Prepared Testimony before the Joint Economic Committee
"The Economic Report of the President 2014"
Jason Furman, Chairman, Council of Economic Advisers
March 13, 2014

Chairman Brady, Vice Chair Klobuchar, and Members of the Committee—thank you for the chance to appear here today. The 2014 *Economic Report of the President* discusses the progress that has been made in recovering from the worst recession of our lifetimes, and President Obama's agenda to build on this progress by creating jobs and expanding economic opportunity.

Last Friday, we learned that businesses added 162,000 jobs in February, so that over the last 48 consecutive months of job growth, private employment has risen by 8.7 million (Figure 1). The unemployment rate ticked up one-tenth of a percentage point in February, but it has still fallen half a percentage point on balance since October, with the entirety of that decline attributable to gains in employment. Nevertheless, essentially all the remaining elevation in the unemployment rate is due to long-term unemployment, which represents one of our most pressing economic challenges (Figure 2). In January, the President hosted a summit at the White House and announced some important new steps to help the long-term unemployed, and we still hope Congress will join us in this continued effort by reinstating extended unemployment insurance for the more than 2 million job-seekers that have lost a vital lifeline since the end of last year.

The economic recovery is well underway, but it remains incomplete, and much more work is left to be done, in large part because of the depth of the hole out of which we are still digging. As discussed in this year's *Economic Report of the President*, recoveries from financial crises are challenging because heavy household debt burdens and tight credit conditions can linger for years, constraining spending and investment. However, among the 12 countries that experienced a systemic financial crisis in 2007 and 2008, the United States is one of just two in which output per working-age person has returned to pre-crisis levels (Figure 3). The fact that the United States has been one of the best performing economies in the wake of the crisis supports the view that the full set of policy responses in the United States made a major difference in averting a substantially worse outcome—although, as I said, more work remains to be done.

This year's Report provides an in-depth look at one major aspect of the policy response to the crisis: the Recovery Act and more than a dozen subsequent pieces of fiscal legislation, including the payroll tax cut, small business tax cuts, incentives for business investment, and extended unemployment insurance. Our analysis finds that the effects of these steps were substantial. Specifically, the Recovery Act alone raised the level of GDP by between 2 and 2.5 percent from late 2009 through mid-2011. Combining the effects of the Recovery Act and the additional fiscal measures that followed, the cumulative boost to GDP from 2009 through 2012 is equivalent to 9.5 percent of fourth quarter 2008 GDP (Figure 4). The Report also demonstrates that the Recovery Act's support for household incomes prevented millions from slipping into poverty over the last few years, a continuation of a longer-running trend in which essentially all of the progress we have made in the War on Poverty has come as a consequence of policies like tax credits, Social Security, unemployment insurance, and nutrition assistance.

Looking ahead, this year's Report also identifies several key reasons that the Administration, like other forecasters, expects growth to strengthen in the coming years. One key reason that growth is expected to pick up is that households have made substantial progress in deleveraging, putting them in a better position to increase spending going forward. Specifically, household debt has fallen from a peak of about 1.4 times annual disposable income in the fourth quarter of 2007 to 1.1 times annual disposable income in the fourth quarter of 2013. Similarly, the average required minimum payment on household debt has fallen from a high of 13 percent of disposable income in the fourth quarter of 2007 to 10 percent in the third quarter of 2013, the lowest since the data begin in 1980 (Figure 5).

It is important to note that while these figures paint a picture of improvement in the aggregate, many middle-income households have seen little benefit from recent stock market gains and are still grappling with the implications of home prices that, despite recent progress, remain well below their previous highs. I'll return to say a bit more about steps the Administration is taking to expand economic opportunity for these households in a moment.

Staying on the near-term outlook, I would add that other reasons to expect stronger growth in 2014 include diminished fiscal drag, a recovery in asset values, strengthening among some of our key international trading partners, and demographic forces that are expected to maintain upward pressure on housing starts—although all of these factors need to be balanced against the uncertain risks that can always adversely affect the economy.

Looking over a longer time horizon, the Report identifies a number of emerging trends that can support a stronger economy on a sustained basis into the future, including improvements in the production and use of energy, the slowdown in the rise of health care costs, and technological advances.

The Administration is not sitting back waiting for these trends to unfold, and the President has set out an ambitious agenda to capitalize on these opportunities and make further progress. Specifically, the President's agenda is designed to address three key imperatives: first, it continues to restore the economy to full potential; second, it expands the economy's potential over the long-run; and third, it helps ensure that all Americans have the opportunity to realize their full individual potential.

To return the economy to its full potential more quickly, the President's budget includes an Opportunity, Growth, and Security initiative, which will finance additional discretionary investments in areas such as education, research, infrastructure, and national security. The initiative is evenly split between defense and non-defense and is fully paid for with mandatory spending reforms and tax loophole closers. The President has also called for steps to couple business tax reform with a major effort to upgrade our Nation's infrastructure.

These steps will not just help speed the economy's return to full potential in the near-term, but will expand that potential over the long-run by making critical investments in infrastructure and the skills of American workers, and by reducing distortions in the business tax code. Another key step to grow the economy's long-run potential is immigration reform, which would help attract a new wave of inventors and entrepreneurs to American soil. The President is also looking for ways to support the historic gains in the domestic energy sector that we have seen in recent years. Finally, innovation is key to long-run growth and should be supported with everything from tax incentives for R&D to investments in basic research to policies like patent reform and freeing up spectrum for mobile broadband.

The final areas of policy would help ensure that every American has the opportunity to realize their full individual potential. Since the late 1970s, income inequality has risen dramatically, and at the same time, intergenerational mobility has remained relatively low. The President has said that restoring a greater measure of economic opportunity in the face of these long-standing trends is "the defining challenge of our time."

The President's opportunity agenda includes an increase in the minimum wage and an expansion of the Earned Income Tax Credit, which would lift millions out of poverty. The Opportunity, Growth, and Security initiative would help provide funding for every American child to attend high-quality pre-school, because investments in early-childhood development are among the best investments we as a society can make. Implementation of the Affordable Care Act is another critical step in this direction, as it is helping to provide financial security for more American families and to slow the growth in health care costs that cut into workers' take-home pay.

This is just a brief overview of the economic outlook and some of the President's priorities as described in our new Report. The Report also contains analysis and discussion of the Recovery Act and subsequent jobs legislation, the causes and consequences of the slowdown in health costs, the role of technology in the economy, the lessons we have learned fifty years after the beginning of the War on Poverty, and a discussion of the importance of Federal program evaluation. I would be happy to take your questions on these or any other economic topics.