

An Economy That Works for All Americans

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Bipartisan Program for Newly Elected Members of Congress



HARVARD UNIVERSITY
INSTITUTE OF POLITICS

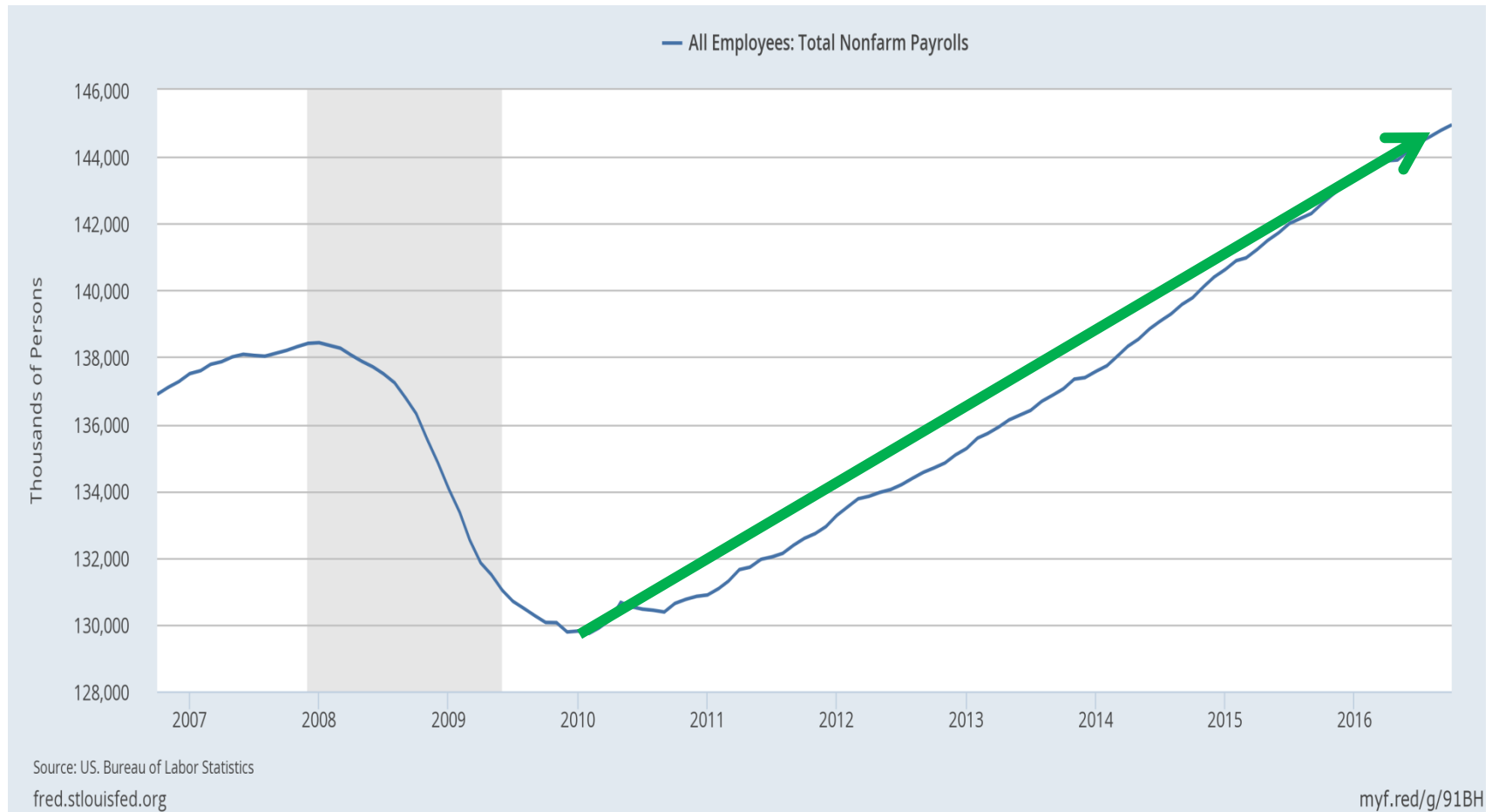
December 7, 2016

Current state of the economy

The Fed will almost certainly raise interest rates
December 14. Why?

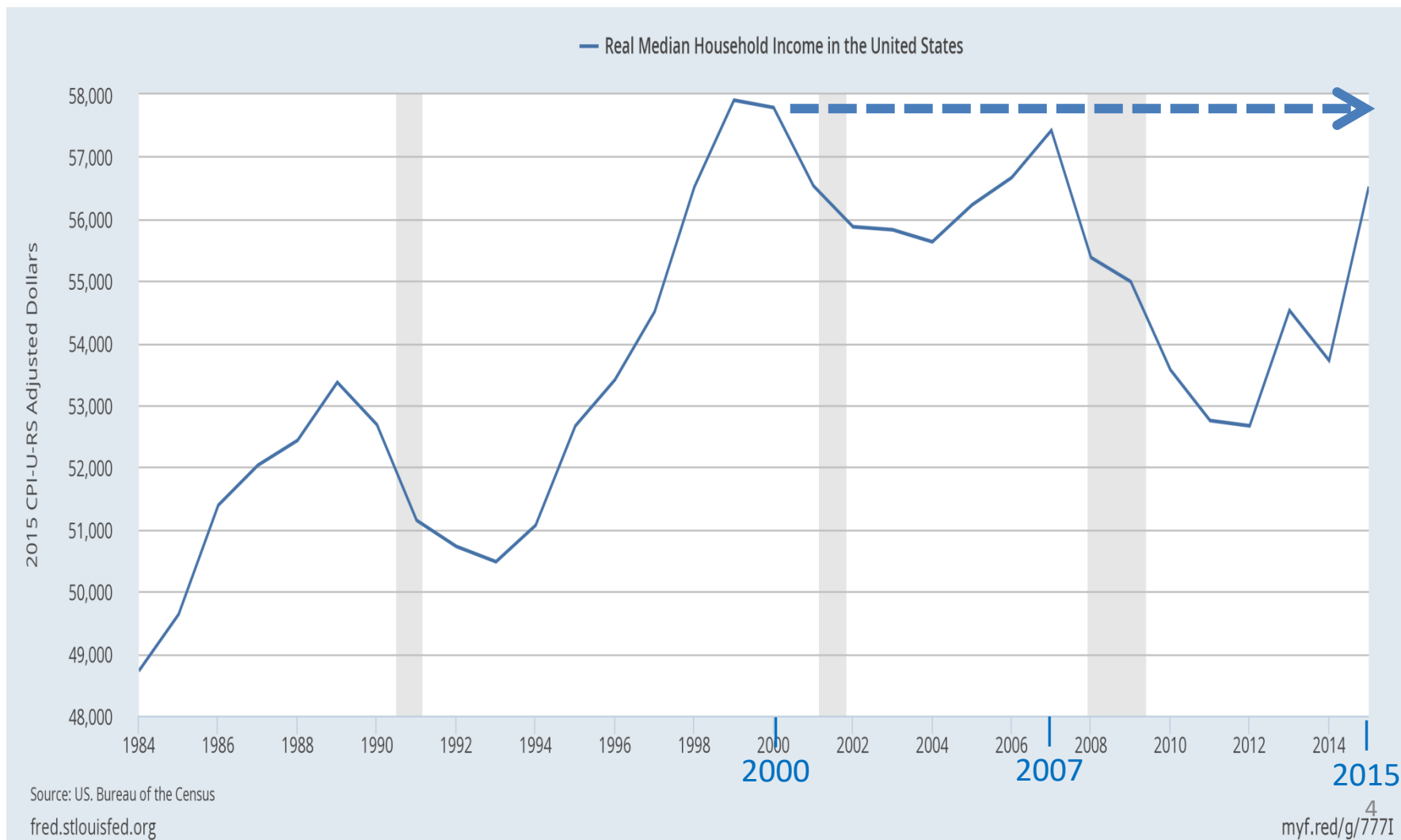
- The most recent stats are surprisingly strong:
 - GDP growth in 3rd Quarter: 3.2 % or more.
 - Employment:
 - November continued the longest streak of total job growth on record:
 - 15.6 million jobs added since early 2010.
 - Unemployment rate down to 4.6%, considered full employment.
 - Average hourly earnings: rose 2.7 % so far this year.
- And, for once, recent gains were widely shared:
 - Median real family income: rose 5.2% in 2015, the fastest ever.
 - Poverty rate: down to 13.5%
 - from 14.8% in 2014, the largest drop since 1968.

The economy has added 15 ½ million jobs since early 2010.



But the longer-term trend is not good:

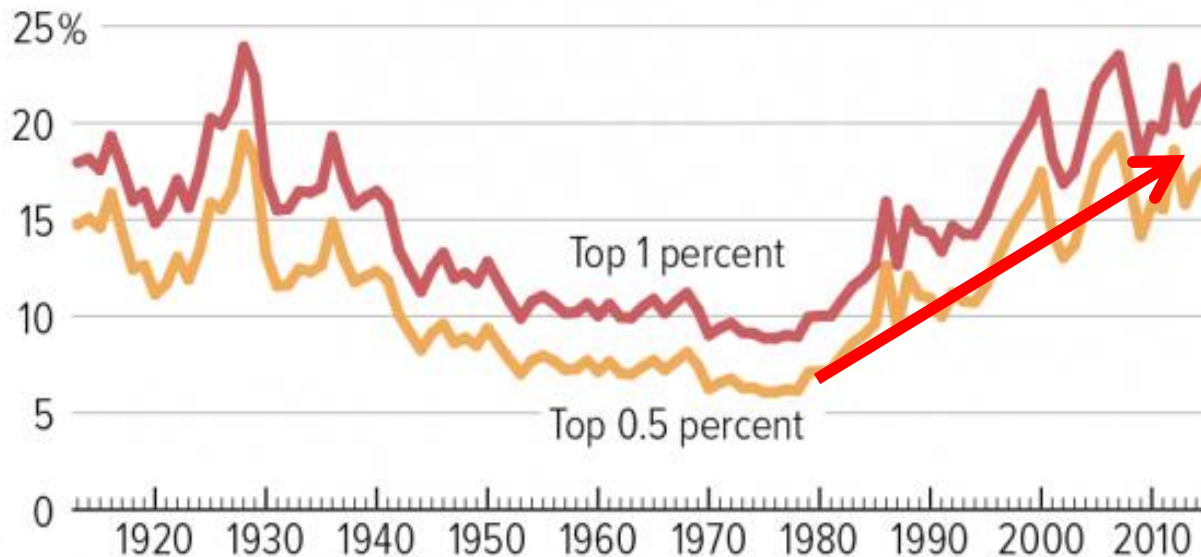
Real median family income is still below 2000!



The share of US income going to the top has risen since 1980, and is now back to the 1920s.

Income Concentration at the Top Has Risen Sharply Since the 1970s

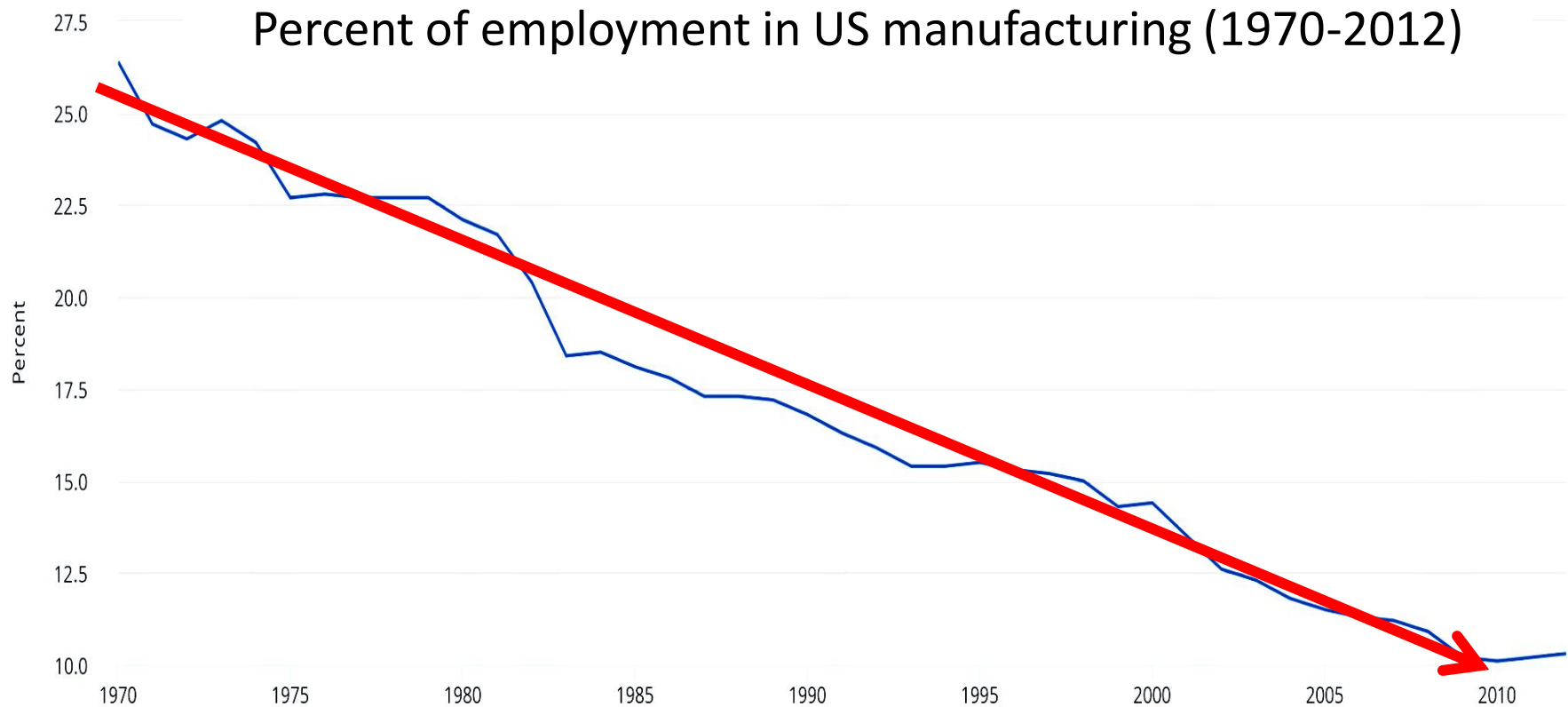
Share of total before-tax income flowing to the highest income households (including capital gains), 1913-2015



Source: Emmanuel Saez, based on IRS data

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Manufacturing jobs -- 32% of the national total in 1950 -- had declined to 10% by 2010.



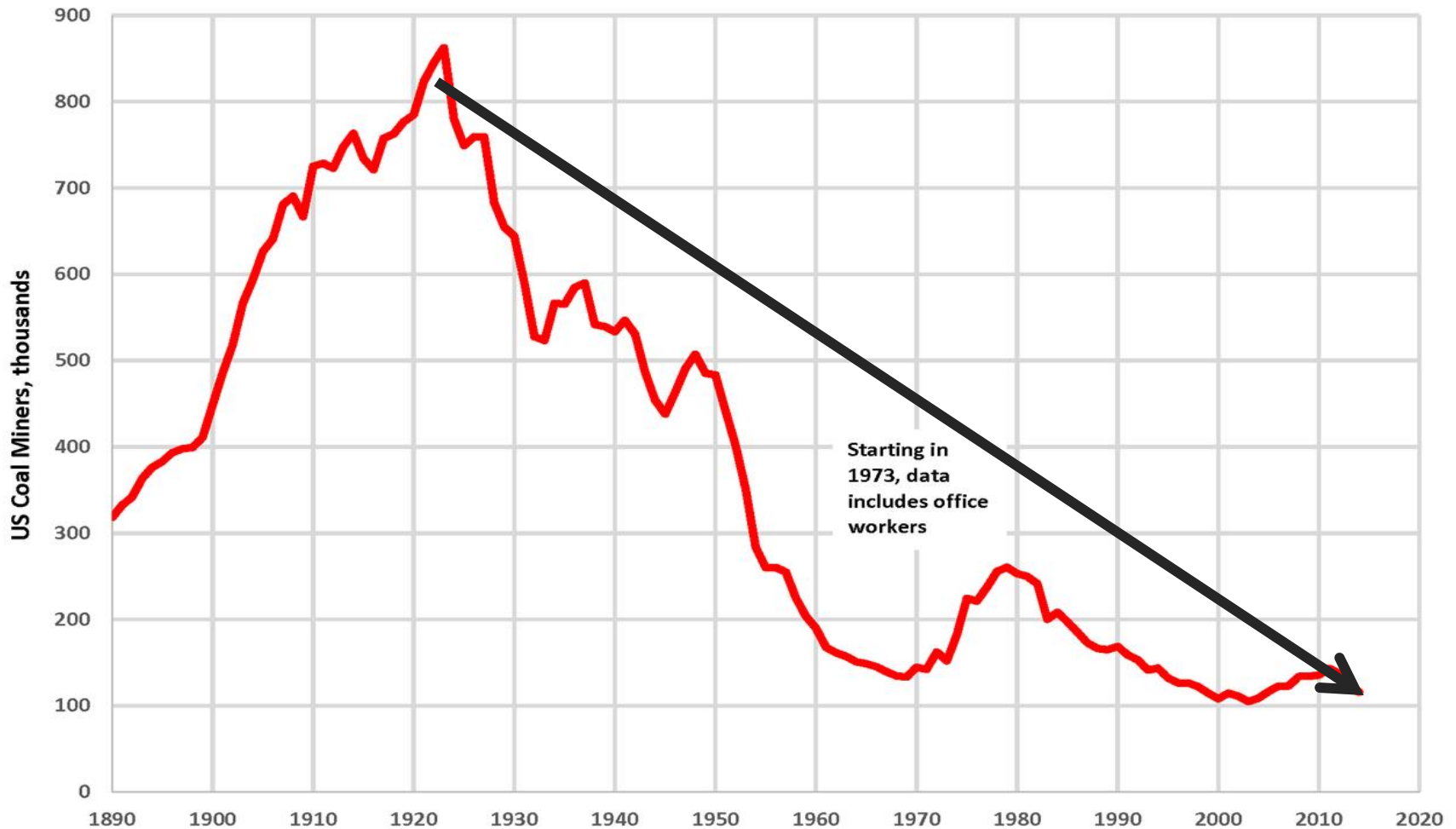
Source: US Bureau of Labor Statistics
fred.stlouisfed.org

myf.red/g/7tY1

Long-term job loss in some sectors

- Manufacturing employment has been falling as a share since 1950,
 - conspicuously in such sectors as autos, steel, and apparel
 - though leaving viable competitive cores today.
- Is job loss due to international trade?
 - Yes, in part, in some sectors.
 - But trade has also *created* lots of *other* jobs.
- Also, *manufacturing output continues to rise*, even as employment falls.
 - That means productivity has gone up a lot:
 - It takes fewer workers to produce one auto today than 65 years ago,
 - not to mention that the cars are much higher-quality.
- Those jobs are not coming back.
- By analogy, farmers were 90% of national employment in 1790
 - vs. 2% today.
- Or consider coal miners.

As with factory workers and farmers, we are not going back to the number of coal miners that were employed in 1923.



Some reasons for employment shifts

- Trade? It works *in favor of* the US agricultural and coal sectors.
- Even regulation has not been the big source of job loss in coal.
 - Rather, in recent years, it has been cheap natural gas from fracking;
 - and, before that, the shift from Appalachian underground mining to open-pit mining.
- In the case of all 3 sectors, *the biggest reason for the decline in jobs has not been trade, but rather productivity growth*,
 - arising particularly from technological progress.
 - The demand for labor has shifted toward high-skill jobs.
 - Meanwhile the supply of high-skilled workers has not kept up:
 - education gains have lagged since 1981.
- But regardless the causes of rising inequality, good policies can share income gains more widely.

Six policy proposals to promote An Economy That Works for All Americans

1. Increase infrastructure spending.
2. Move toward universal pre-school education.
3. Continue to raise the number of Americans with health insurance.
4. Address the long-term rise in household debt.
5. Reform the tax system
 - Corporate income tax
 - stay revenue-neutral: lower rate, but cut distorting deductions
 - Reform personal income tax.
 - Expand EITC
 - Abolish the carried interest deduction.
 - Institute the “Cadillac tax” on unnecessarily expensive health plans.
 - Don’t eliminate the estate tax.
6. Retain US global economic leadership
 - including abiding by trade agreements.

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Appendices

1. Addressing the long-term rise in household debt
 - (i) Housing debt;
 - (ii) Auto debt;
 - (iii) Student loans.

2. List of causes of rising US inequality

3. More graphs illustrating macroeconomic developments
 - 2009 turnaround from recession
 - Budget deficit
 - Trade deficit
 - Some sources of inequality

Appendix 1: Address the long-term rise in household debt: housing, auto, & student loans

- (i) Reduce the policy tilt toward getting American families up to their eyeballs in mortgage debt they can't afford.
 - It led to 2007-09 financial crisis. And it drives up housing prices,
 - without even much raising home ownership rates.
 - Specific policies:
 - Require a serious minimum down payment, as other countries do.
 - Require “skin in the game,” on the part of mortgage-originators.
 - Curtail tax deductibility of mortgage interest,
 - which mainly benefits the well-off.
 - » It generally saves less than \$200 for households earning \$65,000.
 - Reduce deductions at the upper end,
 - especially if loan is used for something other than purchase of residence
 - » i.e., 2nd home or “cash out” for spending.
 - Don't repeat the mistake of Fannie Mae and Freddie Mac

Address household debt: housing, auto & student loans, continued

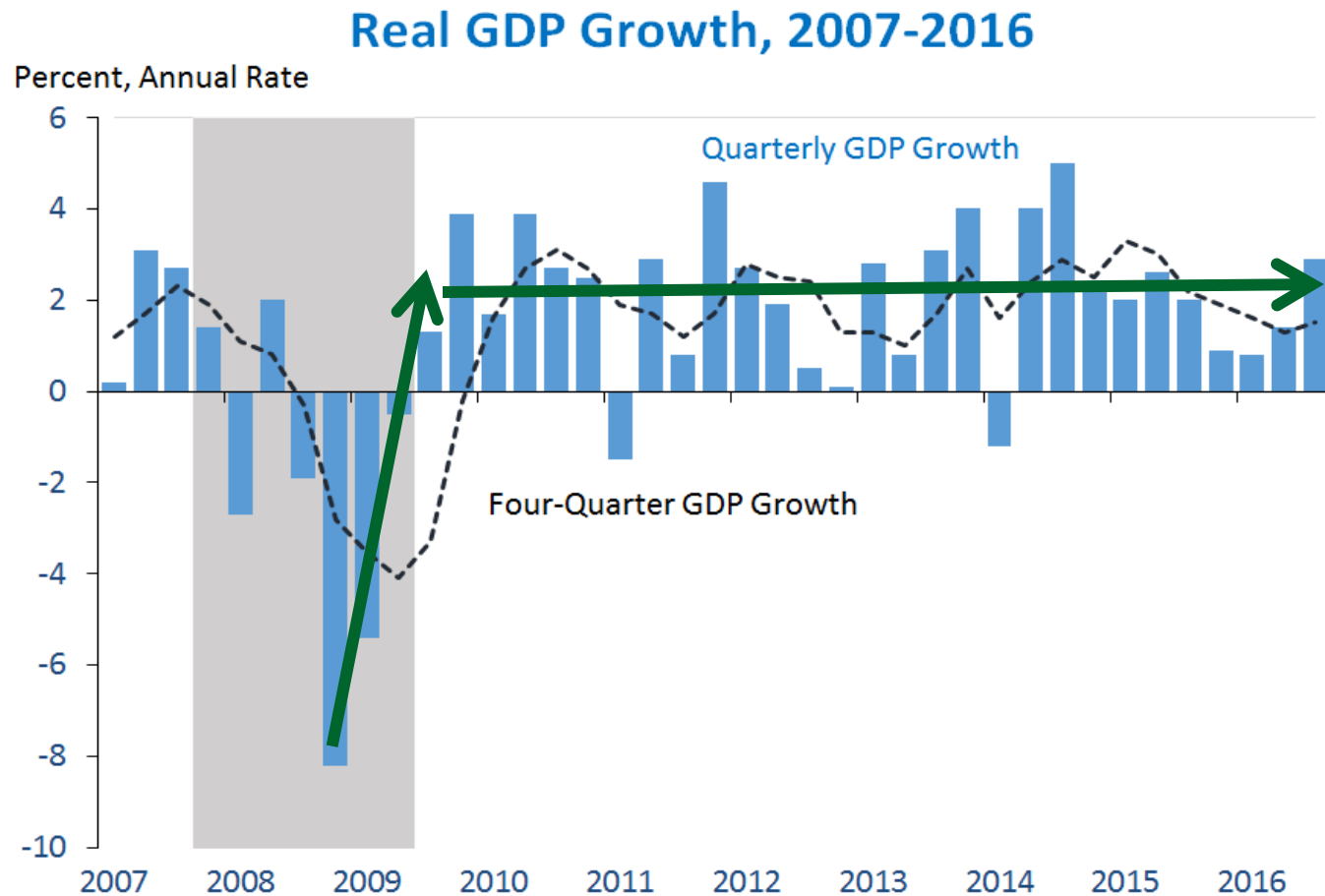
- (ii) Auto dealers should not have been exempted from the Consumer Finance Protection Bureau.
 - A rising share of sub-prime auto loans are now delinquent.
- (iii) Although *most* college educations are a good deal, and worth going into debt for if that is the only way, *some* enterprises are bad deals.
 - Especially some for-profit universities.
 - Government should expand student grants & loans,
 - but require that the school have a decent record regarding rates of graduation & employment.

Appendix 2: Why has inequality risen in the US?

1. Trade probably does play a role, alongside other factors:
2. technological change raising demand for skilled workers,
3. outpacing education that raises the supply;
4. “winner-take-all” labor markets,
5. “assortative mating,”
6. reduced corporate competition & higher rents,
7. excessive executive compensation.
8. Piketty: wealth accumulates faster than income.
9. Possibly the decline in union power & minimum wages.

Appendix 3: More on macroeconomic developments

The economy turned around in June 2009, but the recovery was slow and long.



Note: Shading denotes recession.

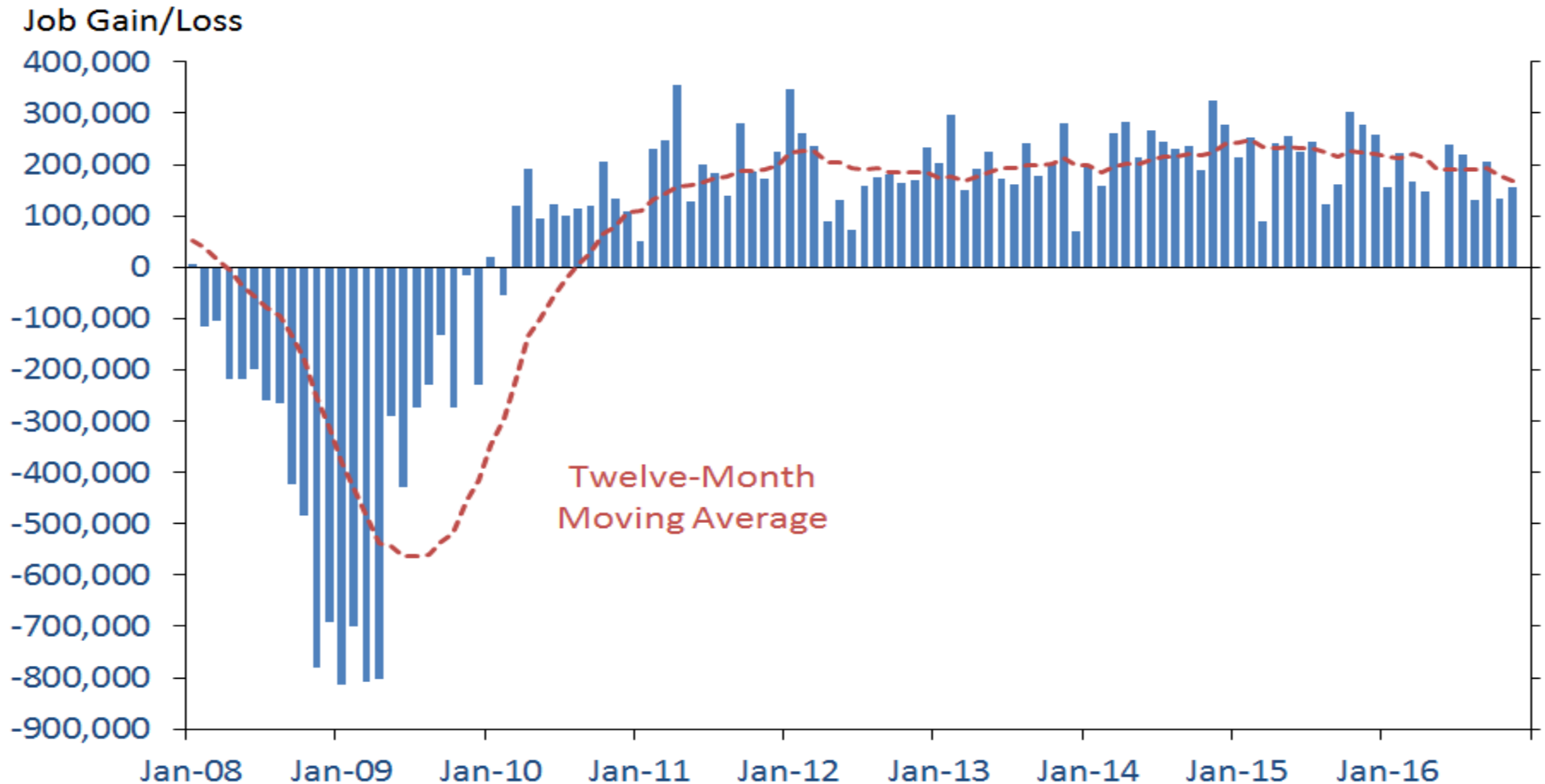
Source: Bureau of Economic Analysis, National Income and Product Accounts; CEA calculations.

Employment growth has been steady since early 2010.

The private sector has added 15 ½ million jobs in the last 81 months.

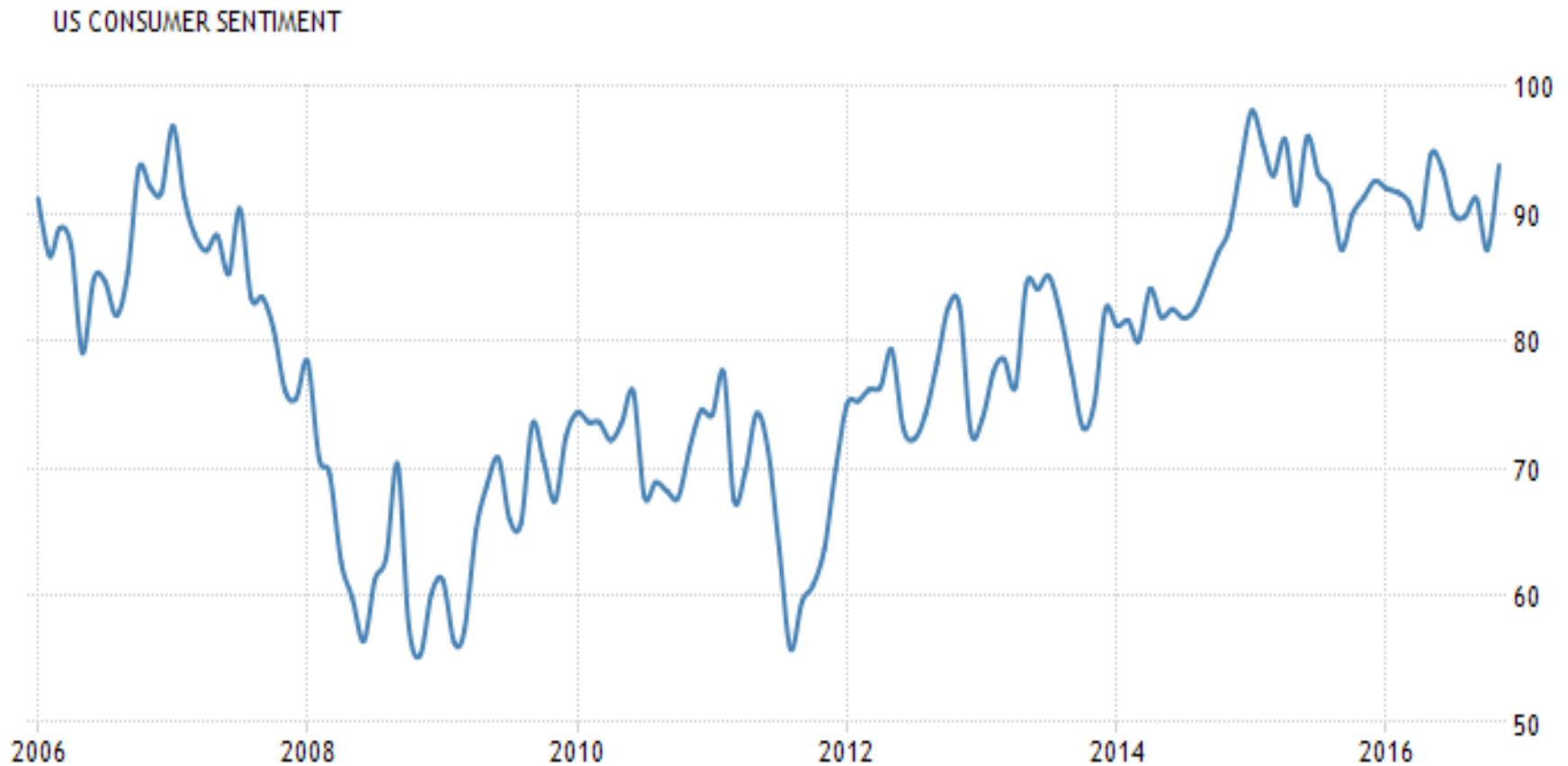
Private-Sector Payroll Employment

Monthly Change, Seasonally Adjusted

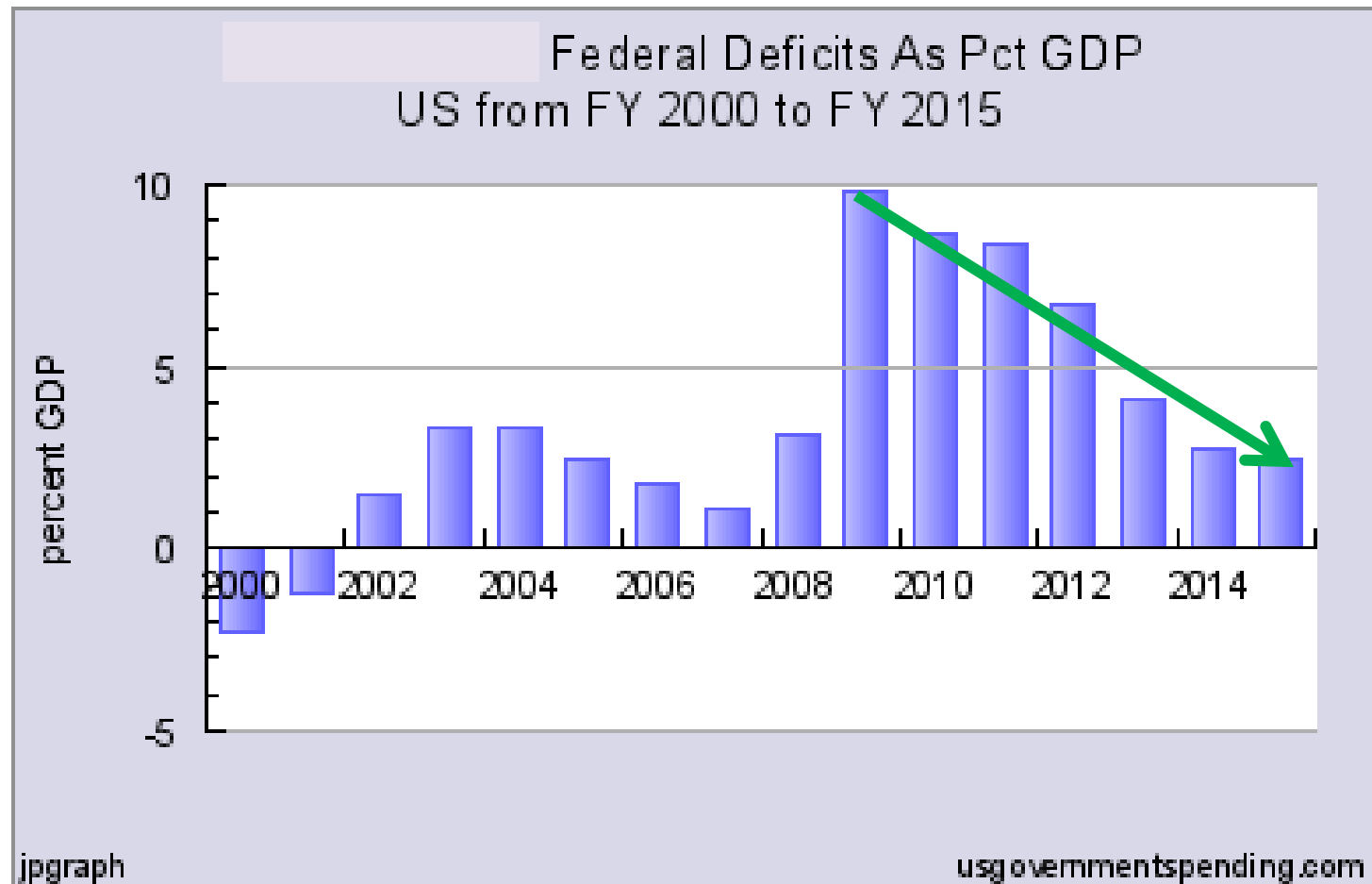


Source: Bureau of Labor Statistics, Current Employment Statistics; CEA calculations.

Consumer confidence is high,
seeming to refute the notion that the official statistics
fail to capture what ordinary people feel.

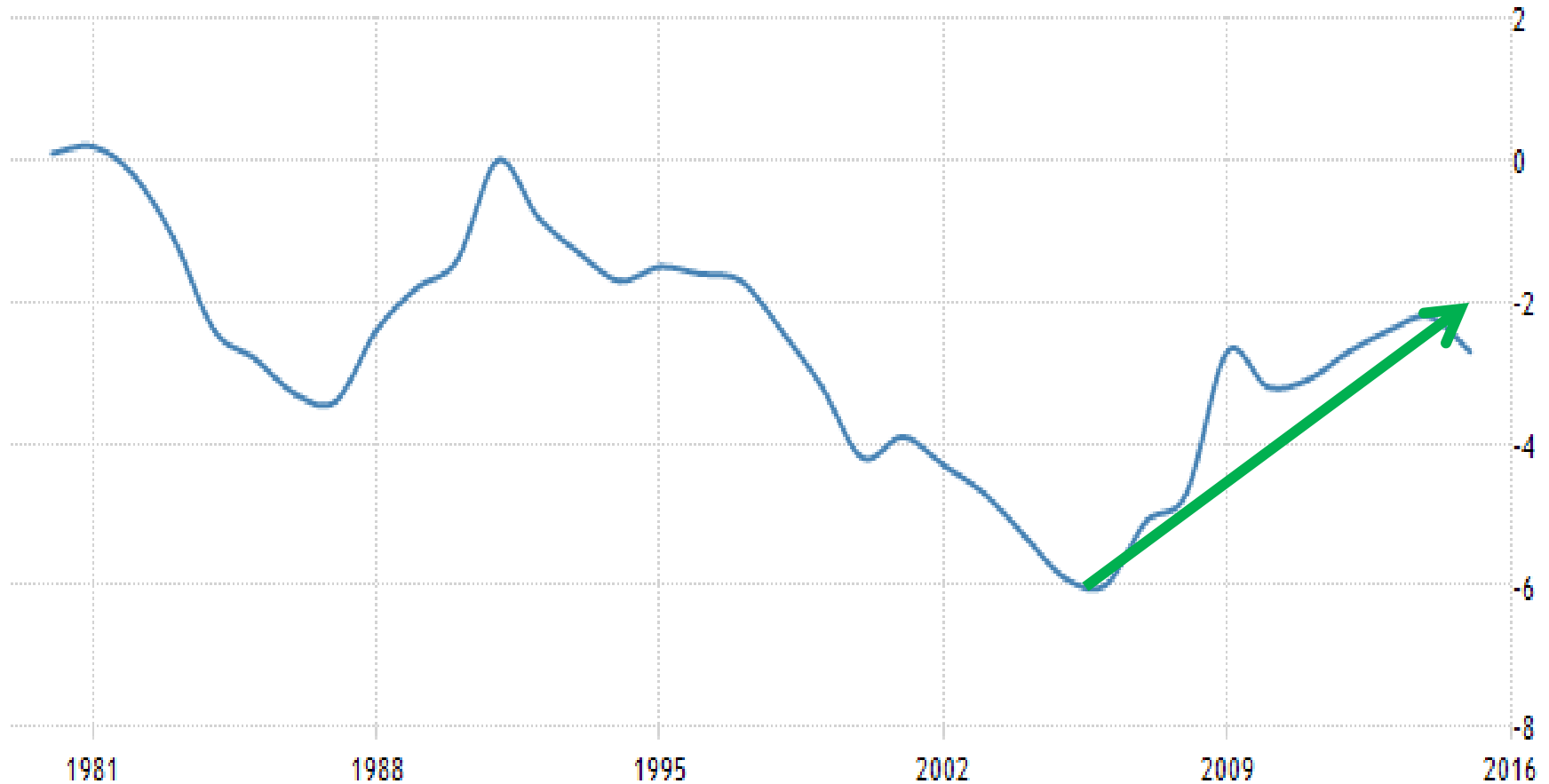


The budget deficit has come down since 2009.



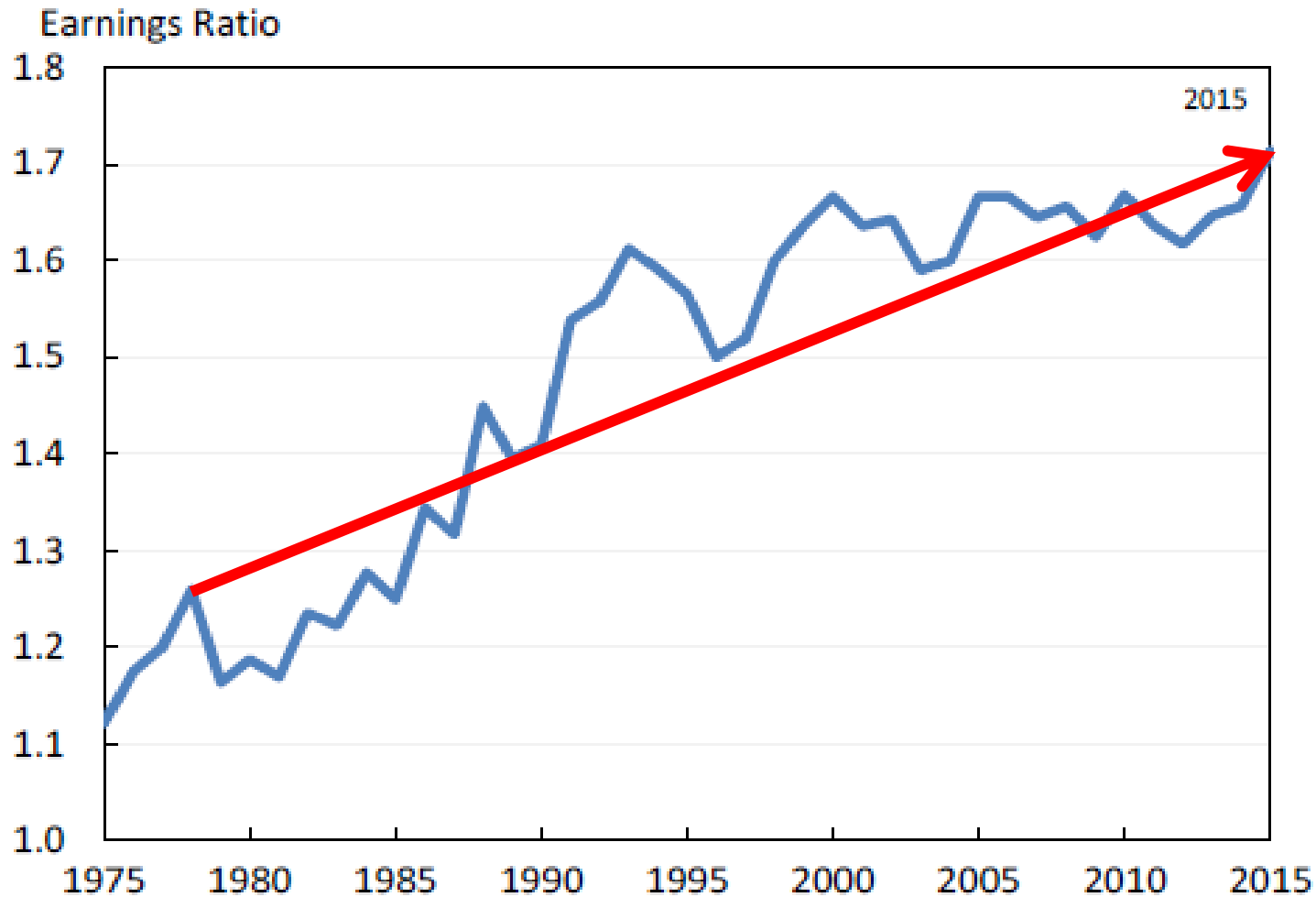
The trade deficit as a share of GDP has also narrowed.

US CURRENT ACCOUNT TO GDP



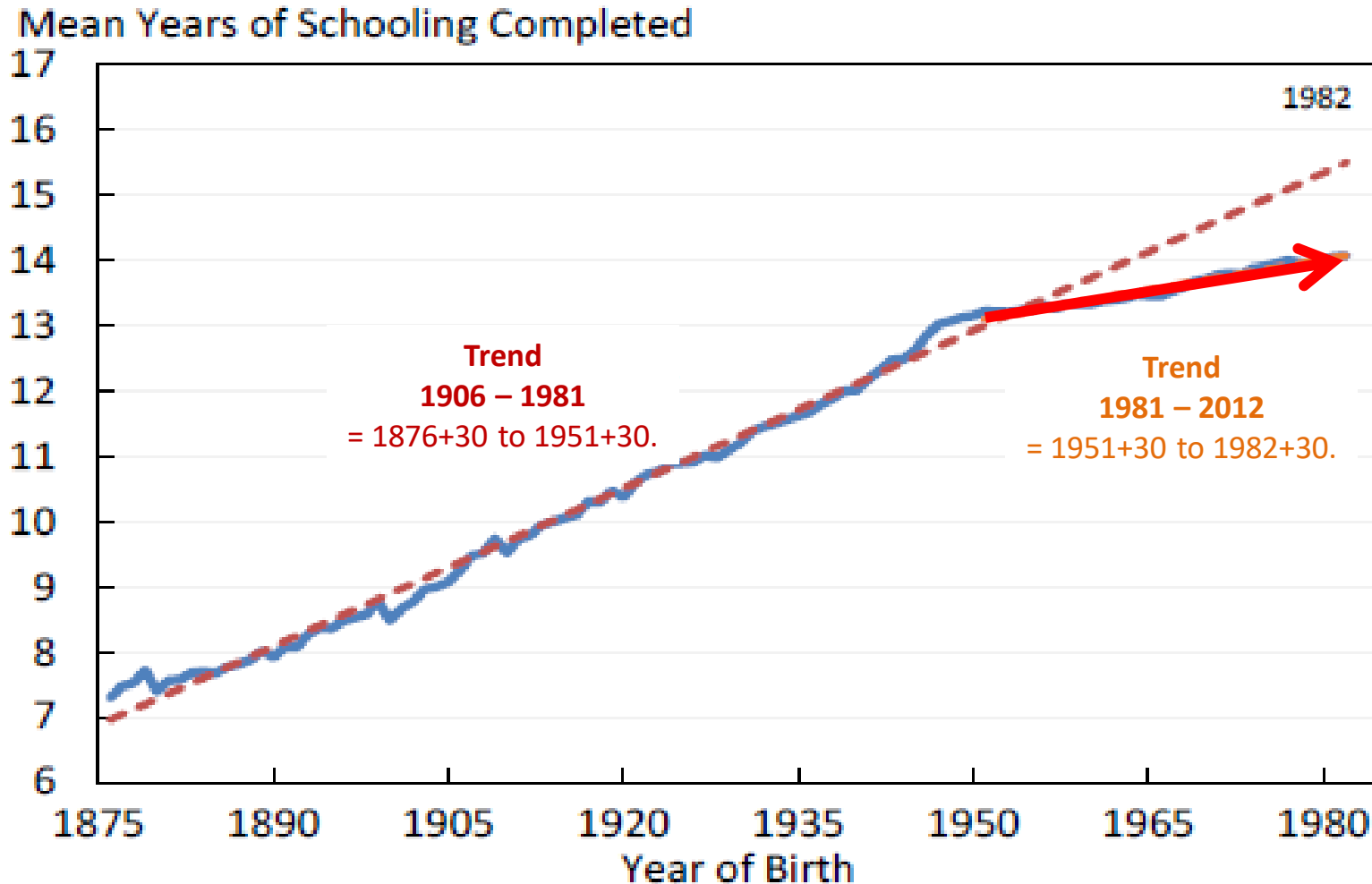
Widening gap between “skilled” & “unskilled” workers, defined by college graduation.

College Earnings Premium, 1975-2015



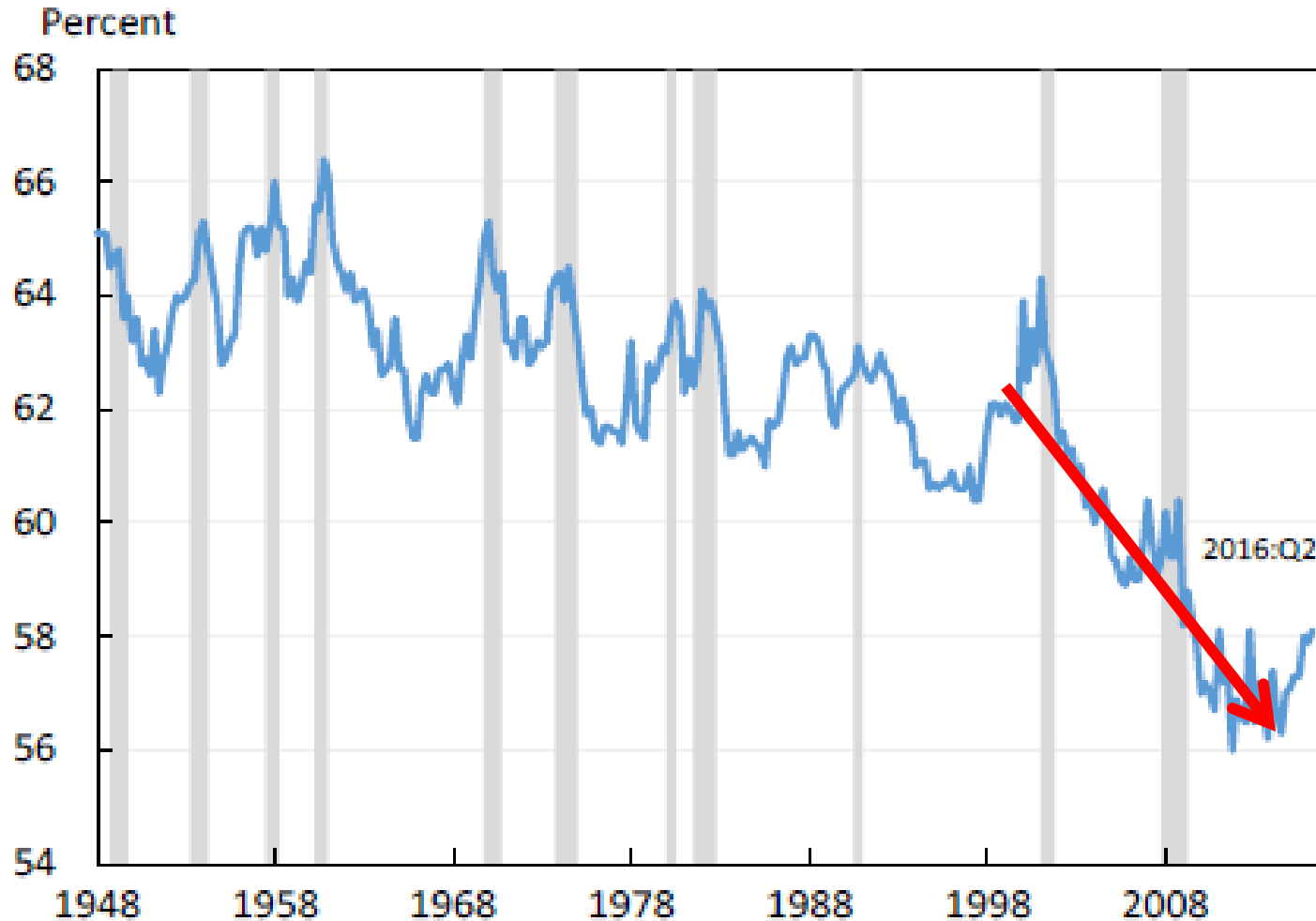
The trend in years of education slowed during 1981-2012, so the supply of skilled workers has not kept up with the demand.

Average Years of Schooling at Age 30, U.S. Native-Born, by Year of Birth, 1876-1982

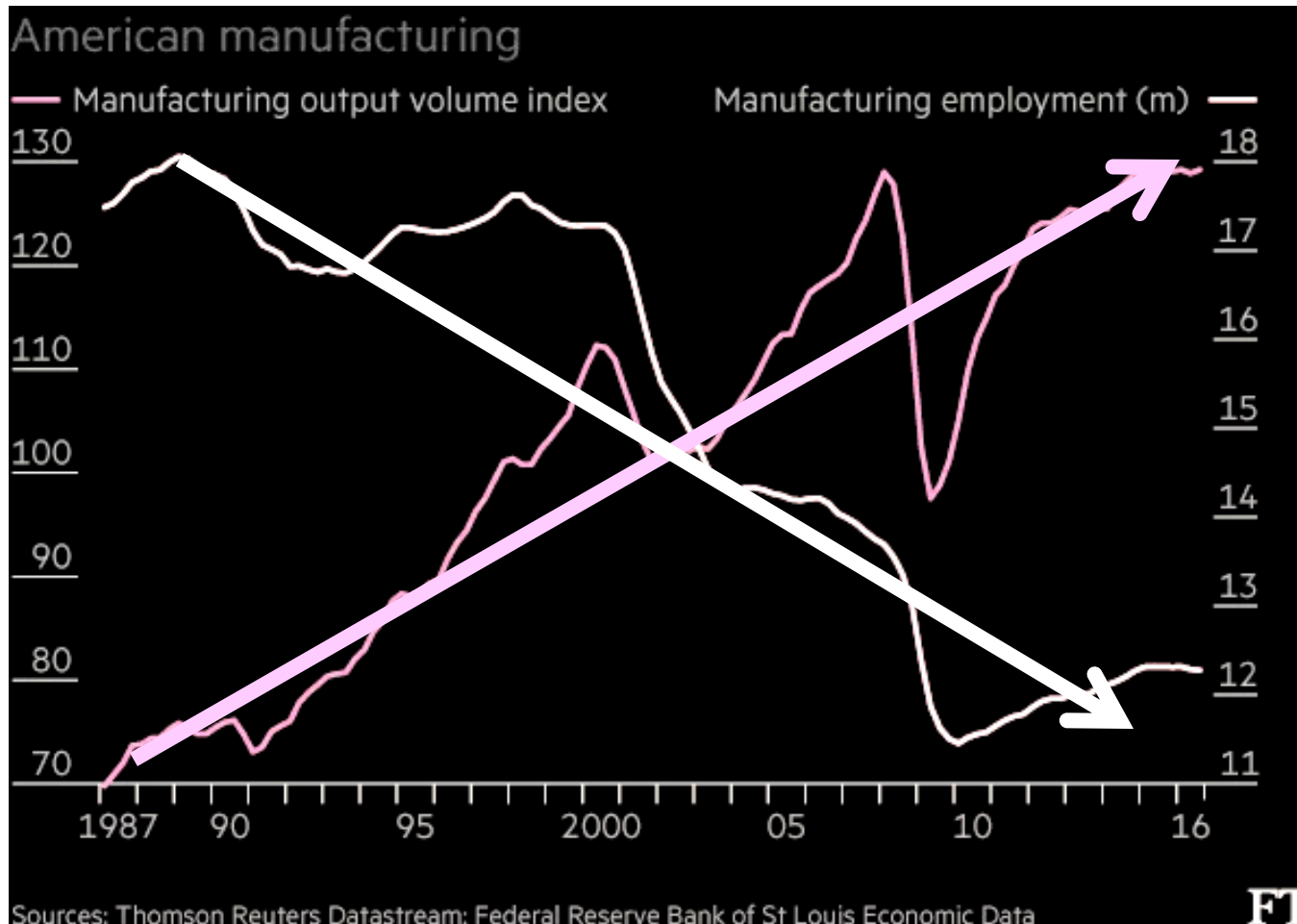


The share of US national income going to labor has declined since 2000.

Labor Share of Income, Nonfarm Business Sector, 1948-2016



Manufacturing output rises
even as employment falls, showing productivity growth.



“What role for the workers in Trump’s American factory revival?” *Financial Times*, Nov. 23, 2016.