

# THE ECONOMIC REPORT OF THE PRESIDENT

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## HEARING

BEFORE THE

## JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

MARCH 18, 2015

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# THE ECONOMIC REPORT OF THE PRESIDENT

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WEDNESDAY, MARCH 18, 2015

CONGRESS OF THE UNITED STATES,  
JOINT ECONOMIC COMMITTEE,  
*Washington, DC.*

The Committee met, pursuant to call, at 2:45 p.m. in Room 562 of the Dirksen Senate Office Building, the Honorable Daniel Coats, Chairman, presiding.

**Representatives present:** Brady, Paulsen, Hanna, Schweikert, Carolyn B. Maloney, Delaney, Adams, and Beyer.

**Senators Present:** Coats, Cassidy, Cotton, Sasse, Klobuchar, Casey, Heinrich, and Peters.

**Staff present:** Hank Butler, Barry Dexter, Connie Foster, Harry Gural, Christina King, Kristine Michaelson, Viraj Mirani, Andrew Nielsen, Matt Solomon.

## OPENING STATEMENT OF HON. DANIEL COATS, CHAIRMAN, A U.S. SENATOR FROM INDIANA

**Chairman Coats.** The Committee will come to order. This is the first of many hearings to follow on the Joint Economic Committee.

We delayed this morning—this afternoon, excuse me. The House is in the middle of a number of votes. I think our House members will be joining us. So we stalled for a while and decided we needed to get started here.

The chairman has many things to do, as well as the rest of us. So when Vice Chairman Brady and Ranking Member Maloney arrive and I think Senator Klobuchar is also about here, we may have to mix things up just a little bit.

But in the interest of time, let me start. First of all, Chairman Furman, welcome. It is the tradition of this committee to have the chairman of the President's Economic Advisory Council speak to us first and give us the overview of where we are and where we are going. I appreciate Chairman Furman's involvement here. So we thank you for that.

I often hear from Hoosiers that we must take action to grow the economy and I think it is safe to say that all of us in this room agree on that whether we are Republicans or Democrats.

But the age old question in economics is this: how does a nation or state best create economic growth and rising living standards for its citizens?

It has been nearly six years since the recent recession ended. Although many encouraging signs of improvement, the recovery has been modest and there are still many Americans in need of opportunity.

In fact, since 1960 our nation has experienced seven recessions and recoveries but the current recovery has been the slowest of those seven. The recoveries of the past 50 years provide comparative data to measure the progress of our current recovery.

On measures of GDP, jobs and income growth, our current recovery ranks either dead last or second last. Annual GDP growth grew 4 percent in the average post-1960 recovery.

This recovery has averaged just 2.3 percent GDP growth. Personal income rose an average of 15.3 percent in the past recoveries. This recovery has reached 7.1 percent over the same time frame.

Median household incomes have collapsed by \$2,100 on the average in real terms during this recovery, and while the pace of new jobs has picked up recently there are still 5.5 million fewer private sector jobs in this recovery than the average of past recoveries. That is not something to be proud of.

In addition to working to improve the recovery in the short term, I believe we must also address our long-term fiscal health. Earlier this year, the nonpartisan Congressional Budget Office issued its updated budget and economic outlook for the next decade.

The report warned that under current law our, and I quote, “large and growing Federal debt would have serious negative consequences including increasing Federal spending for interest payments, restraining economic growth in the long term, giving policy makers less flexibility to respond to unexpected challenges and eventually heightening the risk of the fiscal crisis.”

Federal Reserve Chair Yellen said essentially the same thing when she appeared before this Committee last year. Her answer highlighted why the long-term deficits Washington currently is projected to run must be addressed.

She said there is more work to do to put fiscal policy on a sustainable course. Progress has been made over the last several years in bringing down deficits in the short term.

But through a combination of demographics, the structure of entitlement programs in historic terms and health care costs, we can see that over the long term deficits will rise to unsustainable levels relative to the economy.

With these comments, the Fed Chair joined a long list of academics, economists and business leaders who have all stated the obvious.

Unless the United States makes tough spending choices in the near term, eventually we are going to face a debt-induced crisis at some point in the future.

It is only a matter of time because the clock is ticking and we continue to postpone the ever more necessary policy changes that will help us avoid the coming fiscal crisis.

In fact, if interest rates were not being artificially held down by the Fed at historically low levels, we might already be facing our day of reckoning.

According to CBO, even a 1 percentage point increase in interest rates would add \$1.7 trillion to the United States deficits over a 10-year period of time and that new debt would occur without any changes in spending or taxing. Interest rates alone would simply drive our debt out of control.

I look forward to discussing these issues in more depth with Chairman Furman. I am pleased that my colleagues from the House are arriving after some voting issues, and I now turn to former chairman, Mr. Brady. Thank you very much—now vice chairman and colleague.

We appreciate all the leadership you have provided in the past. I am using that as an example to try to match—as we go forward here and I look forward to your opening statement.

[The prepared statement of Chairman Coats appears in the Submissions for the Record on page 30.]

**OPENING STATEMENT OF HON. KEVIN BRADY, VICE  
CHAIRMAN, A U.S. REPRESENTATIVE FROM TEXAS**

**Vice Chairman Brady.** Well, Chairman, thanks very much for your leadership. We have had the opportunity to work together and actually, Chairman Furman, not only welcome but we have tried to find in very thoughtful ways some of the solutions going forward economically.

And I expect that not only to continue under Chairman Coats but even be of higher value. I am going to, for the sake of time, just submit my opening statement for the record but to make the point—to Chairman Coats' point, yes, the economy is improving.

Last year 2.3 percent real GDP growth, not much above what it has been throughout this recovery. This is one of the worst economic recoveries in half a century.

My worry is the growth gap. We are missing right now from our economy an economic hole the size of Australia or Spain or Mexico's economy that ought to be back in our economy today.

We are missing 5.5 million jobs, enough to put everyone looking for work in 45 states back to work today if this were just an average recovery, and we are missing, almost \$11,000 a year out of the paycheck of a family of four.

So we have got a growth gap in the economy, we have a jobs gap and we have a paycheck gap for a lot of hardworking taxpayers. The question is how do we close that gap.

To do that under this President we will need more than 400,000 new jobs net every month for the rest of President Obama's term, which means we can't stay the course. We have to look at new policies and, certainly, removing the barriers for this type of growth.

And I believe the answer is pro-growth tax reform. I think it is rebalancing our regulation to allow local businesses to hire.

You know, I believe it is the sound dollar from the Federal Reserve and I think it is free trade agreements that allow us to not just buy American but sell American around the world.

And so, Chairman Coats, thank you again for your leadership and, Chairman Furman, thanks for joining us today.

**Chairman Coats.** Congressman Brady, thank you.

Congresswoman Maloney, thank you for hustling over here.

[The prepared statement of Vice Chairman Brady appears in the Submissions for the Record on page 32.]

**OPENING STATEMENT OF HON. CAROLYN B. MALONEY,  
RANKING MEMBER, A U.S. REPRESENTATIVE FROM NEW YORK**

**Representative Maloney.** Thank you so much, Mr. Chairman, for calling today's hearing and I look forward to working with you on the Joint Economic Committee this Congress.

Welcome, too, to Dr. Furman. Thank you for coming to answer questions about the Economic Report of the President and the status of the U.S. economy.

There seems to be a rather broad consensus these days that the economy is beginning to get back to what we think of as "normal" and it is stronger than it has been in years.

We have had a record 60 straight months of private-sector job growth. Businesses created over 12 million jobs during that time.

[Chart titled "Longest Streak of Private-Sector Job Growth Continues" appears in the Submissions for the Record on page 35.]

As I have listened to some of my colleagues across the aisle complain about how the recovery is leaving too many people behind—even while their budget proposal is busy throwing people off the bus.

Let us put the recent progress in perspective. In 1984, when President Ronald Reagan was running for re-election and airing those wonderful, popular TV ads proclaiming that it is, quote, "Morning in America," the unemployment rate was 7.4 percent.

He was touting his economic achievements. Today, under the leadership of President Obama, the unemployment rate is 5.5 percent—5.5 percent.

So both are achievements but is it a morning in America now? Or maybe a pre-dawn? Let us look at how far we have come.

Just over six years ago when President Obama took over for George W. Bush, our economy was in a dire situation.

We were losing 800,000 jobs a month. In the final quarter of 2008, GDP had shrunk by a staggering 8.2 percent. U.S. household wealth fell by about—I can't even say it—\$16.4 trillion from its peak and it was painful.

Housing prices were collapsing. American families had less money, so consumers spent less and businesses suffered. Our economy was in a steep downward spiral.

And in fact, Dr. Furman, a predecessor of yours, Dr. Christina Romer, told this Committee in 2009 that by some measures the economic and financial shocks we experienced during the most recent recession were even worse than the Great Depression.

But bold action by President Obama and Democrats in Congress as well as by the Federal Reserve helped put our nation back on track. The economy today looks very different than it did six years ago when the President took office.

U.S. GDP has grown in 20 of the past 22 quarters. The deficit has been cut by two-thirds. The stock market has doubled. The auto industry, which was written off for dead by some, is now thriving and in fact we are now exporting and we have reached a record high in auto exports in 2014.

And in the past five years, the industry has added more than 500,000 auto jobs. Inflation is low, gas is cheap and the dollar is strong.

My friends across the aisle claim that this recovery is weaker than previous ones. However, economic research reveals that this is misleading because financial crises like the ones that we went through are deeper, more damaging and have longer lasting effects.

Comparing this recovery to other post-World War II recoveries is like comparing apples and aardvarks. The Economic Report of the President correctly notes that, and I quote, "It is essential that a broad range of households share in the United States' resurgent growth," end quote.

That is exactly right. Far too many people are still suffering from the lingering effects of the Great Recession. The policy initiatives outlined in the report focus on helping middle class families.

History has shown again and again policies that raise the incomes and purchasing power of the middle class are a powerful and effective way to promote economic growth.

It would be fairer to compare our record to other countries that currently are recovering from the Great Recession, and as you can see in this chart—and it is on the TV over there—the U.S. economy has expanded at a significantly faster pace than other leading advanced economies in the world.

[Chart titled "U.S. Economy Has Grown Faster Than Other Leading Advanced Economies" appears in the Submissions for the Record on page 36.]

The recent economic news is very encouraging but our work is not done. I am heartened that there is an entire chapter in the economic report devoted to examining how workplace policies can be improved.

As one who struggled with this my whole life, I am very supportive of it. Paid leave boosts employee retention, lifts worker morale and can increase participation in the workforce.

It is good for employers and good for employees. I have spent much of my career working on these issues and living them actually and I hope that we can finally make some much needed progress in this Congress.

As the recovery continues it is vital that we pursue a broad range of policies that expand economic opportunities for all Americans.

Dr. Furman, thank you so much for appearing before the Committee today. I am eager to hear your perspective on the economic challenges and opportunities ahead, and I look forward to working with the Chairman and the Vice Chairman and implementing many of these policies.

Thank you, and I yield back.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 33.]

**Chairman Coats.** Thank you, Congresswoman Maloney. And now we—now we turn to introducing our distinguished witness, Chairman Furman.

Jason Furman is the chairman of the Council of Economic Advisers. Previously, he served as the principal deputy director of the National Economic Council and senior vice president at the World Bank.

He has also been a senior fellow in economic studies and director of the Hamilton Project at the Brookings Institution. Dr. Furman

earned his Ph.D. in economics and a Master of Arts in government from Harvard University and a Master of Science in economics from the London School of Economics.

Chairman Furman, thank you for joining us today. We look forward to your testimony.

**STATEMENT OF HON. JASON FURMAN, CHAIRMAN, COUNCIL  
OF ECONOMIC ADVISERS**

**Chairman Furman.** Chairman Coats, Vice Chairman Brady, Ranking Member Maloney and members of the Committee, thank you for the opportunity to appear before you 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 strength in the middle class.

The clearest signal that the recovery has accelerated comes from the job market. As the Ranking Member noted, the United States has now seen 60 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. This robust pace of job growth has continued so far into 2015.

In fact, more than 200,000 private sector jobs have been created each and every month for the last 12 months, the first time that has happened in 37 years.

Moreover, in 2014 we saw the continuation of a pattern observed throughout this recovery as essentially all the employment gains were in full-time positions.

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 continues to be driven by the aging of the population has been offset by business cycle conditions which have improved.

And perhaps the most encouraging sign of all, real wages as measured by average hourly earnings for production in non-supervisory workers, are rising again, up eight-tenths of a percent in 2014 as a whole.

While this pace of real wage growth is above the average rate seen—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 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 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.

In addition, the more neutral and predictable fiscal policy 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 brinkmanship 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 monitor global economic situation and to engage with our key partners around the world to work to strengthen growth.

As I said, 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 example, productivity grew rapidly following World War II but slowed in the 1970s and 1980s before picking up again in the 1990s.

In contrast, the labor force participation rate increased markedly in the 1970s and 1980s and with a historic transformation of women's role in the economy.

But recently the aging of the U.S. population and retiring the Baby Boomers has put downward pressure on the labor force participation rate.

Finally, the last 40 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 is particularly designed to enable productivity-enhancing investments in American infrastructure as well.

Another chapter of the report lays out the expended benefits of international trade which arise in part because exporting firms tend to be more productive, supporting jobs that pay higher wages.

We devote an entire chapter, as the ranking member noted, to the economics of family friendly workplace policies like paid sick and family leave.

The evidence shows that these types of policies can increase employee retention and morale as well as strengthen individual's 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 example, 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 complementaries 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 today. Thank you.

[The prepared statement of Chairman Furman appears in the Submissions for the Record on page 37.]

**Chairman Coats.** Chairman, thank you very much. I am going to try to set the example of keeping question time to five minutes per member.

I think if I can—and I have two questions for you but if we have to squeeze it I want to set a good example getting off to a start here.

In my opening statement, I discussed the long-term debt problems facing our country. There have been several serious bipartisan efforts both in Congress and by outside groups in the past few years to address this challenge.

Groups like Fix the Debt, the Business Roundtable, Domenici-Rivlin effort at the Bipartisan Policy Center all try to develop solutions to this and official government efforts also included Simpson-Bowles, the Gang of 6, the Supercommittee, resulting from the Budget Control Act and the so-called dinner club of senators, which I participated in.

Unfortunately, all of these efforts failed to reach an agreement. I was particularly frustrated over the failure of the final effort, which started with go big, ended up with simply the President rejecting even those proposals that he himself had previously endorsed as—such as chain CPI.

I guess my question to you is the President has two years left in his term. We have all acknowledged, I think, on a bipartisan basis that our continued deficit spending and plunge into extraordinary long-term debt presents serious consequences and challenges.

So my question is, is the President and his team prepared to address this in his last two years and what kind of encouragement can you give us?

Because I will say this in a bipartisan way—the can has been kicked down the road both by Republican and by Democrat presidents and the clock is ticking, and the question is when are we going to have the will to do it.

I think that reflects on all of us sitting up here on this dais. But also when will we have the leadership from the executive branch to cooperate with us in achieving this kind of result?

**Chairman Furman.** Thank you for your question.

The short answer is the President stands ready to work on a balanced approach that would bring down our deficit over the medium and long run.

It would build on the substantial progress we have made bringing the deficit down from 9.8 percent of GDP to 2.8 percent of GDP—progress that was in part due to the strengthening economy but in part due to a number of steps we have already taken.

The Budget Control Act, the Affordable Care Act and the tax agreement reached at the beginning of 2013—all three of those steps are working together to reduce our deficit.

And so if you look out over the next 25 years, the fiscal gap—a measure of that deficit over time—has also come down substantially.

But it hasn't come down to zero which is why the President has a balanced set of proposals that include entitlement reforms and additional revenues from cutting tax expenditures for high-income households that together would bring down that deficit over the medium and long run.

**Chairman Coats.** Well, we know there has been some short-term progress here and the CBO projects that short-term progress will last another year or two but then the spike is at a pretty high angle here, going forward in subsequent years to that.

And so while we can perhaps celebrate some of the steps that have been taken, it comes nowhere close to dealing with the long-term problem.

When do you think—do you think the President is willing to address the long—given one last chance in his eight-year presidency to address that long-term problem?

**Chairman Furman.** You know, I don't disagree and I wasn't—I certainly wasn't trying to claim that the problem is solved. It is not.

But we have made a lot of progress on it. Over the next 25 years CBO foresees a smaller deficit than they had foreseen. But it does come back and rise, as you correctly said, which is why we have proposed the steps we have proposed.

I would say the steps are very much in the spirit of a lot of the different deficit proposals you describe in that it included revenue that you would get through tax reform and spending reduction, and it is bringing those two together in a balanced way that I think is a prerequisite for making meaningful progress on the deficit.

**Chairman Coats.** Well, I think that answer basically outlines the President's position. I am not sure it leads to the kind of result that we are looking for.

But in—to honor and to set the example for five-minute questioning I will bypass the second question or the follow-up on the first and turn it over to Chairman Brady—Vice Chairman Brady.

**Vice Chairman Brady.** Thank you, Chairman. If you need additional time I would be glad to yield to you.

**Chairman Coats.** You used to ask for that when you were Chairman.

**Vice Chairman Brady.** Yes. Chairman—

**Chairman Coats.** So I appreciate that.

**Vice Chairman Brady.** Thank you.

So here is my question, and this isn't a gotcha question. I really would like your thoughts on this.

Normally, as the unemployment rate goes down the percentage of adults in the workforce goes up. Makes sense—employment to population ratio. But not this time.

It has—it is still way below what it was before the recession began, basically flat over five or more years. Today—so in some ways we have made absolutely no improvement at all in the percentage of adults who are working.

Your report, believes half of that is because we have aging demographics even though the older workers, frankly, are staying in the workforce.

It is our younger ones who are struggling right now. So I know your predecessor, Ed Lazear, and University of Chicago economist Casey Mulligan has said for the other half of that problem, and it is a big one, you have the disincentives of additional regulation on local job creators and disincentives to work by increased social welfare programs.

So what is your thought? Wouldn't you agree that they may be contributing to that other half of that very large problem?

And what other factors have contributed to it? Because it is hard to find a solution if we don't know the cause for why so many adults are still not back in the workforce.

**Chairman Furman.** Mm-hmm. Thanks for that question.

First of all, I would want to note that it has been a genuine labor market recovery. The Bureau of Labor Statistics tracks, in addition to the official unemployment rate, broader measures that include people who have been discouraged and given up looking for jobs or aren't actively looking for them for other reasons.

Those have also come down. So U-6, the broadest measure of all, has come down even faster over the last year.

**Vice Chairman Brady.** And I will tell you it doesn't feel that way.

**Chairman Furman.** Then——

**Vice Chairman Brady.** I mean, there is just—almost half the college graduates aren't finding a job that requires a college degree so either sitting at home or working a cash register is not what they dreamed of.

**Chairman Furman.** Right. In terms of the labor force participation, part of that other half, as you described it, referencing our analysis, is a pretty standard whenever the unemployment rate is high the participation rate will be a little bit lower, and as the unemployment rate comes down that piece goes back up in the opposite direction and that's what I think we are seeing right now.

The other part of it, frankly, we don't fully understand and we have put a lot of effort into understanding it. I don't think I would, frankly, place a lot of weight on some of the explanations you put forward in part because male labor force participation has been declining since the 1950s for prime age men.

For prime age women it has been declining since the 1990s, and so I don't think recent policy changes, you know, one, I don't think explain it and two, certainly don't explain that phenomenon.

I think part of it is—gets at some of the work-family issues—that we are one of the only countries in the world that doesn't have paid leave.

We don't have sufficient support for child care. That makes it harder for women to get into the workforce and keep jobs.

Workplaces are less flexible, which affects both. There is a number of different policy levers that I think could be important there.

**Vice Chairman Brady.** You know, I am just not sure that the obstacle to a college graduate finding a job is either an increased child tax credit or family medical leave.

We have got a problem with job creation in the economy. Two hundred thousand jobs—I applaud every improvement that has been made. But we should be cranking at 400,000 jobs or more easily at this point in the recovery.

There is a reason why we are not. I just don't want either party for us to settle for an economy that is stuck in second gear when I think we are capable of much more than that.

I don't want to lay it off to demographics. Employment population ratio simply isn't budging and we can't lay it off to long-term. We have a real problem in the workforce right now.

So I just think, again, my solution is to fix this broken tax code. I think it holds back job creation, makes us less competitive. I do think we need to rebalance our regulation. We need good standards.

We just need them balanced with job creation. I think the sound dollar by the Fed and it is time that they begin slowly to normalize interest rates.

Of course, these free trade agreements that tear down the American-need-not-apply sign around the world allows our workers in Pennsylvania and Texas and Indiana to compete and win again are all important.

So, Chairman, right on the knob for five minutes. Thank you.

**Chairman Coats.** Perfect. I will give you a star for that.

Congresswoman Maloney.

**Representative Maloney.** Thank you very much.

I would like to get Chairman Furman's take on the current state of our economy.

As you mentioned, we have had 60 straight months of private-sector job growth and look at this wonderful slide that shows the long red deep valley, losing 800,000 jobs a month, and then you start crawling up in the blue, creating jobs.

GDP has grown in 20 of the last 22 quarters and the unemployment rate is at the lowest level in almost seven years.

So when we look at our peers around the world, the U.S. economy is growing at a faster pace than most advanced economies if you look at this slide that compares us to our competitors.

And, Dr. Furman, as we sit here this afternoon, how would you characterize the state of the economy?

**Chairman Furman.** I would characterize it as accelerating and increasingly strong. Over the last two years, it has grown at 2.7 percent. That compares to 2.1 percent for the first three and a half years of the recovery.

I also think it is important—we have heard a number of comparisons to historical growth patterns. Our demography is vastly different than it was in the past.

If you look at prime age workers between 25 and 54—age 25 and 54—that population is falling at two-tenths of a percent a year. It used to historically be rising at 1.4 percent a year.

So in the 1980s, when you have an influx of Baby Boomers into the workforce, that is going to increase your growth rate. In this decade, as those Baby Boomers are retiring, we always knew that that would mean the population component of the growth rate would be lower and that has nothing to do with policy. That was baked in the cake decades ago.

**Representative Maloney.** So why would you or how would you characterize the fact that the U.S. is experiencing the fastest job growth compared to other advanced economies?

**Chairman Furman.** Right. In total more than half of the jobs—people put back to work in the advanced economies are here in the United States, even though we are about a third of the population.

I think that is due to the vigor of our response. Everything from the Recovery Act, the auto rescue, how the Federal Reserve has conducted its policy and the rescue of the financial system all have been considerably more vigorous and sustained and consistent than you have seen in many other countries.

**Representative Maloney.** But still it's not enough, and I don't think the President will be satisfied until every American who wants a job can have a job. So what can Congress do to help accelerate the pace of growth?

**Chairman Furman.** There are a lot of answers to that but one is infrastructure investment. It expires at the end of May. Extending it, increasing our investment and having more certainty knowing the amount of funding you have over a six-year period would be one good way to increase growth and put more people back to work.

**Representative Maloney.** And how would you describe our recovery? Are we recovering from a cold or a heart attack? Although the economic indicators are very strong, some claim, as we have already heard, that this recovery isn't as strong as the average post-war recoveries.

But it seems to me that in order to have a reasonable debate about the recovery that we need to—we also need to answer an important question—recovery from what.

And when President Obama took office, we were shedding 800,000 jobs per month. Home prices were collapsing and the U.S. banking system was in peril. What else can you tell us about the scope of this economic catastrophe? How bad was it?

**Chairman Furman.** Yes. The loss in wealth as a share of the economy that precipitated this recession was about five times as large as what precipitated the Great Depression.

The collapse in the volume of global trade at the onset of the Great Recession was even larger than the collapse of global trade that precipitated the Great Depression, and that is why in addition to Dr. Romer, who you cited before, Dr. Bernanke and Dr. Greenspan have also both said that a lot of the shocks that led to this crisis were worse than the Great Depression.

**Representative Maloney.** So how would you describe the severity of this economic meltdown and what he inherited from President Bush? Would you call it a common cold? An economic flu? A pneumonia, shingles or a major heart attack?

**Chairman Furman.** I am not sure any of those are recognized economic terms but I would choose the economic heart attack from that multiple choice.

**Representative Maloney.** So is it fair to compare the recoveries from average recessions to a recovery from a major heart attack? My time has expired. Thank you.

**Senator Klobuchar.** Thank you very much. Thank you, Chairman Furman. I had to step out for a Commerce hearing.

But it is good to see you again and thank you for your good work and I know we have discussed what is going on with the 60 straight months of private-sector job growth and added 12 million jobs over that time.

The unemployment rate in my State is significantly better than the rest of the country—Congressman Paulsen’s State as well. But I think we all know that there is more work to be done and I know we are here to focus on some good things—better news than we have had in a while at these hearings but also the fact that we have some challenges.

One of the challenges, of course, is that higher labor workforce participation. In the past, we have talked about underemployment, people working part time or higher skilled workers taking lower skilled jobs.

In your testimony, you show that all the employment growth since 2010 has been in full-time positions with over 12 million full-time workers being added in the past five years through February.

Can you talk about what is contributing to this full-time employment and what the other challenges are that remain to get it up to an even better state nationally?

**Chairman Furman.** Yes. Now, maybe I will take that in reverse order. There is a huge increase in part-time employment during the recession and since then we have made a lot of progress because 100 percent of the people put back to work have been in full-time jobs.

But there still remains—essentially, you could describe it as a backlog that is left over from that recession of people who are in part-time jobs who would like full-time work.

I think the main explanation of that is just a stronger economy. Economic growth that is creating jobs, that is bringing down the unemployment rate, that is now doing it at the fastest pace we have seen in more than a decade is creating demand for those full-time jobs.

**Senator Klobuchar.** Okay. And then the other challenge we know we have is income inequality. In the economic report of the President, you described the economic impacts of widening of income inequality and this is an issue that doesn’t just hit the top or the bottom but those in the middle—the middle class.

Can you talk about why we have seen this rise in income inequality and what can be done to reverse the trend?

**Chairman Furman.** Yes. The bottom 90 percent of households got two-thirds of the income in 1973, down to about half of the in-

come in 2013, and it is hard to make wage gains when your share is going from two-thirds of the pie to half of the pie.

There is a lot of different of causes of that—changes in technology, education, globalization, institutions like labor unions and the minimum wage—and I think that diagnosis of the cause leads us to there is going to be a lot of different solutions, many of which draw on a number of those different causes I described.

**Senator Klobuchar.** Very good, and I was thinking back to some of the hearings we had when I was the Chair. You were here, and I want to congratulate, first of all, my friend Senator Coats, as well as for his Chairmanship, as well as Representative Brady and also Ms. Maloney for her leadership, and I love working on this Committee and it gives you sort of a big picture, which I think is really important.

And I know one of the issues we talked about was workforce training and apprenticeships, and especially in a state like mine with our low unemployment rate we are really trying to figure out how do we get these high school kids that might not be graduating or might be underemployed when they get out of high school—how do we get them that training at the high school level.

And I really think this could be a bipartisan issue, given the work I have seen from the National Association of Manufacturing, what I have seen in the states to really take this on and have a national effort for more apprenticeship, the community college proposal that the President proposed as part of this.

But I want to focus—really zero in on apprenticeships and those high school kids that could go to community college and get a degree but also could work in a company and start getting that sense of the factory floor.

**Chairman Furman.** Yes. I think that—I agree that is really important and, you know, a lot of that isn't necessarily things the Federal Government does but there is things we can do to catalyze and—

**Senator Klobuchar.** Can you do, incentives through the Department of Education?

**Chairman Furman.** Right.

**Senator Klobuchar.** Maybe making it easier to do the apprenticeship. Some of this is state law but some guidance on that. We have been having trouble with that in our state.

**Chairman Furman.** Well, that is—the President very much agrees with that approach and we can keep looking at other options, too.

**Senator Klobuchar.** Okay. Last thing I wanted to ask about is immigration reform. Again, we all know that 90 of the Fortune 500 companies were founded by immigrants. More than 200 were founded by immigrants or their kids including many in my state.

Thirty percent of our Nobel Laureates in the U.S. were born in other countries. Can you talk about how, if we could finally pass something like—not exactly—the Senate-passed immigration bill how that could help the economy right now as we are seeing lower unemployment rates?

**Chairman Furman.** Absolutely. The Congressional Budget Office estimates that common sense immigration reform along the

lines of what the Senate passed last year would add 3.3 percent of GDP to the economy.

It would do it not just by bringing additional workers but also by expanding what economists call total factor productivity—the total amount of output you get for a given amount of inputs because of the innovation and entrepreneurship that you were citing in your question of many of the immigrants.

**Senator Klobuchar.** And thank you. I remember—my last comment—that we had a hearing here on immigration reform and I called Grover Norquist as my witness because one of the other benefits is, of course, that it brings down the debt by nearly 160 billion dollars in the first ten years and by nearly \$700 billion in the next 10 years, and I think that is something else to be added because people paying taxes that are in the shadows, people bringing in economic opportunities to our country. Thank you.

**Chairman Coats.** Senator, thank you. I appreciate my colleagues adhering to the five-minute rule. As you can see, it's a large Committee. We would like to give everybody an opportunity to—without wearing out the Chairman, give everybody an opportunity to get their questions asked.

Just a matter of procedure: there is a balancing act here between chambers and between parties, and so we're trying to balance back and forth, and there may be a glitch here and there. I am missing half the answers because I am trying to make sure I keep everybody in the right—people come and go and so forth, but we'll try to honor that back-and-forth between parties and chambers so that everybody has an opportunity to speak in the order in which they arrived.

And Senator Casey, that sends it over to you, two Democrat senators in a row probably violates something here.

[Laughter.]

Nevertheless, given the complexity of this process, you're next.

**Senator Casey.** Hit the—hit the gong if I get five minutes.

Thank you very much, Senator Coats.

Mr. Furman, I am grateful you're here. I wanted to try to raise maybe two questions with you.

The first I'll set forth kind of a predicate of what the problem is. It's a familiar problem, but these are pretty stunning numbers.

The issue is how do we make sure that parents can afford childcare for what I would call early care and learning? We have made great progress on children's health insurance over a generation now, still have more to do on that, but on the early care and learning, early education childcare, I think we're—we're not where we need to be.

Just by way of background, a recent Pew study found that average weekly childcare expenses rose 70 percent in 28 years between the mid 80s and 2013. That is inflation adjusted. Instead of \$87 a week, it is \$148, so a big increase in the expense.

What does that mean? Well, in Pennsylvania, it means that if you're talking about an infant, that full-time daycare, \$10,470. For a four-year-old a little less, but a little more than \$8700. So big numbers.

The adverse impact on all of us is as follows: reducing spending, if they have—if parents can't afford childcare, reducing their

spending on consumer goods, working fewer hours, leaving the labor force. All bad for that family, but especially for the economy.

You noted in your testimony that, and I'm quoting, "An enhanced childcare tax credit can help facilitate a parent's participation in the workforce while also directly pushing back against the longer-term trend of middle class income stagnation by investing in children's early care and development."

Can you highlight the positive impact of that kind of a tax credit, because I know the President has proposed one?

**Chairman Furman.** Yes. You get a—in a sense a triple economic benefit.

One, it is a benefit that the child is in a better position to, when they go to school, learn, and we see improvements in their earnings decades later, which helps the economy over the long run.

The second is it puts the parent in a better position to continue to work if he or she chooses to do that, helping their family and helping the economy today.

And then the third is by providing tax relief, it's directly improving the income of that family as well.

So those three—those are the three economic benefits, and we have a proposal on the tax side, we also have a proposal on the spending side that's more focused on lower income families that need the money in advance and up front in a way that the tax cut wouldn't provide.

**Senator Casey.** And we hope we can get some consensus more broadly on tax reform, and I think this is one of the areas where we can, in addition to reforming the code, use the code in a constructive way to help the middle class.

I wanted to move to the issue of tax reform. We have an under—an effort underway in the Finance Committee, we have a group, you know, individual senators on various groups to focus on specific sectors.

I am on one of two subcommittees, so to speak. It's the Business Tax Reform Subcommittee, or Group, I should say.

These are informal, but it allows us to sit down and to—to take a hard look at the code and to try to see where there is consensus.

Tell us about what you hope tax reform could yield, and especially getting at this generational or more or longer problem of a lack of wage growth, or something close to a flat growth in wages.

**Chairman Furman.** On the individual side, it can get at that some degree directly, and it can also enable more people to for example participate in the workforce, as the EITC does or an expanded childcare credit would.

On the business side, it would help us expand our productivity, and productivity has been part of the challenge that we face in terms of wages, and it would do that by bringing rates down; making it more attractive to invest in America; getting rid of a lot of loopholes so capital would be allocated to where it's most—has the highest economic return rather than where it gets the greatest tax benefits; and rationalizing an international system that right now is badly broken, and both discourages investment and does it without raising revenue for the Treasury.

So in all of those ways, I think business tax reform could help our productivity, and we extensively discuss that in I think Chapter 5 of the report.

**Senator Casey.** Thanks very much, and I have seven seconds left.

**Vice Chairman Brady** [presiding]. So noted, former Chairman. Representative Delaney, you're recognized, then we'll go with Representative Paulsen.

**Representative Delaney.** Thank you, Vice Chairman Brady, and thank you Chairman Furman for your testimony. It was as always well and truly delivered.

I have three relatively direct questions that I'd love your perspective on.

The first is around dynamic scoring: what is your perspective on whether that would help us, the Congress that is, make better decisions around our budgeting and tax policy and spending policies? Right now in the House, we're just dynamically scoring revenues. Obviously, I am asking it as if it was more evenhanded, dynamically scoring revenues and investments. That's my first question.

Second question is there seems to be a fair amount of convergence, something I'm very happy about, around the concept of pairing increased infrastructure with fixing the international tax system, mostly around repatriation and the issues associated with that. Give your perspective on why that is maybe a good deal for the country.

And then finally, how large is the effect of kind of disruptive technologies on some of the job creation numbers? So when we think about comparing this to prior periods, do you view that as a significant factor? In other words, the disruptive effect of technology has been really positive in so many ways for our lives, but it clearly, at least in my opinion, has been a headwind on some of the job creation statistics.

So I'll get those three questions out there.

**Chairman Furman.** Okay. I can't do full justice to them in my 3 minutes and 41 seconds.

On dynamic scoring, I think dynamic analysis, which is looking at the economic impacts of a policy, makes perfect sense. It's something that is done here—has been done here for a while, and it involves looking at a range of models and looking at a range of assumptions on how something might impact the economy, and, you know, that's why you'd want to support a policy more or less.

Dynamic scoring, where you actually incorporate that model into an estimate of some revenue or budgetary feedback, I think is considerably more problematic. There is first of all the issue of which model you select, but there's also technical issues of if you, for example, propose a tax cut, the model blows up because it has forward-looking agents, and they see ever-spiraling debt, so the model is meant to make assumptions about the behavior of future Congresses: do they cut spending, do they raise taxes? And the estimates they have tell you more about the assumptions they made about things that Congress might do in the future than whatever tax proposal is in front of them today.

And that is why I think as analysis, it can be informative and help the discussion. As scoring, that's not the case.

Very much agree with and really thank you for your efforts on linking international tax reform to investments in infrastructure. I think it's a real win-win potential there. As I said before, international tax system is badly broken. It discourages investment, and it doesn't raise revenue, and I think we can do better in both respects, having more flexibility to move money back and forth and actually collect more revenue and have less erosion of our tax base and tax incentives for shifting jobs and production overseas.

Doing that raises some one-time money as part of the transition, and I think it makes perfect sense to take one-time money, not to use it for something permanent like a rate reduction, but to use it for something one time, like for example in the President's proposal, and you've talked about similar things, a six-year reauthorization of the highway programs. I think both halves of that are good economically. Together, I think they're even better economically.

Finally, disruptive technologies. I think there is no question that over the last several decades, we have seen a hollowing out of the occupational distribution of jobs, with fewer jobs created in the middle, and more jobs created that need very high skills, and more jobs created that need very low skills, and this has been a long-standing trend. I think it very much is related to the nature of technological progress, which has replaced a number of things, that, you know, that used to be good middle-class jobs.

It's not entirely that, you know. Things like the decline in manufacturing and other longstanding developments in our economy have contributed as well, so I think you diagnosed the problem, the question is what the solution is, and I don't think you would suggest, I certainly wouldn't suggest, the solution is to reduce those technologies.

I think a lot of it is in education, and, you know, at the same time we had these disruptive technologies, we slowed the pace of increase in education. We continued to increase it, we're not increasing it as much as we did in the 50s and 60s with the G.I. Bill, and so right, it's that disconnect that I think is our problem, and I think that is potentially remediable.

**Representative Delaney.** Shifting the rest of the time to you was a good idea because you've managed it perfectly, so thank you.

**Chairman Furman.** Thank you, Congressman.

**Chairman Coats** [presiding]. Congressman, thank you very much.

Congressman Paulsen.

**Representative Paulsen.** Thank you, Mr. Chairman, and thank you Mr. Furman for being here.

I know we've had some back-and-forth already and we've acknowledged in this Committee several times the hole we had to dig out of and the weakness in our economy when the President took over. I don't think there's any Member up here or anyone in the public that wouldn't hope that we had a similar recovery to Ronald Reagan's. I mean, he had a higher unemployment, and if we only had that type of resurgence right now in our economy, you know, in infrastructure. Representative Delaney in particular has had some ideas around that, in terms of our cliff coming up in May that we need to address. I also think it's interesting from the economic

stimulus perspective that was offered by the President just five, six years ago that infrastructure was largely ignored in terms of that package.

I do want to focus on something in particular in the report, because I disagree with some of the metrics and the policy prescriptions that are contained in here, but I do wholeheartedly agree with the Chapter 7 discussion on the benefits of effective and fair trade agreements. There is no doubt that we need to establish fair and strong rules that hold other nations accountable for their unfair practices.

We need to tear down these barriers that block our goods from foreign markets. The importance of free trade and fair trade to our economy and to a state like Minnesota; as Senator Klobuchar noted, where our employment rate is much lower but we have a lot of exports—can't be understated.

I know this last month, I received a letter from another company, Creganna, a global supplier of medical device components with a facility that employs about 270 people, employment for Minnesota, assembling these complex medical devices. Trade does lead to more jobs, as you stated, higher wages.

And it's correct that 95 percent of the world's customers are outside of the United States, 80 percent of the world's purchasing power is outside the United States, overseas as well. These trade opportunities, whether it's the Trans-Pacific Partnership, whether it's the negotiations between the EU and the United States with TTIP, will allow our workers to compete, and the Plymouth facility is going to grow and expand to reach their customers more easily.

I also think they note in this letter that they sent me that trade promotion authority is key to getting the best agreements possible for a more streamlined and efficient trade agreement process, and it's necessary to have these high-standard agreements, which is what the administration's main goal is.

So this leads into my question, Mr. Furman: the President has acknowledged that TPA is a necessary tool to get to really strong high-standard agreements for TPP and TTIP. Enacting TPA, is going to require bipartisan support. What is the President doing, or what is the administration doing to help secure support from some of the Democratic members of Congress? I know USTR has been up on the Hill pretty aggressively, but what's the status of the negotiations with Senator Wyden? Can you share—

**Chairman Furman.** Yes.

**Representative Paulsen** [continuing]. Some information on where we're moving there?

**Chairman Furman.** Sure.

So first of all, thanks for your—I think it's not mischaracterizing to say an endorsement of Chapter 7 of our Report, and the things that you've observed firsthand and hear from your constituents are very similar to the analysis that we've done of the data, and it shows the large benefits of trade, and that is why the President is pursuing it so actively.

Just today, for House Democrats, there were two sets of briefings that included Secretary Lew, Ambassador Froman, I think Jeff Zients, and maybe one other, Secretary Perez as well. The President has had a number of, you know, one-on-one, small-group,

large-group, every-size-group conversations with members and others, and our team is working with leadership with the committee heads, ranking members, and others to help bring together an agreement around trade promotion authority, so you can see a bipartisan vote in committee, it can go to the floor, it can have bipartisan support and can be something the President signs into law.

**Representative Paulsen.** Your role is a very important role, you are very well-respected, certainly, as Chairman of the Council of Economic Advisers.

What role are you playing? Are you having these types of meetings as well? Are you helping convince some of our colleagues in terms of the importance of this agreement to follow through on the chapter and not miss the opportunity?

**Chairman Furman.** Yes, absolutely. This is an administration-wide effort that starts with the President, and he expects all of us to be actively working on it. You see that manifested in the Report.

Certainly I've done meetings, conversations, and a variety of other ways to help push it forward, as have pretty much my colleagues across the board in the cabinet.

**Representative Paulsen.** Thank you.

Thank you, Mr. Chairman. I yield back.

**Chairman Coats.** Thank you.

Congressman Beyer.

**Representative Beyer.** Thank you, Senator—Mr. Chairman.

Mr. Chairman Furman, thank you for being here.

There is going to be a lot of discussion about the unemployment rate, the number of unemployed, and I agree that's the number one concern, but closely related to it is wage stagnation.

You talked about trying to seek higher productivity growth, but most of the numbers I have seen have shown pretty meteoric productivity growth since 1979–1980, in the 170 percent range—140 percent, rather, and yet wage is up at most 9 percent in real dollars.

How can we better connect wage productivity growth with wage growth?

**Chairman Furman.** Right, and I very much agree with you, Congressman, I think we need to do both. We need higher productivity growth and we need to better connect them.

Some steps would actually help both of those: so more investments in education would better—would both increase our growth and help more people get the benefits of it.

Other steps, like a higher minimum wage if there were steps that could increase the bargaining power and voice of workers, I think there's been a disconnect in that regard that has helped reduce the share of income going to labor, reduce the share of income going to the bottom 90 percent of workers.

And then things like what we're trying to do in TPP, for example, is make sure that we're raising labor standards in our trading partners, making sure that we're knocking down barriers that are disproportionately large to our exporting to them than they currently have to us. We're already quite open to them. I think that, too, would help a voice that's more to the top than to the bottom, and help better connect wages to productivity while increasing productivity.

**Representative Beyer.** Mr. Chairman, it seems that one of the great debates since the Great Recession was the folks who believe that austerity will lead us to—to a healthier economic future, and those that thought, you know, the stimulus bill and others.

You see it played out in the op-ed pages every day, but you've also seen it played out around world economies. How have the austerity economies, the Estonias of the world, grown compared to what we have chosen to do here?

**Chairman Furman.** Yeah, I think, and Ranking Member Maloney had a good chart up there that showed the United States compared to the other major advanced economies, and we've come further, we've come faster, and we're continuing to move faster.

And I think that is in part due to the vigor of our fiscal response. The first fiscal expansion was passed in February 2008 and signed into law by President Bush. President Obama then did a, you know, much more substantial one in the Recovery Act and then followed through about a dozen times, many of them actually bipartisan bills doing things like expanding payroll tax cuts, incentives for investments in infrastructure, incentives to protect teacher jobs, and I think that has helped put the United States in the position that we're in today.

**Representative Beyer.** And I think we'd all rather see four percent growth and 400,000 new jobs per month. Vice Chairman Brady laid out a pretty straightforward agenda: meaningful tax reform, infrastructure bill, you know, TPP and TTIP, and you mentioned in the immigration reform that if we had that, it would be a 3.3 percent income hit to GDP, positive.

If we did meaningful tax reform, the infrastructure bill, the trade agreements, can we get the 400,000 jobs a month?

**Chairman Furman.** I don't have a particular estimate for you, but I think there are a lot of shared things in the agenda.

I think it's also important that the budget the House is considering right now, according to the CBO analysis, would actually subtract from our growth rate over the next three years, taking an average of half a point of GDP off the level of output, which would cost us jobs and slow our growth over the next three years, so I do think there are some, you know, important choices and differences as well.

**Representative Beyer.** You know, you mentioned all the people who were coming to talk to us about TPA and TTIP and the like and TPP. One of the things I haven't heard yet is any projections about what the new trade bills will do to our trade deficit. Does it move us in the right direction? And how concerned are you about the trade deficit where we are right now?

**Chairman Furman.** We have—as I showed, GDP brought our trade deficit down, and now it's the lowest it has been since the 1990s, and I think that is a good economic development.

It always creates a challenge for the trade deficit when our economy is growing faster than others. It makes it easier for us to import and harder for them to buy our things, so we're going to be facing that type of challenge over the next year or two, but disproportionately, knocking down trade barriers which are much higher in the other countries we're negotiating with than they are here in the United States—we already are relatively open to them,

these agreements are very much about opening their markets to our companies—would help our overall economy.

**Representative Beyer.** All right, thank you, Mr. Chairman.

**Chairman Coats.** Thank you, Congressman.  
Congressman Schweikert.

**Representative Schweikert.** Thank you, Mr. Chairman, and being sort of one of the newbies here, I look forward to doing a couple of things, one not embarrassing myself.

[Laughter.]

**Chairman Coats.** That's our first challenge for all of us.

**Representative Schweikert.** Yeah, and some of us are greater failures at that than—

Mr. Chairman, one thing I have always wanted to ask you: explain to me or help me understand, the models keep missing the GDP projections. One of the little charts we've been working on in my office to do a floor presentation, and going back to 2011 and, you know, the last four or five years, we keep missing it, not within the margin of errors substantial. What are we modeling wrong? Why are we missing the GDP growth numbers?

**Chairman Furman.** I think that's a great question, and, you know, economic forecasting is an—a very uncertain art, there is no doubt about that.

The unemployment rate has consistently fallen further and faster than we expected.

**Representative Schweikert.** But—

**Chairman Furman.** But you asked about GDP growth?

**Representative Schweikert.** Yes, and Mr. Chairman—Mr. Chairman, the reason the GDP model obviously, it's because it sets off a cascade of so many other effects, and we haven't missed it by little margins—

**Chairman Furman.** Right.

**Representative Schweikert** [continuing]. We, I mean, if you were playing professor, you would have flunked me.

**Chairman Furman.** Yeah. I think, you know, some of the initial modeling made the mistake of assuming a V-shaped recovery similar to the pattern we saw in the 1980s, and the models didn't build in the financial sector in the way that we understand the—

**Representative Schweikert.** But we knew that last year. I mean, even last year, hitting—what did we hit, about two four?

**Chairman Furman.** Last year, about two four, yes.

**Representative Schweikert.** Yes, so—because there's another side, and this one was a little more ethereal, touching on academic. I have a fascination, one of my Democratic colleagues tried to touch on it, but I think we sort of missed the communication with you—there is a new economy out there, and I'm not talking the long-term adoption of technology, I'm literally speaking of the last five years.

Some people call it the peer-to-peer economy, the hyper-efficient economy, the Uber economy, you know, where I go on a Web site and I rent a tool from my neighbor instead of going down and buying it.

The way we do our samples to build a GDP model, do you believe we're doing a sufficient job of capturing these—this new level of transactions?

**Chairman Furman.** I think that's a really important question. My predecessor under President Reagan, Marty Feldstein, recently wrote that he thinks that we're not and that the growth rate is actually substantially higher than is reported in the official statistics because a lot of the parts of GDP, especially in services and especially in technology, aren't being properly measured.

And I think it's much easier to measure manufacturing than services, and as our economy shifts more and more, it definitely gets harder to measure.

**Representative Schweikert.** Well, and this is where, I don't mean it to sound like a criticism, but one of the things we've seen in this new sort of peer-to-peer hyper-efficient economy is you no longer have to be a master's computer programmer, you can be the pool repairman that hits the button, rents the tools he needs to fix this, you know, right off of his smart device, and are we seeing a little more egalitarian access now to that efficient economy?

**Chairman Furman.** I think in some respects we are. I think the premium to a community college degree, the premium to a college degree, remains quite large and about what it was before these developments, but it does open up a number of opportunities for people.

**Representative Schweikert.** You touched on it, and I may have made the mistake, being new to the Committee, of actually reading——

**Chairman Furman.** Thank you.

**Representative Schweikert** [continuing]. Literacy—well, at some point I'll sit down and show you the parts I highlighted where I think you even got some math wrong. But that's just a personal thing.

On—you had spoken earlier about the annual movement in average age, you know, was it 0.20——

**Chairman Furman.** Yes——

**Representative Schweikert** [continuing]. As you get older——

**Chairman Furman** [continuing]. In terms of the participation rate.

**Representative Schweikert** [continuing]. And participation rate, but that also has potentially devastating consequences in the entitlement state, and do you really believe we're taking the coming sort of entitlement wave seriously in the policy discussions?

You answered before a question saying well, the President is willing to work with us on that if we're willing to give more revenues, and——

**Chairman Furman.** Well——

**Representative Schweikert** [continuing]. But there's other optionality to start to deal with this.

**Chairman Furman.** Yes. I probably have the same sign that you have implicit your question, a different magnitude of adjective. But there is no question that that slowing participation rate is a challenge for entitlements. That is why the President did things like the Affordable Care Act, and that is why he is proposing——

**Representative Schweikert.** And we're just on——

**Chairman Furman** [continuing]. Changes to do in conjunction with——

**Representative Schweikert.** And I wanted to say this in open hearing, having actually—the joy of being in Arizona, I spend lots of time in airplanes reading. Should I be surprised how political much of this book was?

**Chairman Furman.** You know, I think you can judge for yourself. We put out best professional judgment here. It's very much grounded in the economic literature. I have heard very positive feedback from a number of my predecessors who are both Republican and Democratic.

There's chapters on business tax reform, on international trade, a variety of topics—

**Representative Schweikert.** I will yield back, but later on, I'll show you my highlights.

**Chairman Furman.** Sure.

**Chairman Coats.** Congressman, thank you.

Dr. Adams.

**Representative Adams.** Thank you, Mr. Chairman, and thank you Dr. Furman.

I represent North Carolina's 12th District, which has some of the highest rates of unemployment in the state, maybe even the nation. Bringing new jobs to the district and the state requires that we make sure that our residents have the skills for jobs currently being demanded by the economy, so it also demands the creation of new industries and products through research and innovation.

Our public education system, and we have research institutes, North Carolina has the ability to be a leader in job creation throughout the Southeast and the entire country.

My question is that North Carolina is home to a strong university and community college system: what are the specifics in the President's plan that will expand access to community college, and what measures will be in place to ensure that community colleges are supporting new students?

**Chairman Furman.** Thank you. I think that's a great—a great question.

And the President already did the first set of Federal funding for community colleges as part of the same legislation that created the Affordable Care Act and has set up competitive grants that have been very successful I think in catalyzing innovation in community colleges and helping to modernize them.

What we have proposed in our budget is a much more dramatic step: \$80 billion over ten year investment in making the first two years of college, community college, free for anyone that maintains successful academic performance.

At the same time, we're trying to use that money by working through states to set up models to drive changes so that community colleges are geared towards the types of things you were describing, of placing people in jobs and being successful in those careers, and so we think that particular legislative idea, building on what we've already done together with Congress, would really help move us forward.

**Representative Adams.** Thank you. Because of the economy and the situation with unemployment in my state, my district in particular, I have had a long-time concern about minimum wage, as a matter of fact, I worked nine years as a state legislator to get

the minimum wage increased. We only got it increased by a dollar. That was in 2006.

And so, you know, people are working two and three jobs every day, working hard is not enough if you don't make enough. But what benefits do you see from raising the minimum wage for hourly employees?

**Chairman Furman.** The direct benefit is that it would be additional income. Raising the minimum wage would result in a wage increase for tens of millions of workers. It would lift a lot of people out of poverty and relieve poverty for others.

And I think importantly for employers, it helps reduce turnover, increase motivation, and in a number of ways can help with the productivity of the employees, and that's why I think you've seen a number of businesses, you know, across the country raising their wages, because they recognize it's a smart business decision. That is exactly why we, the President, has ordered the same thing for Federal contractors.

**Representative Adams.** All right. And my final question, what proposals has the Council of Economic Advisers discussed to help the long-term unemployed return to work?

**Chairman Furman.** We've discussed a number. One of them is just a stronger economy will help bring down long-term unemployment, but also we think we can reform the unemployment insurance system, both to provide people with longer benefits automatically when the unemployment rate is high so it adjusts based on the economy to bring more solvency, but to also have funding for states to try different types of experiments, and these are experiments that build on bipartisan legislation we did that would let states figure out, for example, how to do apprenticeships or other ways of bringing people back into jobs who have been out of them for a while.

**Representative Adams.** Thank you, sir.

Mr. Chair, I yield back.

**Chairman Coats.** Thank you.

Congressman Hanna.

**Representative Hanna.** Thank you. It's good to see you.

**Chairman Furman.** Good to see you.

**Representative Hanna.** Thank you for being here.

A couple of questions: one of the things I—one of the issues that comes up constantly in my office by organized labor and others is the concern over TPP, and I'd like to give you an opportunity to speak to those individuals worried about their job loss.

The other thing that I want to ask you about too is you say millennials are more educated than previous generations, but they're also deeply in debt. College debt is growing. I wondered your opinion of the long-term and short-term ramifications of putting off marriage, having children, homeownership is a huge piece of our economy that is allegedly being put off, you know, launching a different—a new career, and generally the lowering—potential of lowering lifetime income.

So those two things, I—

**Chairman Furman.** Yes, okay.

**Representative Hanna** [continuing]. Take it away.

**Chairman Furman.** Great.

In terms of TPP, our analysis is that it would support better higher-paying jobs, and there is no doubt that if a constituent walks into your office and they say globalization, the process of globalization has created challenges for them, they could definitely be correct, because it absolutely has.

What TPP is about is making sure that we're better managing the process of globalization and doing it in a way that's in the interests of the United States as well as of the global economy.

So, you know, to draw on some of the examples I was giving before, our average tariffs are 1.4 percent. We already are an open economy. Our partners sometimes have 20, 30 percent tariffs, so this involves really opening up their markets to us in a way that ours are already open to them, is what we're doing TPP.

You don't have anything resembling the types of labor standards that we have in a number of the TPP partner countries. Because of this agreement, we would have better labor standards.

So, you know, I think you can take someone and say there's a legitimate set of concerns here, and the whole point of the way we're negotiating this agreement is to manage that process of globalization better so that we're creating more higher-paying jobs here in the United States.

**Representative Hanna.** So that past treaties should not be an indicator of future treaties?

**Chairman Furman.** Yes. That is right, and it's not just past treaties. Some of it is just technological: the development of container shipping and a whole range of things like that that have helped shape this phenomenon.

In answer to your second question, there's no doubt that there's a set of challenges associated with student debt. I don't think we should lose sight of the forest for the trees in that college is still a very good deal, and, you know, then of the debt, you're still raising—tend to raise your earnings substantially, but not everyone does, and that's why something like expanded income-based repayment, that if you end up not earning as much you basically get some insurance against that outcome and have some, you know, ability to restructure or relieve your debt.

A focus on college completion: a lot of the biggest problems with college debt aren't from college graduates, they're people who didn't graduate from college, and so they incur some of the costs. That is an especially serious issue with some for-profit schools, so we've put in place gainful employment regulations to deal with that in that sector as well.

In terms of some of the empirical links between student debt and delayed marriage and homeownership, that's something economists are actively studying and debating. Some see that set of links.

You know, it's also the case though that if you go to college, you're likely to delay marriage, you're likely to delay buying a home, regardless of whether or not you're in debt, so I think some of what's going on here might be a correlation with debt and not necessarily something being caused by the debt, but it's worth continuing to look at, and there's a number of different ways we can do better.

**Representative Hanna.** Thank you.

So in terms of college debt, though, it is an enormous number, and there are numerous studies that show that people are defaulting at an accelerated rate. That has to have some long-term implications, though, on their ability to do a whole host of things in their futures.

**Chairman Furman.** Yes, and the fact that this is the second largest segment of consumer debt after home mortgages, and that as you said, you do see some default rates—delinquency rates rising there, you know, means that it is an area that we should be actively monitoring and looking for ways to improve on, absolutely.

**Representative Hanna.** Thank you for your time.

Yield back.

**Chairman Coats.** Well, Chairman Furman, we thank you for your participation in this today. I think we're off to a good start with the Committee, and I want to thank my colleagues from the House as well as the Senate, both parties participating here. It's been constructive.

I think we will look forward to continuing to work with you and the Council of Economic Advisers. A lot of issues have been raised here today that probably deserve some drilling down on the specific issue, and so you've given us, I think, a broad range of issues here that affect the future growth of the United States, the economy, and issues that we're having to deal with here in Congress.

I really appreciate your willingness to work with us and look forward to some continued participation.

We're going to keep the record open for five days, and with that, unless my colleagues have something they would like to follow up on?

**Representative Maloney.** I'd just like to join you in congratulating and thanking Chairman Furman and all of our participants on this Committee, and especially congratulating you on your new position, and quite frankly, Dr. Furman, you stunned me when you said it was five times the economic shock of the Great Depression. Then we must have learned a lot in the Great Depression on how to handle this.

I do want to recall a statement I heard earlier today from—from Mr. Lew, Secretary Lew, where he credited the recovery, obviously, to the spirit of the American people, but also to the many efforts that we tried. We tried so many efforts, more than the whole efforts of all the world combined, to try new ways to try to combat the challenges that we faced.

So I appreciate your insights today and look forward to working with you, and thank you so much for being here today.

**Chairman Coats.** And thank you to the Ranking Member from the House, and I think you've sort of set the stage for continued discussion on the very topic that you were referring to.

I think it's important to the future of our country that we understand not only what has happened, where we currently are, but where we need to go.

I raised that issue of entitlements, and I do not assess that the—either the Congress or the Executive Branch have exercised the will to make the tough decisions to go forward on the crushing statistics relative to unchecked entitlement growth.

We're going to do more investigation and discussion on that in future hearings. We thank you for your contributions to that.  
And with that, the Committee is adjourned.  
(Whereupon, the hearing went off the record at 4:05 p.m.)

## **SUBMISSIONS FOR THE RECORD**

PREPARED STATEMENT OF HON. DAN COATS, CHAIRMAN, JOINT ECONOMIC  
COMMITTEE

The committee will come to order.

Chairman Furman, welcome. Vice Chairman Brady, Ranking Member Maloney and I appreciate your willingness to continue the longstanding tradition of the Chairman of the Council of Economic Advisers testifying before the Joint Economic Committee. We look forward to discussing the Economic Report of the President with you.

I often hear from Hoosiers that we must take action to grow the economy, and I think it's safe to say all of us in this room agree on that. But the age-old question in economics is this: how does a nation or state best create economic growth and rising living standards for its citizens?

It has been nearly six years since the recent recession ended. While there are many encouraging signs of improvement, the recovery has been modest, and there are still many Americans in need of opportunity. In fact, since 1960, our nation has experienced 7 recessions and recoveries, but the current recovery has been the slowest of them all.

The recoveries of the past 50 years provide comparative data to measure the progress of our current recovery. On measures of GDP, jobs, and income growth, our current recovery ranks either dead last or second-last. Annual GDP grew 4 percent in the average post-1960 recovery; this recovery has averaged just 2.3 percent GDP growth. Personal income rose an average of 15.3 percent in past recoveries; this recovery has reached 7.1 percent over the same time frame. Median household incomes have collapsed by \$2,100 in real terms during the recovery. And while the pace of new jobs has picked up recently, there are still 5.5 million fewer private-sector jobs in this recovery than the average of past recoveries. That's not something to be proud of.

Why is this recovery so different? And just as important, if not more important, what does the future economic situation look like for the average American family?

In addition to working to improve the recovery in the short-term, I believe we also must address our long-term fiscal health. Earlier this year, the non-partisan Congressional Budget Office issued its updated budget and economic outlook for the next decade. The report warned that under current law our "large and growing Federal debt would have serious negative consequences, including increasing Federal spending for interest payments; restraining economic growth in the long term; giving policymakers less flexibility to respond to unexpected challenges; and eventually heightening the risk of a fiscal crisis."

Federal Reserve Chairman Yellen said essentially the same thing when she appeared before this committee last year. I asked how Congress can help those in Indiana and across the country with the uncertainty they face in this economy. Her answer highlighted why the long-term deficits Washington currently is projected to run must be addressed.

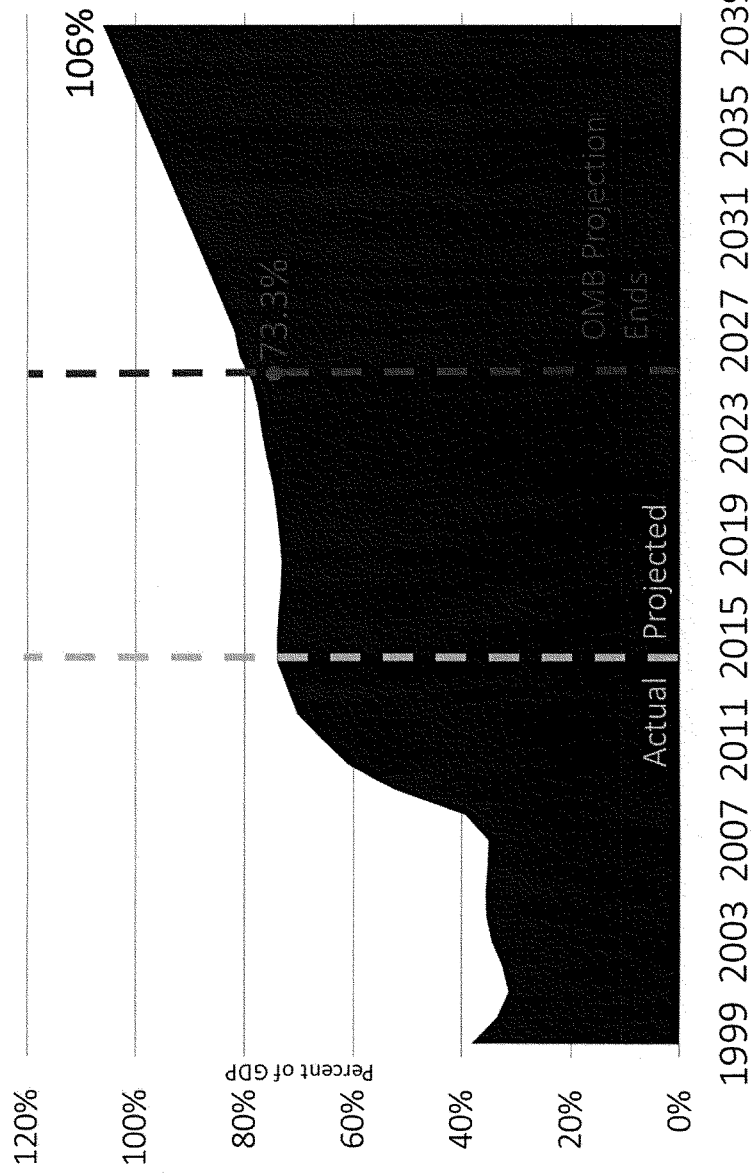
She told me, "There is more work to do to put fiscal policy on a sustainable course ... Progress has been made over the last several years in bringing down deficits in the short term, but [through] a combination of demographics, the structure of entitlement programs, and historic trends in health-care costs, we can see that, over the long term, deficits will rise to unsustainable levels relative to the economy."

With these comments, the Fed Chairwoman joined a long list of academics, economists, and business leaders who have all stated the obvious: Unless the United States makes tough spending choices in the near term, eventually we are going to face a debt-induced crisis at some point in the future. It is only a matter of time; the clock is running down, and we continue to postpone the ever more necessary policy changes that will help us avoid the coming fiscal crisis.

In fact, if interest rates were not artificially held down by the Fed at historically low levels, we might already be facing our day of reckoning. According to CBO, even a one percentage-point increase in interest rates would add \$1.7 trillion to the United States' deficits over 10 years. And that new debt would occur without any changes in spending or taxing—interest rates alone would simply drive our debt out of control.

I look forward to discussing these issues in more depth with Chairman Furman.

# CBO's Long-Term Publicly-Held Debt Projection



Source: CBO, OMB

PREPARED STATEMENT OF HON. KEVIN BRADY, VICE CHAIRMAN, JOINT ECONOMIC COMMITTEE

Chairman Coats, Ranking Member Maloney, Members, and Chairman Furman:

Although the recovery from the financially-triggered recession began five and one-half year ago, the U.S. economy regrettably remains stuck in second gear. On February 27th, the Bureau of Economic Analysis confirmed this, reporting that real GDP grew by 2.37 percent last year. That is an imperceptible increase over the average annual growth rate of 2.33 percent for the entire disappointing recovery.

Conditions have improved, but the Obama recovery remains the weakest, or near the bottom, in terms of every major measurement of economic performance compared with other recoveries during the last half-century. The Joint Economic Committee describes the difference in economic performance between this recovery and the average of other recoveries since 1960 as the "Growth Gap."

Since the recession ended, real GDP grew by 13.5 percent during the Obama recovery compared with average growth of 24.1 percent during other post-1960 recoveries. This difference, the "Growth Gap," means our economy is missing \$1.5 trillion in real GDP at this point in the recovery—a hole comparable to the economy of Australia, Mexico, or Spain. Cumulatively, we are missing \$5.4 trillion from America's economy.

Since the end of the recession, private-sector payrolls increased by 10.0 percent. Over the comparable period, however, private-sector payrolls grew by an average of 15.1 percent in other post-1960 recoveries. Thus, from the end of the recession, the "Growth Gap" in Main Street jobs is a staggering 5.5 million private-sector jobs—enough to put everyone looking for work in 45 states back into a job.

Not surprisingly, hardworking American families have felt the adverse effects of slow economic growth and lagging private-sector job creation in their pocket books. Since the recession ended, real disposable income per person has increased by a total of 7.1 percent compared with an average increase of 15.3 percent in other post-1960 recoveries. Thus, the "Growth Gap" in real disposable income per person equates to \$2,915 per person—or more than \$11,000 for a family of four—when compared with the average of other post-1960 recoveries.

While families and businesses on Main Street continue to suffer through a lackluster recovery, the Fed's policies of quantitative easing and extraordinarily low interest rates have caused Wall Street to roar. Since the end of the recession, the S&P Total Return Index, adjusted for inflation, has increased by 125.4 percent. Ironically, for a President that obsesses with income inequality and promotes "Middle Class Economics," his Administration has presided over a recovery that has bestowed most of its benefits to the wealthy and well-connected.

Closing the jobs, output, and income "Growth Gap" will be hard for this President to achieve with his current slow-growth policies. Merely to get even with the average performance of other post-1960 recoveries by the time that President Obama leaves the White House:

- Real GDP would have to grow at an annual rate of 7.4 percent in each of the next eight quarters. That is triple the growth rate in the Obama recovery so far;
- The private-sector would have to generate 403,000 in every month for the next 22 months. That is well above the average monthly gain in private-sector jobs of 285,000 over the last six months; and
- Real disposable income per person would have to grow at an annual rate of 6.3 percent in each of next 23 months. That is more than four times the average annual rate of 1.2 percent so far in the Obama recovery.

Staying the course means the "Growth Gap" could grow and America's economy will remain stuck in second gear. Without a real focus on growth, middle-class families will see their paychecks remain flat, while millions of college graduates search fruitlessly for decent jobs.

America needs a "Growth Agenda" that creates a healthier economy by focusing on fixing the broken tax code, right-sizing the Federal Government, more balanced regulation, a sound dollar, and effective, enforceable and fair trade agreements.

On some of these policies, Administration officials have indicated a willingness to reach out to congressional Republicans to see if we can enact pro-growth legislation. When possible, congressional Republicans will work with the Administration to get the U.S. economy into high gear. Enacting trade promotion authorization is one area; perhaps pro-growth tax reform is another.

On other policies, however, our philosophical differences are simply too deep. Pro-growth regulatory policies and right-sizing the Federal Government must await the next presidential election.

Whatever the White House may do, this Congress is determined to lead. We passed a bill authorizing the construction of the Keystone-XL pipeline. Unfortunately, President Obama chose to veto these well-paying American jobs. We will pass a budget that puts our fiscal house in order. And we will pass more pro-growth, pro-jobs bills.

Chairman Furman, I look forward to our discussion of these issues.

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PREPARED STATEMENT OF HON. CAROLYN B. MALONEY, RANKING DEMOCRAT, JOINT ECONOMIC COMMITTEE

Thank you, Mr. Chairman-Designate, for calling today's hearing. I look forward to working with you on the Joint Economic Committee this Congress.

Welcome, Dr. Furman. Thank you for coming to answer questions about the Economic Report of the President and the status of the U.S. economy.

There seems to be a rather broad consensus these days—that the economy is beginning to get back to what we think of as normal—and it's stronger than it has been in years.

We've had a record 60 straight months of private-sector job growth—businesses created 12 million jobs during this time.

I have listened to my colleagues across the aisle complain about how the recovery is leaving too many people behind—even while their budget proposal is busy throwing people off the bus.

Let's put the recent progress in perspective. In 1984, when President Ronald Reagan was running for re-election and airing TV ads proclaiming that "it's morning in America," the unemployment rate was 7.4 percent. He was touting his economic achievements.

Today, under the leadership of President Barack Obama, the unemployment rate is 5.5 percent. Five-point-five percent!

Let's look at how far we've come. Just over six years ago when President Obama took over for George W. Bush, our economy was in a dire situation. We were losing 800,000 jobs a month. In the final quarter of 2008, GDP had shrunk by a staggering 8.2 percent. U.S. household wealth fell by about \$16.4 trillion from its peak. Housing prices were collapsing. American families had less money, so consumers spent less and businesses suffered. Our economy was in a steep downward spiral.

In fact, Dr. Furman, a predecessor of yours—Dr. Christina Romer—told this Committee in 2009 that by some measures, the economic and financial shocks we experienced during the most recent recession were even worse than the Great Depression.

But bold action by President Obama and Democrats in Congress, as well as by the Federal Reserve, helped put our nation back on track.

The economy today looks very different than it did six years ago when the President took office:

- U.S. GDP has grown in 20 of the past 22 quarters.
- The deficit has been cut by two-thirds.
- The stock market has doubled.
- The auto industry—written off for dead by some—is thriving. U.S. auto exports reached a record high in 2014. And in the past five years, the industry has added more than 500,000 jobs.
- Inflation is low. Gas is cheap. The dollar is strong.

My friends across the aisle claim that this recovery is weaker than previous ones. However, economic research reveals that this is misleading because financial crises like this one have deeper, more-damaging, and longer-lasting effects.

Comparing this recovery to other post-World War II recoveries is like comparing apples and . . . aardvarks.

It would be fairer to compare our record to other countries that currently are recovering from the Great Recession. And as you can see in this chart, the U.S. economy has expanded at a significantly faster pace than other leading advanced economies in the world.

The recent economic news is very encouraging, but our work is not done. The Economic Report of the President correctly notes that "It is essential that a broad range of households share in the United States' resurgent growth." That's exactly right—far too many people are still suffering from the lingering effects of the Great Recession.

The policy initiatives outlined in the report focus on helping middle-class families. History has shown, again and again, policies that raise the incomes and purchasing power of the middle class are a powerful and effective way to promote economic growth.

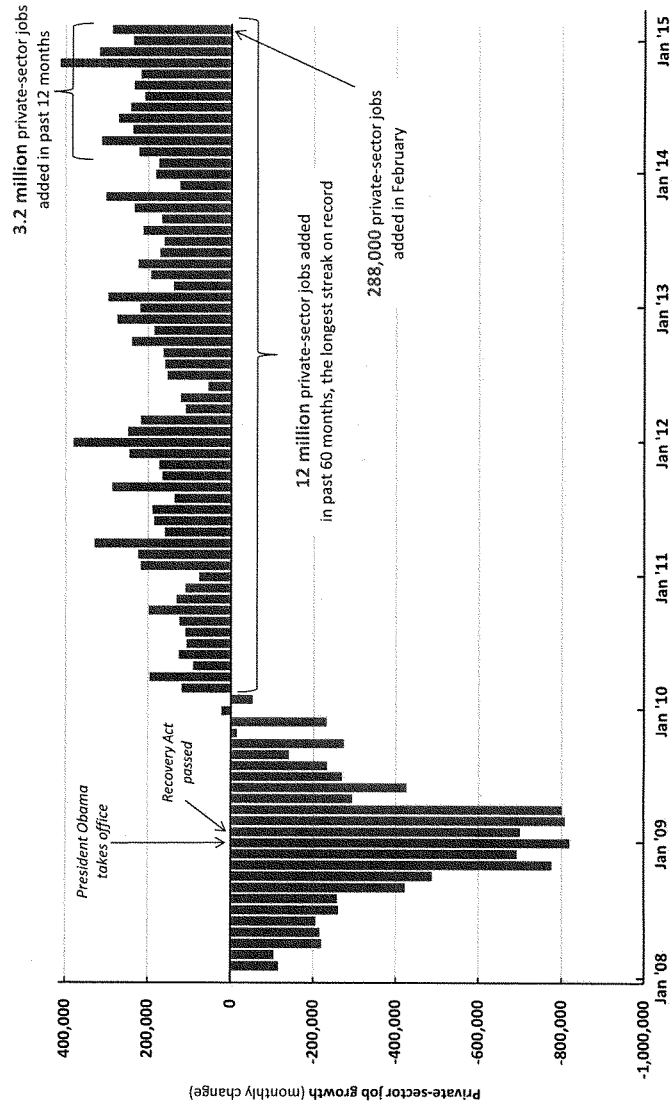
I am heartened that there's an entire chapter in the ERP devoted to examining how workplace policies can be improved.

Paid leave boosts employee retention, lifts worker morale and can increase participation in the workforce. It is good for employers and good for employees. I've spent much of my career working on these issues and I hope that we can finally make some much-needed progress this Congress.

As the recovery continues, it's vital that we pursue a broad range of policies that expand economic opportunities for all Americans.

Dr. Furman, thank you for appearing before the Committee today. I am eager to hear your perspective on the economic challenges and opportunities ahead.

# Longest Streak of Private-Sector Job Growth Continues



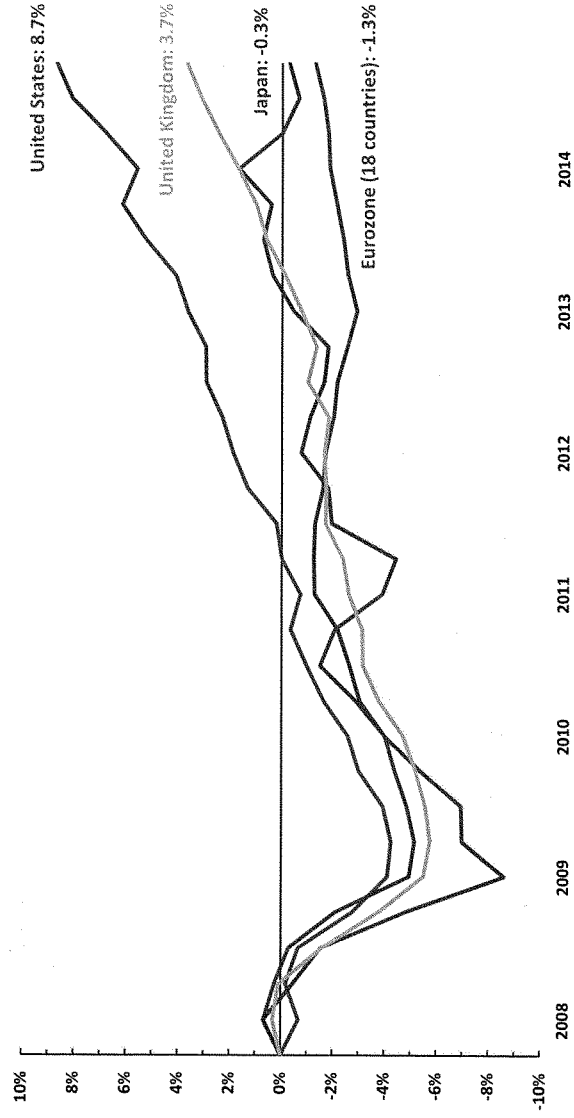
Source: JEC staff calculations using data from the Bureau of Labor Statistics (Updated March 6, 2015)

Slide: 1



## U.S. Economy Has Grown Faster Than Other Leading Advanced Economies

Percentage change in real gross domestic product from Q4-2007



Source: JEC staff calculations through Q4-2014 using data from the Bureau of Economic Analysis, Statistical Office of the European Communities, Cabinet Office of Japan, and the Office for National Statistics (Updated March 8, 2015)

Slide: 5



PREPARED STATEMENT OF HON. JASON FURMAN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

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 brinkmanship 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

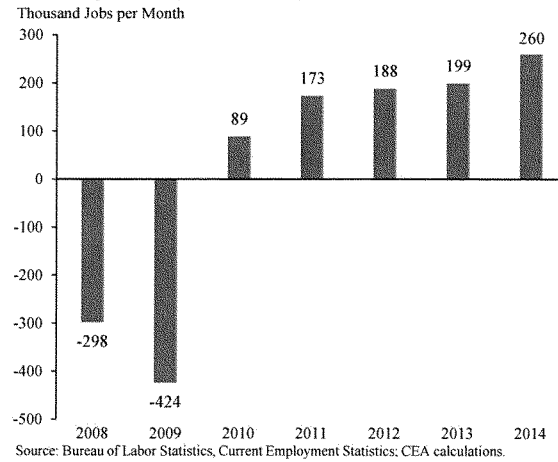
investments in American infrastructure. Another chapter of the Report lays out the benefits from expanded international trade, which arise in part because exporting firms tend to be more productive, supporting jobs that pay higher wages (Figure 6).

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.

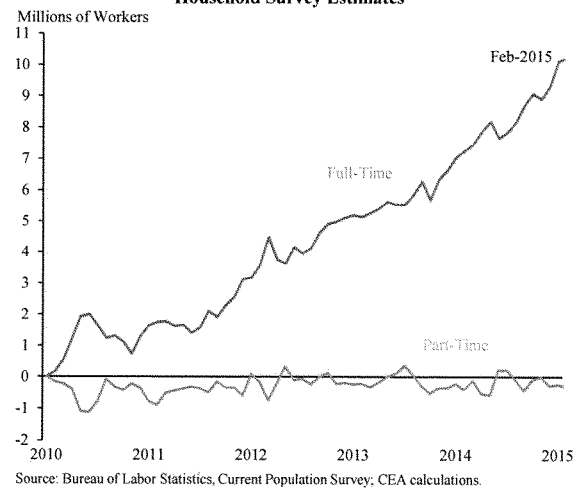
In many cases, the President's proposals can help improve two or even all three of the key factors driving middle class incomes simultaneously. For instance, an enhanced child care tax credit can help facilitate parents' participation in the workforce, while also directly pushing back against the longer-term 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**

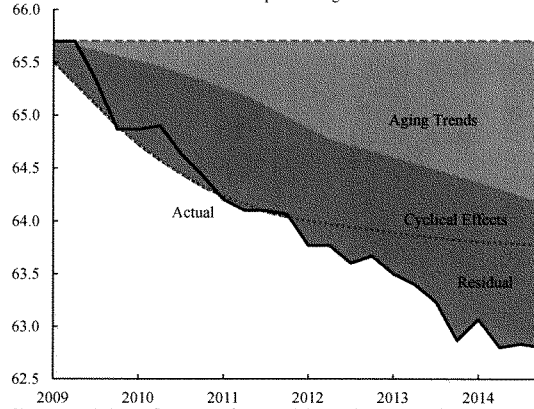


**Figure 2**  
**Net Change in Employment Since January 2010,  
 Household Survey Estimates**



**Figure 3****Labor Force Participation Decomposition, 2009–2014**

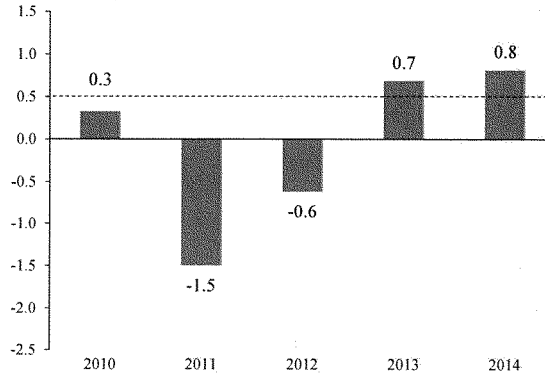
Percent of Civilian Noninstitutional Population Age 16+



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**

Percent Growth, Annual Average



Note: Dashed line represents 2001–2007 average.

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

Figure 5

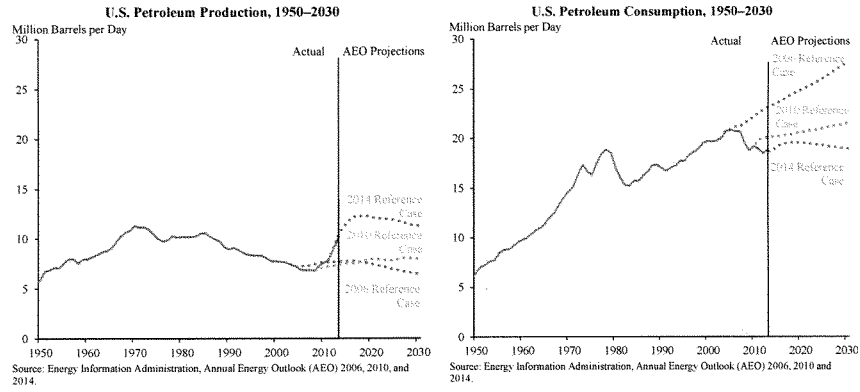
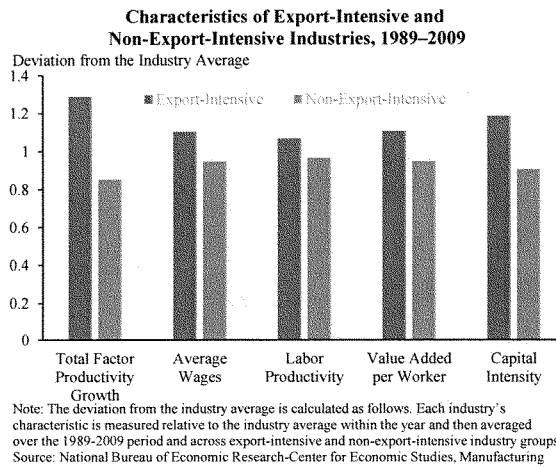


Figure 6



QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR CRUZ AND RESPONSE FROM  
JASON FURMAN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

**Question 1: Before the financial crisis, the long-run employment rate (employment/population ratio) was 63.3%. Today, it is 59.3%, only slightly higher than during the depths of the financial crisis. Isn't this number far more telling than the unemployment rate, and- along with continued weak data on poverty, median income, and median household wealth-doesn't it suggest the economy remains quite weak?**

The economic recovery that began more than five years ago has ushered in the longest streak of private-sector job growth on record. American businesses created more jobs in 2014 than in any calendar year since the late 1990s, and our business have added 12.1 million jobs over the past 61 consecutive months.

When comparing economies across time or across countries economists generally use the unemployment rate as it effectively automatically adjusts for different demographic factors, reflecting the fraction of the population who want to work who can work. The Bureau of Labor Statistics (BLS) compiles other broader measures of unemployment and labor market underutilization that including U-4 that includes discouraged workers, U-5 that also includes other marginally attached workers, and U-6 that also includes people working part-time for economic reasons. All three of these broader measures show a similar recovery as the official unemployment rate.

The employment/population ratio is a potentially misleading basis for comparing over time because it is affected by demographic shifts that, in the current environment, mask the labor market's underlying strength. Since the financial crisis, the baby boom has become a retirement boom, reducing the working-age population and holding the employment/population ratio down. Indeed, this demographic trend is responsible for half the recent decline in labor force participation. Although the employment/population ratio is a misleading indicator because of these demographic changes, of course there is more work to do to ensure the strong labor market recovery persists. That is why the President supports a wide array of policies designed to boost labor force participation as well as productivity growth, both of which will continue to help strengthen middle-class incomes.

**Question 2: The normal economic recovery since the 1960s has featured average GDP growth of 4% per year over a comparable time period. The Reagan recovery saw average growth of 4.9% per year. President Obama's recovery has averaged just 2.3% per year. Doesn't this suggest that policies enacted during the Obama era have impeded the economy's recovery?**

When the President took office, the economy was in the midst of the worst financial crisis in nearly 80 years. The initial declines in household wealth, trade flows, and housing prices during the Great Recession exceeded the initial declines during the Depression. Indeed, many economists have concluded that absent the aggressive policy response, our economy would have plunged into a second Depression. One would expect GDP growth to be slower after such a crisis than after a normal cyclical recession.

But even so, the difference between the pace of growth during the 1980s and during this recovery can be explained by demographic effects. The prime-age (25- to 54-year-old) population has declined since the start of the crisis, while it surged during the 1980s, boosting the most productive part of the workforce. Indeed, when adjusting for growth in prime-age population, GDP has grown faster since the last business cycle peak than over the comparable period in the 1980s.

**Question 3: One of the most startling statistics in recent years has been the decline of business startups since the crisis. According to a 2014 Brookings study, "business deaths now exceed business births for the first time in the thirty plus-year history of our data." How do Obama Administration policies ease the burden on new businesses so entrepreneurs can get back into the economy?**

As the cited Brookings study observes, business shut-downs began to exceed start-ups when the financial crisis began. But since then, the pace of start-ups has consistently risen relative to the pace of shut-downs during each year of the Obama Administration. The start-up rate has risen from 18 percent below the shutdown rate in 2009 to just 1.7 percent below the shutdown rate in 2012. Data for 2013 and 2014 are not yet available, but the positive trend is already clear.

The President's policies will continue this progress with even more support for American entrepreneurs. The President's framework for business tax reform will cut small business taxes and dramatically simplify the filing process for the vast majority of them, allowing them to pay taxes based on their bank statements. The Small Business Administration's Boots to Business initiative provides veterans transitioning to civilian life with the training and tools they need to start their own

businesses, and the Entrepreneurship Education initiative helps small business owners gain the skills and networks they need to grow their business and create new jobs.

Question 4: The Administration paints a picture of an accelerating economy, but economic growth from Q4 2013 to Q4 2014 slowed to an annual rate of 2.4%, down from 3.1% over the same period from 2012–13. Doesn't this undermine the suggestion that the economy is accelerating?

A wide range of indicators demonstrate that the economic recovery is accelerating. The progress is especially clear in long-term labor market trends. In 2014, our businesses added more than jobs than in any year since the late 1990s. Indeed, the pace of job growth has increased in each calendar year since the President took office.

GDP growth contains a number of volatile factors that fluctuate sharply from quarter-to-quarter, including government spending, net exports, and inventory investment. Growth in the combination of the most stable and important components – personal consumption and fixed investment – grew in the fourth quarter of 2014 at the fastest pace in four years. Focusing on these key components helps isolate the signal and discard the noise. And using the time periods cited above, the combination of these key components did grow faster in 2014 Q4/Q4 than in 2013 Q4/Q4.

**Question 5: The Competitive Enterprise Institute estimates that regulation cost the U.S. economy \$1.863 trillion in 2013, larger than the GDP of Canada or Australia. Isn't this burden contributing to smothering business startups? What steps is the Administration taking to reduce the cost of complying with regulations for startups and small businesses?**

Regulatory gaps in the run-up to the financial crisis contributed to the worst financial crisis since the Depression, leaving millions of Americans unemployed, and erasing trillions of dollars of families' savings. Regulatory gaps can also cause damage to the environment, health and public safety. The President's approach to regulation is focused on addressing this while adhering to Executive Order 13,563 which requires that our regulatory system "must promote predictability and reduce uncertainty. It must identify and use the best, most innovative, and least burdensome tools for achieving regulatory ends. It must take into account benefits and costs, both quantitative and qualitative."

The regulatory review process focuses on the impact of regulations on small businesses, reflecting the sometimes greater burdens they face on compliance and adjusts regulations accordingly.

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QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR PETERS AND RESPONSE FROM  
JASON FURMAN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

**Chairman Furman, the administration's January 2015 memo regarding the "Conflict of Interest Rule for Retirement Savings" suggests that enhanced disclosures to investors do not offer increased consumer protections and raises the possibility that disclosure could even weaken consumer protections. A March 2011 GAO report, "401(K) Plans: Certain Investment Options and Practices That May Restrict Withdrawals Not Widely Understood", recommends providing "better disclosures and guidance to plan sponsors and participants." Can you explain this contrast and cite studies or provide examples of instances where increased transparency or disclosure harms consumers?**

CEA does not comment on internal documents or deliberations. I would refer you to our recent public report, *The Effects of Conflicted Investment Advice on Retirement Savings*, which reviewed three concerns with mandatory disclosures as the sole solution to conflicts of interest in financial advice: (i) a lack of salience to the consumer, (ii) the fundamental need to make tradeoffs in disclosure design among the objectives of accessibility, accuracy, and relevance, and (iii) the potential for disclosures to backfire. Additional discussion of mandatory disclosure can be found in "The Failure of Mandated Disclosure" by Professors Omri Ben-Shahar and Carl Schneider, published in the *University of Pennsylvania Law Review* in 2011, and an expanded treatment of the same topic in their book *More Than You Wanted to Know: The Failure of Mandated Disclosure*, published by Princeton University Press last year.

The GAO report, "401(K) Plans: Certain Investment Options and Practices That May Restrict Withdrawals Not Widely Understood" investigates certain investments and practices that can prevent 401(k) plan sponsors and participants from accessing plan assets as well as changes the Department of Labor could make to assist sponsors in understanding the challenges posed by the investments and practices that

restricted withdrawals. This particular report was not about the losses that investors incur due to conflicted investment advice nor whether disclosure was an effective remedy against such losses.

**Chairman Furman, as you know, the SEC and FINRA currently provide regulatory oversight of brokers and investment advisers. Did the January 2015 memo include any analysis of the current protections investors received from the SEC and FINRA? If so, could you please share any such analysis?**

I am unable to comment on internal deliberations. However, CEA's public report, *The Effects of Conflicted Investment Advice on Retirement Savings*, concluded that:

- Conflicted advice leads to lower investment returns. Savers receiving conflicted advice earn returns roughly 1 percentage point lower each year (for example, conflicted advice reduces what would be a 6 percent return to a 5 percent return).
- An estimated \$1.7 trillion of IRA assets are invested in products that generally provide payments that generate conflicts of interest. Thus, we estimate the aggregate annual cost of conflicted advice is about \$17 billion each year.

Chairman Furman, would you agree that there are potential investors who, without any advice, might keep their savings in low-yield savings accounts or other low-growth instruments?

CEA's public report *The Effects of Conflicted Investment Advice on Retirement Savings*, reviews some of the changes in the retirement landscape that have led to an increasing (and important) role for financial advice over the last 40 years (citations omitted).

"This widely discussed shift from traditional pensions to defined contribution plans and IRAs raises important policy issues. In a traditional pension, investment decisions are largely handled by professional managers. In an IRA, investment decisions are almost entirely left to the individual saver. Defined contribution plans, such as 401(k)s, reflect a middle ground where employers may automatically enroll workers in particular default products and may provide workers with access to various forms of advice, but may also provide a large menu of options and nearly unrestricted choice of investment products.

This shift in investment responsibility has coincided with an explosion in the investment options and trading platforms available. The period since 1974 has seen the advent and proliferation of index mutual funds, discount brokerage, exchange-traded funds, online trading, and more. The number and complexity of the products available can make financial decision making difficult. Moreover, an abundance of investment options and the way in which investment decisions are framed may challenge financial decision making and lead to worse outcomes for savers. All of these factors in combination have led to an increasing role for financial advice. According to one survey, roughly half of traditional IRA-owning households have a retirement strategy created with the help of a professional financial adviser."

However, as documented in the report, conflicts of interest in financial advice are costing Americans billions of dollars each year. These losses and the increasing role of financial advice in retirement saving underscore the importance of ensuring that workers and savers can receive advice that is in their best interest.

**Does your analysis in the January 2015 memo show that the proposed rule will not significantly reduce access to financial advice for working families? Additionally, does your analysis show that the rule will prevent increased leakage of retirement assets through pre-retirement cash outs?**

CEA does not comment on internal documents or deliberations. I would refer you to our recent public report, *"The Effects of Conflicted Investment Advice on Retirement Savings,"* which does not analyze the benefits of a not-yet-proposed rule. It is an economic analysis of the effects of conflicted investment advice on retirement savings. In other words, the CEA analysis is a study of the impact of conflicted payment structures and the corresponding conflicts of interest independent of other factors.