

Prepared Testimony before the Joint Economic Committee
“The 2015 *Economic Report of the President*”
Jason Furman, Chairman, Council of Economic Advisers
March 18, 2015

Chairman-Designate Coats, Ranking Member-Designate Maloney, and Members of the Committee—thank you for the opportunity to appear here today. Last month, the Council of Economic Advisers released the 69th annual *Economic Report of the President*, which reviews the United States’ accelerating economic recovery and the steps we can take to further support economic growth and strengthen the middle class.

The clearest signal that the recovery has accelerated comes from the recent labor market data. The United States has now seen sixty straight months of private-sector job creation, the longest streak on record. The pace of overall job growth averaged 260,000 per month in 2014, the best calendar year since 1999 (Figure 1). This robust pace of job growth has continued into the beginning of 2015, with employment rising by an average of 267,000 in January and February. In fact, more than 200,000 private-sector jobs were created in each of the last twelve months, the first time that has happened in thirty-seven years. Moreover, in 2014 we saw the continuation of a pattern observed throughout the recovery, as essentially all the employment gains were in full-time positions (Figure 2).

The unemployment rate currently stands at 5.5 percent, down more than a full percentage point over the past year. During that time, the labor force participation rate—a topic that is discussed extensively in this year’s *Report*—has been stable. This is because the decline in participation that is driven by aging has continued, but business cycle conditions have improved, thereby offsetting the demographically-driven decline (Figure 3).

And in perhaps the most encouraging sign of all, real wages—as measured by average hourly earnings for production and non-supervisory workers—are rising again, up 0.8 percent in 2014 as a whole (Figure 4). While this pace of real wage growth is above the average rate seen during the years immediately preceding the financial crisis, we know that we still face a major challenge in this area. The historical roots of this challenge—and the steps we must take to address it—are a key theme in this year’s *Report* and a topic to which I will return in a moment.

Looking to the months ahead, the Administration expects that the economy will continue to grow at an above-trend rate and that the unemployment rate will decline further. Strong near-term economic growth is likely to be supported by the recent drop in energy prices, a factor that we discuss in detail in this year’s *Report*—which includes a chapter on energy that highlights the role that increased U.S. production and reduced U.S. consumption have played in recent developments (Figure 5). In addition, the more neutral and predictable fiscal environment secured by the Murray-Ryan agreement reached at the end of 2013 has made it easier for the private sector to increase growth. We have an opportunity to build on this precedent through affirmative policy measures instead of unnecessary fiscal brinksmanship and austerity.

One potential concern for the near-term economic outlook is the economic slowdown in many of our key trading partners. The Administration continues to both monitor the global economic situation and to engage with our key partners around the world to work to strengthen growth.

The 2015 *Economic Report of the President* explores the long-term factors that drive middle-class incomes. We see three key factors as having special importance: productivity growth, income inequality, and labor force participation. Since the end of World War II, the contribution of each of these factors to middle-class income growth has varied considerably. For instance, productivity grew rapidly following World War II, but slowed in the 1970s and 1980s, before picking up again in the 1990s—albeit at a rate still slightly below what was seen in the early postwar period. In contrast, labor force participation increased markedly in the 1970s and 1980s, amid a historic transformation of women’s role in the economy. More recently, however, the aging of the U.S. population and the retirement of the Baby Boomers have put downward pressure on the labor force participation rate. Finally, the last forty years have seen a steady decline in the share of pre-tax income going to the bottom 90 percent of the income distribution, raising fundamental concerns about whether macroeconomic improvements are translating into genuine gains for middle-class families.

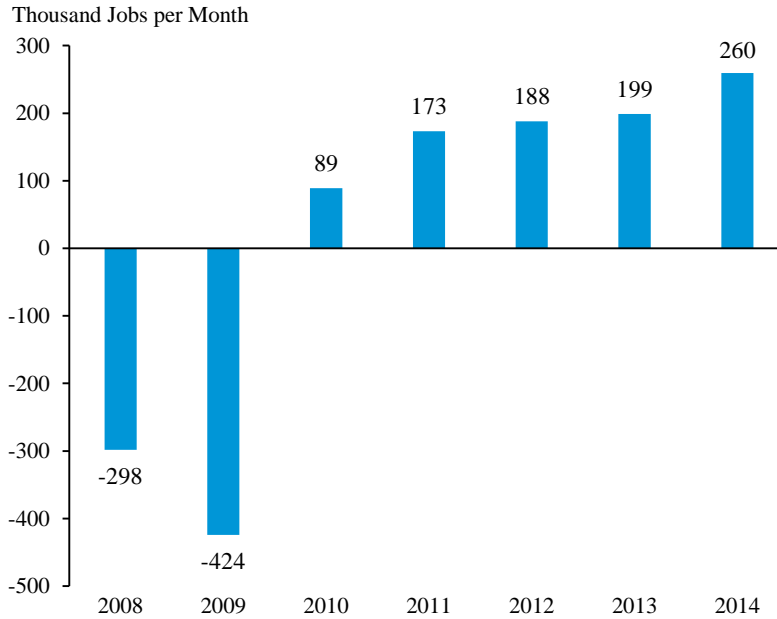
This year’s *Report* outlines President Obama’s approach to economic policy—what he terms “middle-class economics”—which is designed to improve all three of the factors that drive middle-class incomes. One chapter of the *Report* focuses on the ways in which business tax reform can boost productivity. Not only would a reformed business tax code create a more efficient framework for corporate decisions, but the President’s plan in particular is designed to enable productivity-enhancing investments in American infrastructure. Another chapter of the *Report* lays out the benefits from expanded international trade, which arise in part because exporting firms tend to be more productive, supporting jobs that pay higher wages (Figure 6).

We devote an entire chapter to the economics of family-friendly workplace policies like paid sick and family leave. The evidence shows that the types of policies President Obama has proposed can increase employee retention and morale, as well as strengthen individuals’ attachment to the labor force. The *Report* also discusses several longer-term challenges labor markets face and describes how a continued strong recovery can help overcome these obstacles.

In many cases, the President’s proposals can help improve two or even all three of the key factors driving middle class incomes simultaneously. For instance, an enhanced child care tax credit can help facilitate parents’ participation in the workforce, while also directly pushing back against the longer-term trend of middle-class income stagnation by investing more in children’s early development. Similar complementarities are present in the President’s other proposals like expanding access to community college, investing in apprenticeships and job training, helping the long-term unemployed return to work, and raising the minimum wage.

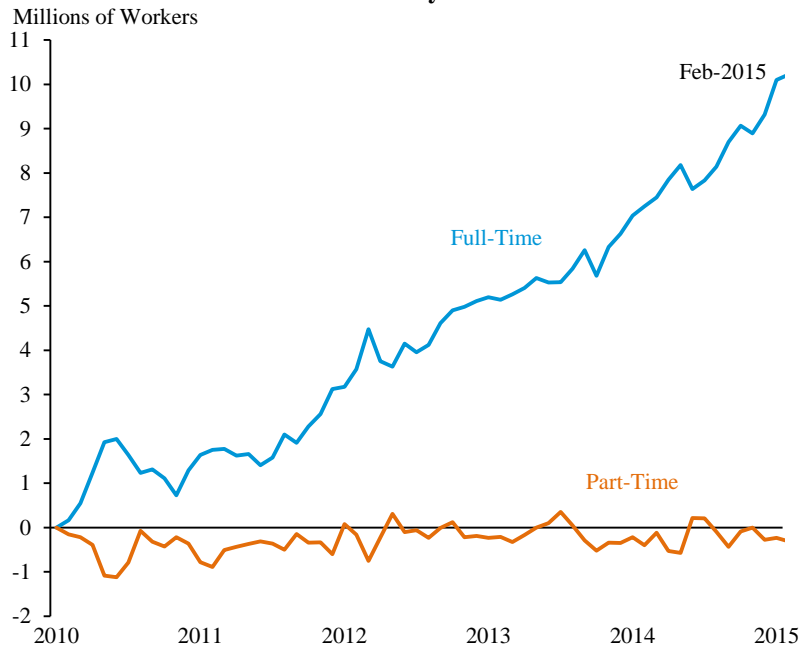
I look forward to discussing these and other topics with you all today.

Figure 1
Average Monthly Nonfarm Employment Growth, 2008–2014



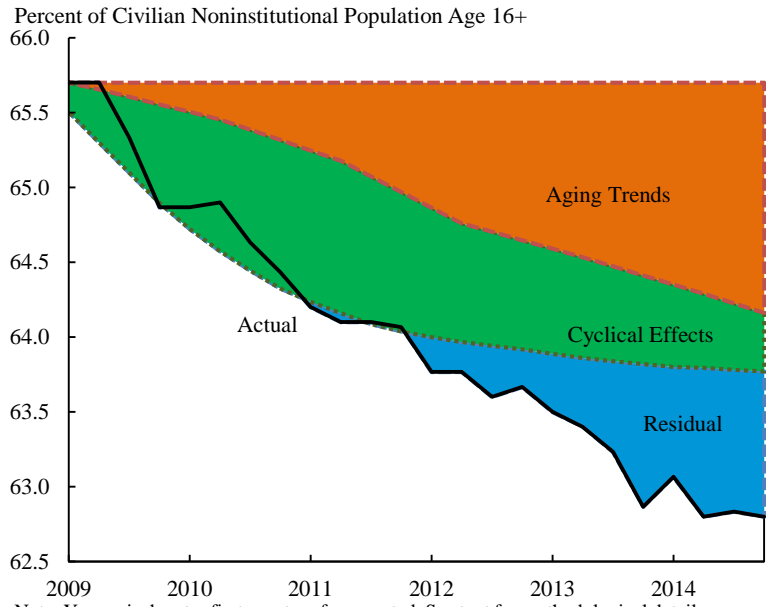
Source: Bureau of Labor Statistics, Current Employment Statistics; CEA calculations.

Figure 2
Net Change in Employment Since January 2010,
Household Survey Estimates



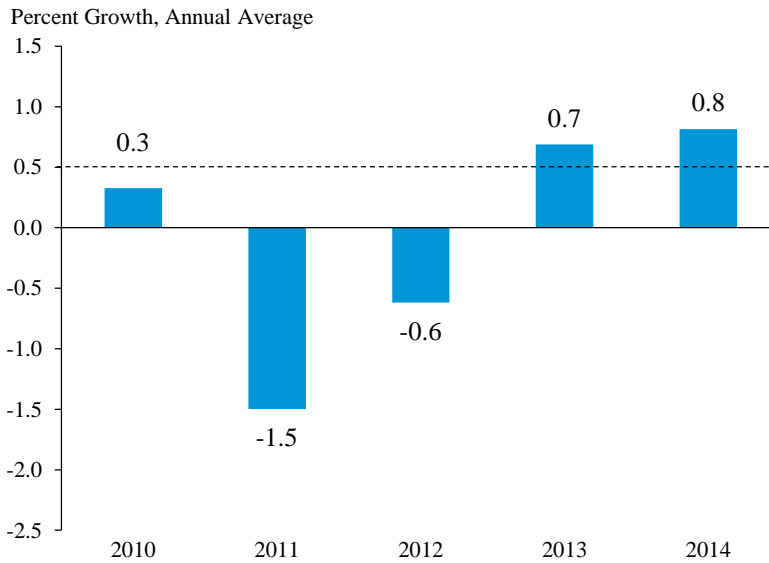
Source: Bureau of Labor Statistics, Current Population Survey; CEA calculations.

Figure 3
Labor Force Participation Decomposition, 2009–2014



Note: Year axis denotes first quarter of year noted. See text for methodological details.
 Source: Bureau of Labor Statistics, Current Population Survey; CEA calculations.

Figure 4
Real Hourly Earnings,
Production & Nonsupervisory Workers, 2010–2014



Note: Dashed line represents 2001-2007 average.
 Source: Bureau of Labor Statistics, Current Employment Statistics; CEA calculations.

Figure 5

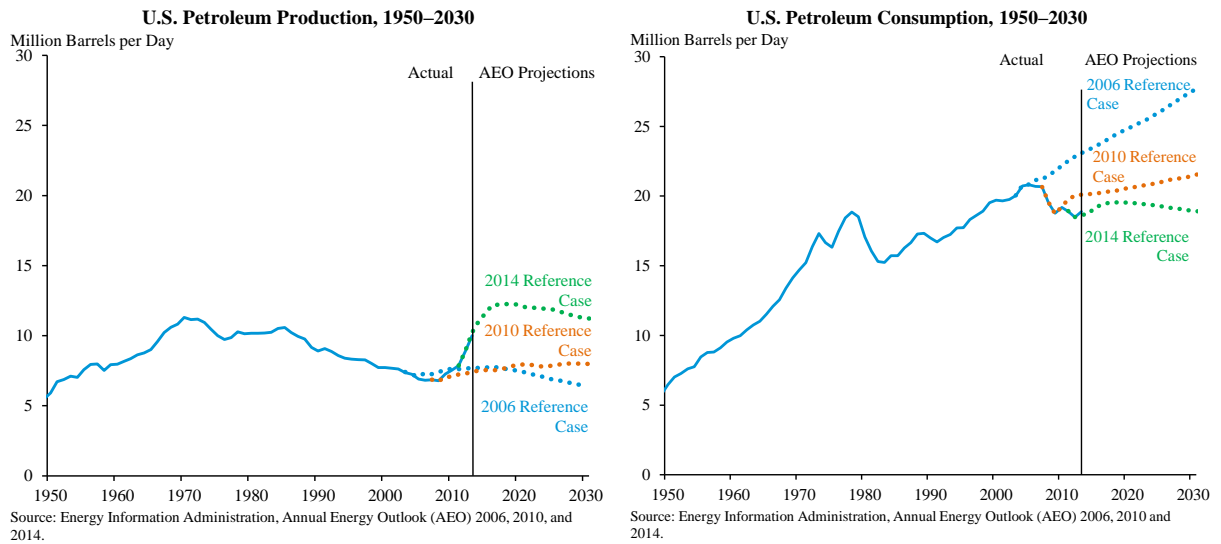
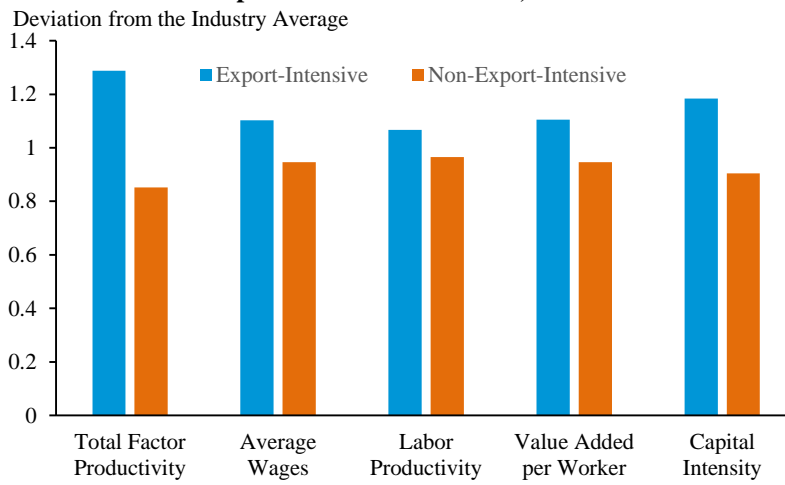


Figure 6

Characteristics of Export-Intensive and Non-Export-Intensive Industries, 1989–2009



Note: The deviation from the industry average is calculated as follows. Each industry's characteristic is measured relative to the industry average within the year and then averaged over the 1989–2009 period and across export-intensive and non-export-intensive industry groups.
Source: National Bureau of Economic Research-Center for Economic Studies, Manufacturing