Joint Economic Committee
Representative Kevin Brady • Chairman

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JOINT ECONOMIC COMMITTEE
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Employment Situation for March 2014

Vice Chair Klobuchar, Members, and Commissioner Groshen:
Chairman Brady went to Dallas this morning to attend the funeral of Ray Hutchinson, the Chairman's friend and the husband of former Senator Kay Bailey Hutchinson. In Chairman Brady's absence, he asked me to preside at this hearing.

The recovery that began in June 2009 is now nearly five years old. Yet, a NBC News/Wall Street Journal poll last month found that 57% of Americans still think the economy is in a recession. This is likely due to the persistent weakness in our labor market.

The fact that nonfarm payrolls increased by 192,000 and the official unemployment rate remained unchanged at 6.7% last month is positive news, but it's simply not enough. I agree with Federal Reserve Chair Janet Yellen's recent assessment of our economy. In a speech on Monday at the 2014 National Interagency Community Reinvestment Conference, she said, "[w]hile there has been steady progress, there is also no doubt that the economy and the job market are not back to normal health."

By several measures, the recovery from the most recent recession is far below the average of prior recoveries over the last 50 years. Here at the Joint Economic Committee, we often refer to that as the Growth Gap. Since the recession ended in June 2009,

- Real GDP growth is a cumulative 9 percentage points <u>below</u> the average recovery;
- Private payroll employment growth is more than 5 percentage points <u>below</u> the average recovery; and
- The real disposable income of a family of four grew by $13,032 less than it did during an average recovery.

Clearly, our economy is underperforming. We should be doing better than five consecutive years of below average.

In her speech, Chair Yellen cited a number of statistics indicating that our labor market is weaker than the official unemployment rate would suggest. For example,

- More than seven million people are working part-time even though they would prefer full-time jobs.
- The falling unemployment rate has not sparked a significant increase in real wages. Real average weekly earnings for all private, nonfarm employees are up by less than 1% since the recession ended.
- 35.8% of the unemployed have been unemployed six months or longer. I'll say that again. More than one-third of the unemployed in this country have been unemployed for six months or more.
- The labor force participation rate has fallen from 66.0% in December 2007 to 63.2%. Only half of this decline may be attributable to demographic factors.

Some blame the housing bubble, its collapse, and the ensuing financial panic for this persistent weakness in our labor market. While the collapse of the housing bubble undoubtedly has some lingering effects, it is not the main factor, let alone the only factor, for this weakness.

What is unique about this recovery is the combination of the economic policies that President Obama has pursued:

- From 1982 to 2000, federal spending declined as a percent of GDP, and the private sector created more than 37 million jobs. Under President Obama, federal spending reached a post-World War II high of 24.4% of GDP and remains above its postwar average of 18.9% of GDP.
- Presidents Kennedy and Reagan passed tax cuts that encouraged new business investment. This Committee has shown a strong correlation between new business investment and the creation of new private-sector jobs. In contrast, President Obama increased taxes on successful small businesses, capital gains, and dividends.

- Presidents Reagan and Clinton took a balanced approach toward environmental, health, and safety regulations. In contrast, the Obama Administration has pursued an aggressive agenda of regulation without carefully weighing costs and benefits.
- Presidents Kennedy, Reagan, and Clinton opened new markets to American products through international trade agreements. There are several trade opportunities on the horizon that are proven job creators, but the Administration has not fully engaged on this issue. There's been bipartisan support for trade in the past, and I'm confident that there's bipartisan support in Congress for trade agreements today.
- Presidents Kennedy, Reagan, and Clinton did not burden a weak economy with costly new entitlement programs. In contrast, President Obama pushed the *Affordable Care Act* through Congress on party-line votes.
- The President's health care law has increased uncertainty, raised taxes by nearly half a trillion dollars, undermined the medical device industry that is so important to my home state of Minnesota, and caused millions of Americans to lose access to the doctors and health insurance plans they liked.

The economic policies America needs now are well known – stable prices, a gradual decline in federal spending as a percent of GDP, tax reform that encourages new business investment, balanced regulation, and trade liberalization.

It's the best way to strengthen our economy, create good jobs, and boost the wages of hardworking Americans; and it's time that the Administration work with Republicans and Democrats in Congress to move our country forward.

With that, Commissioner Groshen, I look forward to your testimony.