

CEP Public Lecture

# Structural Opportunities In The US Economy

**Jason Furman**

*Chairman of the Council of Economic Advisers*

**Professor John Van Reenen**

*Chair, LSE*

Suggested hashtag for Twitter users: **#LSEFurman**

**LSE** events



# **Structural Challenges and Opportunities in the U.S. Economy**

**Jason Furman**

**Chairman, Council of Economic Advisers**

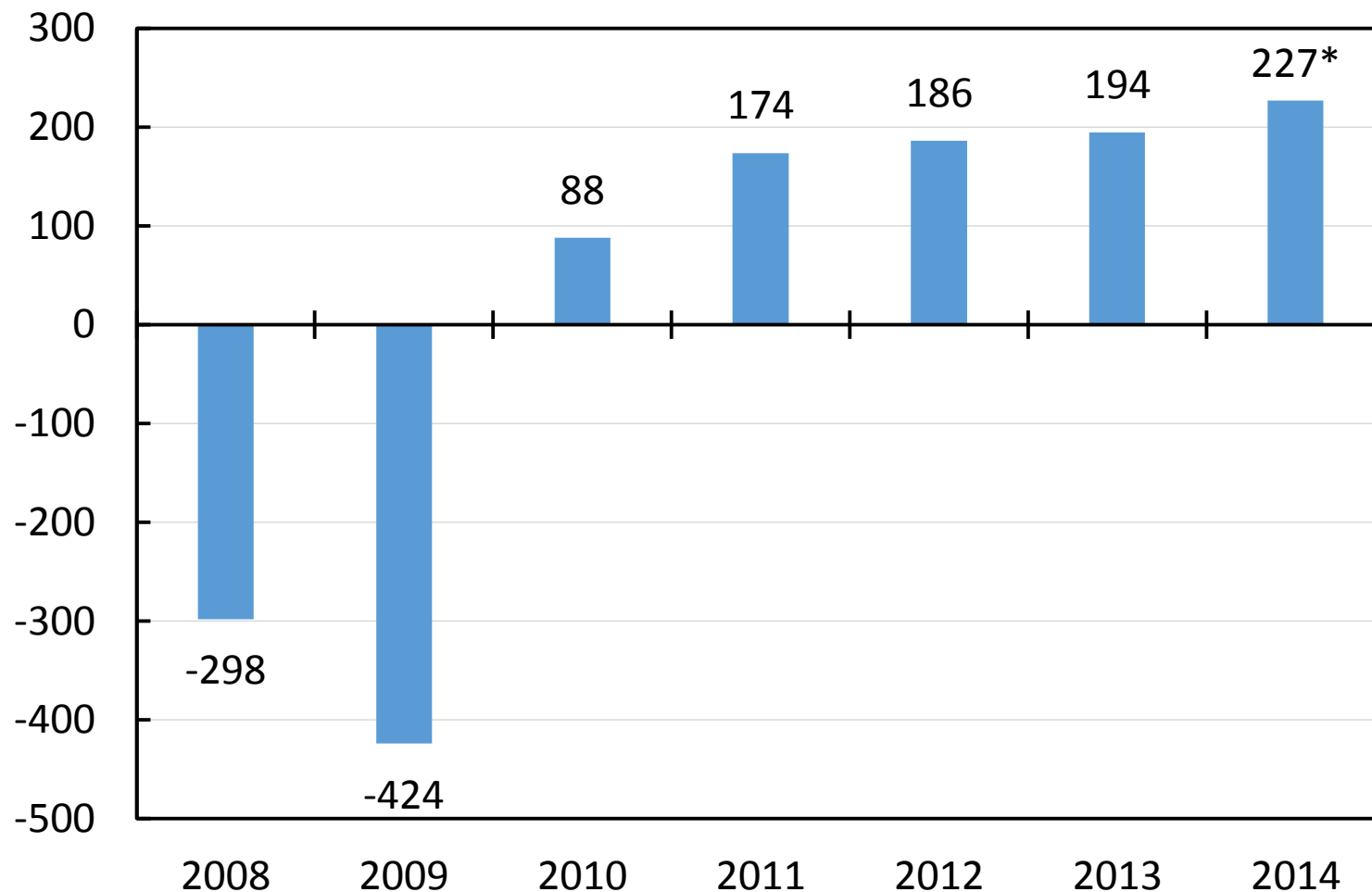


**London School of Economics  
November 5, 2014**

# U.S. Job Growth Has Strengthened

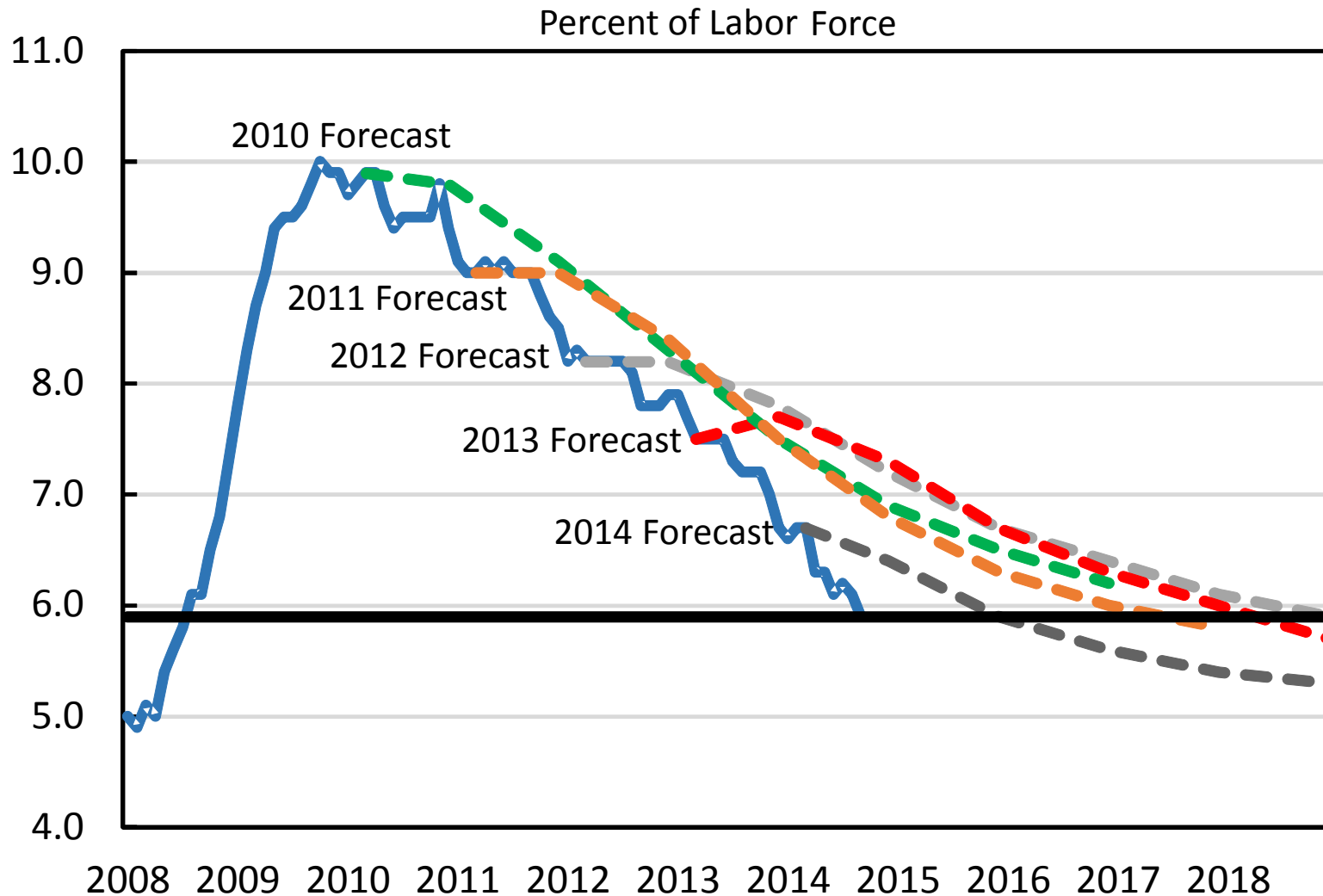
## Monthly Average Nonfarm Job Growth

Thousands of Jobs per Month



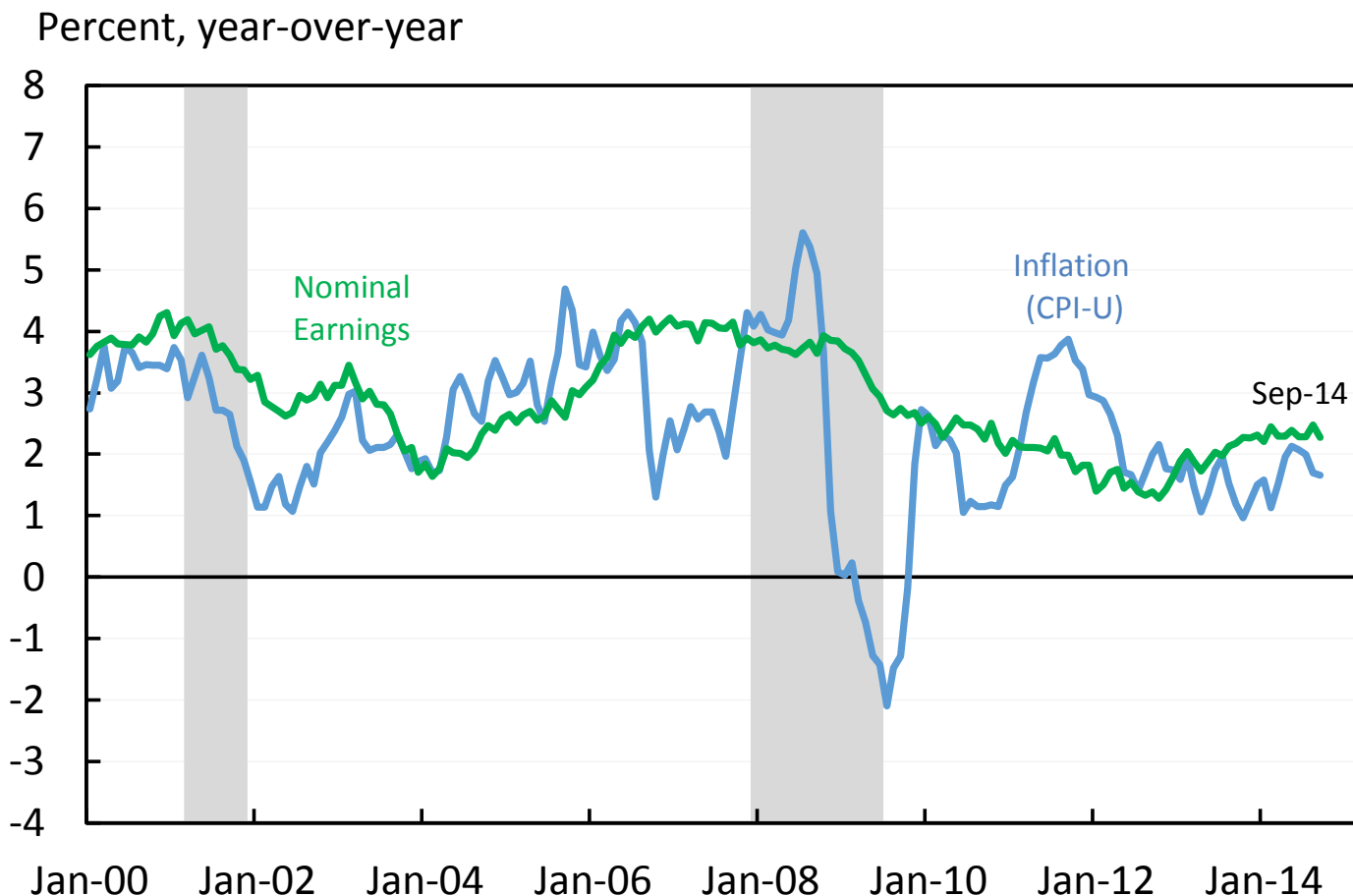
# The U.S. Unemployment Rate Has Fallen to 5.9 Percent, Well Ahead of Forecasts

## Unemployment Rate and Consensus Forecasts

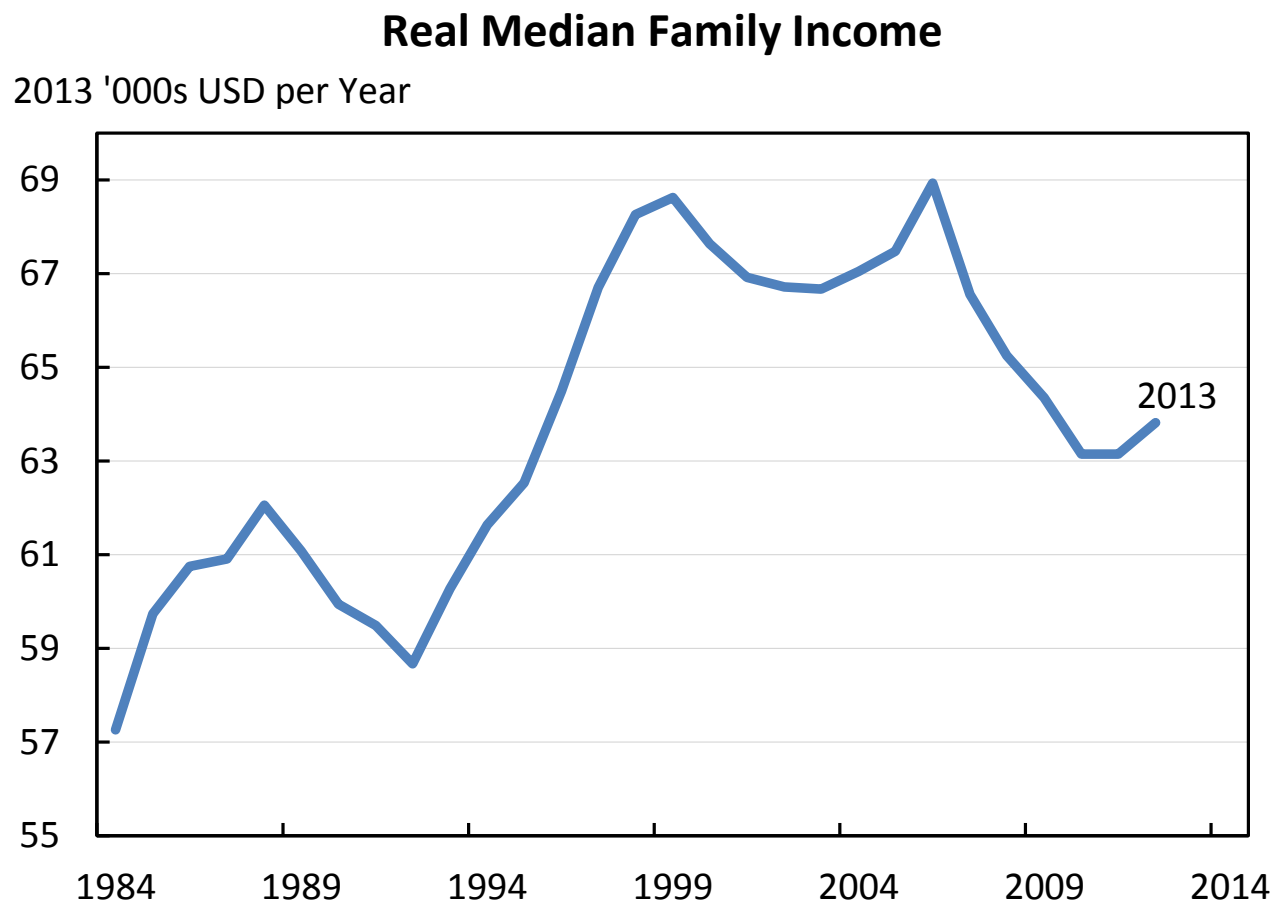


# Wage Growth Has Exceeded Inflation Since the Beginning of 2013, But Still Well Below What is Needed to Make Up for Years of Stagnation

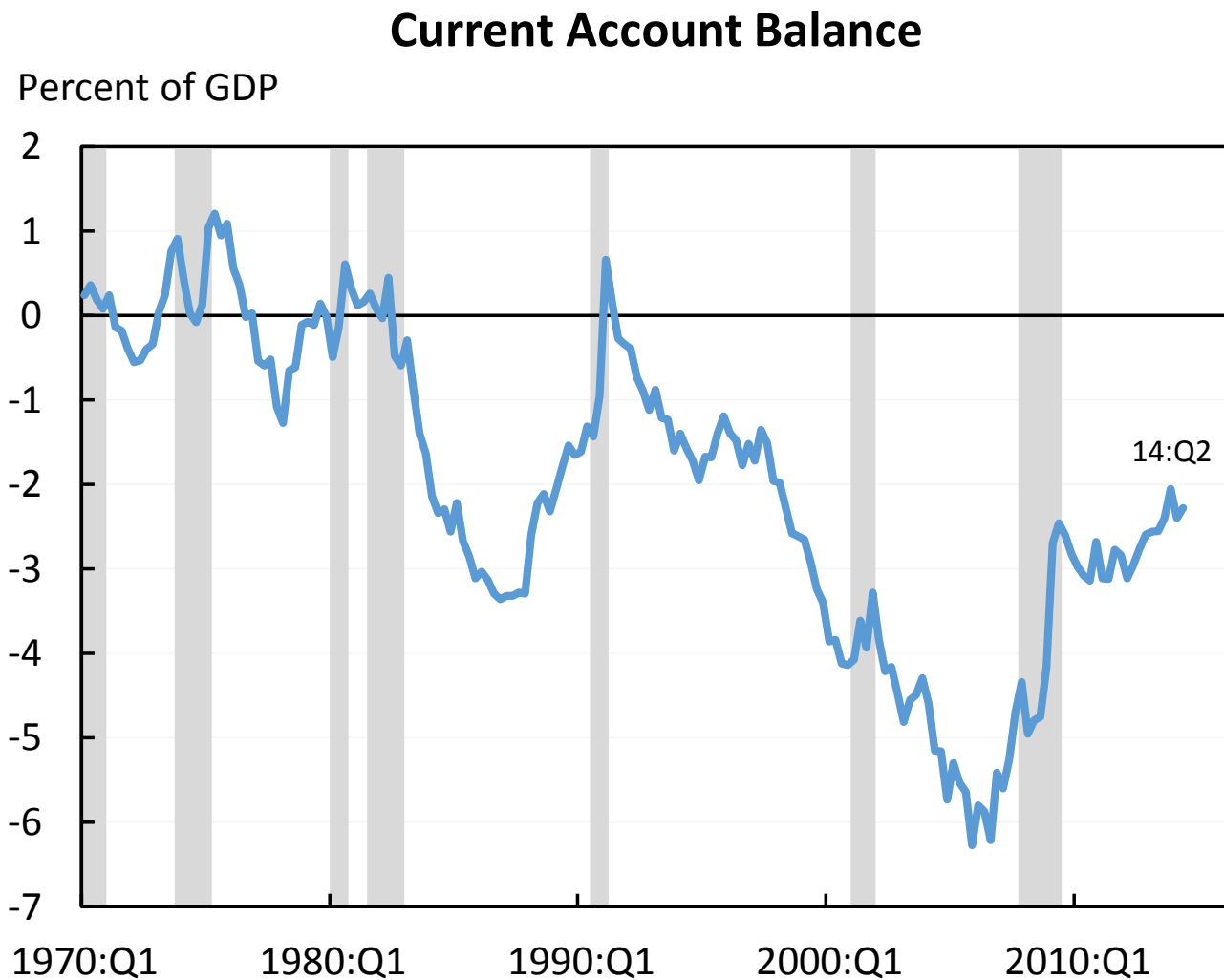
## Average Hourly Earnings for Private Production & Nonsupervisory Workers



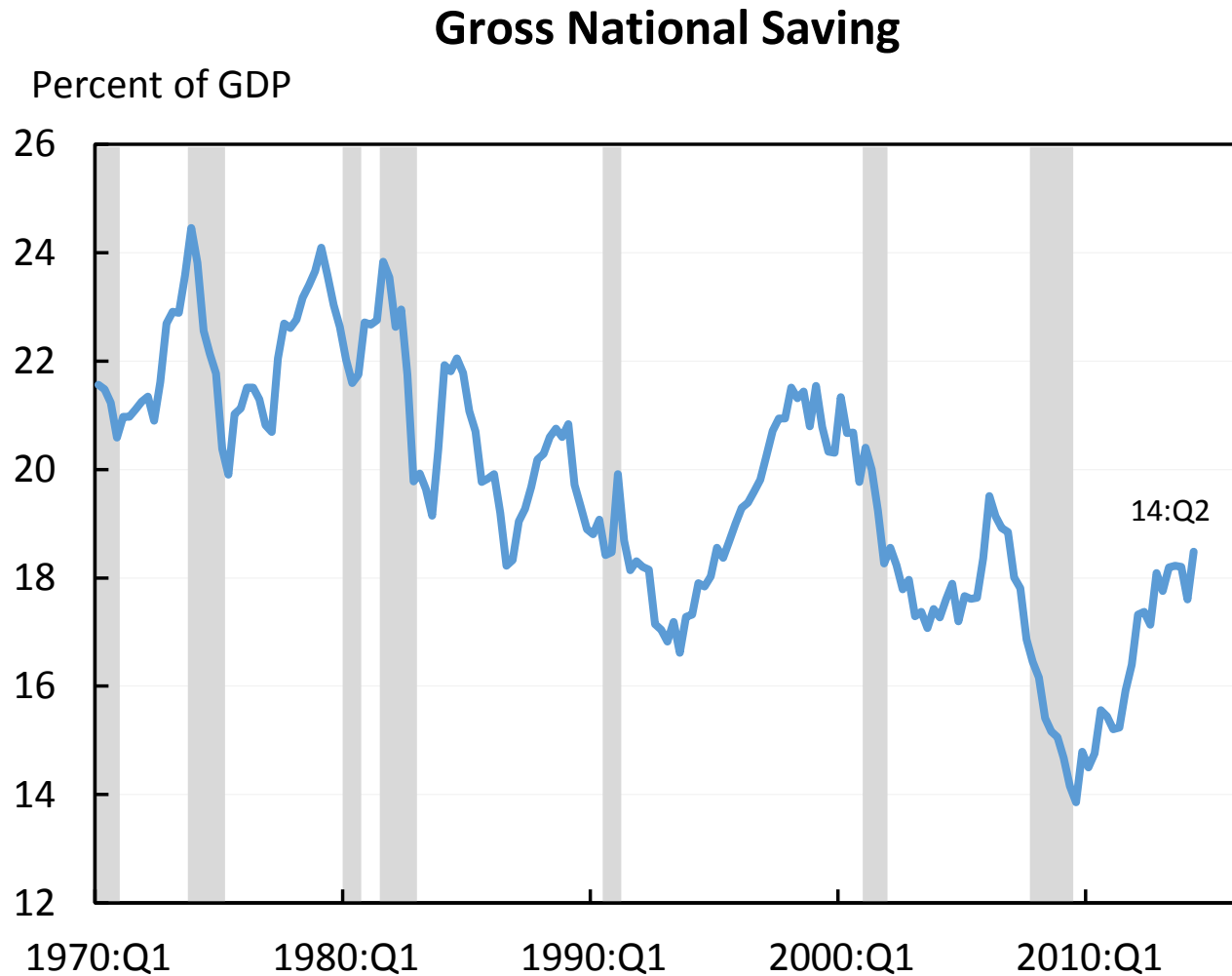
# Median Family Incomes in 2013 Were No Higher Than in 1997



# The U.S. Current Account Deficit is at its Narrowest Point Since the 1990s



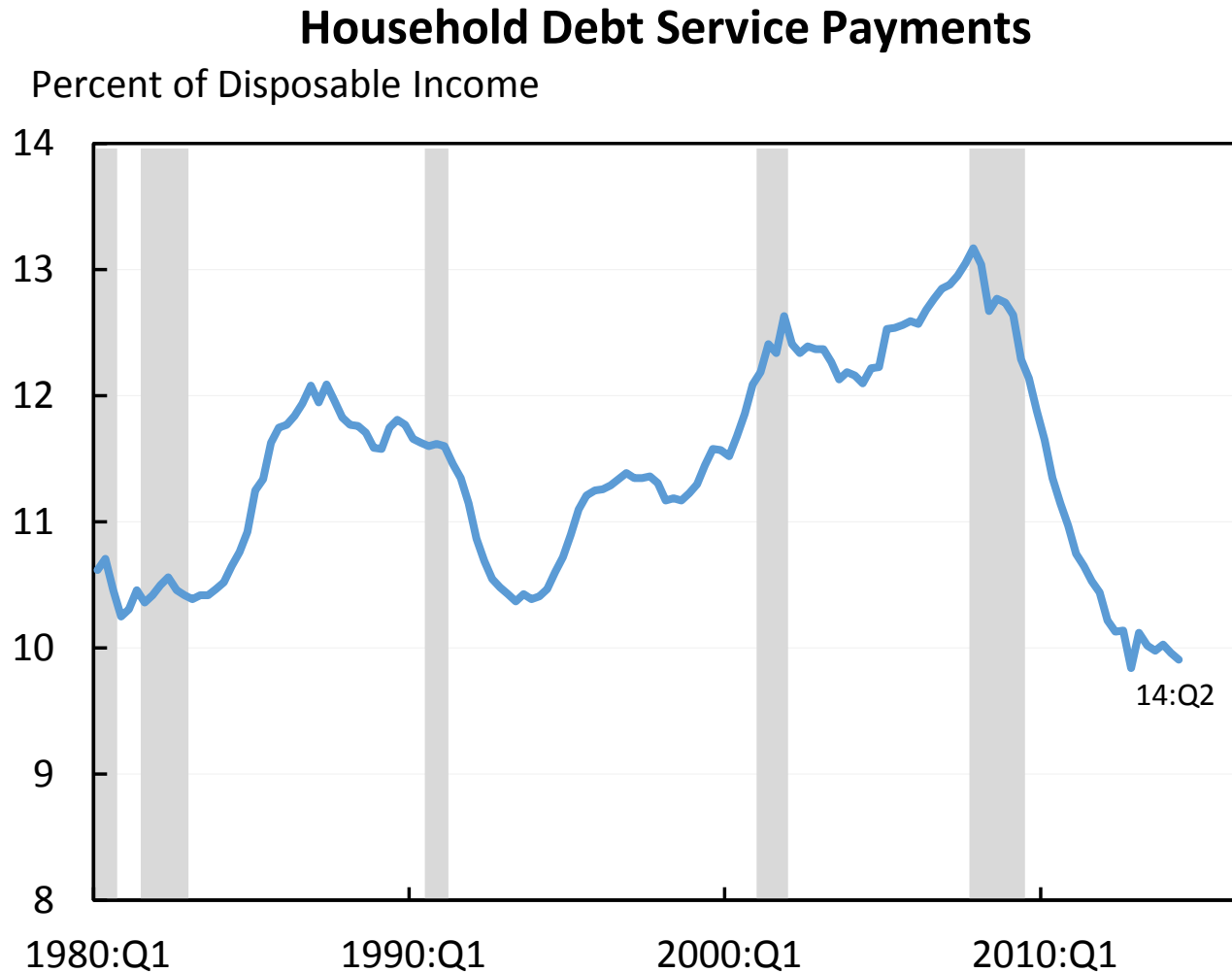
# A Rapidly Narrowing Federal Budget Deficit Has Helped to Raise Gross National Saving



Source: Bureau of Economic Analysis.



# Low Interest Rates and Deleveraging Have Reduced the Household Debt Burden



# Determinants of Household Income Growth in Three Periods

## *Brave New World 1948-1973*

### **Middle-Class Income Growth (annual rate)**

Average Income for the Bottom 90%	2.9%
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Median Household Income incl. Benefits	N/A
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### **Productivity Growth (annual rate)**

Labor Productivity	2.8%
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### **Income Shares (pctg. point / yr.)**

Top 1%	-0.14
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Bottom 90%	+0.07
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### **Labor Force Participation Rate (pctg. point / yr. )**

Prime Age Female (25-54)	+0.70
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Notes: All income measures use nominal data, deflated by the personal consumption expenditures price index. Income for the bottom 90% is provided by the World Top Incomes Database, cited below, and median household income including benefits is provided by the Congressional Budget Office.

Source: Alvaredo, Facundo, Anthony B. Atkinson, Thomas Piketty and Emmanuel Saez, The World Top Incomes Database; U.S. Census Bureau; Congressional Budget Office; Bureau of Labor Statistics; Bureau of Economic Analysis; CEA calculations.

# Determinants of Household Income Growth in Three Periods

	<i>Brave New World 1948-1973</i>	<i>Hard Times 1973-1995</i>
<b>Middle-Class Income Growth (annual rate)</b>		
Average Income for the Bottom 90%	2.9%	-0.2%
Median Household Income incl. Benefits	N/A	0.4%
<b>Productivity Growth (annual rate)</b>		
Labor Productivity	2.8%	1.4%
<b>Income Shares (pctg. point / yr.)</b>		
Top 1%	-0.14	+0.26
Bottom 90%	+0.07	-0.39
<b>Labor Force Participation Rate (pctg. point / yr. )</b>		
Prime Age Female (25-54)	+0.70	+1.06

Notes: All income measures use nominal data, deflated by the personal consumption expenditures price index. Income for the bottom 90% is provided by the World Top Incomes Database, cited below, and median household income including benefits is provided by the Congressional Budget Office.

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# Determinants of Household Income Growth in Three Periods

	<i>Brave New World 1948-1973</i>	<i>Hard Times 1973-1995</i>	<i>The Way We Live Now 1995-2013</i>
<b>Middle-Class Income Growth (annual rate)</b>			
Average Income for the Bottom 90%	2.9%	-0.2%	0.2%
Median Household Income incl. Benefits	N/A	0.4%	0.4%
<b>Productivity Growth (annual rate)</b>			
Labor Productivity	2.8%	1.4%	2.3%
<b>Income Shares (pctg. point / yr.)</b>			
Top 1%	-0.14	+0.26	+0.32
Bottom 90%	+0.07	-0.39	-0.42
<b>Labor Force Participation Rate (pctg. point / yr. )</b>			
Prime Age Female (25-54)	+0.70	+1.06	-0.10

Notes: All income measures use nominal data, deflated by the personal consumption expenditures price index. Income for the bottom 90% is provided by the World Top Incomes Database, cited below, and median household income including benefits is provided by the Congressional Budget Office.

Source: Alvaredo, Facundo, Anthony B. Atkinson, Thomas Piketty and Emmanuel Saez, The World Top Incomes Database; U.S. Census Bureau; Congressional Budget Office; Bureau of Labor Statistics; Bureau of Economic Analysis; CEA calculations.

# Impact of Sustained Growth in Productivity, Equality, & Participation

Thought Experiment	Percentage Impact on 2013 Avg. Income	Income Gain to 2013 Typical Household
Impact of Higher Growth	58%	\$30,000

# Impact of Sustained Growth in Productivity, Equality, & Participation

Thought Experiment	Percentage Impact on 2013 Avg. Income	Income Gain to 2013 Typical Household
Impact of Higher Growth	58%	\$30,000
Impact of Greater Equality	18%	\$9,000

# Impact of Sustained Growth in Productivity, Equality, & Participation

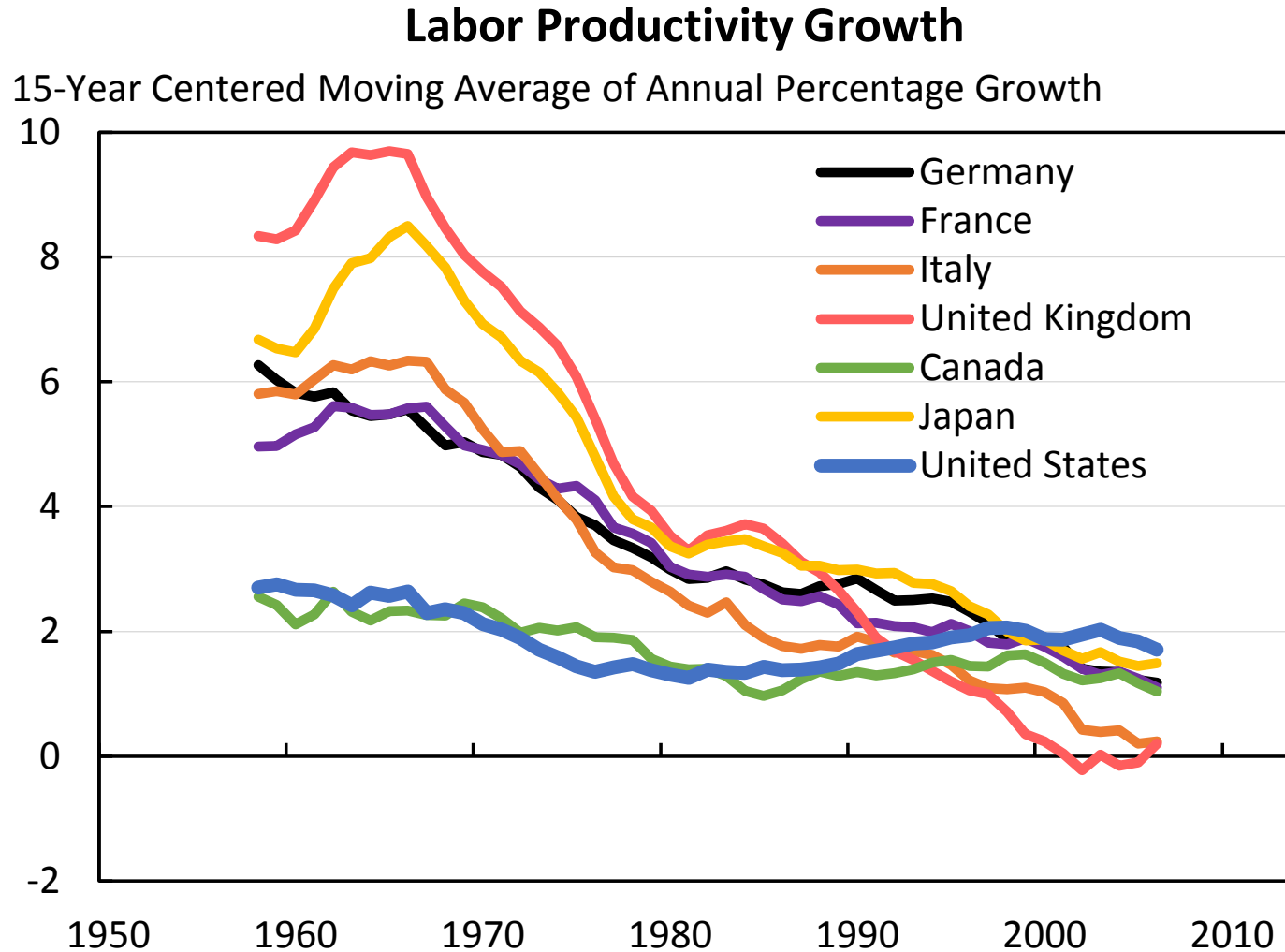
Thought Experiment	Percentage Impact on 2013 Avg. Income	Income Gain to 2013 Typical Household
Impact of Higher Growth	58%	\$30,000
Impact of Greater Equality	18%	\$9,000
Impact of Labor Force Participation	7%	\$4,000

# Impact of Sustained Growth in Productivity, Equality, & Participation

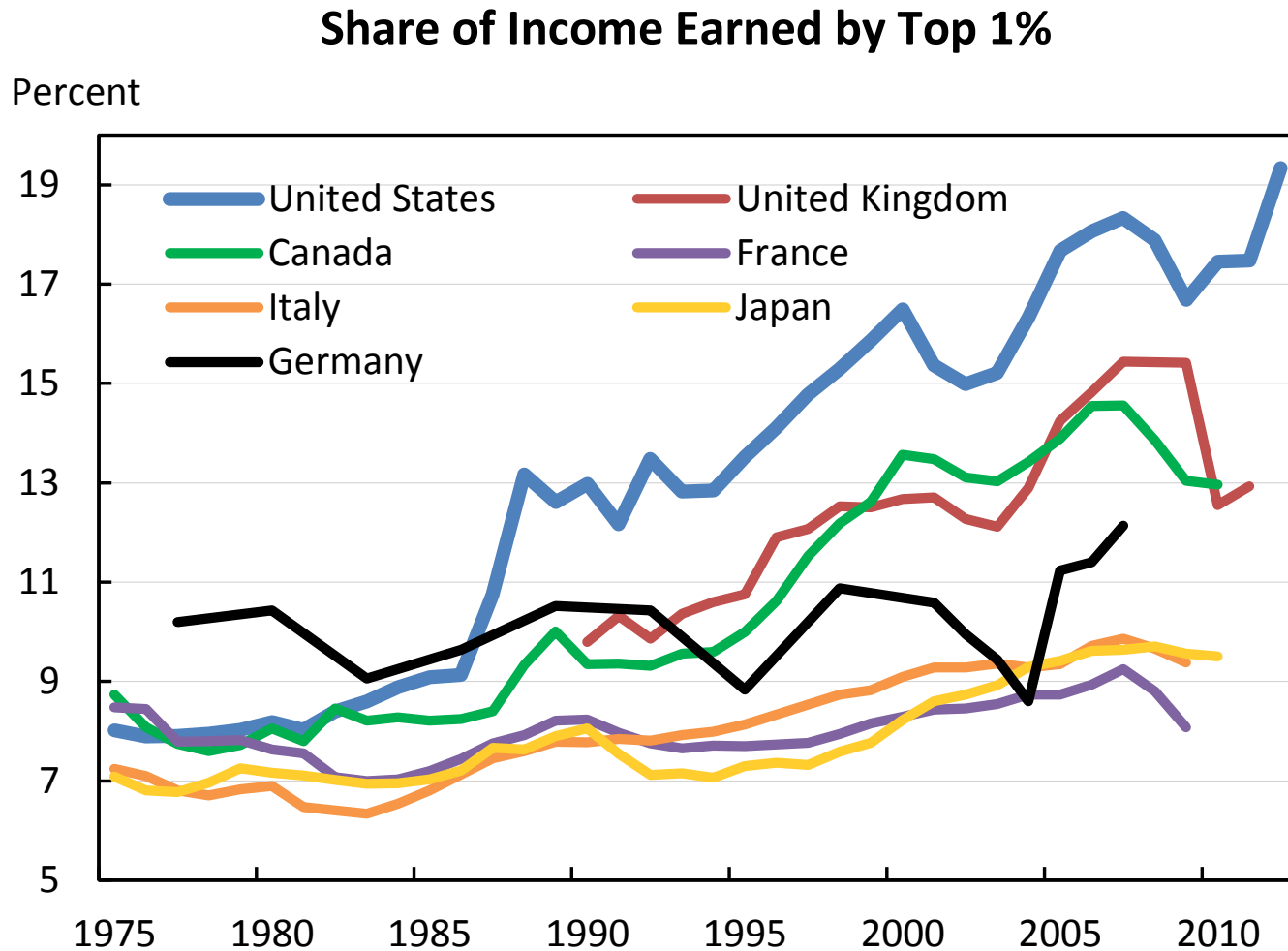
Thought Experiment	Percentage Impact on 2013 Avg. Income	Income Gain to 2013 Typical Household
Impact of Higher Growth	58%	\$30,000
Impact of Greater Equality	18%	\$9,000
Impact of Labor Force Participation	7%	\$4,000
<b>Combined Impact</b>	<b>99%</b>	<b>\$52,000</b>



# Productivity Growth Has Slowed Steadily in Many Advanced Economies, Although the United States Saw a Rebound in the 1990s



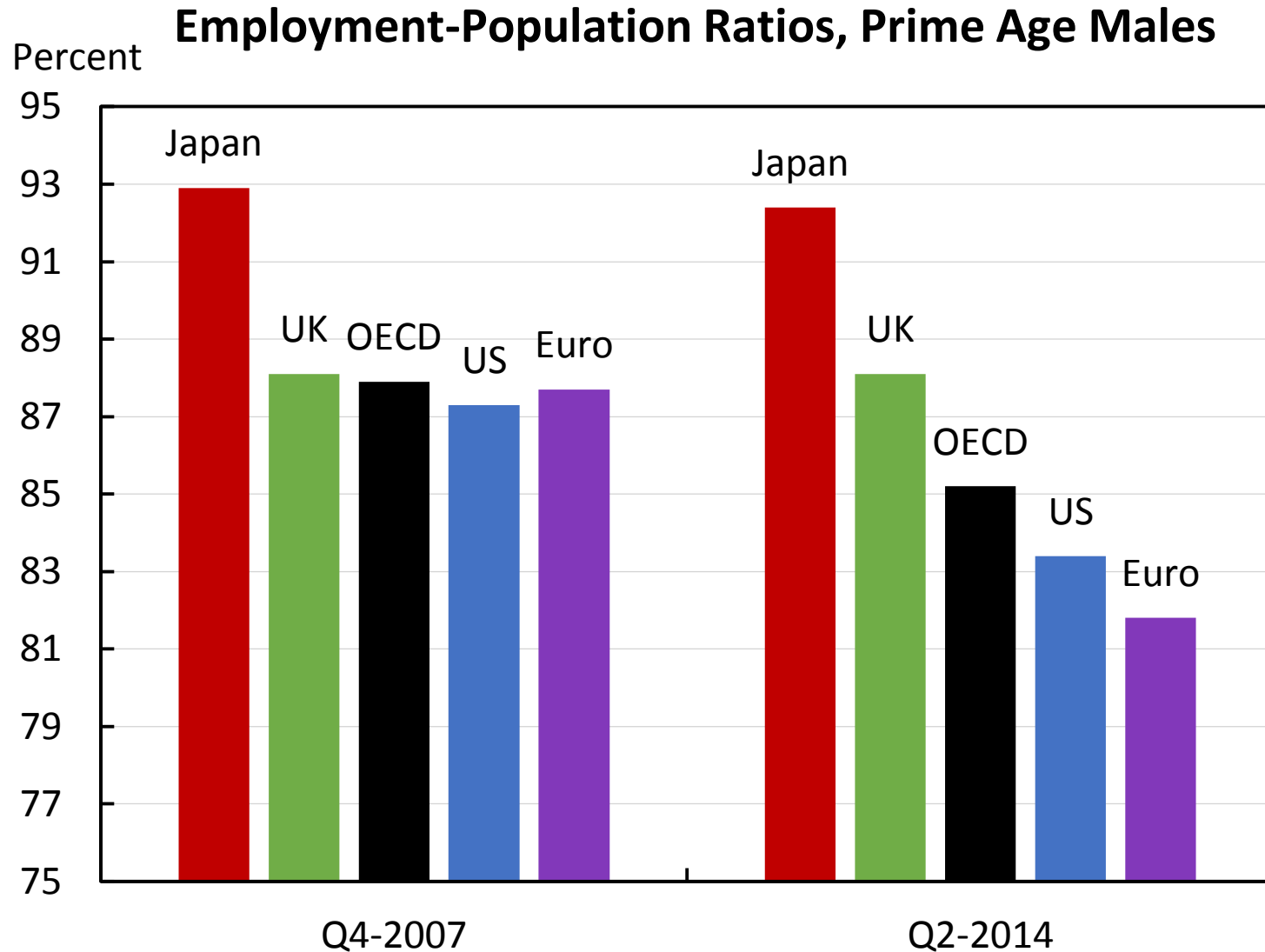
# Inequality Has Risen Substantially, with the U.S. Income Gap Widening More than in Other Advanced Economies



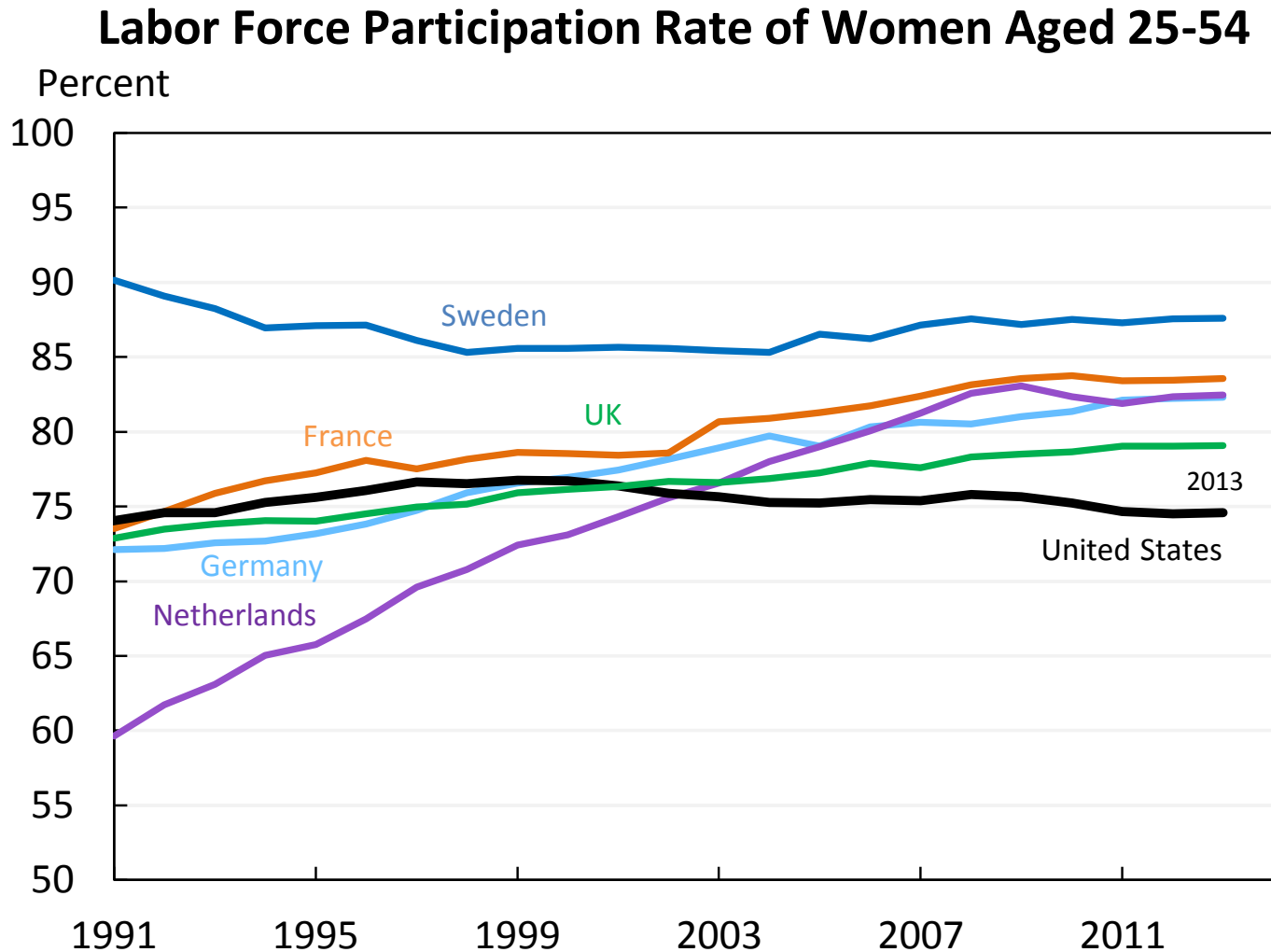
Note: Data for all countries exclude capital gains. For Germany, data excluding capital gains is unavailable after 1998, so this chart displays data including capital gains adjusted for the historical relationship between the capital-inclusive and capital-exclusive ratios.

Source: Alvaredo, Facundo, Anthony B. Atkinson, Thomas Piketty and Emmanuel Saez, The World Top Incomes Database.

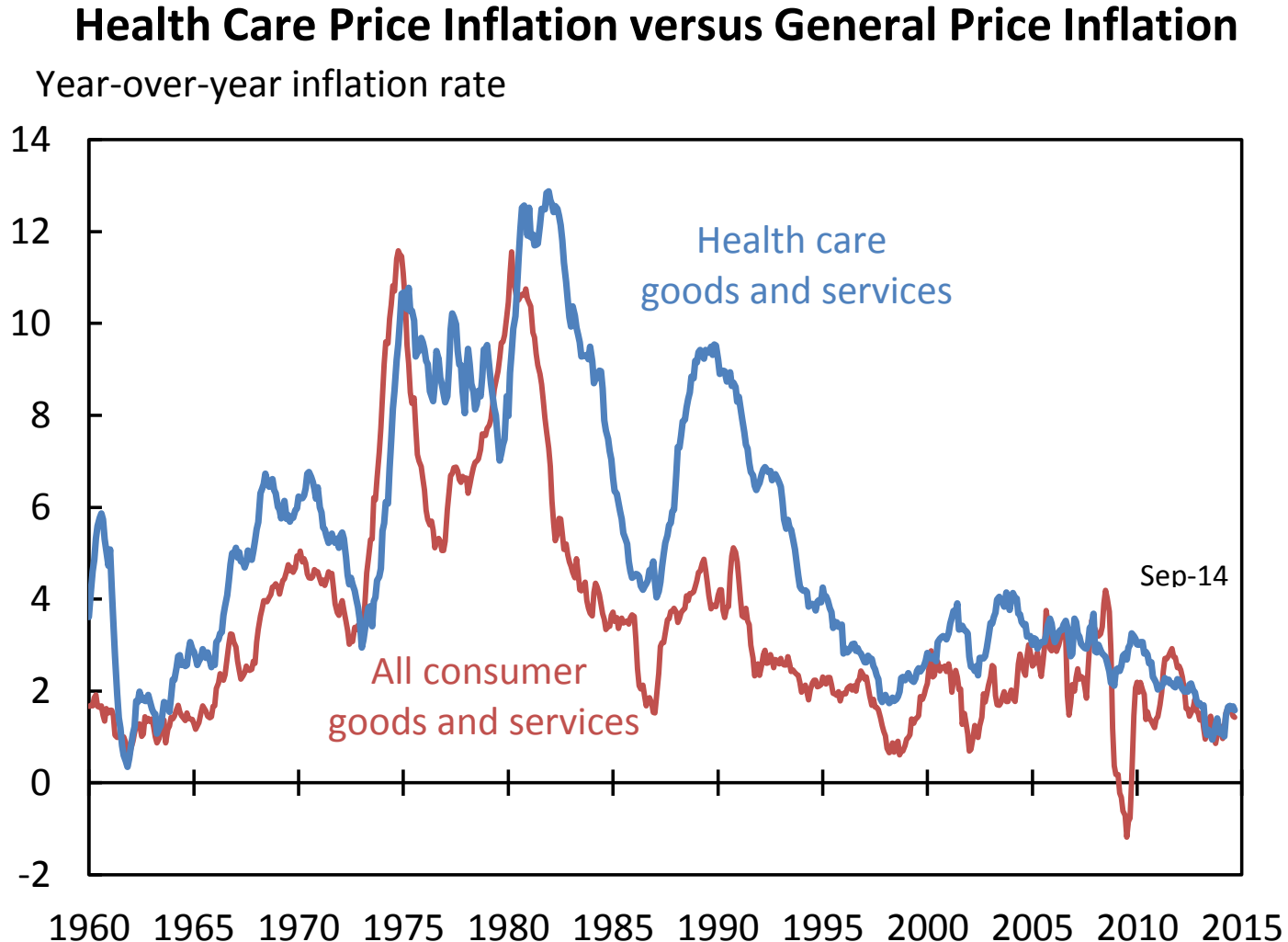
# The United States Has Been Behind Other Advanced Economies in the Share of Prime-Age Workers Employed



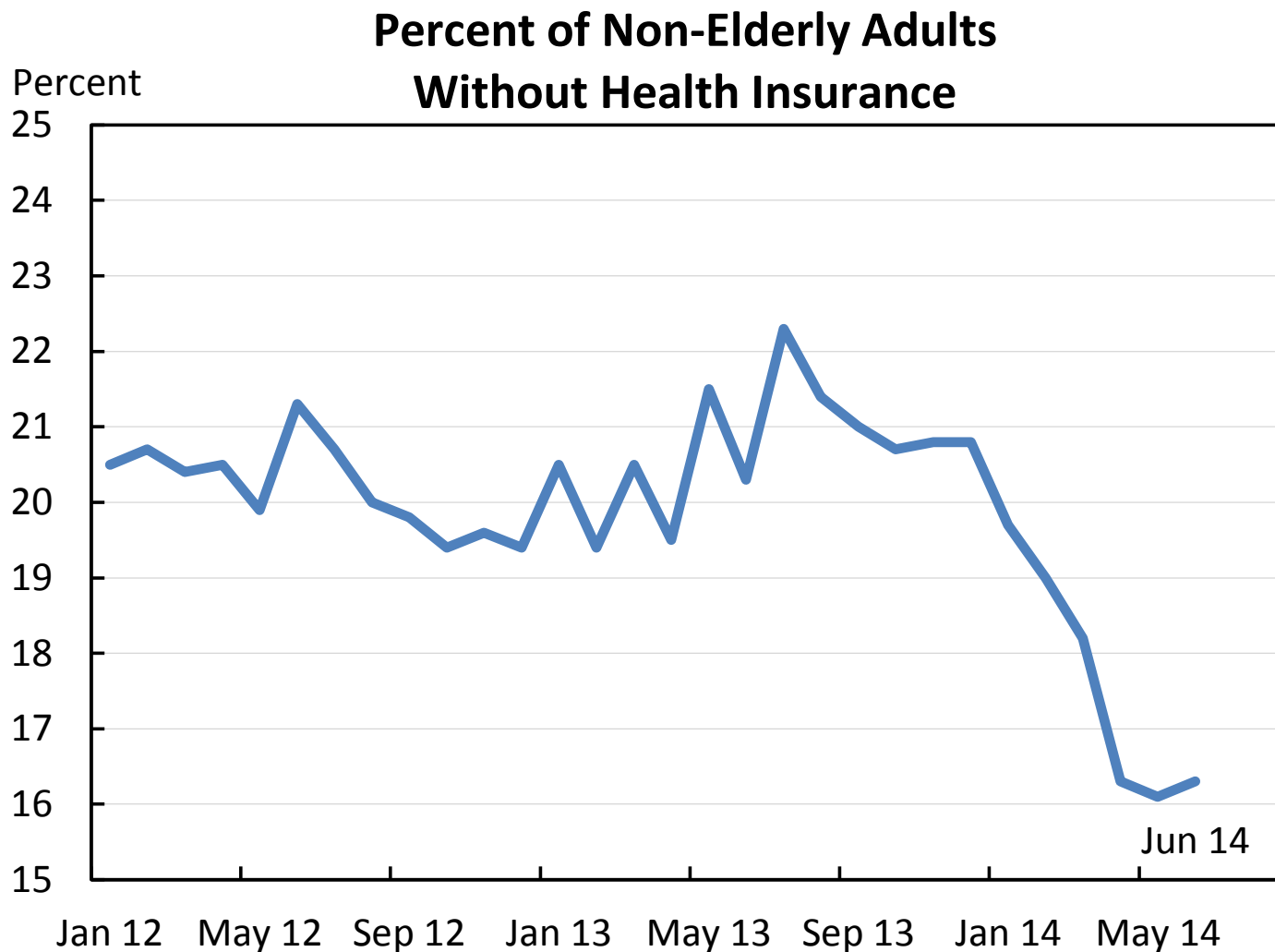
# Gains in Female Labor Force Participation in the United States Stalled in the 1990s



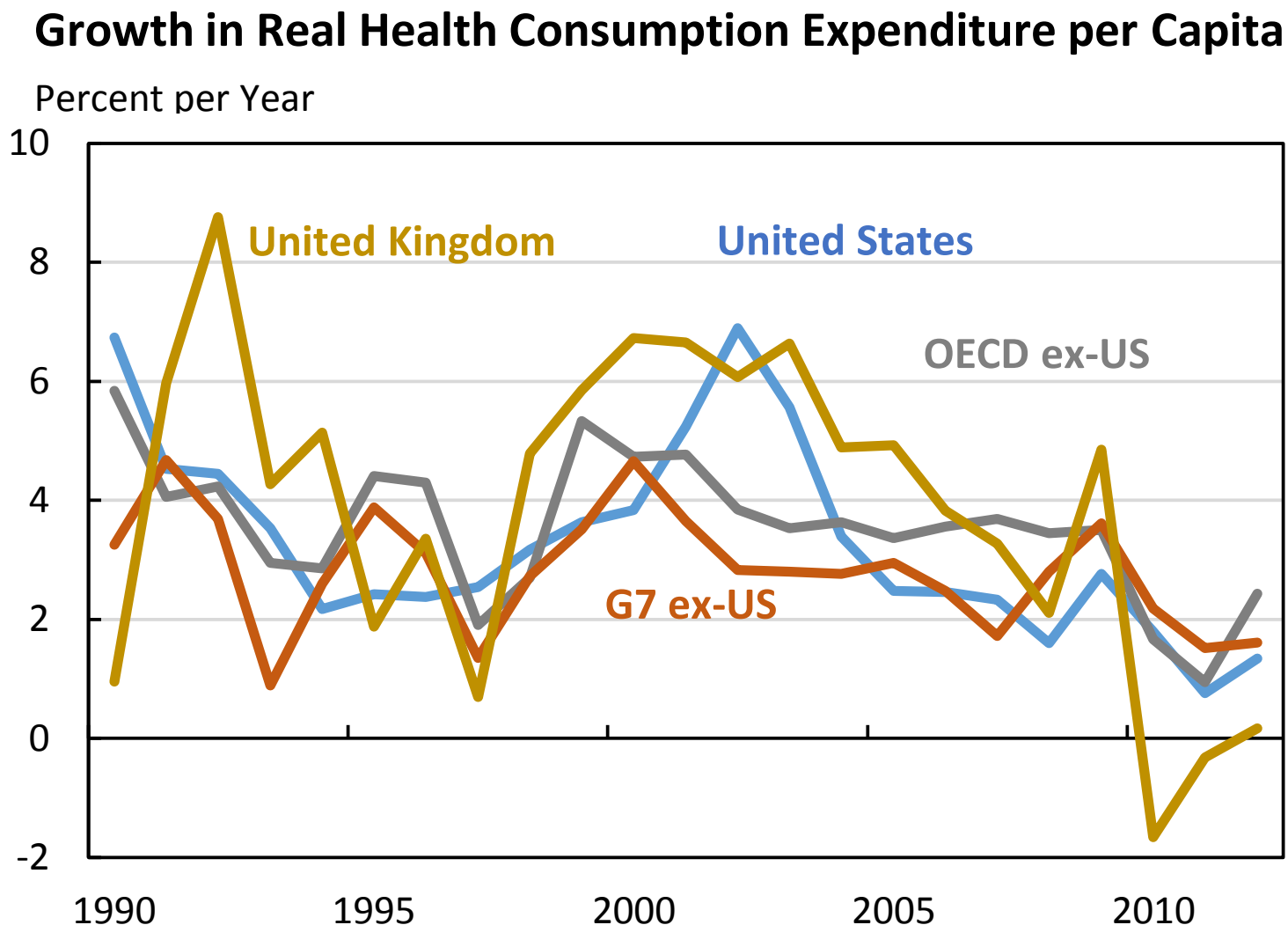
# Health Care Prices are Growing at the Slowest Rate in Nearly Fifty Years



# The Affordable Care Act Has Expanded Health Insurance Coverage to Over 10 Million People as of Mid-2014



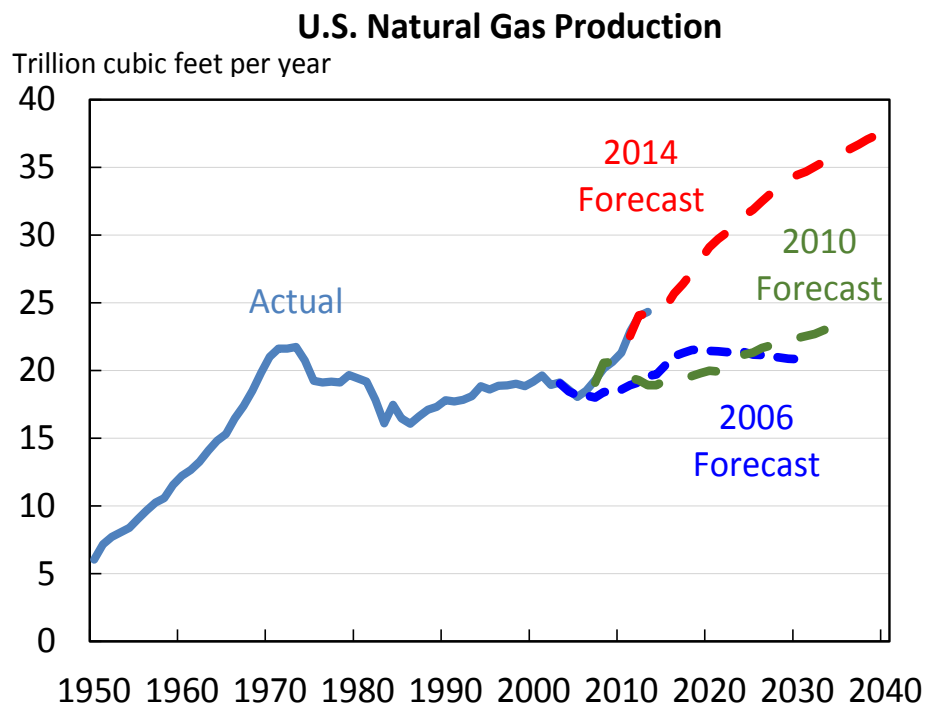
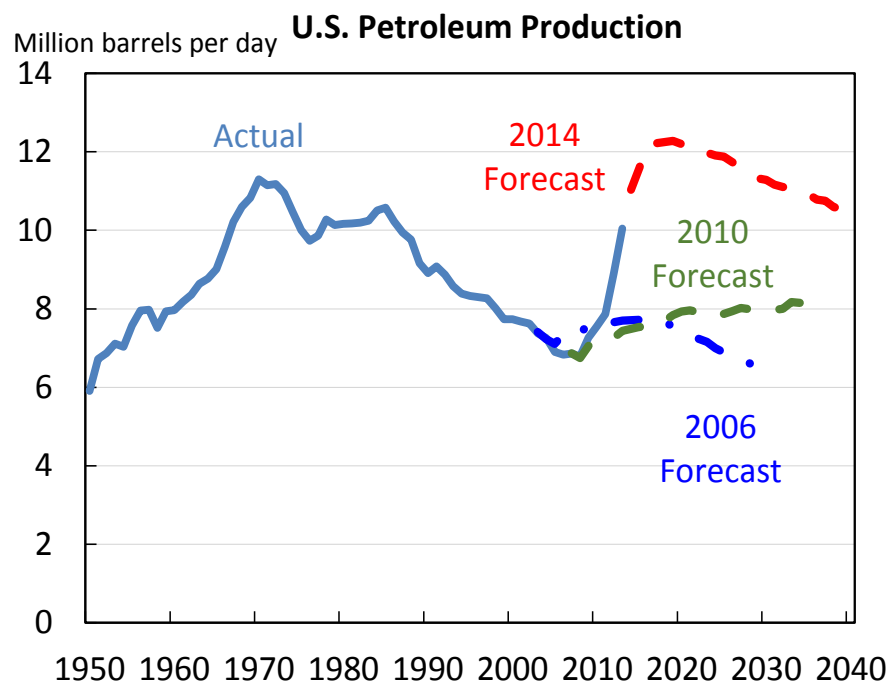
# Many Advanced Economies Have Seen Slowing Health Cost Growth



Note: Country averages are weighted by population. Countries experiencing a break in series in a specific year are excluded from averages.

Source: OECD.

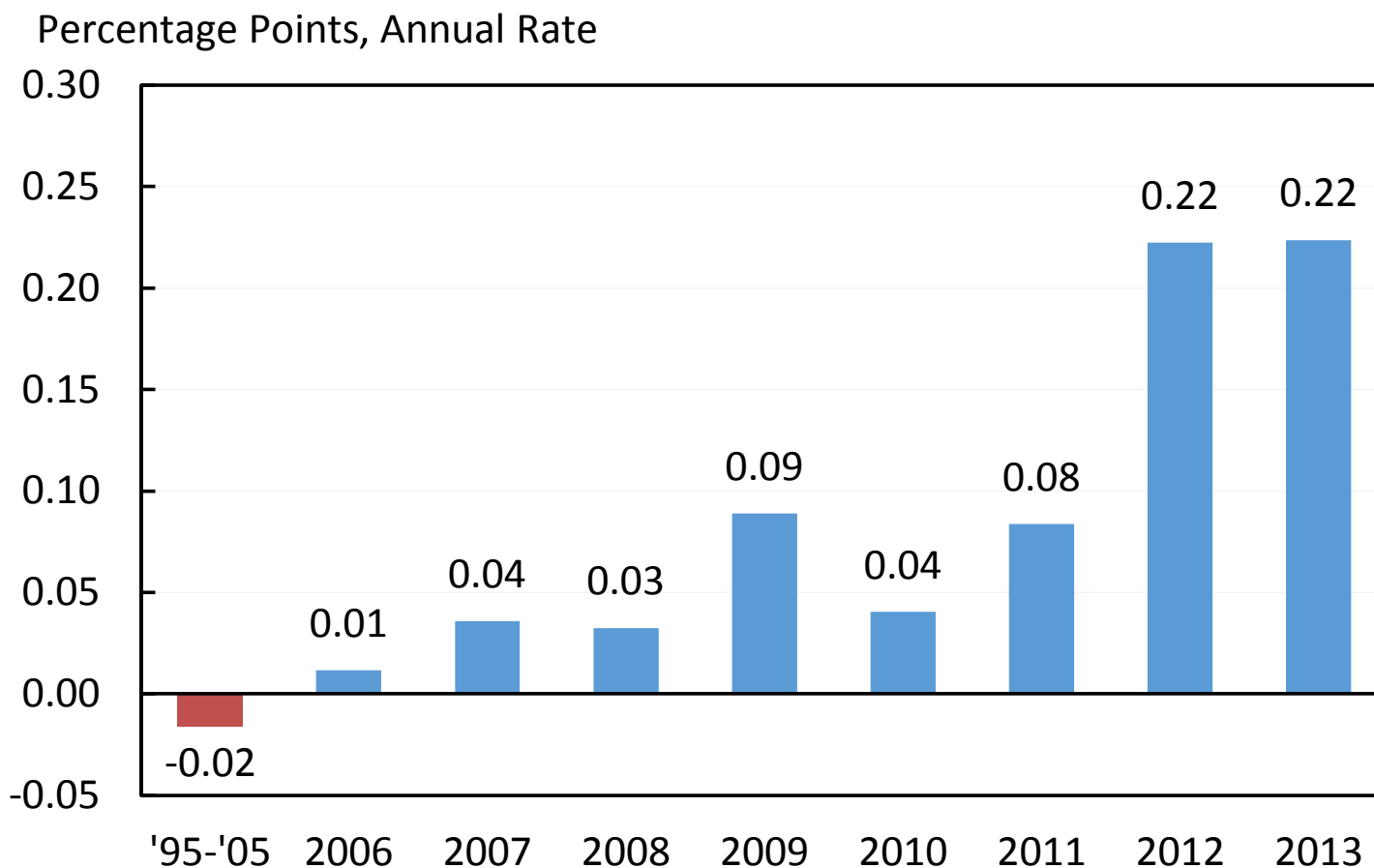
# U.S. Oil and Natural Gas Production Have Surged in Recent Years, While Forward Projections Have Continually Been Revised Upward



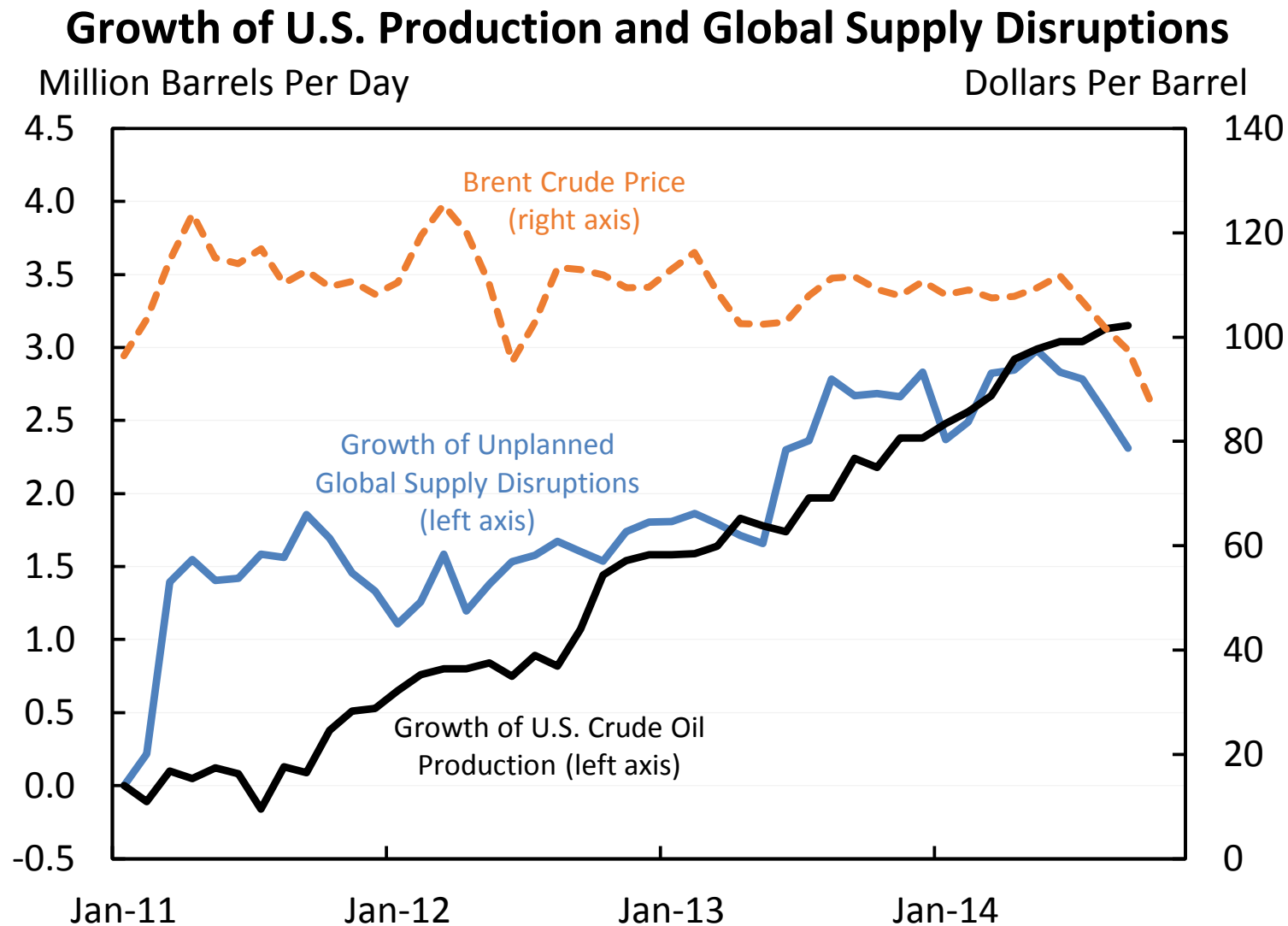


# Expanded U.S. Energy Production Has Been a Meaningful Tailwind in the Recovery

## Direct Contribution of Oil and Natural Gas Production to GDP Growth



# Rising U.S. Oil Production Has Offset Supply Outages Elsewhere, Stabilizing Global Oil Prices



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