

THE AARON INSTITUTE FOR ECONOMIC POLICY CONFERENCE

GOVERNMENT POLICIES FOR POVERTY REDUCTION AND GROWTH

The Economic & Policy Outlook

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Overview

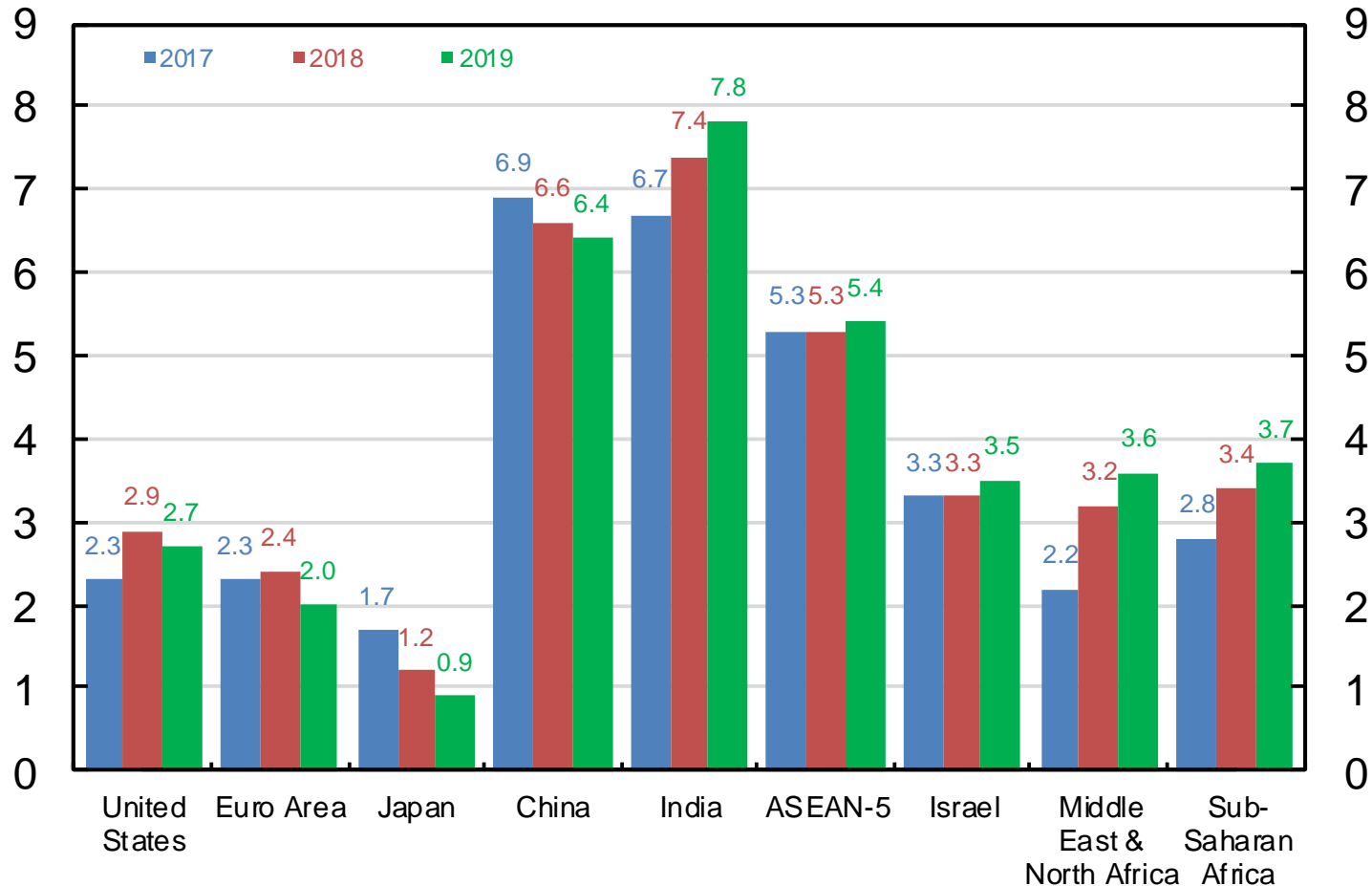
- Short-run U.S. macroeconomic outlook is solid, with growth in the 3% range over the near-term
- Growth helps reduce poverty but is not sufficient
- Consumer spending and housing likely to continue to support growth, even with higher interest rates
- Risks and opportunities for U.S. economy
- Likely and Desirable Policy Path



IMF World Economic Outlook

Real GDP Growth

Annual Average Percent Change



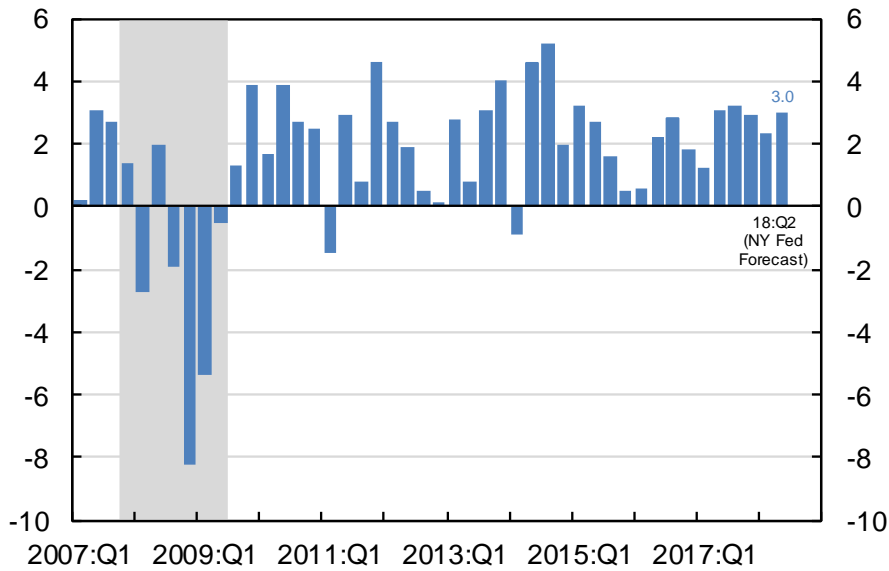
Note: 2018 and 2019 values are projections.

Source: International Monetary Fund (April 2018 World Economic Outlook).

GDP Has Not Kept Pace With Last Two Recoveries, But Private Components of GDP Have Grown as Fast as 2001 Recovery

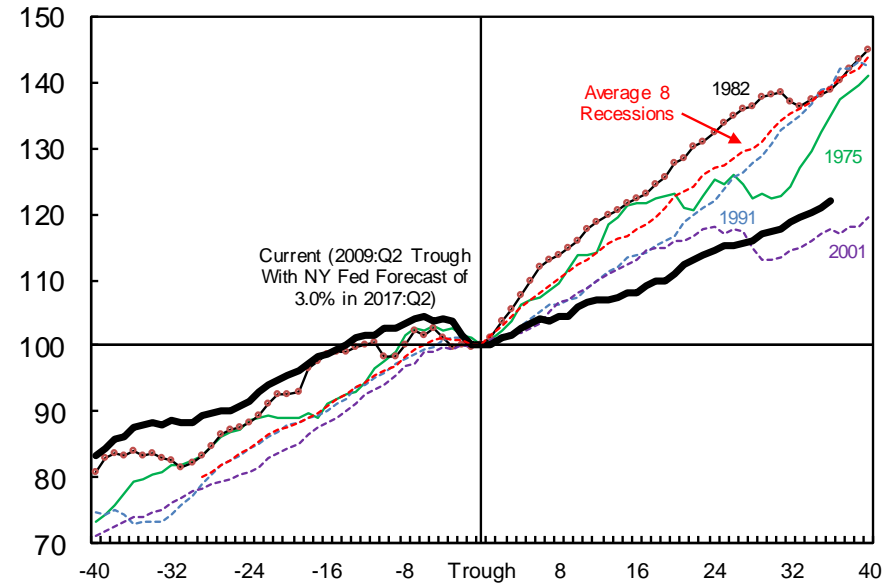
Quarterly Real GDP Growth

Percent (Seasonally Adjusted Annual Rate)



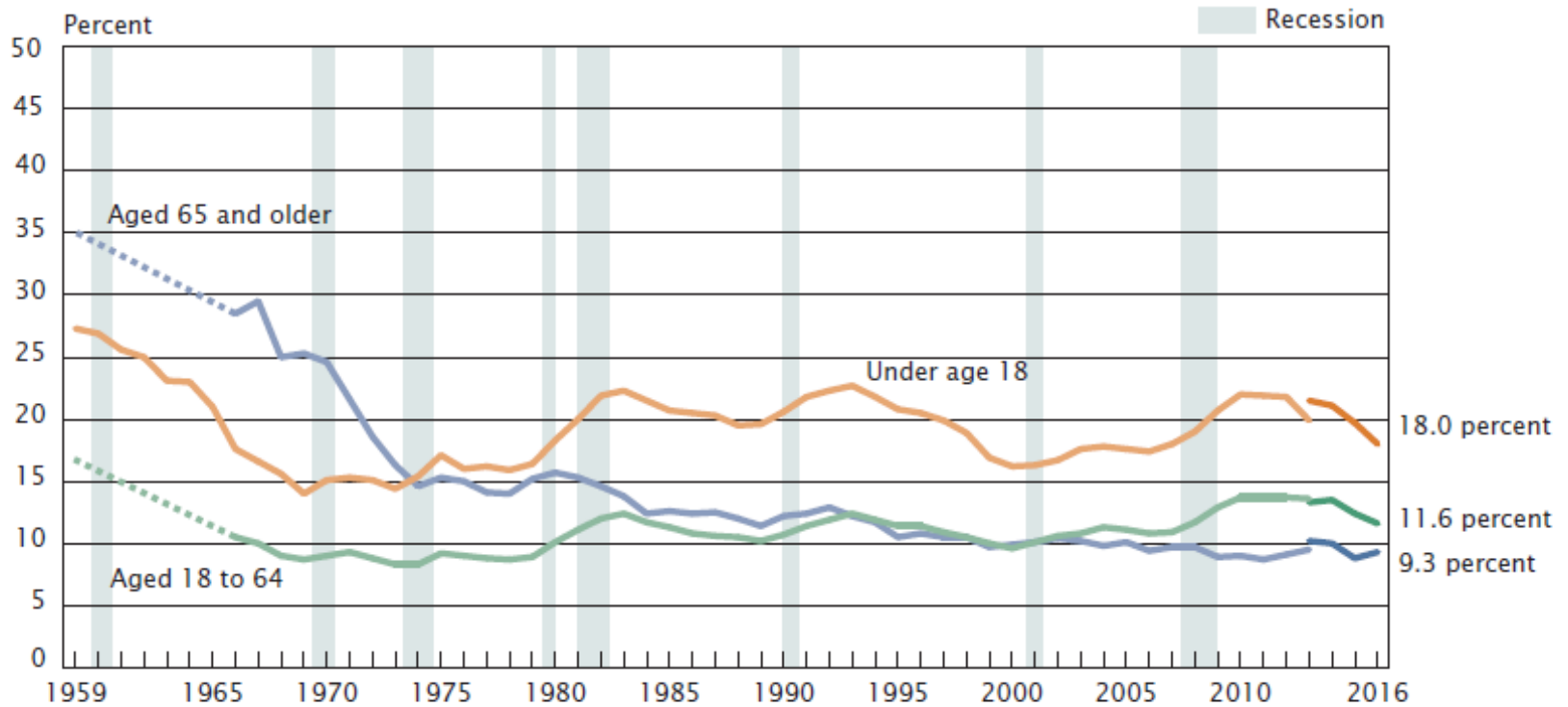
Real GDP During Recoveries

NBER-Defined Cycle Trough = 100



Poverty Rate is Still Counter-Cyclical But Secular Rise in Inequality has Weakened the Relationship

Figure 5.
Poverty Rates by Age: 1959 to 2016

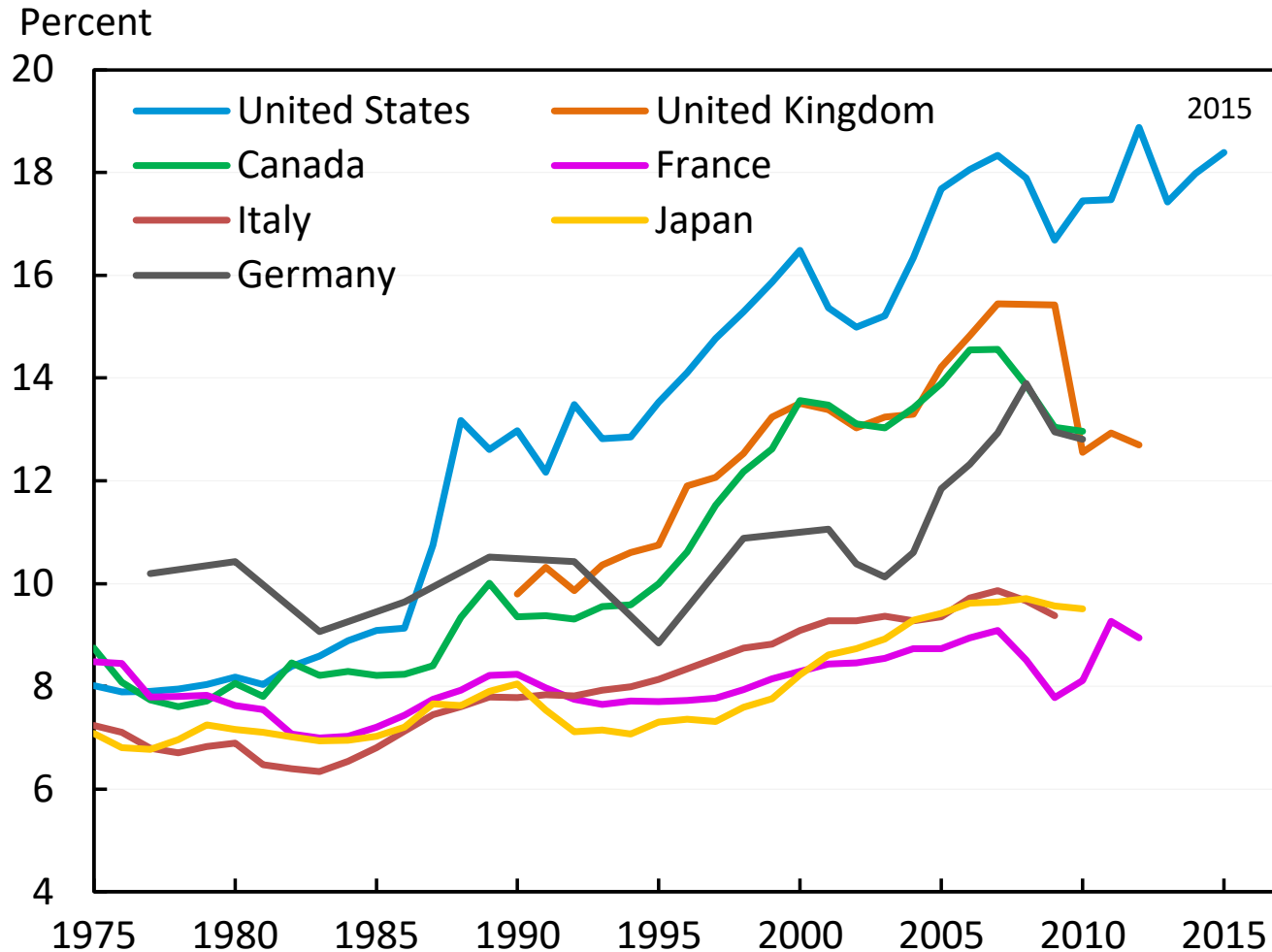


Note: The data for 2013 and beyond reflect the implementation of the redesigned income questions. The data points are placed at the midpoints of the respective years. Data for people aged 18 to 64 and aged 65 and older are not available from 1960 to 1965. For information on recessions, see Appendix A. For information on confidentiality protection, sampling error, nonsampling error, and definitions, see <www2.census.gov/programs-surveys/cps/techdocs/cpsmar17.pdf>.

Source: U.S. Census Bureau, Current Population Survey, 1960 to 2017 Annual Social and Economic Supplements.

Inequality has Increased in U.S. and Many OECD Countries

Share of Income Earned by Top 1 Percent, 1975-2015



Why is this Recovery Different from Other Recoveries?

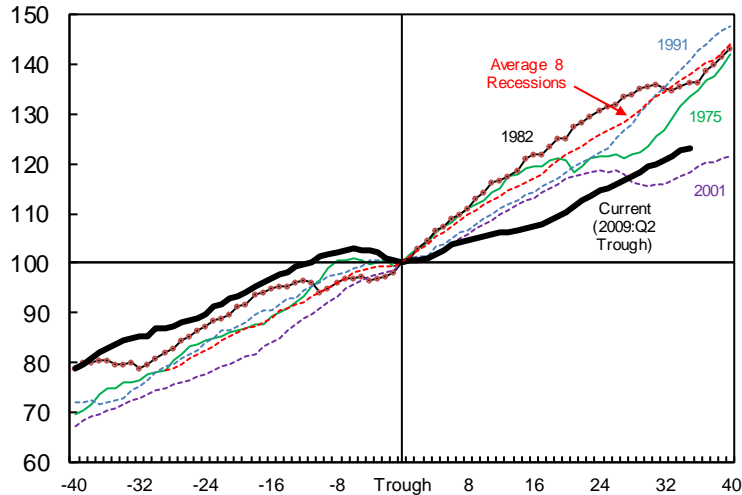
Grading the Components of Growth in this Recovery

Components of GDP in the Current Recovery		
	Share of 2017 GDP	Performance
Personal Consumption Expenditures	69.1%	↓
Durables	7.6%	↑
Services	46.9%	↓
Net Exports	-2.9%	↔
Exports	12.1%	↓
Imports	15.0%	↑
Business Fixed Investment	12.6%	↓
Nonresidential Structures	2.9%	↓
Equipment	5.7%	↑
Intellectual Property Products	4.1%	↓
Residential Investment	3.9%	↑
Government (Federal + State/Local)	17.3%	↓

Recovery of Consumer Spending Remains Sluggish, Largely Reflecting Slow Growth in Services

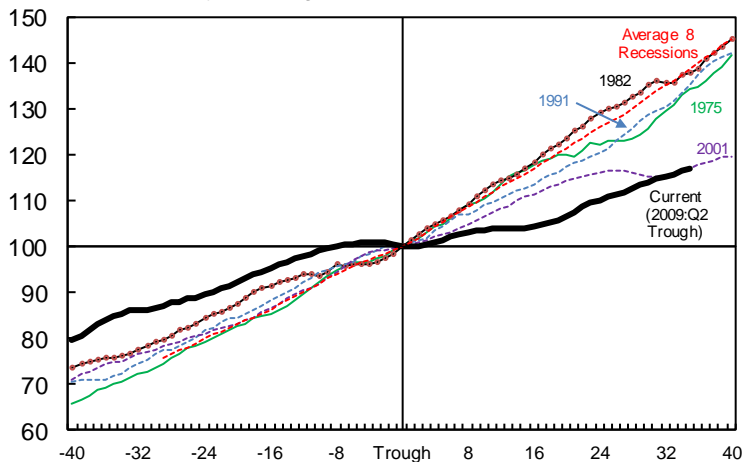
Real Consumer Spending During Recoveries

NBER-Defined Cycle Trough = 100



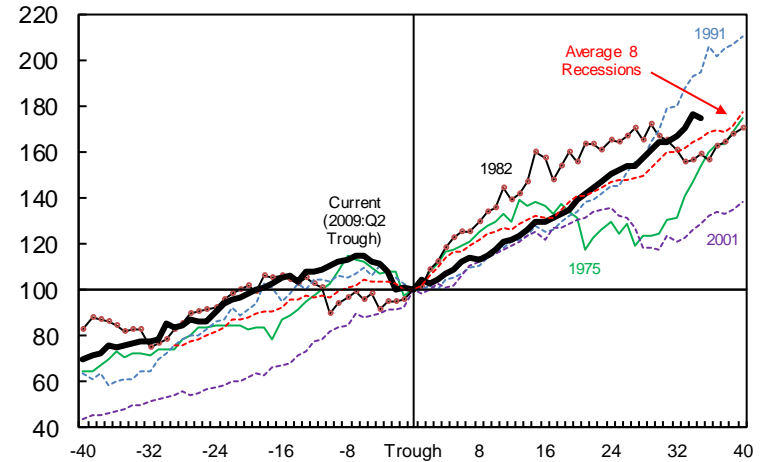
Real Consumer Spending on Services During Recoveries

NBER-Defined Cycle Trough = 100



Real Consumer Spending on Durable Goods During Recoveries

NBER-Defined Cycle Trough = 100

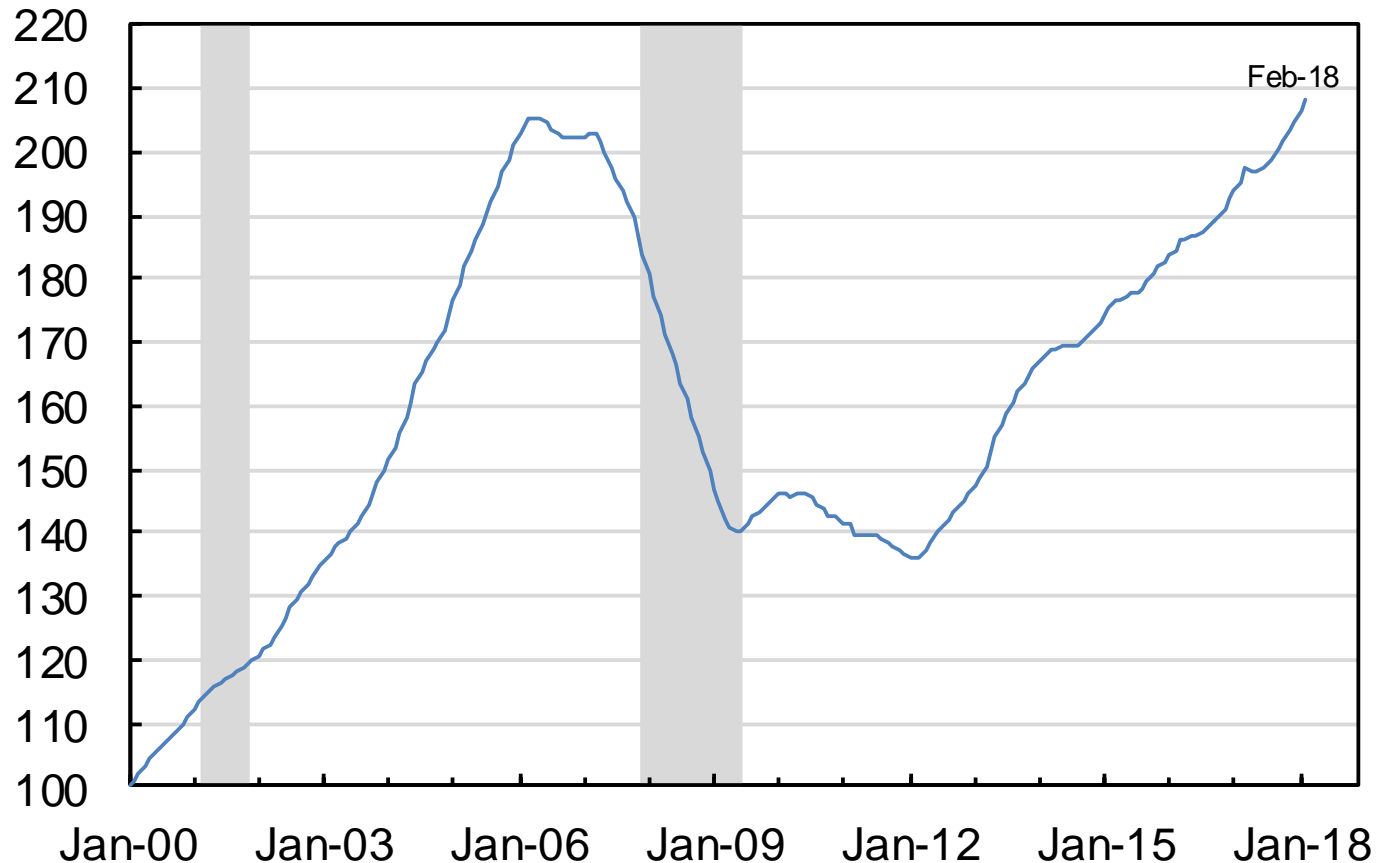


- Consumption of durable goods (such as motor vehicles) has been stronger during this recovery than it was in the 2001 recovery.
- Consumption of services has been notably weak during this recovery, especially for:
 - Household utilities
 - Financial services and life insurance
 - Professional services such as legal and accounting

U.S. Home Prices Have Been Growing Nationwide Since 2012

S&P/Case-Shiller Home Price Index: 20-City Composite

Index (Jan-00=100, Seasonally Adjusted)

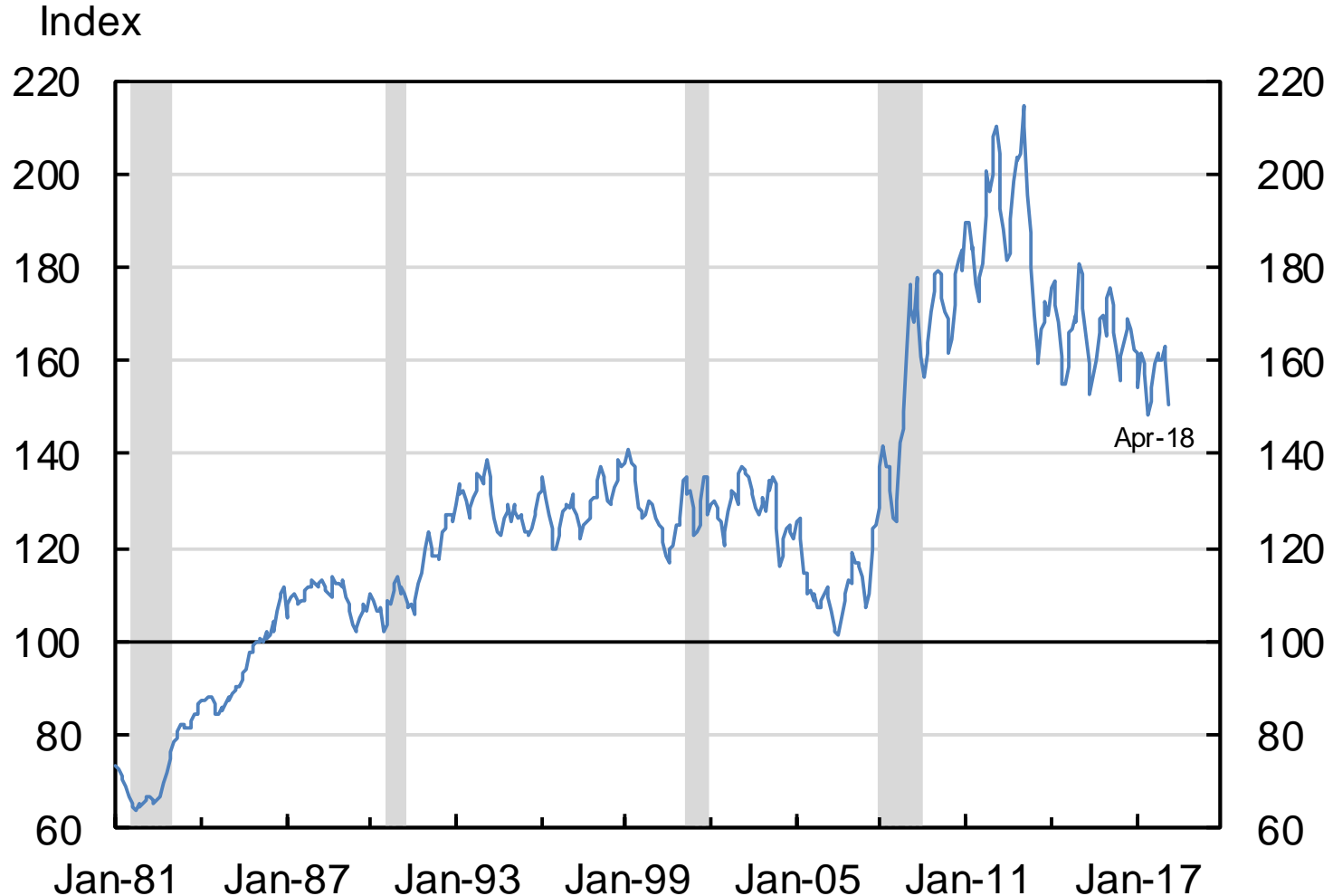


Note: Shading denotes recession.

Source: S&P Dow Jones Indices; National Bureau of Economic Research.

Despite Rise in Prices and Mortgage Rates, Homes are Still Relatively Affordable

Composite Housing Affordability Index

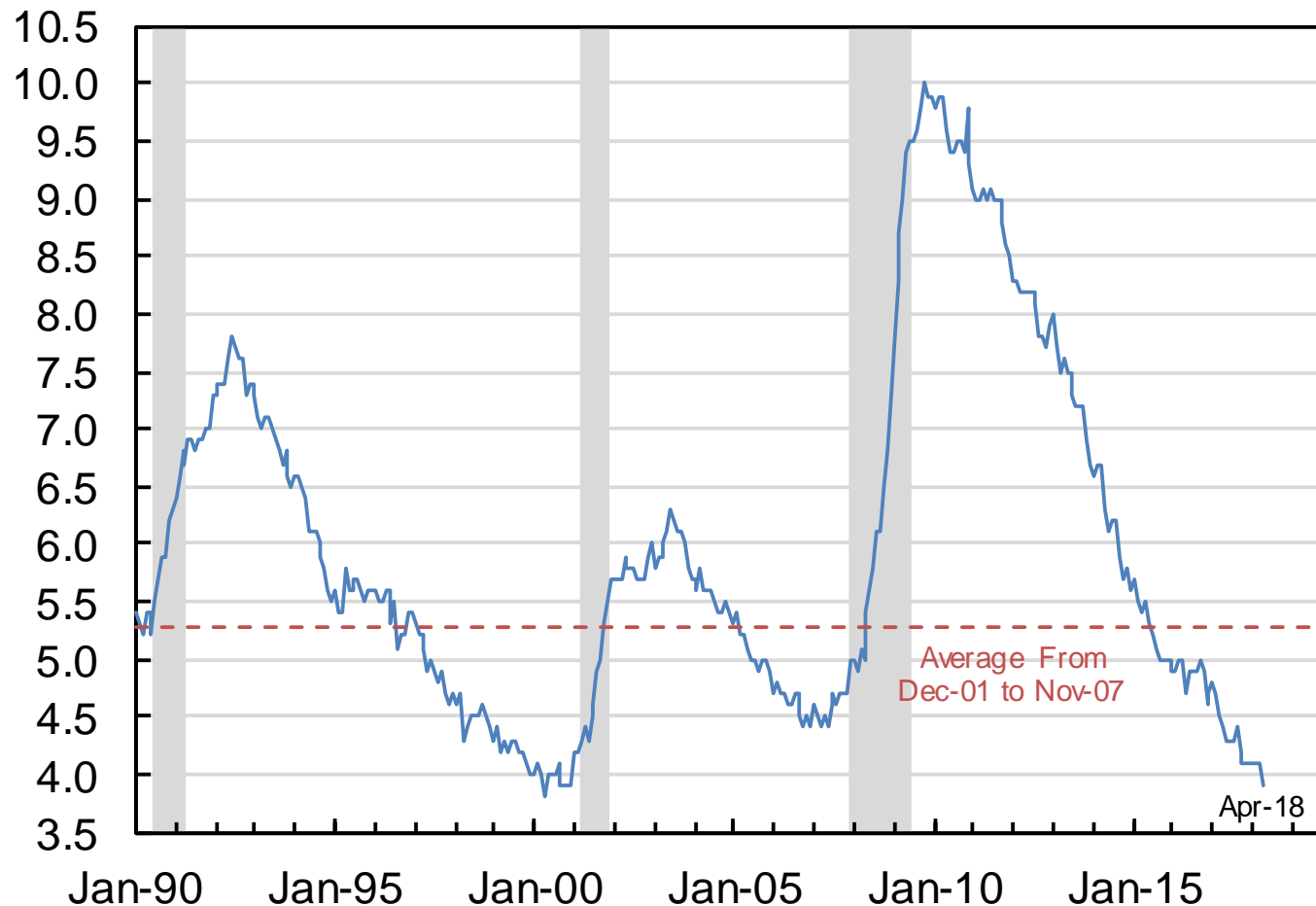


Note: 100 means a family earning the median income has exactly enough to qualify for a mortgage on a median-priced home. Shading denotes recession.
Source: National Association of Realtors; National Bureau of Economic Research.

The Unemployment Rate is at Its Lowest Level Since December 2000

Unemployment Rate

Percent (Seasonally Adjusted)



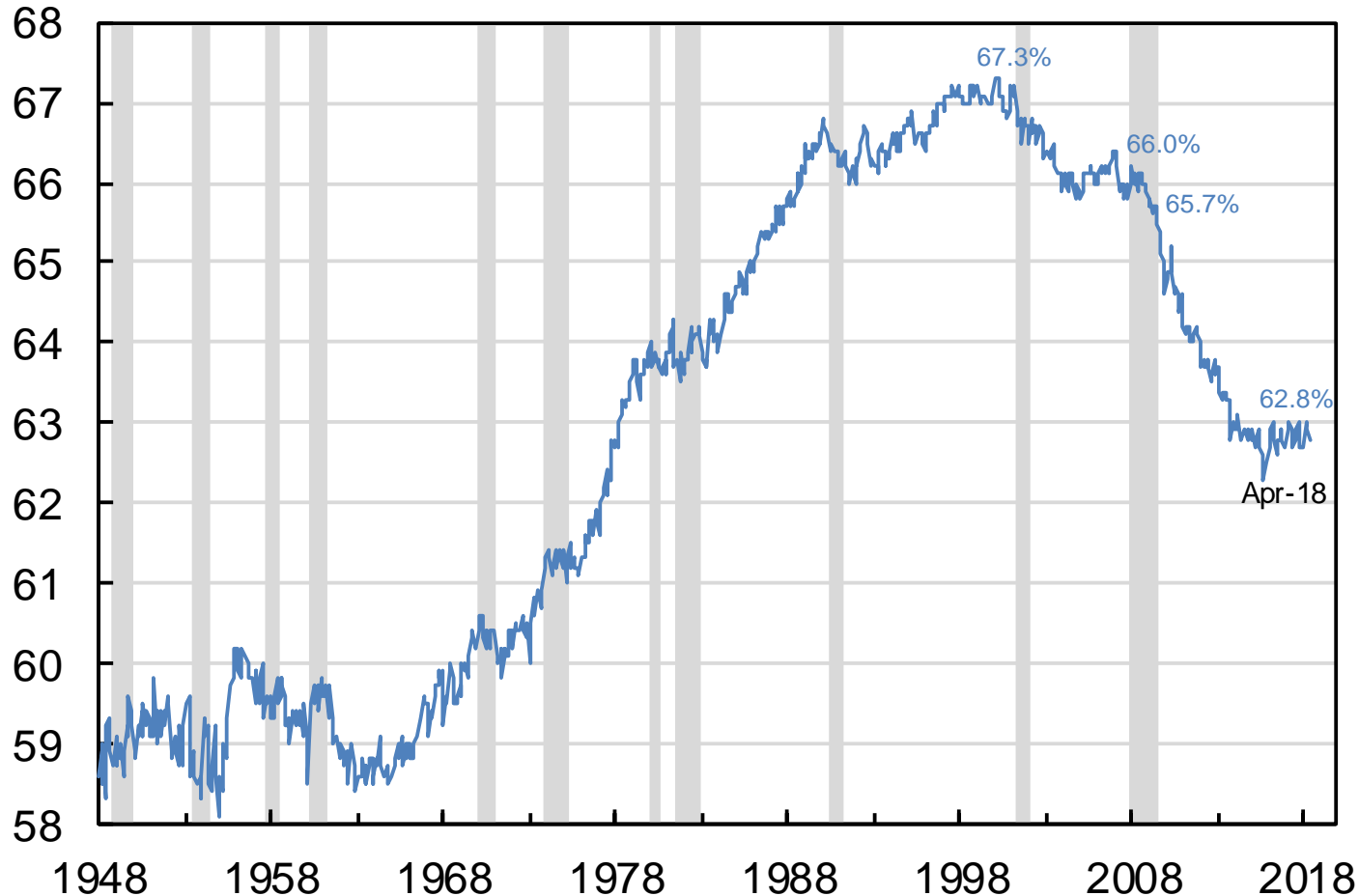
Note: Shading denotes recession.

Source: Bureau of Labor Statistics; National Bureau of Economic Research.

Labor Force Participation Rate Peaked in 2000

Labor Force Participation Rate

Percent (Seasonally Adjusted)



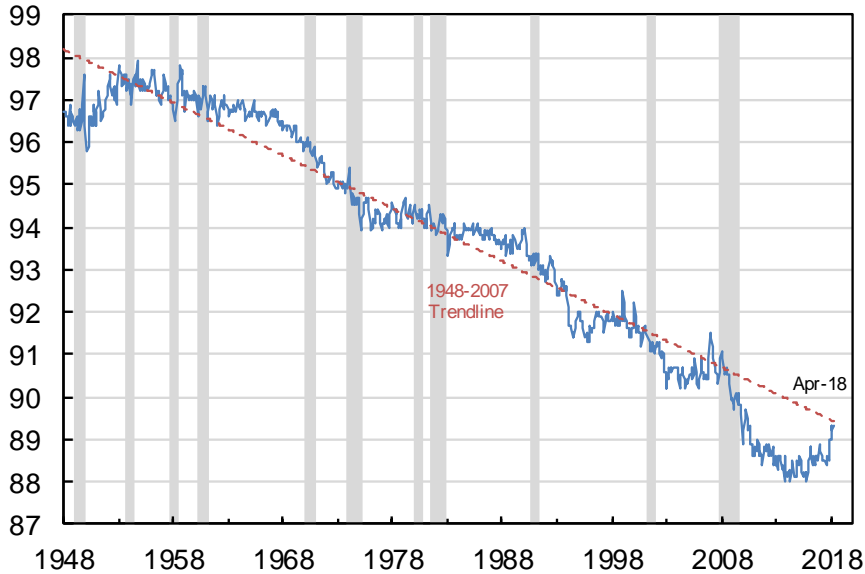
Note: Shading denotes recession.

Source: Bureau of Labor Statistics; National Bureau of Economic Research.

...But Occurring Against a Long-Term Trend Decline in Labor Force Participation

Labor Force Participation Rate: Men, 25-54 Years

Percent (Seasonally Adjusted)

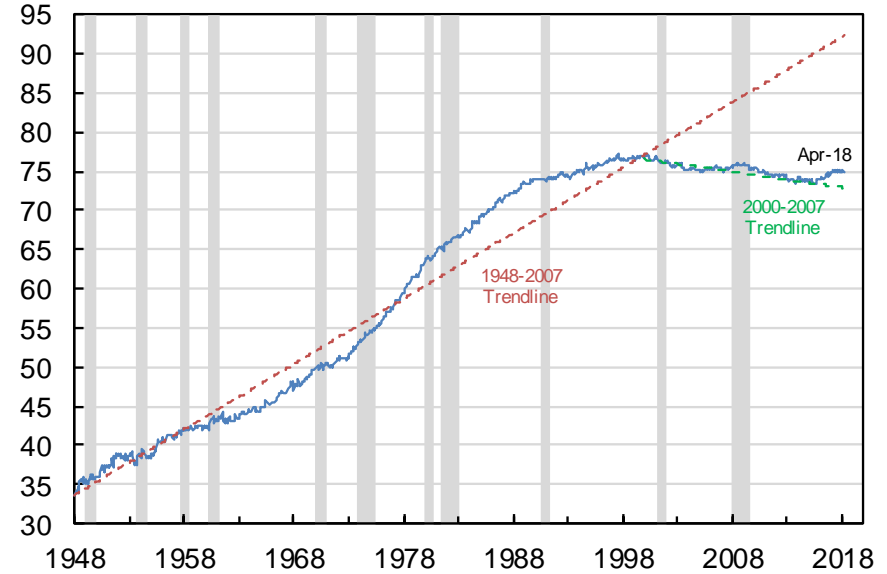


Note: Shading denotes recession.

Source: Bureau of Labor Statistics; National Bureau of Economic Research.

Labor Force Participation Rate: Women, 25-54 Years

Percent (Seasonally Adjusted)



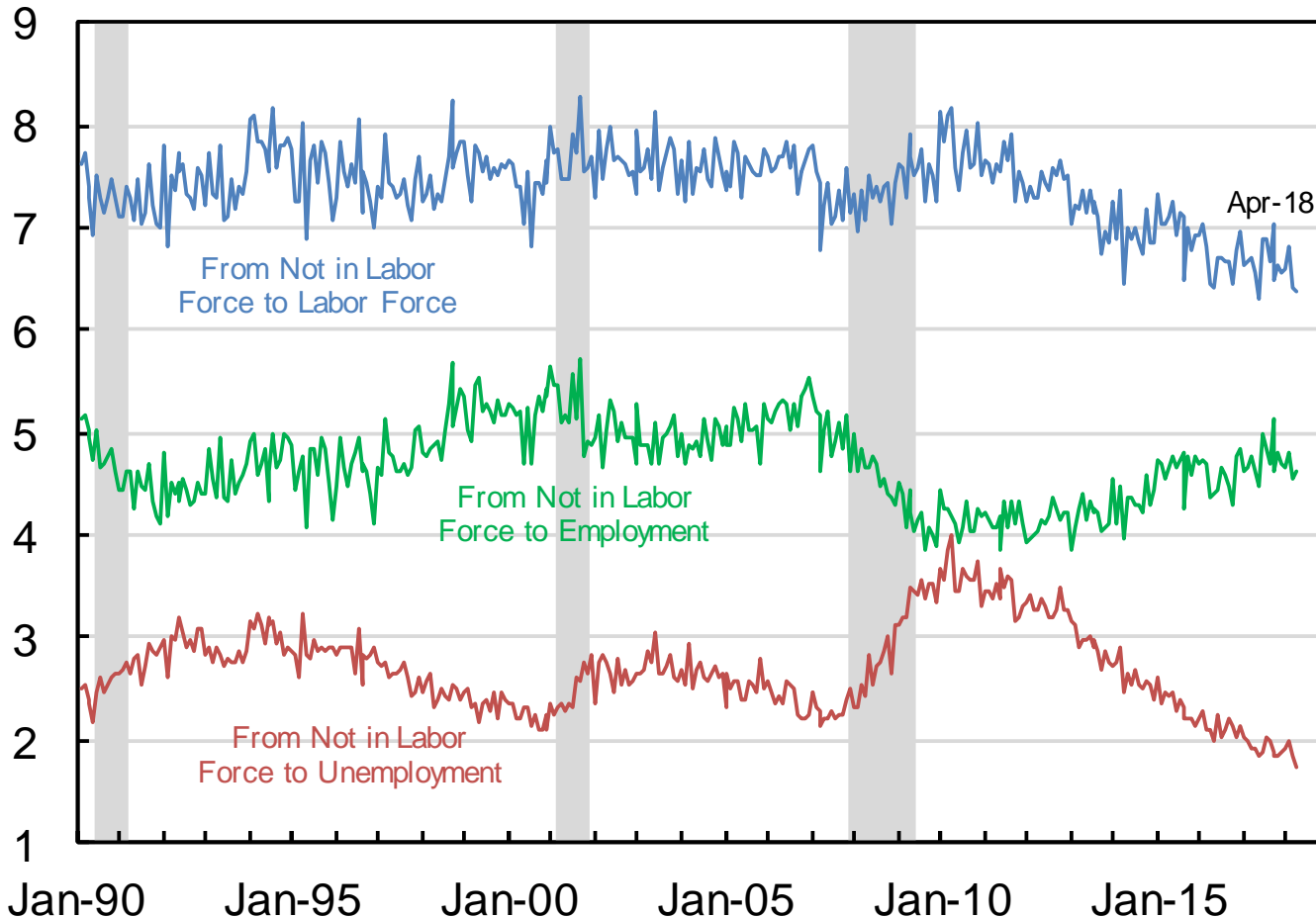
Note: Shading denotes recession.

Source: Bureau of Labor Statistics; National Bureau of Economic Research.

No Rebound in Returns Back into Labor Force...

Transition Rate From Not in Labor Force

Percent of Previous Month's Not in Labor Force (Seasonally Adjusted)



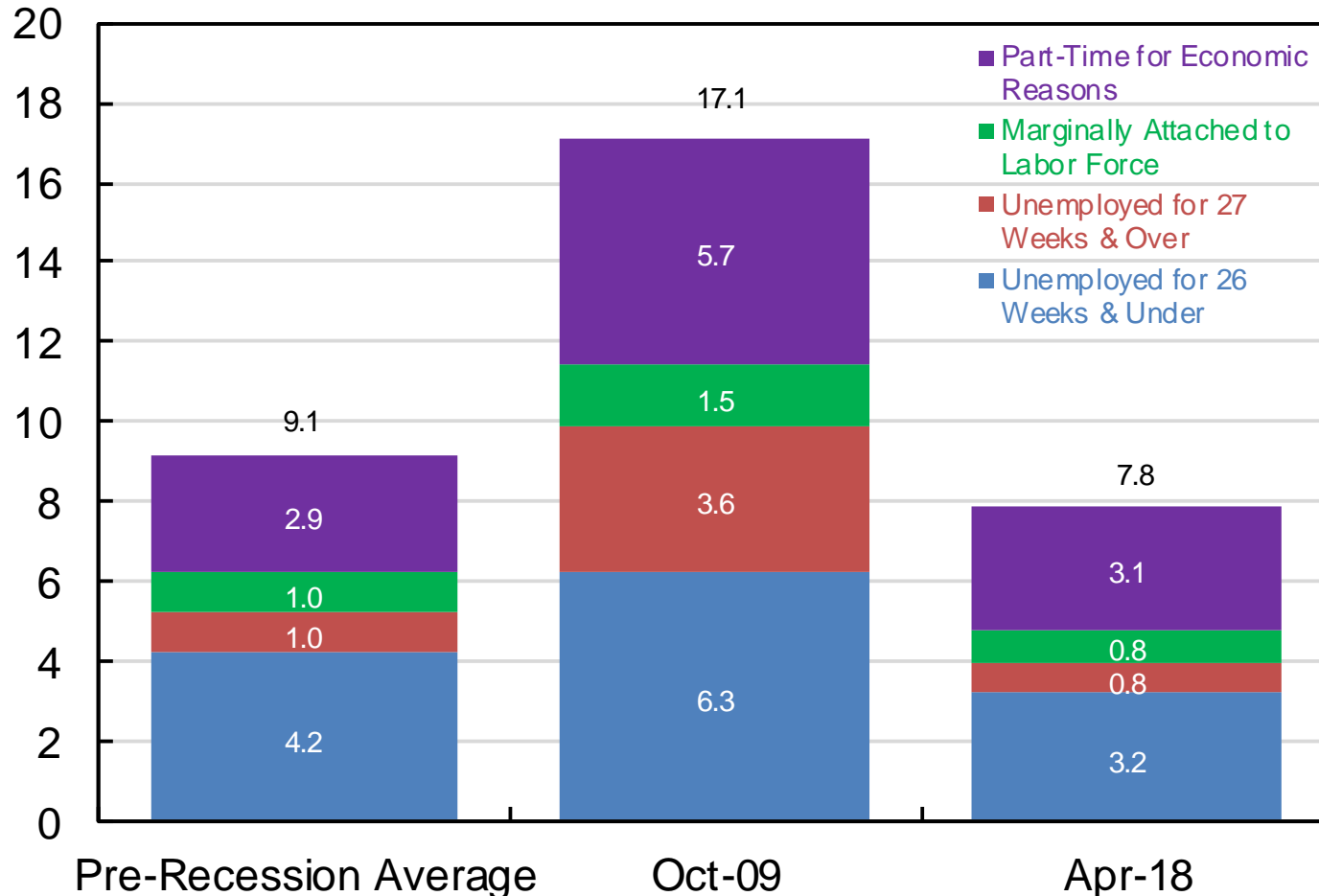
Note: Shading denotes recession.

Source: Bureau of Labor Statistics; National Bureau of Economic Research.

Slack in Broader Labor Market Indicators Has Largely Returned to Pre-Recession Levels

Contributions to U-6 "Underemployment" Rate

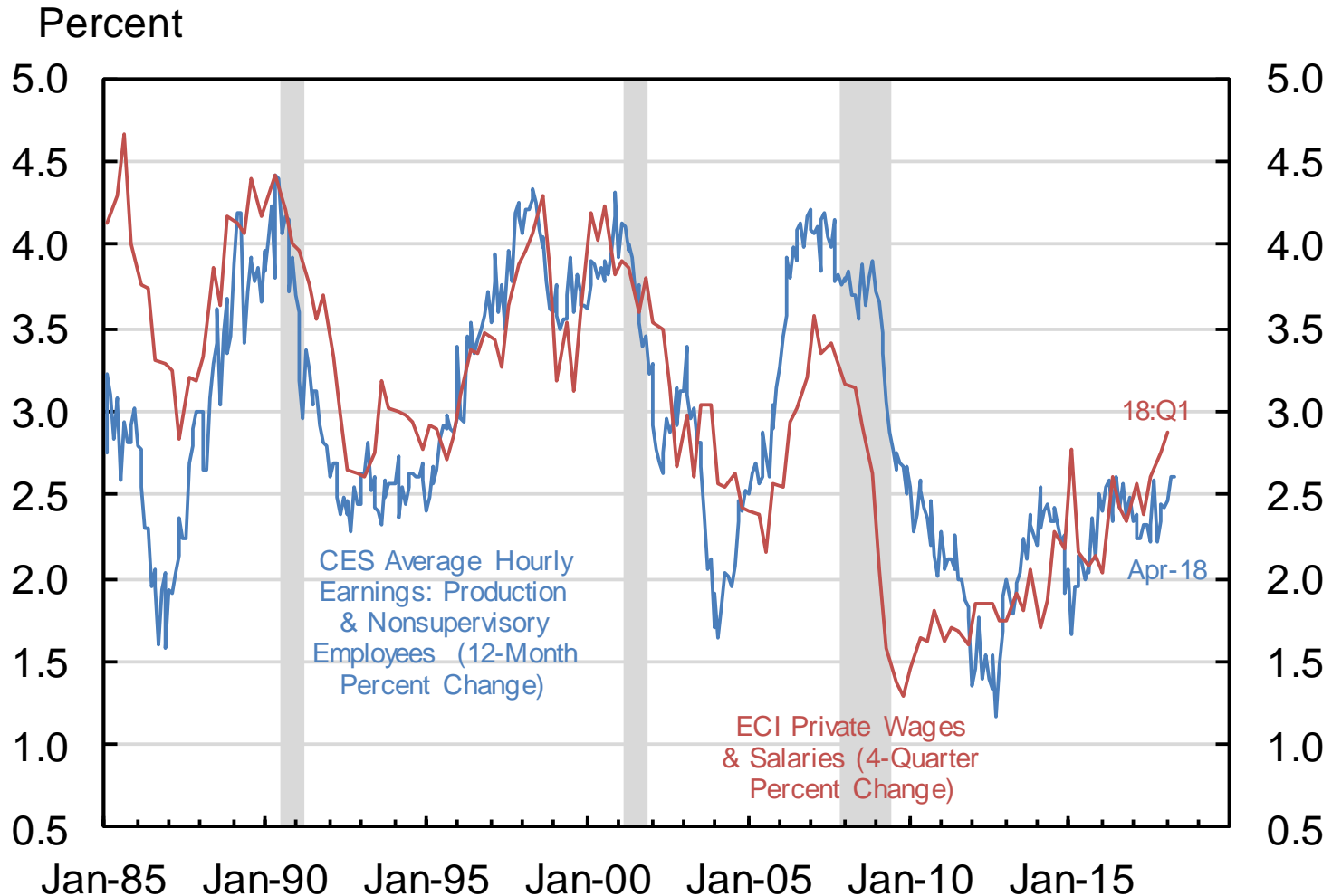
Percent of Labor Force Plus Marginally Attached Workers



Note: Pre-recession average includes data from December 2001 to November 2007.
Source: Bureau of Labor Statistics.

Wage Growth Has Picked Up, Esp. with ECI

Annual Change in Nominal Earnings

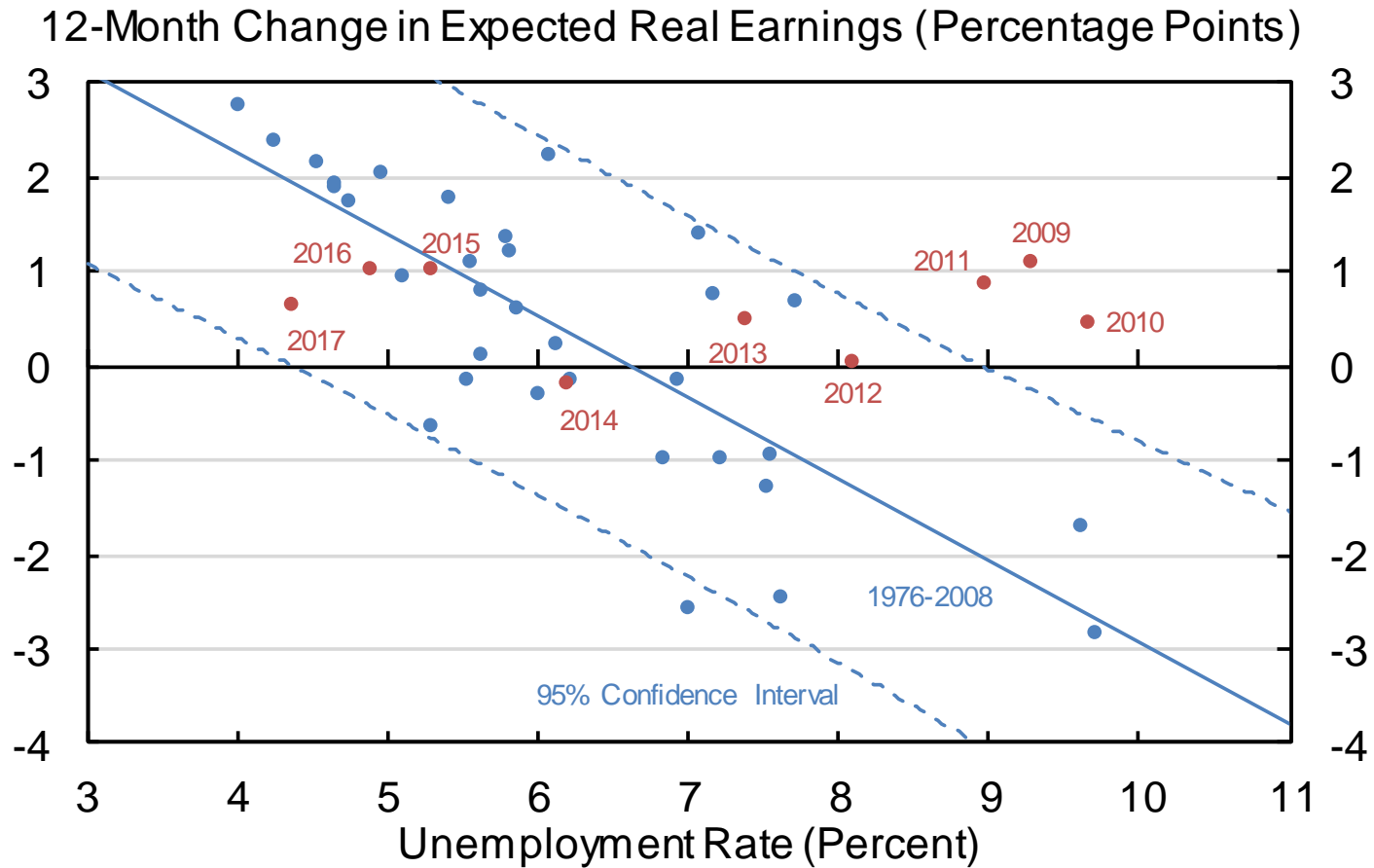


Note: Shading denotes recession.

Source: Bureau of Labor Statistics; National Bureau of Economic Research.

Real Wage Phillips Curve in the United States

Change in Expected Real CES Average Hourly Earnings vs. Unemployment Rate

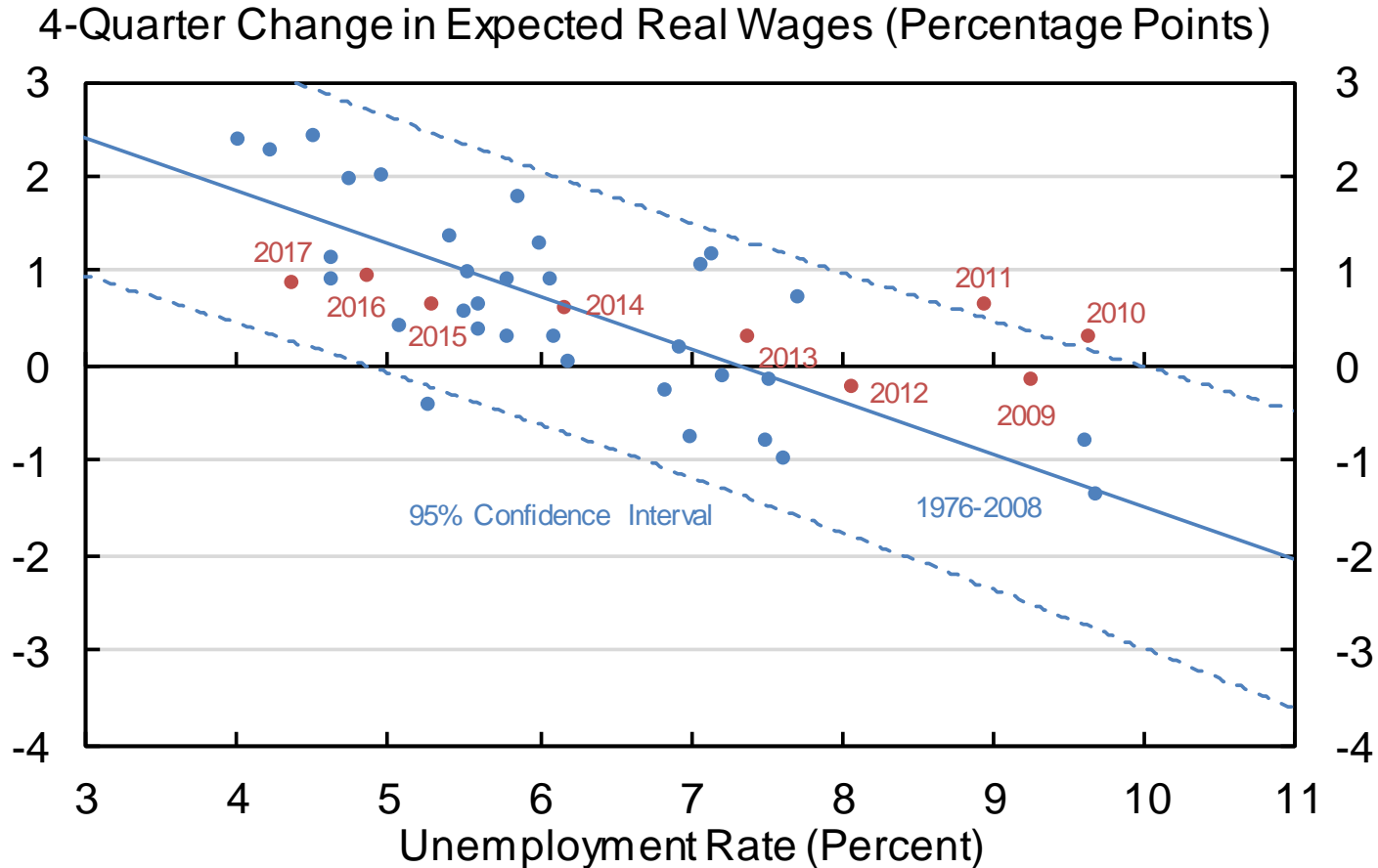


Note: Change in expected real average hourly earnings is 12-month percent change in average hourly earnings for private production and nonsupervisory employees less the previous year's 12-month percent change in the personal consumption expenditures chain price index excluding food and energy items. Fitted line 1976-2008 and 95% confidence interval.

Source: Bureau of Labor Statistics; Bureau of Economic Analysis.

Real ECI Wage Phillips Curve in the United States (Phillips Curve Not Dead Yet)

Change in Expected Real ECI Private Wages & Salaries vs. Unemployment Rate



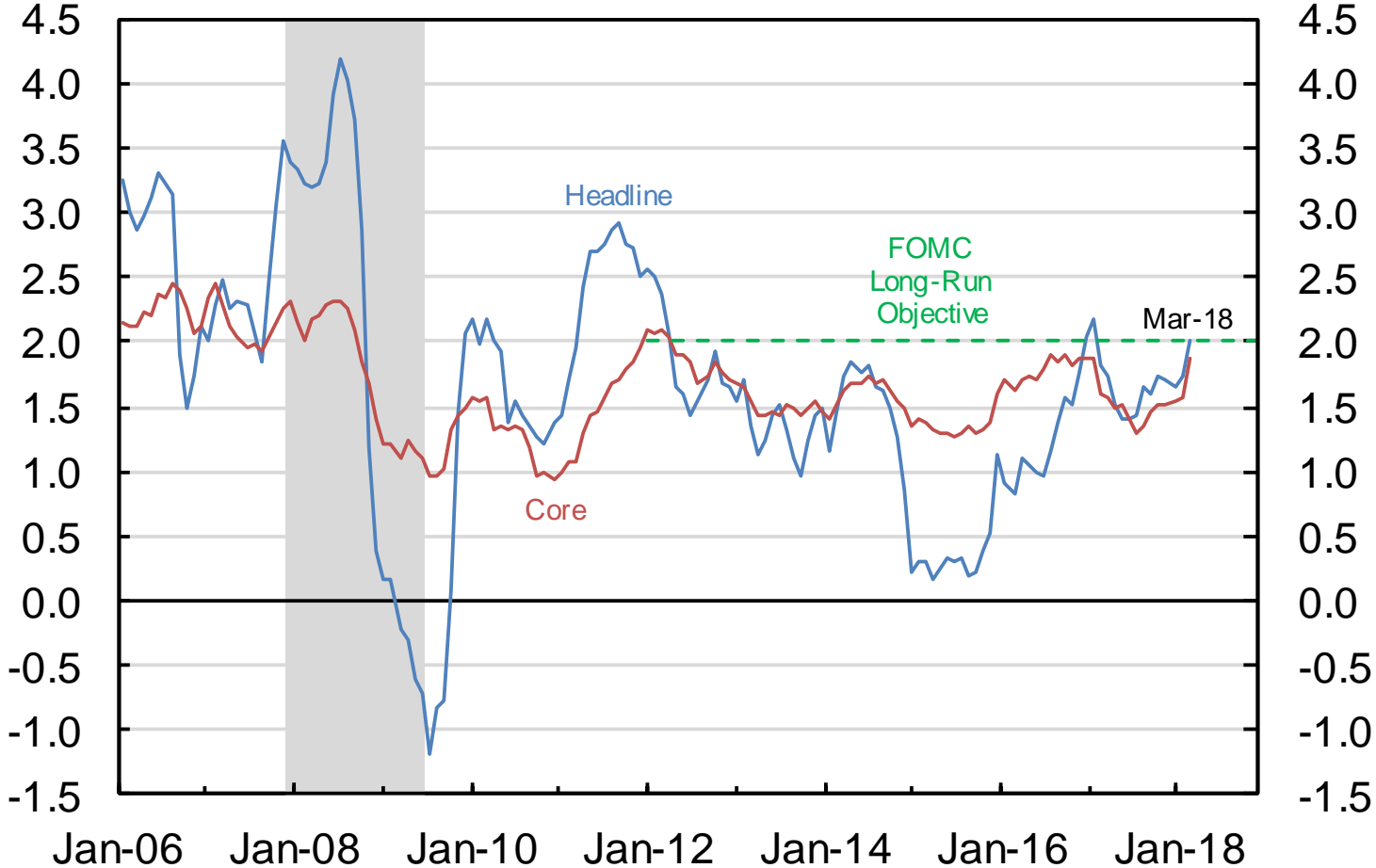
Note: Change in expected real wages and salaries is the 4-quarter percent change in wage and salary compensation for private sector employees less the previous year's 12-month percent change in the personal consumption expenditures chain price index excluding food and energy items. Fitted line 1976-2008 and 95% confidence interval.

Source: Bureau of Labor Statistics; Bureau of Economic Analysis.

PCE Inflation has Risen Close to Fed Target

Personal Consumption Expenditures Price Index

12-Month Percent Change (Seasonally Adjusted)

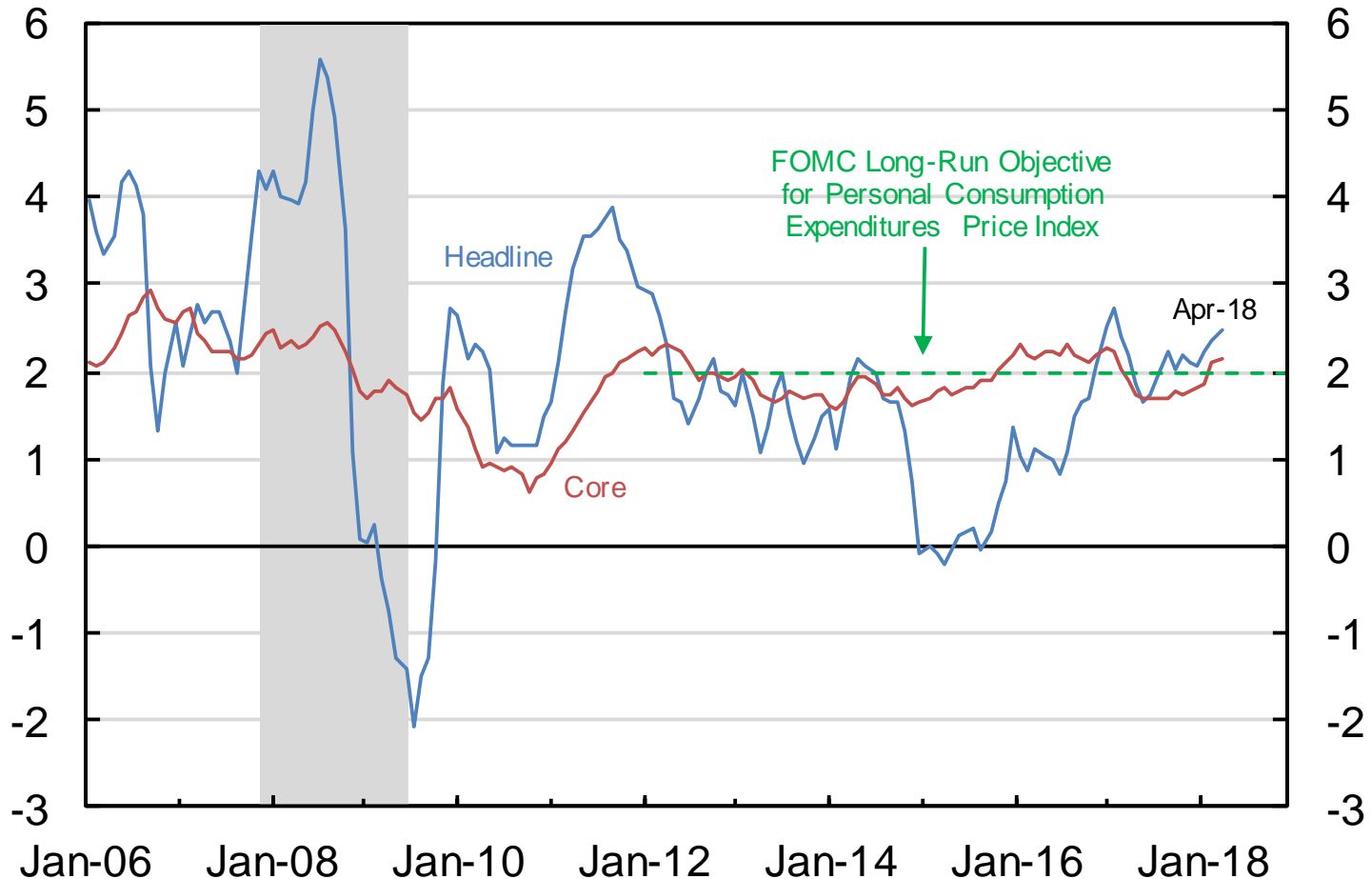


Note: Shading denotes recession.
Source: Bureau of Economic Analysis; National Bureau of Economic Research.

CPI Inflation is a Bit Stronger than PCE Inflation

Consumer Price Index

12-Month Percent Change (Not Seasonally Adjusted)

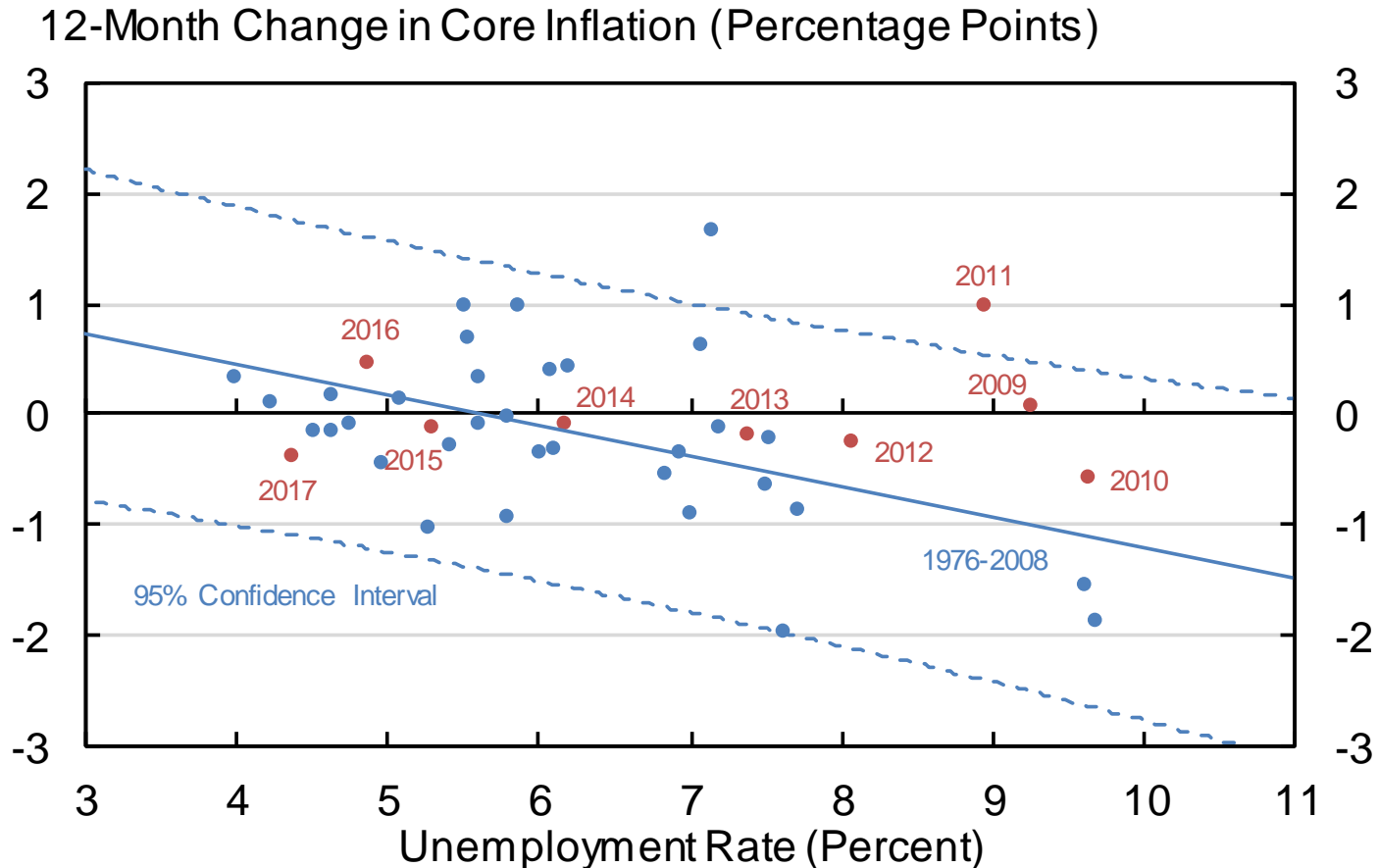


Note: Shading denotes recession.

Source: Bureau of Labor Statistics; National Bureau of Economic Research.

Price Phillips Curve in the United States

Change in Core Consumer Price Inflation vs. Unemployment Rate

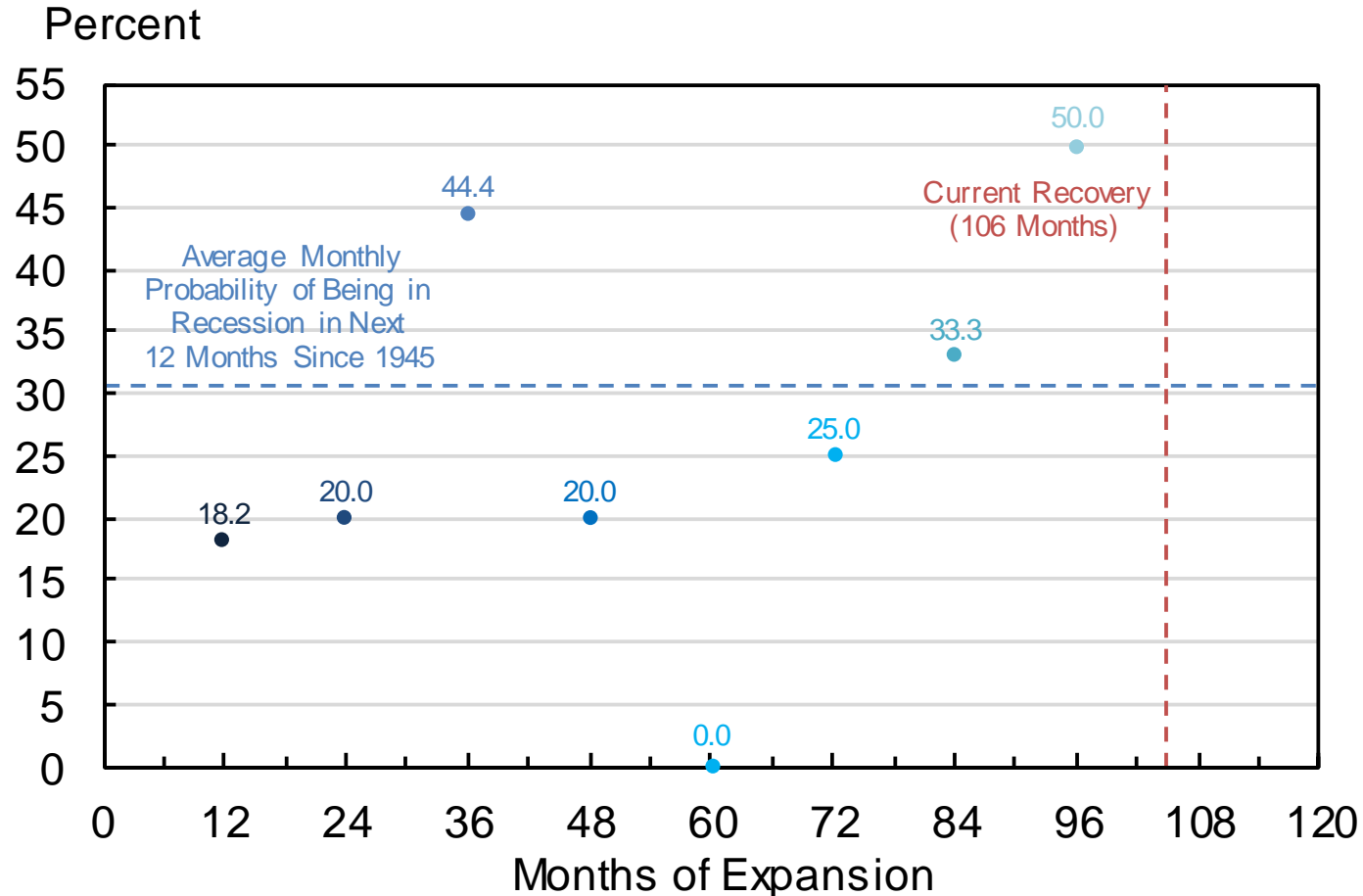


Note: Change in core consumer price inflation is defined as the 12-month percent change in the personal consumption expenditures chain price index excluding food and energy items less the previous year's 12-month percent change in the personal consumption expenditures chain price index excluding food and energy items. Fitted line 1976-2008 and 95% confidence interval.

Source: Bureau of Economic Analysis; Bureau of Labor Statistics.

Recoveries Don't Die of Old Age

Probability That a U.S. Postwar Expansion Will End During the Next 12 Months

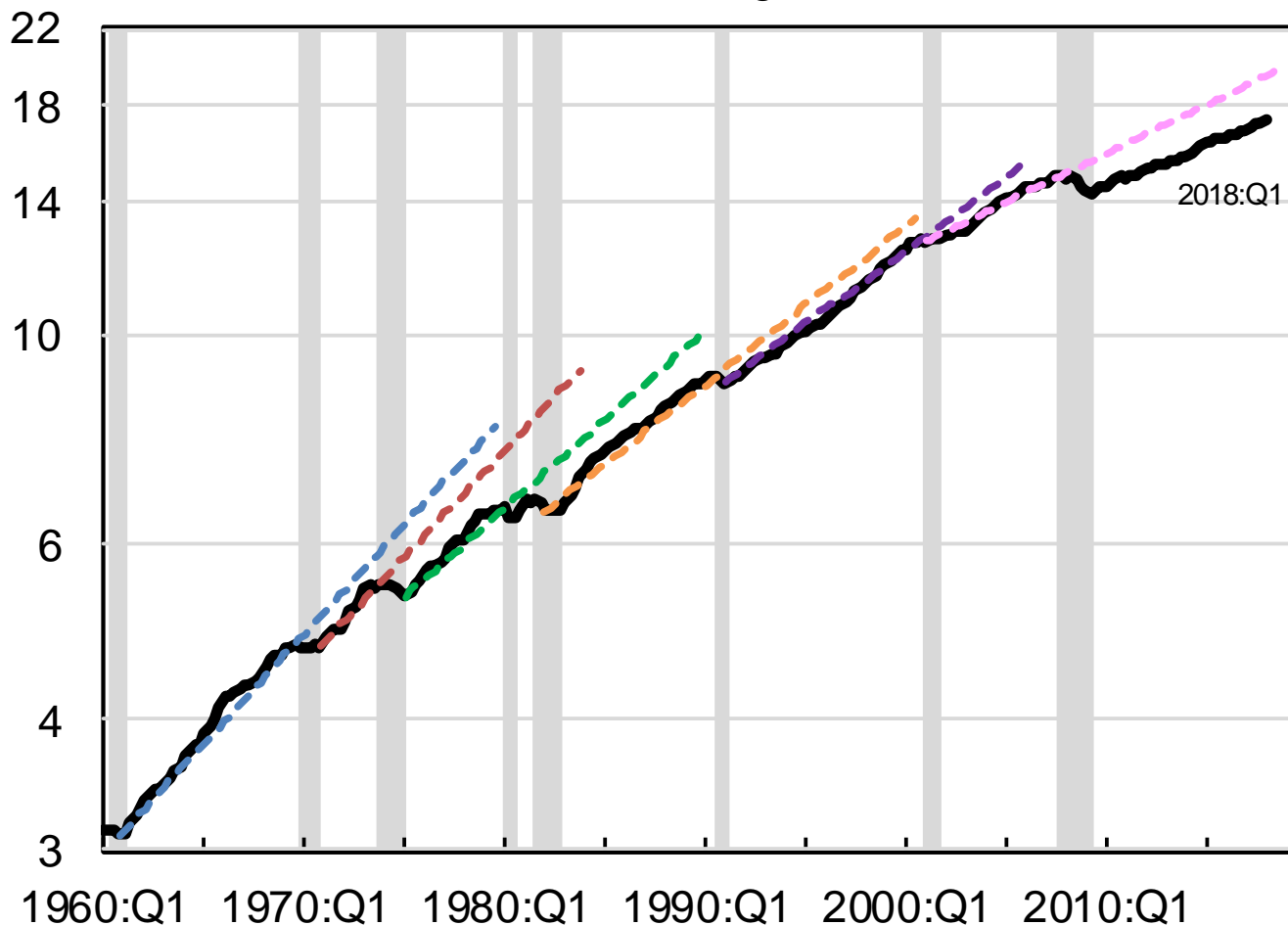


Source: National Bureau of Economic Research.

GDP Growth Has Been Slowing Over Time

Real GDP and Trends

Trillions of Chained 2009 Dollars, Log Scale

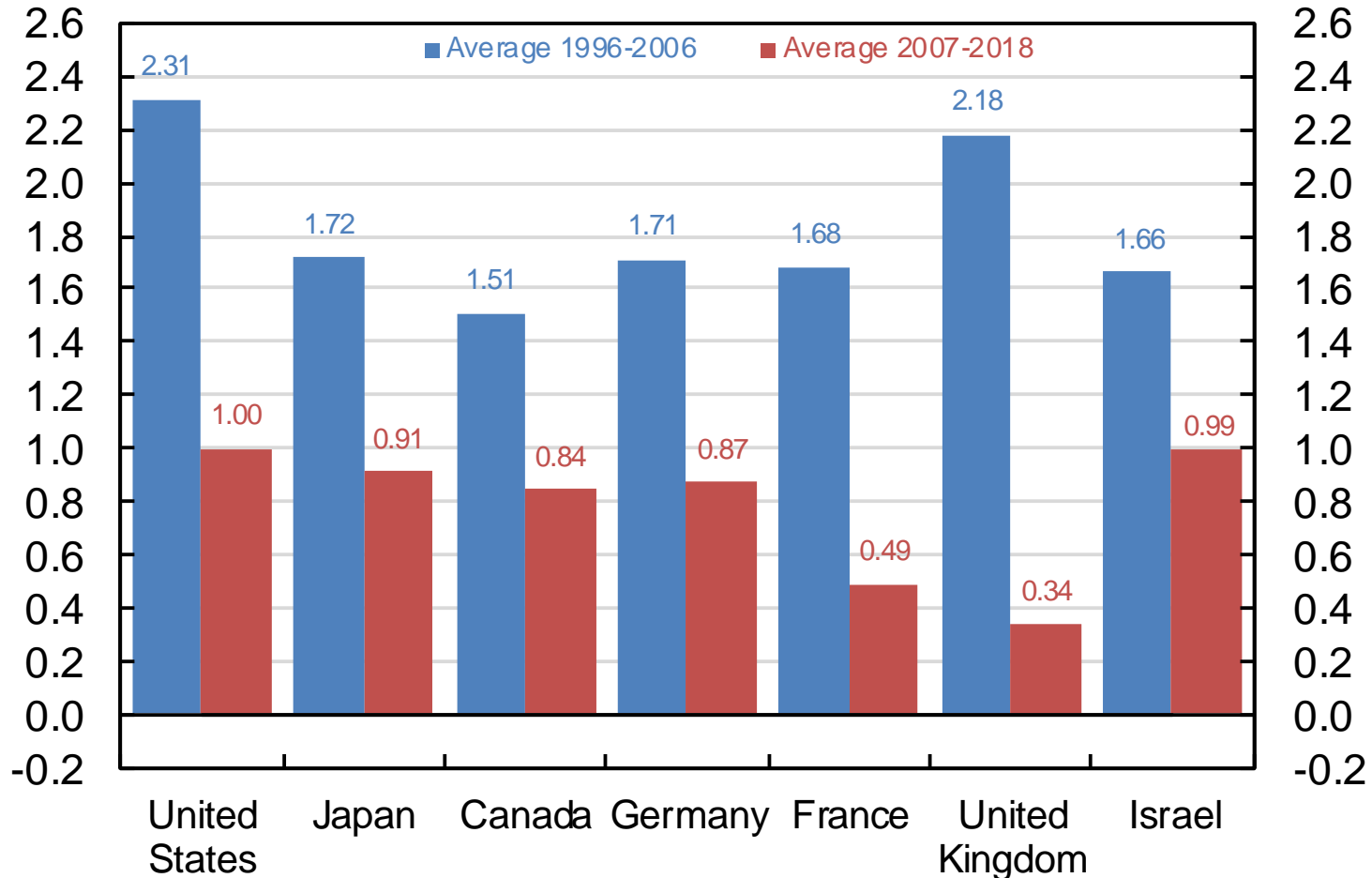


Note: Shading denotes recession. Trend lines represent the average growth rate from a trough in the level of real GDP to the subsequent peak.
Source: Bureau of Economic Analysis; National Bureau of Economic Research; 2013 Economic Report of the President.

Productivity Growth Has Slowed Across the Advanced Economies

Labor Productivity Growth

Annual Percent Change

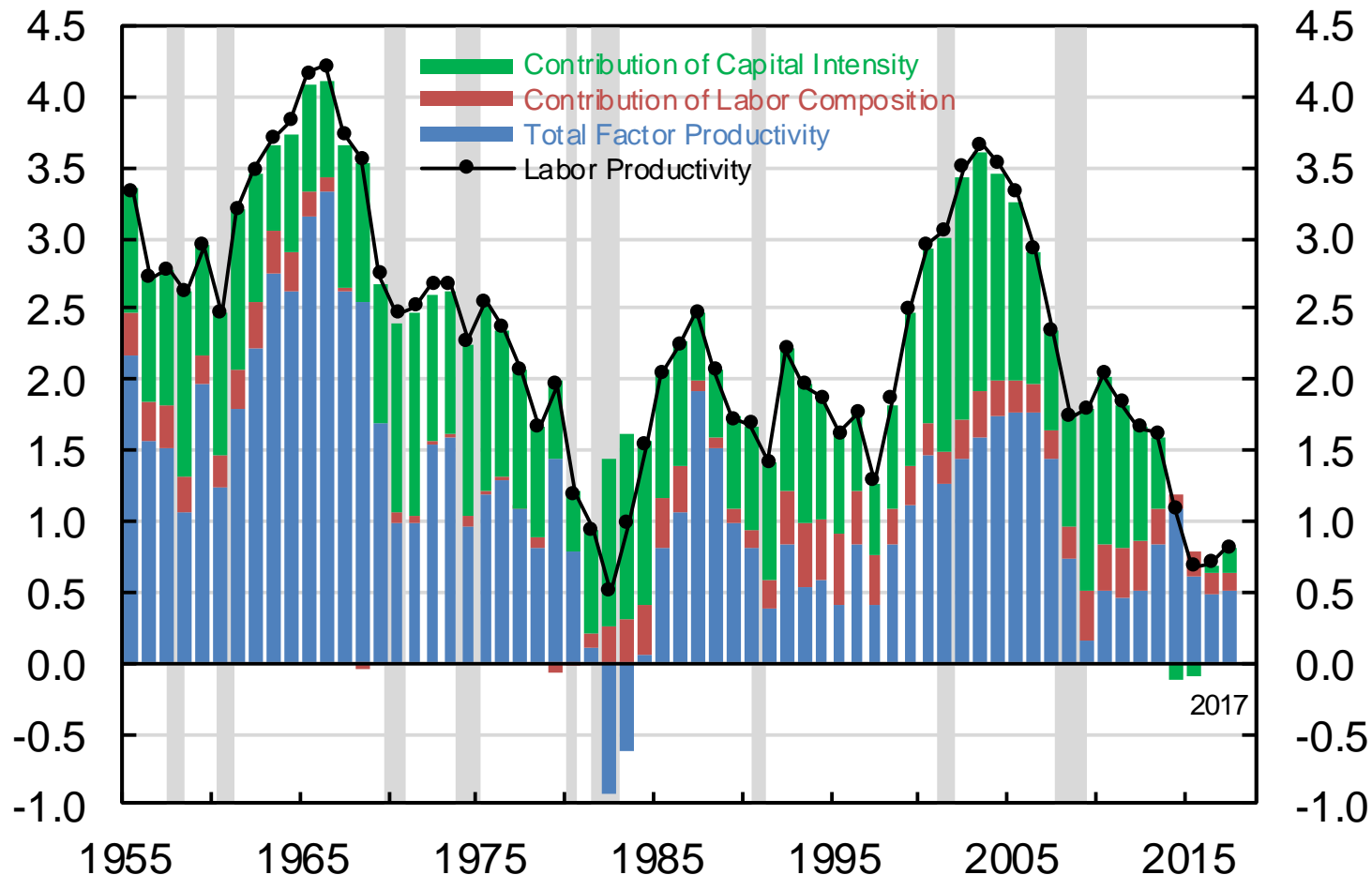


Note: Labor productivity is defined as output per hour worked.
Source: The Conference Board.

Slower Growth in Investment and TFP have Contributed to Productivity Growth Slowdown in U.S.

Components of Labor Productivity

Annual Percent Change (Five-Year Moving Average)



Note: Shading denotes recession.

Source: Bureau of Labor Statistics; National Bureau of Economic Research.

Main Downside Risks and Upside Potential

Downside Risks

- Uncertainty from policy changes (e.g., trade *mishegoss*)
- FOMC raises rates more quickly than expected to offset mistimed stimulus
- Financial shock from Euro Zone, Japan, EM, Corporate Debt Excesses, etc.
- Oil price shocks

Upside Potential

- Investment boom from rise in business optimism & regulatory relief
- Consumption boom from rise in optimism and pent up demand for discretionary goods
- Housing boom due to easier credit, pent up demand and restrained supply
- Resurgence of productivity growth
- Peace on Korean Peninsula

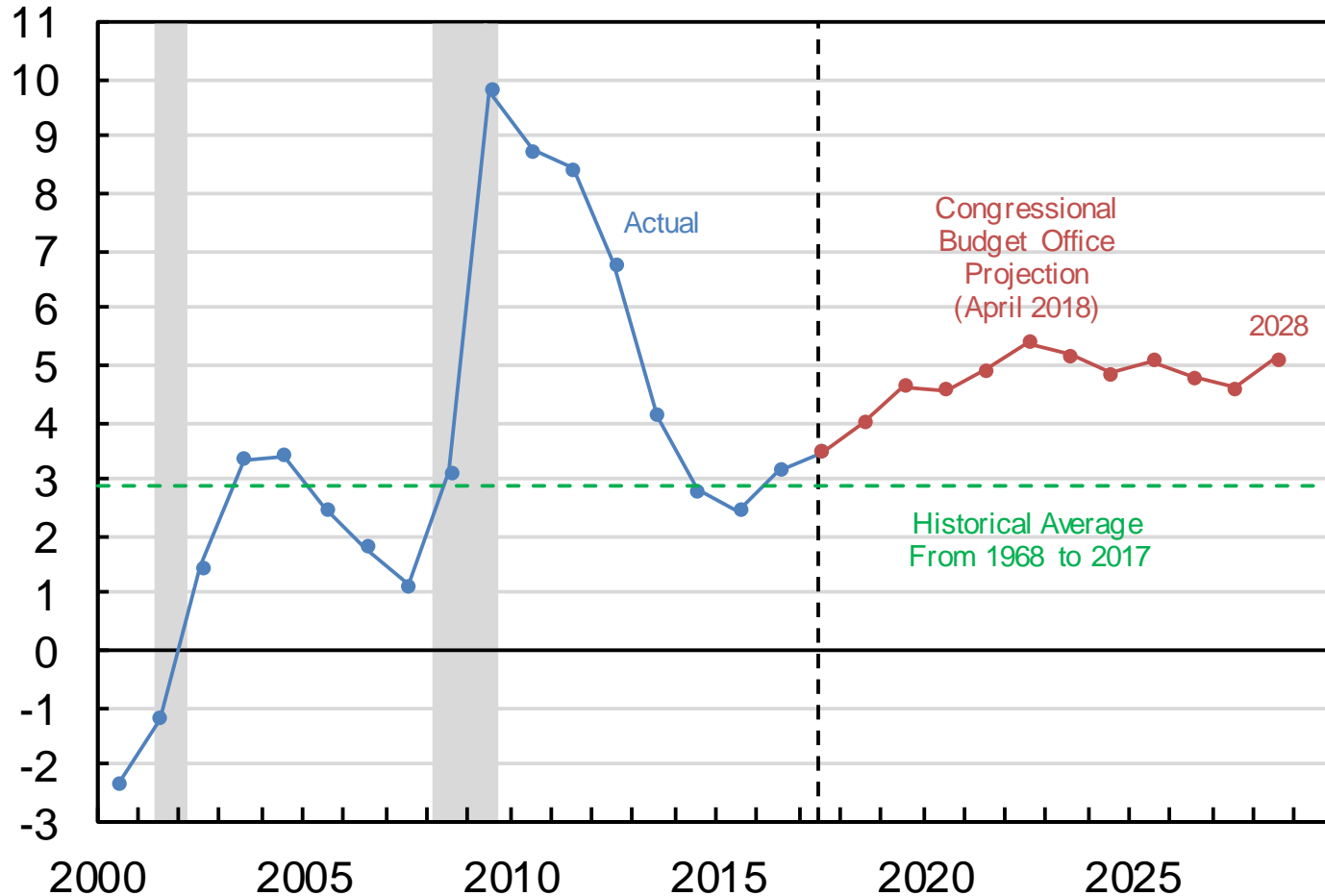
Trump Administration Policy Priorities

- ✓ Corporate and individual tax reform
 - Regulatory reforms and relaxation
 - ACA repeal
 - Infrastructure investment with private equity tax incentives
 - Renegotiate trade deals
 - Browbeat companies to stay in U.S.
 - Weaker dollar
 - Accommodative monetary policy

With Trump Tax Cuts, Deficits are Projected to Exceed \$1 Trillion Per Year Beginning in 2020

Federal Budget Deficit

Percent of GDP (Fiscal Year)



Note: Data correspond to fiscal years ending on September 30th. Shading denotes recession.
Source: Congressional Budget Office; National Bureau of Economic Research.

An Alternative Policy Agenda for Sustainable, Inclusive Growth

- Grand Budget Bargain to slow growth of entitlements and raise revenue – put budget on sustainable path
- Investment in infrastructure and basic R&D to offset decline in private investment and raise productivity growth
- Immigration reform to boost labor force growth
- Universal pre-school education and greater access to post-secondary education
- Policies to address the imbalance between employers and workers (Antitrust, minimum wage, worker representation) to reduce poverty and support aggregate demand