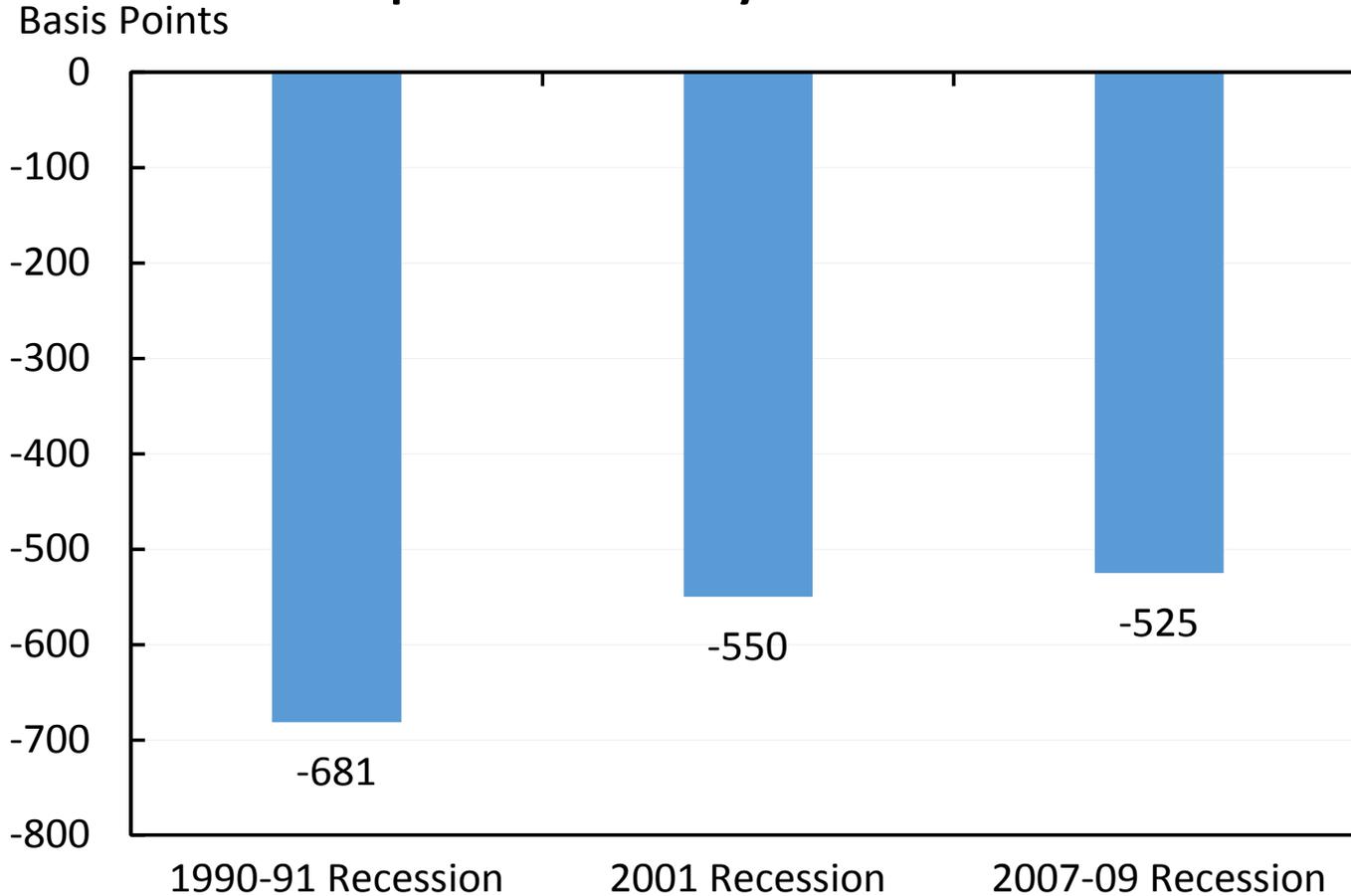


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# We Cannot Engage in the Same Magnitude of Conventional Monetary Policy Used to Deal With Previous Recessions

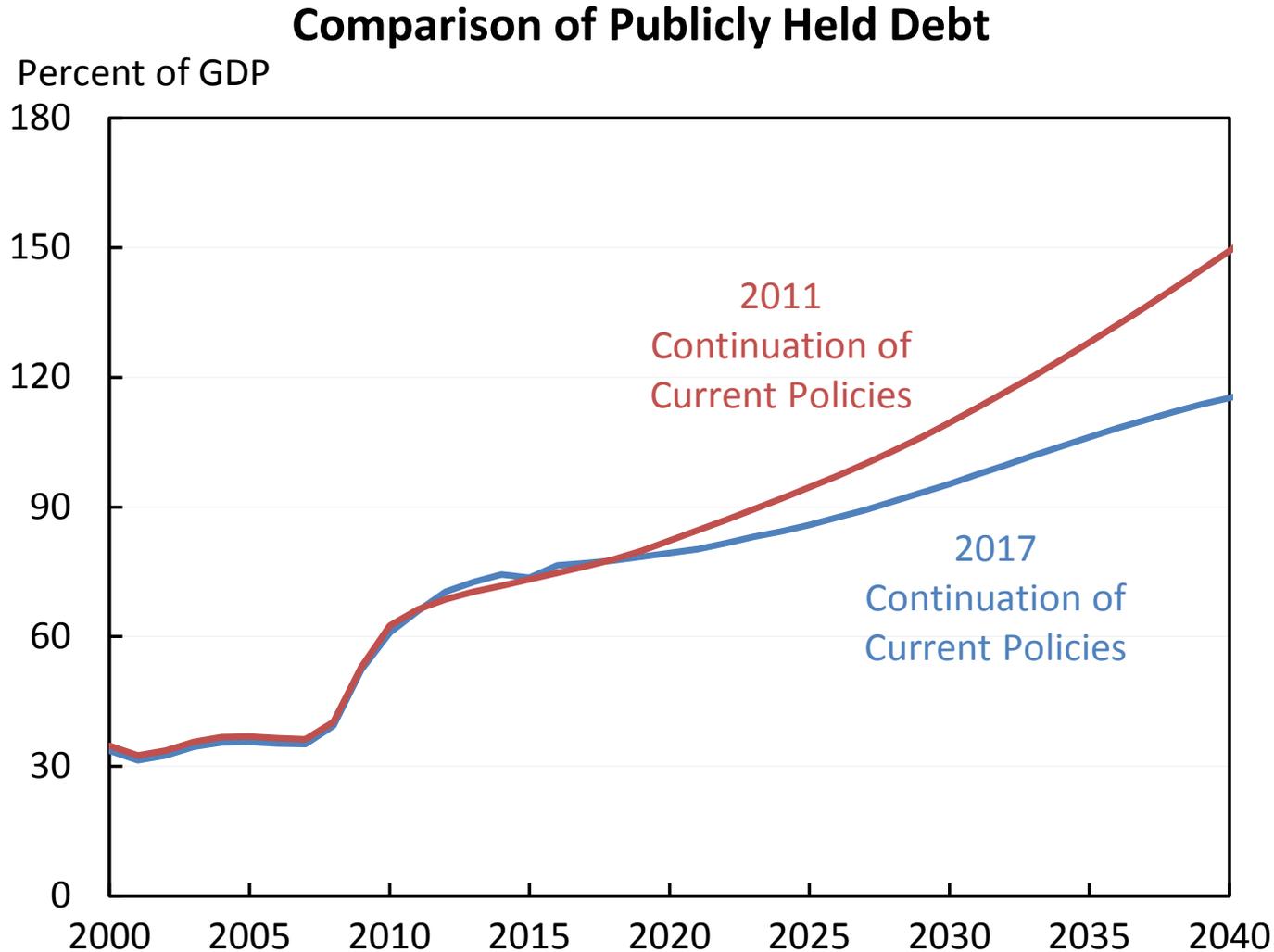
## Total FOMC Reductions to Federal Funds Rate in Response to Past Cyclical Downturns



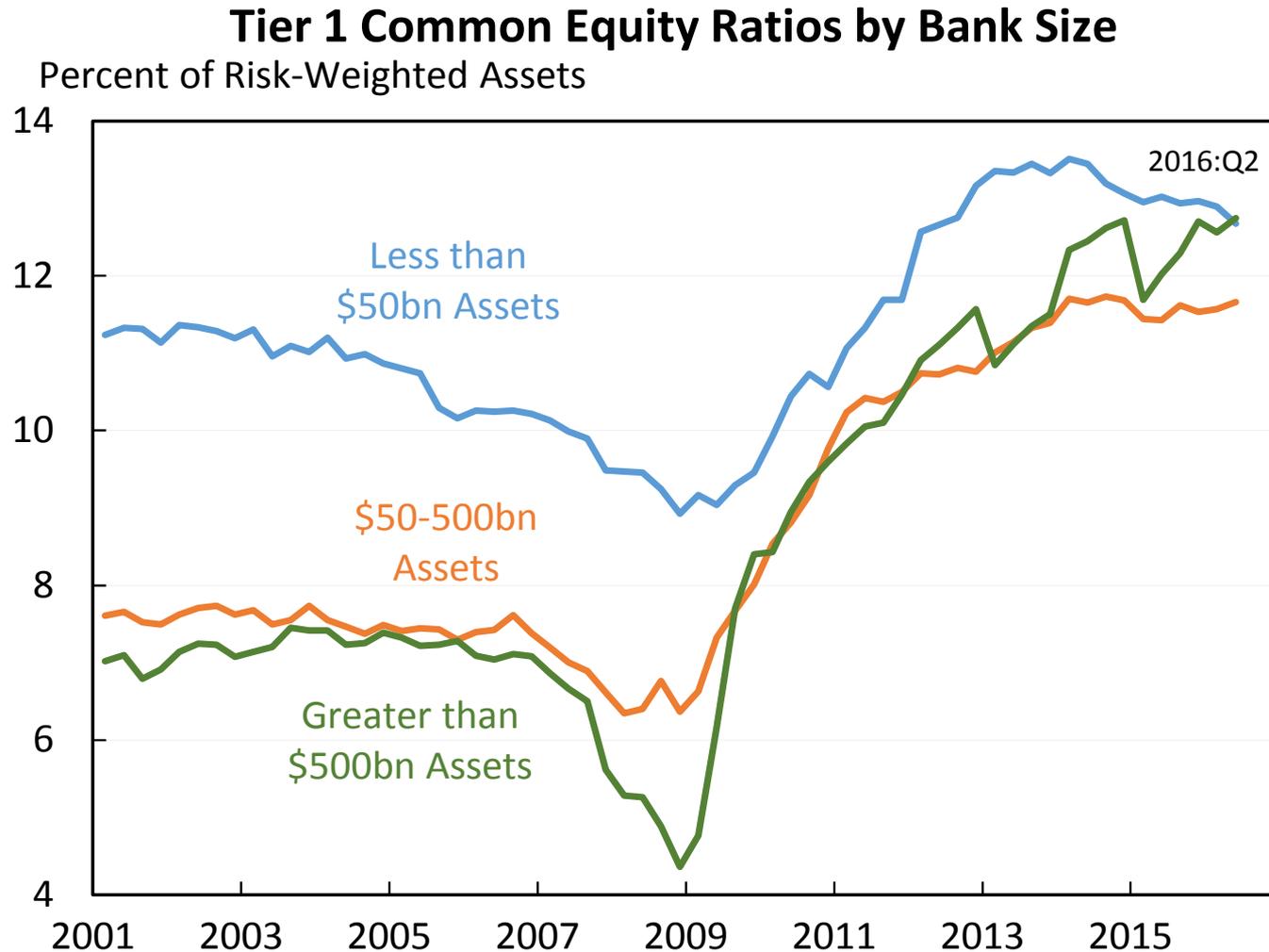
Note: Bars represent the difference between peak Federal funds rate prior to onset of recession and trough Federal funds rate during or after recession. For 2007-09 recession, the trough rate used is the lower bound set by the FOMC (0.00 percent).

Source: Federal Reserve Board; CEA calculations.

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



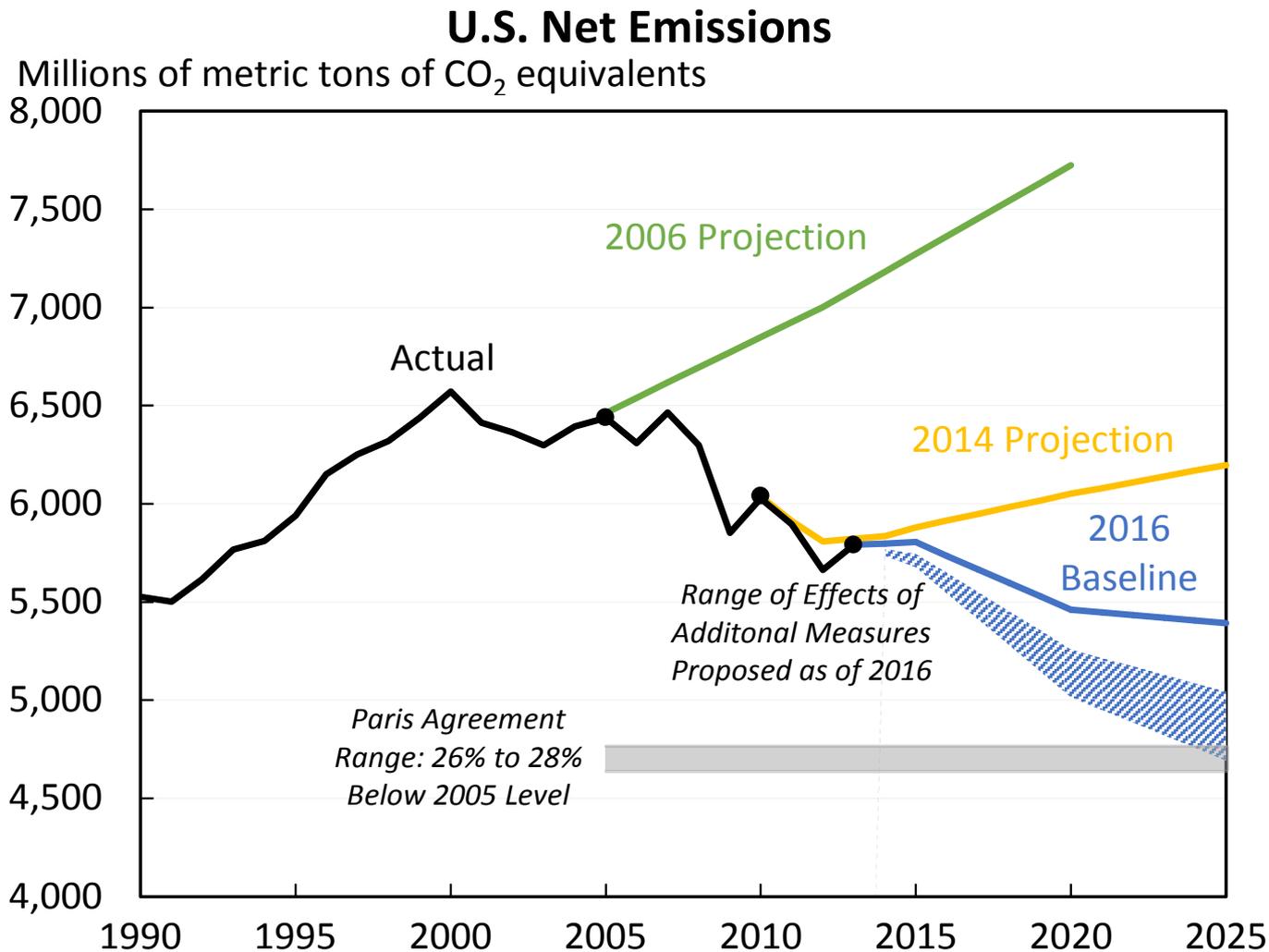
# The Financial Sector is More Resilient, But Still Faces Risks



Note: Includes data for banks and bank holding companies (BHCs).

Source: Federal Reserve Bank of New York.

# Emissions are Declining, But More Work Remains to Be Done



Note: Projections for 2014 and 2016 shown are the "high-sequestration" scenario for each year.

Source: Department of State (2016).

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