VIEWS OF RANKING MEMBER CAROLYN B. MALONEY

INTRODUCTION

The Joint Economic Committee (JEC) is required by statute to submit findings and recommendations in response to the *Economic Report of the President* (ERP, or *Report*), which was released by the Council of Economic Advisers (CEA) on February 19, 2015.

The *Report* is a comprehensive, data-driven, fact-based assessment of the economy written by leading economists in accordance with widely accepted standards in the field. It analyzes data collected by nonpartisan government agencies and cites peer-reviewed work by numerous academic economists. It provides important information on the status of the current economic recovery, as well as thoughtful recommendations for steps to further improve the economy.

Any discussion of the economic recovery must be put in proper context. As the *Report* points out, the recovery is taking place in the wake of the worst economic disaster since the Great Depression of the 1930s. When President Obama took office in January 2009, the economy was losing about 800,000 jobs per month, home prices were collapsing, lending was at a virtual standstill and the U.S. banking system was in peril. In the final three months of 2008, the economy shrank at a staggering 8.2 percent annual rate.

The data presented in the *Report* show that, beyond question, substantial progress has been made since that time. Real (inflation adjusted) gross domestic product (GDP) has grown in 20 of the past 22 quarters; the unemployment rate has fallen 4.5 percentage points from its peak of 10.0 percent; 12.0 million private-sector jobs have been added in the past five years; corporate earnings have hit record highs and the Dow Jones industrial average has nearly tripled from its post-crash low.

The *Report* includes extensive economic data demonstrating that the economy continued to improve in 2014 and is poised to make further progress in the future.

However, the *Report* makes clear that there is more work that can and should be done. It discusses remaining challenges and outlines further steps to ensure that future economic gains are more broadly shared. It identifies three goals: higher productivity growth, expanded labor force participation and greater income equality—all issues that have received bipartisan attention.

The *Report* also provides policy suggestions on how to achieve those aims. For example, the report suggests:

- Improving workforce training programs to enhance workers' skills and better connect them to existing employment opportunities
- Making work more family friendly through policies such as paid parental leave and workplace flexibility
- Expanding tax policies that support low- and middle-income workers and their families
- Funding investments in infrastructure that would boost productivity growth and create job opportunities

This Democratic response to the 2015 *Report* has three sections:

- An overview of the state of the economy and an analysis confirming that the recovery has continued in recent months
- A discussion of select policy recommendations outlined in the *Report*
- An examination of frequently repeated misconceptions about economic policy

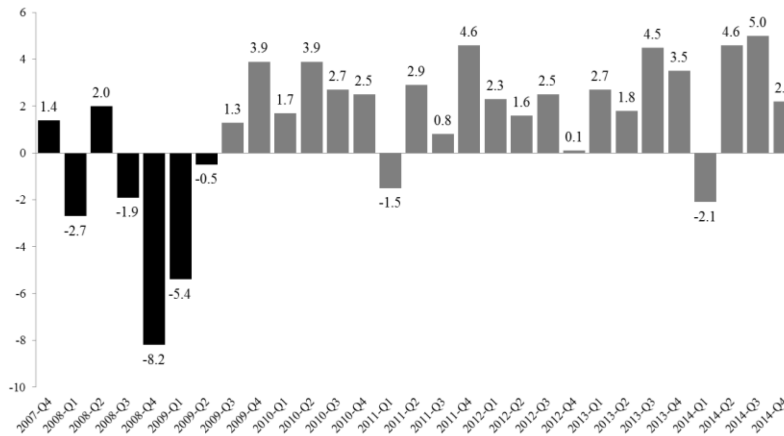
THE STATUS OF THE ECONOMIC RECOVERY

The U.S. economy is currently performing better than the economies of many other advanced nations, and the near-term outlook is bright. Recent data show the economy has continued to recover since late last year when the economic assumptions in the *Report* were finalized. The labor market has continued to strengthen while consumer prices have declined, in large part due to falling energy prices. As the economy moves closer to full employment, wage growth is expected to pick up. This section provides an overview and analysis of recent economic trends, including overall economic growth, employment, inflation and interest rates.

Overall Economic Growth. The U.S. economic recovery accelerated in 2013 and 2014, with real GDP growing at a 2.7 percent annual rate over the past two years. This pace of expansion exceeded the 2.1 percent annual growth rate recorded during the prior 3½ years. Growth in the second half of 2014 was unexpectedly strong, with GDP growing at an average annual rate of 3.6 percent over the last six months of the year (see **Figure 1**).[1] GDP has now grown in 20 of the past 22 quarters.

The CEA projects that U.S. economic activity will accelerate this year. The Federal Reserve Board, the Congressional Budget Office (CBO) and leading private-sector forecasters offer similar projections.

Figure 1. U.S. Economic Growth
Percent change in real (inflation-adjusted) gross domestic product, annual rates



Note: Black bars denote the most recent recession period as determined by the National Bureau of Economic Research.
Source: JEC Democratic staff based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

The economy is now operating much closer to its "potential" level (that is, the level consistent with full employment and stable, low rates of inflation).[2] While the gap between actual and potential GDP reached more than 7 percent during the recession, it has since narrowed to 2 percent (see **Figure 2**).

However, the fact that the economy is still performing below potential means that some labor and capital resources remain underutilized. Under those conditions, businesses can expand production without putting upward pressure on wages and capital costs.

Figure 2. U.S. Output Gap
Actual minus potential real GDP as percent of potential GDP, quarterly through 2014-Q4

Note: Shaded regions denote periods of recession as determined by the National Bureau of Economic Research.
Sources: JEC Democratic staff based on data from the Bureau of Economic Analysis, U.S. Department of Commerce and Congressional Budget Office, *The Budget and Economic Outlook: 2015 to 2025* (January 2015).

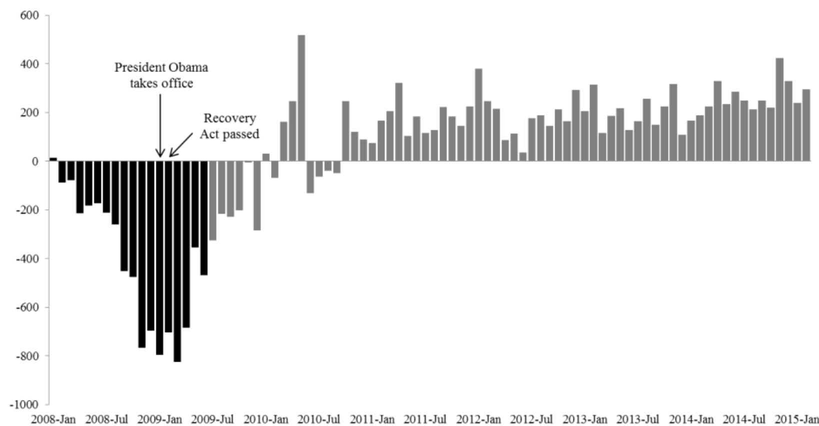
The remaining slack in the economy also means that there is still a need for expansionary fiscal policies to boost aggregate demand. Such policies would raise GDP and further narrow the output gap without diverting resources from other productive uses.

In sharp contrast, austerity policies, such as sequestration, would constrain economic activity and widen the output gap.[3] Fiscal austerity also would work to offset the positive impacts of current monetary policy and would make it more difficult to achieve full employment in coming years.

<u>Employment</u>. Job growth increased in 2014 and has remained strong in the first months of 2015 (see **Figure 3**). More than 3.1 million nonfarm jobs were added in 2014 (260,000 jobs per month), the strongest yearly gain since 1999. The average pace of job creation increased to 293,000 jobs per month over the six months through February 2015.[4]

The private sector continues to drive the economic expansion. Private-sector job growth last year reached its highest level since 1997. Businesses have added jobs for 60 consecutive months, creating more than 12.0 million jobs over that period. Those gains have been widespread across industries.

Figure 3. Nonfarm Payroll Employment
Change in thousands, monthly through February 2015

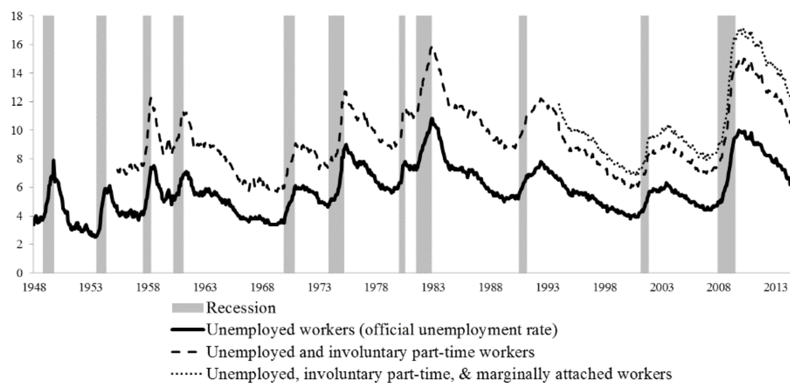


Note: Black bars denote the most recent recession period as determined by the National Bureau of Economic Research.
Source: JEC Democratic staff based on data from the Bureau of Labor Statistics, U.S. Department of Labor.

<u>Unemployment</u>. Strong job growth has led to a decline in the unemployment rate. Since peaking at 10.0 percent of the civilian labor force in October 2009, the unemployment rate has fallen by 4.5 percentage points to 5.5 percent in February 2015 (see **Figure 4**). Over the last 18 months alone, the unemployment rate has declined by 1.7 percentage points on the strength of rising employment.

At its peak, there were nearly eight unemployed workers for every private-sector job opening in the country. As of February 2015, that number has fallen to fewer than two, which is essentially the level that prevailed before the recession. Over the 12 months through January 2015, the number of job openings reported by private businesses increased by 28.6 percent, more than five times the pace at which openings grew over the year ending in January 2014.[5]

Figure 4. Measures of Underemployment
Percent of official or augmented labor force, monthly through February 2015



Notes: Unemployed workers do not have a job but continue to actively search for work and, thereby, remain in the labor force. Involuntary part-time workers are individuals who work less than 35 hours per week for economic reasons and would prefer to work more hours. Marginally attached workers are not in the labor force (and are therefore not counted among the officially unemployed) but have looked for a job sometime in the prior year and want a job and are available to work.
Source: JEC Democratic staff based on data from the Bureau of Labor Statistics, U.S. Department of Labor and the National Bureau of Economic Research.

The short-term unemployment rate has already fully recovered and is now below its average during the years before the recession. While the long-term unemployment rate has decreased more slowly than the short-term rate, its decline has accounted for most of the drop in overall unemployment over the last 1½ years. The long-term unemployment rate rose to a record high of 4.4 percent due to the recession (see **Figure 5**). As of February 2015, it had fallen to 1.7 percent.

Even with those improvements, long-term unemployment remains elevated and continues to be a concern for policymakers. Before the Great Recession, the duration of unemployment spells had been trending up, with the share of unemployed workers who had been looking for work longer than 27 weeks increasing steadily over many decades. In fact, the past several recessions led to sharper increases in long-term unemployment than had occurred in earlier recessions, culminating with the Great Recession, which led to an unprecedented increase in long-term unemployment.

Considerable research has shown that long periods of joblessness erode the skills of the unemployed, making it harder for these workers to find the kinds of jobs they had previously. Long-term unemployment has also been linked to declines in the health and welfare of unemployed workers and their families.[6]

The decline in the unemployment rate over the course of the recovery largely reflects improving labor market conditions, though some factors unrelated to the recent business cycle have also played a role. For example, some of the decline in the unemployment rate reflects a long-term downward trend in labor force participation due to demographic shifts that predate the recession (see **Figure 6**). The largest impact results from the retirement of the baby boom generation. Additionally, labor force participation had begun to decline well before the recession due to the inevitable flattening of the strong growth of women's labor force participation achieved in the 1970s and 1980s.

Figure 6. Employment and Labor Force
Percent of civilian noninstitutional population, 16 years and older, monthly through February 2015

Sources: JEC Democratic staff based on data from the Bureau of Labor Statistics and the National Bureau of Economic Research.

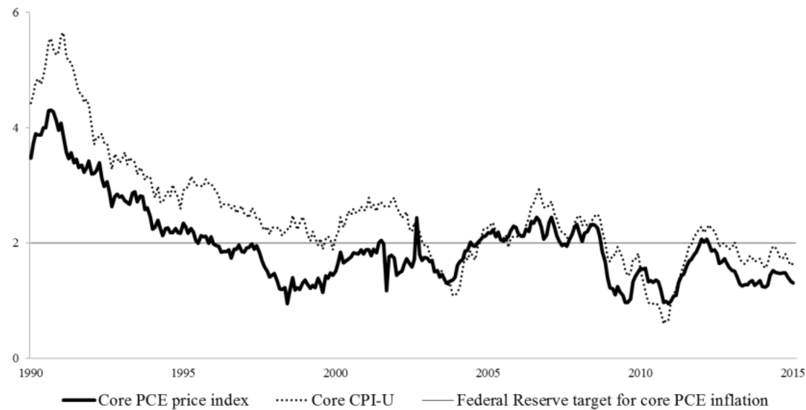
Similarly, the relatively slower rebound in the employment-to-population ratio (the fraction of the population with a job) may partly reflect long-term trends such as the shift from manufacturing to service industries, or the effects of technological advances on business hiring and retention practices. Because of such longer-run factors, most analysts agree that neither the labor force participation rate nor the employment-to-population ratio is likely to return to pre-recession levels anytime soon.

Inflation. On average, consumer prices declined during the three months ending in January, primarily due to falling energy prices. Fuel prices have been dropping since mid-2014 and plunged around the turn of the year. Those declines largely reflect expanded domestic fuel production and weakening global demand. Lower global commodity prices (oil and other goods) along with persistent increases in the exchange value of the dollar are expected to subdue U.S. consumer prices for a time.

Underlying inflationary pressures also remain low. Over the 12 months through January 2015, the "core" rate of consumer price inflation, as measured by the consumer price index excluding food and energy, rose 1.6 percent (see **Figure 7**).[7] Another, more accurate measure of underlying inflation in consumer prices, the price index for personal consumption expenditures excluding food and energy, rose by only 1.3 percent over the 12 months through January. Recent inflation readings remain well below the 2 percent rate of core inflation that the Federal Reserve considers sustainable over the longer term.[8]

Figure 7. Core Inflation in Consumer Prices

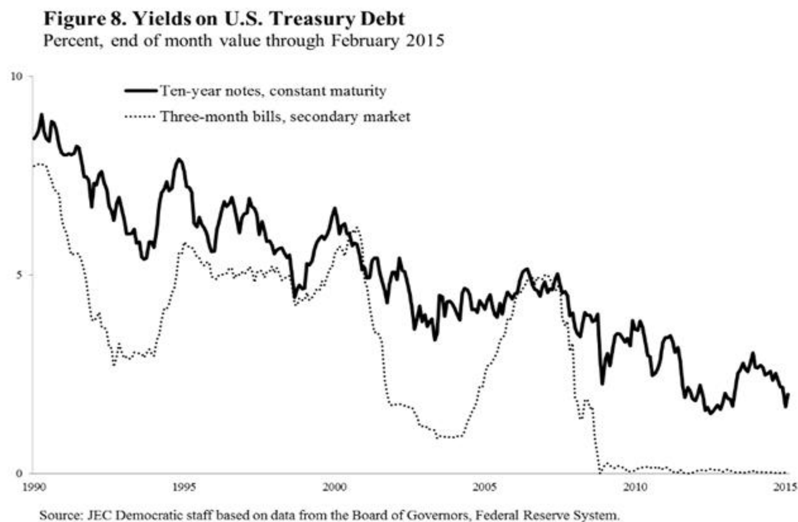
Twelve-month percent change, monthly through January 2015



Notes: Core price indexes of consumer prices exclude the volatile indexes for food and energy prices. The PCE price index is the price index for personal consumption expenditures in the national income and product accounts. The CPI-U is the consumer price index for all urban consumers.
Source: JEC Democratic staff based on data from the Bureau of Economic Analysis, U.S. Department of Commerce and Bureau of Labor Statistics, U.S. Department of Labor.

Inflationary pressures are likely to remain low over the near term because GDP remains somewhat below its potential level. The economy continuing to operate below its full capacity diminishes pricing power for suppliers of labor, capital and materials. For example, while growth in labor earnings appears to have picked up recently, earnings growth through the recovery has been meager. Labor productivity in nonfarm businesses has increased at an average annual rate of 1.3 percent since the overall recovery began in mid-2009; however, real hourly labor compensation (including wages, salaries and benefits) has barely changed at all. Faster growth in labor income would further boost personal income and support increased consumer spending.

Interest Rates. The combination of a gradual recovery from a severe global recession, relatively low inflation expectations and aggressive monetary easing by the Federal Reserve has kept yields on U.S. Treasury debt at or near record lows for much of the past five years (see **Figure 8**). Short-term interest rates have been near zero since late 2008.



In recent years, large-scale asset purchases (LSAPs) by the Federal Reserve have helped keep longer-term interest rates relatively low. While the central bank stopped those purchases late last year, it has not yet begun to shrink its holdings of longer-dated Treasury and agency securities and it expects to do so only gradually in the coming years. Longer-term interest rates have risen slowly over the last two years, primarily reflecting stronger credit demand from households and businesses along with expectations that monetary policy will become less accommodative as the economy strengthens. Even so, longer-term rates remain low by historical standards.

POLICY APPROACHES TO BOOSTING U.S. LIVING STANDARDS

While the *Report* is largely an analytical document, it also provides policy prescriptions. These include a number of specific proposals that, by boosting productivity and labor force participation, would lift incomes for middle-class families.

The central aim of U.S. economic policy is to raise the living standards of all Americans. As the economy continues to grow, policymakers should focus on ensuring that the benefits of that growth are widely shared. Policies that raise the well-being of the middle class and those working to enter the middle class have proven to be far more effective at raising living standards across the board than "trickle-down" policies targeted at the wealthiest Americans and businesses.

The *Report* describes what President Obama has called "middle-class economics." Its premise is that the economy performs best when the middle class is thriving and when everyone shares in the benefits of economic growth. Policies designed to increase productivity, foster labor force participation and reduce inequality would support middle-class families, boost economic growth over the longer term and lead to lasting increases in U.S. living standards.

Congress should give careful consideration to these select recommendations from the 2015 *Report*:

Strengthening Labor Markets. The *Report* points out that, although labor markets have improved considerably in recent years, more progress is needed. The report recommends policies that reflect lessons learned from past severe recessions.

Excellent examples include proposals to provide free attendance for two years at community colleges as well as to expand apprenticeship programs, career counseling and training in high-growth fields.[9] Those policies would help individuals and also

build a better-educated, more highly skilled workforce, raising overall productivity and ultimately boosting economic growth.

The *Report* also recommends providing universal access to preschool for 4-year-olds. Research shows there is a high return on investments in early childhood education and that children's early learning experiences directly affect their long-term academic prospects and earning potential. Making those investments today would bolster future productivity and enhance living standards for generations of Americans to come.[10]

Additionally, the *Report* recommends modernizing the unemployment insurance system to increase the share of workers covered by the program and to improve job search assistance. This would help raise productivity and labor force participation by increasing the efficiency of job matching and by shortening the duration of unemployment spells. Lower- and middle-income Americans, who often disproportionately bear the brunt of economic downturns, would directly benefit from such actions, helping to reduce income inequality.[11]

Programs such as unemployment insurance serve an important purpose—they act as "automatic stabilizers." Because unemployment insurance and many other federal tax and transfer programs automatically adjust to changes in economic conditions, they mitigate the impacts on households and businesses of cyclical swings in the economy.

Reducing Poverty. The *Report* recommends increasing the federal minimum wage to $10.10 an hour, up from the current $7.25. Taking this important step would help keep individuals in the labor force and work to ensure that no full-time worker lives in poverty. Additionally, a higher minimum wage would have the broader benefit of increasing consumer spending and further lifting the economy.[12]

Making Work More Family Friendly. The *Report* proposes reforms that would make the workplace more family friendly and raise living standards among middle- and lower-income Americans. In general, family-friendly policies make it easier for workers, especially women, to find and stay in positions that fit their skills. Those policies, in turn, increase labor force participation and productivity, ultimately boosting living standards.

Family-friendly policies not only benefit employees; they also benefit employers.[13] Many large corporations have already learned that family-friendly policies help increase worker retention and long-term productivity. A 2010 report by the Democratic staff of the Joint Economic Committee found that roughly three-quarters of Fortune 100 companies at the time had paid maternity leave policies.[14]

Paid family leave: Economic studies have shown that access to paid family leave significantly increases the likelihood that workers will return to their jobs instead of dropping out of the labor force.[15] Workers are more likely to maintain their pre-leave wage level if they stay with the same employer than if they are forced find a new job. This can raise their long-term earnings.[16]

In particular, women with access to paid leave are significantly more likely to return to their pre-leave employer and to maintain their pre-leave wages. They are able to build more tenure and experience in their jobs and maintain good job matches. This can increase their earnings and help close the gap between what men and women earn for the same work.[17] There is also evidence that mothers' access to leave can have a positive impact on their children's health and development, and it can even affect long-term educational and earnings outcomes for their children.[18]

As the *Report* notes, the United States is one of only a handful of countries in the world—and the only developed country—that does not have a paid maternity leave policy. Many countries also provide paid parental leave to new fathers.[19]

Paid sick leave: Employees who go to work sick are less productive. There is also a risk they may infect other employees and customers, potentially lowering productivity and profits. Paid sick leave gives employees time to recover without having to worry about losing wages or their jobs.[20] In addition, employees with access to paid sick leave are more likely to receive preventive care, which is proven to reduce long-term health care costs. Paid leave is particularly important to lower-wage workers who cannot afford to take unpaid leave, even if they have access to it.[21]

Workplace flexibility: The *Report* also recommends providing workplace flexibility through telecommuting and alternative work schedules. Those policies can complement paid leave and further help workers to balance the demands of work and family.[22]

Providing Tax Credits to Support Workers and Families. The *Report* presents a number of tax initiatives to support low- and middle-income families and raise their standard of living. Specifically, it recommends expanding the Earned Income Tax Credit (EITC) for workers without children, tripling the child care tax credit and cutting taxes for families where both spouses work.

The EITC supports the earnings of low-income workers, and it has proven to be an important progressive element of the U.S. tax system.[23] In 2013, it lifted 6.2 million people out of poverty.[24] The *Report* recommends doubling the EITC for workers without children to $1,000—the current maximum credit is $500. Presently, the average credit for a family with children is about 10 times the benefit for a family without children.[25] Doubling the credit would encourage and reward work as well as reduce tax burdens on low-income workers.

The *Report* also calls for making the Child and Dependent Care Tax Credit available in full for families with incomes up to $120,000, and it expands the credit to $3,000 for families with children under the age of five. Those proposals would help families better afford the rapidly growing cost of child care, supporting children's development at the critical early stages of their lives and increasing their future productivity.

Finally, the *Report* recommends a $500 second-earner tax credit targeted to families where both spouses work. That tax benefit would help 24 million two-earner families offset the costs of commuting, child care and other expenses.

<u>Promoting Business Investment</u>. Corporate tax reform can boost productivity by increasing the quantity and quality of private investment in the United States.

Under current law, the federal tax a business pays can vary depending on its location, its industry, the composition of its asset base, the particular means it uses to finance investment and its organizational form. Such differences can distort economic decisions, since they can lead businesses to invest in ways that minimize their tax exposure without necessarily maximizing the productive return on their investments. The use of tax planning strategies to avoid paying U.S. taxes may cost the government revenue equal to 30 percent of corporate tax receipts.[26] That strains the federal budget and, if not addressed, could lead to higher taxes on domestic businesses and families.

By reducing marginal tax rates on corporations while broadening the tax base on which those rates are applied, corporate tax reform could reduce inefficiencies in the current system and spur productive investment. There is broad bipartisan support for reforming and simplifying the corporate tax code to bolster U.S. competitiveness.

One way to reduce distortions and make the corporate tax system fairer to all businesses would be to address the "repatriation" issue. Currently, U.S. corporations approximately $2 trillion in profits offshore—by law, they can avoid paying federal taxes on those profits until they are brought back to the United States. A significant portion of those profits were earned in this country, but were "moved" offshore using various accounting methods. Some corporations—for example, those that derive profits from intellectual property—can more easily take advantage of tax loopholes to avoid paying their fair share in federal taxes. That gives them an unfair advantage over other businesses, and it shifts the burden of taxation from these corporations to other businesses and to American families.

The Obama administration has proposed a comprehensive plan for corporate tax reform that would decrease inequities and inefficiencies in the current system. One important element of that plan is a one-time 14-percent tax on the roughly $2 trillion in accumulated profits held offshore.[27] After paying this one-time tax, corporations could "repatriate" their foreign profits without incurring additional federal taxes, allowing them to put that capital to productive use in the United States. The one-time tax would also generate needed revenue for a six-year infrastructure investment program.

Federal spending to repair the nation's crumbling roads and bridges would benefit millions of Americans who count on the transportation system to commute to work. Quality infrastructure also is essential to American businesses—it enables them to transport goods more efficiently and at less cost, resulting in higher productivity, lower prices and stronger U.S. long-term competitiveness.

Prudent government spending on critical transportation projects also creates jobs in construction and other industries. The spending leads directly to hiring, generating additional consumer spending and further increasing demand.

Energy Policies. The goal of U.S. energy policy should be to boost living standards by ensuring the availability of low-cost energy to American households and businesses. Policies should also aim to minimize the substantial long-term economic and environmental costs of using conventional, carbon-based energy.

Reducing energy costs will increase the purchasing power of consumers, particularly of lower- and middle-income families for whom energy expenses comprise a relatively large share of household budgets. When consumers spend less on energy, they can spend more on other goods and services, creating additional positive economic effects.

The price of gasoline has fallen more than a dollar per gallon over the past year, due to increased energy efficiency, more domestic production of oil and gas, and decisions by Organization of the Petroleum Exporting Countries (OPEC) to increase global supply. While declining gas prices are welcome news for consumers, they likely will not last and prices have ticked up some in recent weeks. Therefore, efforts to reduce reliance on oil and gas should continue. Policies should include accelerated construction of high speed rail, increased access to mass transit and expanded incentives for the development of emerging cleaner, more efficient technologies.

Clean energy technologies yield additional economic benefits because they decrease the adverse effects on public health caused by carbon dioxide emissions. This lowers health care costs and enables Americans to be healthier, more productive workers.

Global Financial Regulatory Coordination. The recent financial crisis demonstrated the devastating impact that excessive risk-taking in the financial sector can have on middle-class families. The United States and other countries have paid an extremely high price because financial regulations in place at the time were inadequate. The economic challenges we face today are still due in large part to these failures.

The Wall Street Reform and Consumer Protection Act (referred to as "Dodd-Frank") established important mechanisms designed to decrease the chances that the United States will suffer a similar severe recession. Dodd-Frank, along with other consumer protection laws like the Credit Cardholders' Bill of Rights, is critical for protecting the economic security of all Americans. In effect, prudent financial regulation and consumer protections are essential for a thriving economy.

The global financial system is highly interconnected and therefore international regulatory collaboration is necessary. Cross-border financial flows can help to diversify risk and ensure that investments are made where they are most productive. But those international flows can also transmit adverse economic shocks across regions as well as lead to exploitation of differences in national regulatory and tax systems. As outlined in the *Report*, continued collaboration across countries, including through the Basel process and the Financial Stability Board, is needed to maximize the benefits and minimize the risks of international financial interconnectedness.

ADDRESSING SOME MISLEADING CLAIMS ABOUT THE ECONOMIC RECOVERY

Frequently repeated misconceptions about measuring economic performance have been used as a basis for claims that the economic recovery is substantially weaker than the data in the *Report* and other sources suggest. It is important to refute these myths in order to establish a solid footing for evaluating the economy and discussing economic policy options.

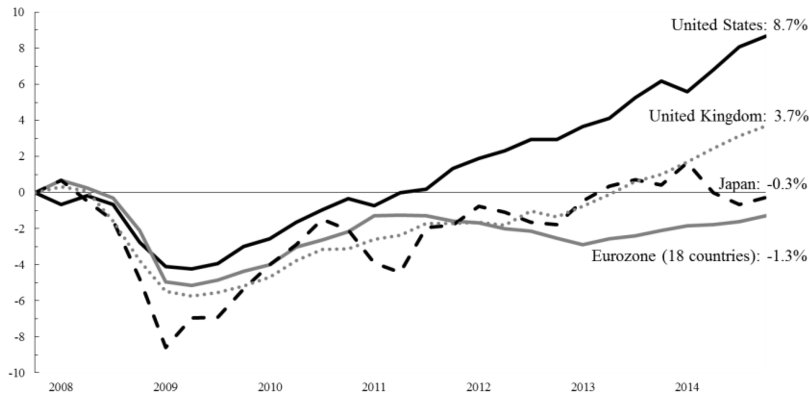
Myth #1: The economic recovery has been unusually slow

Some have claimed that the current U.S. economic recovery has been unusually slow. To back this claim, they compare the current recovery to recoveries from other economic downturns since the 1960s.

However, it is misleading to compare the recovery from the Great Recession to an "average" recovery. The Great Recession was not by any means "average"—it resulted from a severe global financial crisis and was the most protracted economic decline since the Great Depression of the 1930s. A recent study by economists Carmen Reinhart and Kenneth Rogoff looked at recoveries from 100 systemic banking crises spanning three centuries and concluded that: "postwar business cycles are not the right comparator for the severe crises that have swept advanced economies in recent years."[28]

A more appropriate assessment compares the current U.S. recovery with the recoveries of other advanced economies from the same financial crisis. Such a comparison shows that in fact the U.S. recovery has significantly outpaced the recoveries of many of those other economies (see **Figure 9**).

Figure 9. U.S. Economic Growth Compared to Other Advanced Economies
Percentage change in real gross domestic product from Q4-2007, through Q4-2014



Source: JEC Democratic staff based on data from the Bureau of Economic Analysis, U.S. Department of Labor; Statistical Office of the European Communities, European Commission; Cabinet Office of Japan; and the Office for National Statistics of the United Kingdom.

Another way to assess the current recovery is to compare it to recoveries from other severe financial crises that have occurred during the past several centuries. This reveals that the current U.S. recovery has been stronger than recoveries from most financial crises during this period.[29]

Myth #2: The unemployment rate is a "big lie"

Some have asserted that the official unemployment rate is a "big lie"—an inaccurate portrayal of the true employment picture. They claim that the 12 million private-sector jobs added in the past five years and the decline in the unemployment rate from 10.0 percent in October 2009 to 5.5 percent in February 2015 is not really as good of news as it would seem.

This claim is based on the fact that the official unemployment rate does not include people who have stopped looking for work and dropped out of the labor force. However, the unemployment rate has been calculated the same way for decades and it has been used as a core economic indicator under both Democratic and

Republican administrations. The official unemployment rate has never included people who have stopped looking for work. And even though it does not fully capture the slack in the labor market, economists find this indicator valuable because it provides a consistent measure over time of labor underutilization.

To get an accurate sense of the employment picture, it is important to look at a broad range of economic indicators. And these clearly suggest that the labor market has made significant progress during the recovery. For example, the private sector has added jobs for 60 consecutive months. Full-time workers account for all of the increase in employment over that period. Long-term unemployment has dropped significantly, and real wage growth has begun to pick up. The most recent jobs report showed that the private sector added another 288,000 jobs in February 2015. That means that there have been 12 straight months of private-sector job gains above 200,000—the first time that has happened since 1977.

The *Report* shows that, although labor force participation has declined since the start of the recession, most of that decline stems from ongoing shifts in demographics that predate the recession, such as the retirement of the baby boom generation. These changes and their impact on labor force participation are well-known and have been studied by leading economists.[30]

Moreover, over the past 1½ years, labor force participation has been relatively stable while the unemployment rate has continued to decline.

Myth #3: The health care law is causing job losses

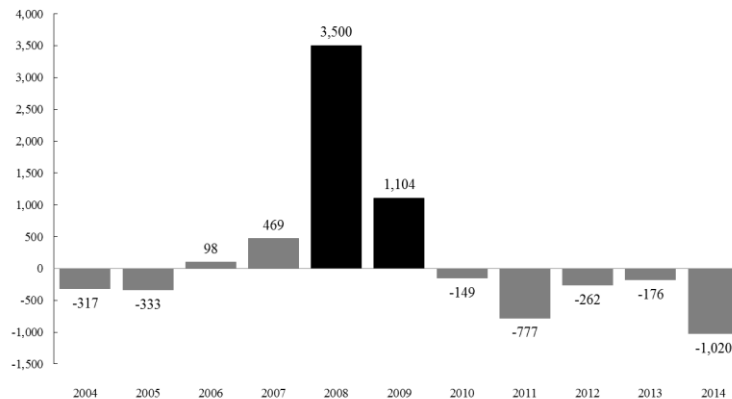
Some claim that the Affordable Care Act (ACA) imposes regulatory burdens that have caused businesses to shed jobs. This argument largely is based on a misinterpretation of a CBO report that shows that likely reductions in hours worked would be small (1.5 to 2 percent between 2017 and 2024) and would almost entirely reflect the decisions of workers voluntarily choosing to work less.[31]

The bulk of job losses from the recession occurred well before the ACA was passed by Congress and signed into law. And while there is no evidence that health policy is causing job losses, there is considerable evidence that labor demand is strengthening. Private-sector job growth has increased in the years since the ACA was enacted. Over the course of 2014, private-sector employment grew at its fastest rate (2.6 percent) since 1997.

Moreover, CBO recently lowered its estimate of the cost of the ACA due mainly to the fact that health insurance premiums are expected to increase at a much slower rate than had been anticipated. In addition to contributing to the slowdown in health care costs, the ACA is also helping improve financial security for lower-income Americans and boosting productivity by making it easier for individuals to access preventive care and stay healthy.[32]

Some claim that, because the ACA requires medium and large businesses to provide health coverage for their full-time employees, it creates incentives for employers to hire part-time instead of full-time workers. However, data show that involuntary part-time employment has actually dropped every year since the passage of the ACA. In 2014 alone, the number of workers employed part time for economic reasons declined by more than 1 million (see **Figure 10**). The greatest increase in involuntary part-time work occurred over the course of 2008, before President Obama took office and well before the ACA became law.

Figure 10. Work Part Time for Economic Reasons
Twelve-month change (December to December) in thousands, not seasonally adjusted



Note: Black bars denote the most recent recession period as determined by the National Bureau of Economic Research.
Source: JEC Democratic staff based on data from the Bureau of Labor Statistics, U.S. Department of Labor.

In any case, the number of part-time workers who would be affected by the ACA provision is quite small.[33] Moreover, rising full-time employment accounts for nearly all of the employment gains since the beginning of the recovery.

The current trend in part-time work for economic reasons during the recent recession and recovery is broadly in line with the trends seen in other recent business cycles. As businesses seek to cut costs during downturns, involuntary part-time employment tends to spike; it then decreases more slowly than the unemployment rate over the course of the ensuing economic expansion.

Myth #4: America Can't Afford Family-Friendly Workplace Policies

The United States is one of the only advanced economies in the world that does not provide family-friendly workplace policies such as paid family leave.

Critics of family-friendly workplace policies, such as paid sick leave, paid parental leave and flexible work schedules, contend that those policies are too costly for American businesses and would stifle economic growth. However, a growing body of research shows that family-friendly policies are in fact beneficial to workers and businesses alike, and can actually boost economic growth.

Providing workers with paid family and medical leave ensures that they can afford to take extended leave to care for a new child, recover from a serious illness or care for an ill family member without losing their job or putting their family's economic security in jeopardy. Economic studies have shown that access to paid family leave significantly increases the likelihood that workers return to their jobs instead of dropping out of the labor force or spending time out of work to search for a new job.[34]

Businesses reap economic gains from retaining workers with valuable firm-specific knowledge and skills, and from not having to bear the sizable costs of recruiting and training new employees. They also benefit from increased productivity and higher levels of employee satisfaction.[35]

Increasing access to paid leave can boost economic growth by helping workers stay in jobs that are a good match for them and where they have developed skills, which increases overall productivity.[36] Paid leave has been shown to increase labor force participation and employment-to-population ratios, especially for women.[37] The combination of increased productivity and labor force participation bolsters economic growth.

Providing paid sick leave also benefits businesses by boosting productivity, making workplaces more attractive for potential employees and increasing retention. Paid sick leave can even reduce employers' overall costs by limiting the spread of illnesses and allowing workers to recover faster and return to work more productive.[38] In addition, employees with access to paid sick leave are more likely to receive preventive care, which is proven to reduce long-term health care costs, boost the overall health of the workforce and improve long-term productivity.[39]

CONCLUSION

The *Economic Report of the President* convincingly demonstrates that the American economy has made tremendous progress toward recovering from the most crippling economic downturn since the Great Depression. A broad range of key economic indicators have continued to show strong improvement, including private-sector job creation, the unemployment rate, GDP growth and stock market performance. Notably, the U.S. economy is outperforming most advanced economies that experienced similar shocks. The most recent economic data suggest that prospects for future growth are bright.

Yet, work remains to be done. As the economy continues to grow, policymakers must do everything possible to ensure that the gains from future growth are more broadly shared. The *Report* seeks to achieve this through “middle-class economics”—policies designed to raise the well-being of millions of American families. This is a welcome change from the failed policy of “trickle-down economics.”

The *Report* includes specific recommendations that would further improve the economy, including policies to strengthen labor markets, reduce poverty, make workplaces more family friendly, provide tax credits to families and workers, promote business investment and improve the nation’s infrastructure. These policies would boost productivity and raise living standards. Congress should seriously consider these recommendations.

Economic policy will be hotly debated in the 114th Congress. It is critical that such discussions are grounded in facts. The *Report* provides a strong, data-driven foundation for serious debate. This JEC Democratic response supplements that work by addressing some misleading claims and frequently repeated misconceptions about the economy. This should help policymakers when assessing the strength of the U.S. economy, recent progress on

unemployment, the effect of the Affordable Care Act on economic growth and other issues.

The economy is in much stronger shape than it has been in years—there should be little argument about that. Now, policymakers must build on that progress and ensure that all Americans benefit from the robust economic recovery.

ENDNOTES

[1] This report reflects economic data available through early March 2015. In particular, the latest national income and product accounts data available correspond to the second estimate for 2014-Q4 as released by the Bureau of Economic Analysis on February 27, 2015, http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm. Because the CEA's economic assumptions, outlined in the *2015 Economic Report of the President* (ERP), are used as the basis for the Administration's budget estimates, those assumptions must be finalized months ahead of the ERP's release. The economic assumptions in the 2015 ERP were based on data available through early November 2014.

[2] Potential output is the total amount of goods and services the economy could produce if productive resources (e.g., labor and capital) were fully utilized and overall inflation was stable at a low level. The Congressional Budget Office (CBO) currently estimates that potential output is growing between 1½ and 2 percent a year; see "The Economic and Budget Outlook: 2015-2025," Congressional Budget Office, January 2015, http://www.cbo.gov/sites/default/files/cbofiles/attachments/49892-Outlook2015.pdf. That rate of potential growth is below the estimated pace prior to the recession. The severity and duration of the downturn significantly impaired the growth of both labor supply and productive capital, thereby slowing growth of potential output.

[3] According to the *2014 Economic Report of the President,* CBO estimated that sequestration slowed real GDP growth over the four quarters in 2013 by 0.6 percentage point, and reduced employment by the equivalent of roughly 750,000 full-time jobs; see 2014 *Economic Report of the President*, March 2014, https://www.whitehouse.gov/sites/default/files/docs/full_2014_economic_report_of_the_president.pdf

[4] JEC Democratic staff calculations based on data available through February 2015, as released by the Bureau of Labor Statistics, March 6, 2015, http://www.bls.gov/news.release/archives/empsit_03062015.pdf

[5] JEC Democratic staff calculations based on data available through January 2015, as released by the Bureau of Labor Statistics, March 10, 2015, http://www.bls.gov/news.release/archives/jolts_03102015.pdf

[6] For more details on the problem of long-term unemployment and its economic and social costs, see CBO, *Understanding and Responding to Persistently High Unemployment*, especially pages 1-8, February 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/02-16-Unemployment.pdf

[7] JEC Democratic staff calculations based on data available through January 2014, as released by the Bureau of Labor Statistics, February 26, 2015, http://www.bls.gov/news.release/archives/cpi_02262015.pdf, and by the Bureau of Economic Analysis, March 2, 2015, http://www.bea.gov/newsreleases/national/pi/2014/pdf/pi0115.pdf

[8] The FOMC "judges that inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate." See Federal Open Market Committee, "Longer-Run Goals and Policy Strategy," Press Release, January 25, 2012, http://www.federalreserve.gov/newsevents/press/monetary/20120125c.htm

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[20] JEC Democratic Staff, "Expanding Access to Paid Sick Leave: The Impact of the Healthy Families Act on America's Workers." Joint Economic Committee, March 2010; Council of Economic Advisers, "The Economics of Paid and Unpaid Leave," June 2014, http://www.whitehouse.gov/sites/default/files/docs/leave_report_final.pdf

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