



## C O N T E N T S

<b>CHAPTER 1. PROMOTING OPPORTUNITY AND SHARED, SUSTAINABLE GROWTH .....</b>	<b>21</b>
THE ECONOMY FIVE YEARS AFTER THE CRISIS.....	23
HOW WE GOT HERE: THE ADMINISTRATION'S RESPONSE TO THE CRISIS .....	26
SOURCES OF OPPORTUNITY IN 2014 AND BEYOND.....	28
<i>Cyclical Factors</i> .....	29
<i>Structural Trends</i> .....	30
<i>Long-Term Fiscal Sustainability</i> .....	33
THE CHALLENGES THAT REMAIN AND THE PRESIDENT'S PLANS TO ADDRESS THEM.....	34
<i>Continuing to Restore the Economy to its Full Potential</i> .....	34
<i>Expanding the Economy's Potential</i> .....	37
<i>Promoting Economic Opportunity</i> .....	40
CONCLUSION .....	43
<b>CHAPTER 2. THE YEAR IN REVIEW AND THE YEARS AHEAD .....</b>	<b>45</b>
KEY EVENTS OF 2013.....	46
<i>Aggregate Output Growth During the Year</i> .....	46
<i>Fiscal Policy</i> .....	47
<i>Monetary Policy</i> .....	50
<i>Financial Markets</i> .....	51
<i>International Developments</i> .....	53
DEVELOPMENTS IN 2013 AND THE NEAR-TERM OUTLOOK.....	56
<i>Consumer Spending</i> .....	56
<i>Business Investment</i> .....	59
<i>State and Local Governments</i> .....	62
<i>International Trade</i> .....	64
<i>Housing Markets</i> .....	67

<i>Energy</i> .....	72
<i>Labor Markets</i> .....	76
<i>Wage Growth and Price Inflation</i> .....	81
THE LONG-TERM OUTLOOK .....	84
<i>The 11-Year Forecast</i> .....	84
<i>Growth in GDP over the Long Term</i> .....	86
CONCLUSION .....	89

### CHAPTER 3. THE ECONOMIC IMPACT OF THE AMERICAN RECOVERY AND REINVESTMENT ACT FIVE YEARS

LATER .....	91
THE 2007-09 RECESSION AND THE EARLY POLICY RESPONSES .....	93
<i>Initial Policy Responses</i> .....	94
AN OVERVIEW OF THE RECOVERY ACT AND SUBSEQUENT JOBS MEASURES .....	95
<i>The Recovery Act</i> .....	96
<i>Subsequent Jobs Measures</i> .....	99
<i>Automatic Countercyclical Measures</i> .....	100
<i>Total Fiscal Response</i> .....	103
NEAR-TERM MACROECONOMIC EFFECTS OF THE RECOVERY ACT AND SUBSEQUENT FISCAL LEGISLATION .....	103
<i>Model-Based Estimates of the Macroeconomic Effects of the Recovery Act and Subsequent Fiscal Legislation</i> .....	105
<i>Cross-State Evidence</i> .....	111
<i>International Comparison</i> .....	114
<i>Benchmarking the Economy's Performance Since 2009</i> .....	114
EFFECTS OF THE RECOVERY ACT IN PROVIDING RELIEF FOR INDIVIDUALS .....	117
<i>Tax Cuts for Families</i> .....	118
<i>Unemployment Insurance</i> .....	119
THE EFFECT OF THE RECOVERY ACT ON LONG-TERM GROWTH .....	122
<i>Protecting and Expanding Investments in Physical Capital</i> .....	123
<i>Protecting and Expanding Investments in Human Capital</i> .....	126
<i>Investments in Technology and Innovation</i> .....	128
<i>Fiscal Sustainability and the Recovery Act</i> .....	131
CONCLUSION .....	132

APPENDIX 1: COMPONENTS OF THE RECOVERY ACT AND SUBSEQUENT FISCAL MEASURES.....	133
<i>Tax Relief</i> .....	134
<i>Aid to Affected Individuals</i> .....	136
<i>State Fiscal Relief</i> .....	137
<i>Investments</i> .....	138
<i>Subsequent Fiscal Measures</i> .....	139
APPENDIX 2: FISCAL MULTIPLIERS: THEORY AND EMPIRICAL EVIDENCE .....	139
<i>Forward-Looking Models with Rigidities</i> .....	141
<i>Time Series Evidence</i> .....	142
<i>Cross-Sectional Multipliers</i> .....	145
<b>CHAPTER 4. RECENT TRENDS IN HEALTH CARE COSTS, THEIR IMPACT ON THE ECONOMY, AND THE ROLE OF THE AFFORDABLE CARE ACT</b> .....	147
RECENT TRENDS IN HEALTH CARE COSTS .....	150
WHAT IS HAPPENING NOW, AND WHAT WILL HAPPEN NEXT?... 156	
<i>The Role of the 2007-09 Recession</i> .....	156
<i>Non-ACA Factors Affecting Health Spending Growth</i> .....	160
<i>The Role of the Affordable Care Act</i> .....	162
ECONOMIC BENEFITS OF SLOW HEALTH SPENDING GROWTH... 171	
<i>Higher Living Standards</i> .....	171
<i>Lower Deficits</i> .....	173
<i>Higher Employment and Economic Growth</i> .....	176
CONCLUSION .....	178
<b>CHAPTER 5. FOSTERING PRODUCTIVITY GROWTH</b> .....	179
TRENDS IN TOTAL FACTOR PRODUCTIVITY .....	181
<i>Labor Productivity, Total Factor Productivity, and Multifactor         Productivity</i> .....	181
<i>Postwar U.S. Productivity Growth</i> .....	182
PRODUCTIVITY GROWTH AND INEQUALITY GROWTH .....	189
<i>Trends in Inequality, Productivity Growth, and         Compensation</i> .....	189
<i>Technological Change and Inequality</i> .....	190

POLICIES TO FOSTER PRODUCTIVITY GROWTH AND TO HELP ENSURE THAT EVERYONE BENEFITS FROM IT.....	193
TELECOMMUNICATIONS AND PRODUCTIVITY GROWTH .....	197
<i>Innovation and Investment</i> .....	197
<i>Four Key Areas for Telecommunications Policy</i> .....	198
<i>Challenges to Broad Adoption of Telecommunications Technology</i> .....	209
PATENTS.....	212
<i>Standard-Essential Patents</i> .....	213
<i>Patent Assertion Entities</i> .....	215
CONCLUSION .....	217

## **CHAPTER 6. THE WAR ON POVERTY 50 YEARS LATER:**

<b>A PROGRESS REPORT</b> .....	221
MEASURING POVERTY: WHO IS POOR IN AMERICA? .....	223
<i>Measuring Poverty</i> .....	223
<i>The Official Poverty Measure</i> .....	223
<i>The Supplemental Poverty Measure</i> .....	225
<i>Who is Poor?</i> .....	228
<i>Employment</i> .....	229
<i>Education Level</i> .....	230
<i>Children</i> .....	230
<i>The Elderly</i> .....	230
<i>Women</i> .....	232
<i>Race and Ethnicity</i> .....	232
<i>People with Disabilities</i> .....	233
<i>Rural and Urban Communities</i> .....	233
ASSESSING THE WAR ON POVERTY .....	234
<i>Context</i> .....	234
<i>Correcting the Historical Account of Poverty Since the 1960s</i> ...	240
<i>Measuring the Direct Impact of Antipoverty Efforts</i> .....	242
THE ROLE OF ANTIPOVERTY PROGRAMS: A CLOSER LOOK.....	245
<i>Antipoverty Effects of Specific Programs</i> .....	245
<i>The Effects of Antipoverty Programs on Work and Earnings</i> .....	248
<i>Economic Mobility</i> .....	252
<i>Intergenerational Returns</i> .....	255

THE OBAMA ADMINISTRATION’S RECORD AND AGENDA TO STRENGTHEN ECONOMIC SECURITY AND INCREASE OPPORTUNITY .....	258
<i>Taking Immediate Action During the Economic Crisis</i> .....	258
<i>Expanding Health Care Security</i> .....	260
<i>Rewarding Work</i> .....	260
<i>Empowering Every Child with a Quality Education</i> .....	263
<i>Creating Jobs and Growing Our Economy</i> .....	265
<i>Investing in and Rebuilding Hard-Hit Communities</i> .....	265
CONCLUSION .....	266
<b>CHAPTER 7. EVALUATION AS A TOOL FOR IMPROVING FEDERAL PROGRAMS</b> .....	269
CONDUCTING RIGOROUS IMPACT EVALUATIONS IN FEDERAL PROGRAMS.....	271
<i>Estimation of Causal Effects of a Program or Intervention</i> .....	272
<i>Other Criteria for High-Quality, Successful Impact         Evaluations</i> .....	274
<i>Lower-Cost Ways for Impact Evaluations to Facilitate Real-Time         Learning</i> .....	275
IMPACT OF THE EVIDENCE-BASED AGENDA.....	278
<i>Uses of Evaluation</i> .....	278
<i>Building Evidence when Existing Evidence is Limited</i> .....	283
FURTHERING THE EVIDENCE AGENDA.....	286
<i>Legislative Support for Evaluation</i> .....	287
<i>Building Evaluation into the Design of Programs</i> .....	290
<i>Developing the Capacity to Link to Other Administrative and         Survey Data Sources</i> .....	294
<i>Facilitating Researcher Access to Federal Data while         Protecting Privacy</i> .....	296
CONCLUSION .....	297
<b>REFERENCES</b> .....	299

## APPENDIXES

A.	Report to the President on the Activities of the Council of Economic Advisers During 2013 .....	345
B.	Statistical Tables Relating to Income, Employment, and Production.....	359

## FIGURES

1.1.	Monthly Change in Private Nonfarm Payrolls, 2007–2014.....	22
1.2.	U.S. Merchandise and Overall Trade Deficits, 2000–2013 .....	24
1.3.	Major Deficit Reduction Episodes Over a Four–Year Period Since the Demobilization from WWII.....	24
1.4.	Real GDP Per Working–Age Population in 2007–2008 Banking Crisis Countries, 2007–2013.....	27
1.5.	Quarterly Effect of the Recovery Act and Subsequent Fiscal Measures on Employment, 2009–2012.....	27
1.6.	Change in Poverty Rate from 2007–2010, With and Without Tax Credits and Benefits .....	29
1.7.	Domestic Crude Oil Production and Net Imports, 2000–2013 .....	31
1.8.	Growth in Real Per Capita National Health Spending, 1961–2013.....	33
1.9.	Unemployment Rate by Duration, 1994–2014.....	35
1.10.	Growth in Real Average Hourly Earnings for Production and Nonsupervisory Workers, 2007–2014.....	36
1.11.	Real Median Family income, 1980–2012.....	36
1.12.	Building Permits for New Residential Units, 1960–2014.....	38
1.13.	Growth in Total Factor Productivity, 1953–2012 .....	39
1.14.	Share of National Income Earned by Top 1 Percent, 1915–2012.....	41
1.15.	Growth in Productivity and Average Wage, 1947–2013.....	41
2.1.	Mean GDP Growth, 2007–2013.....	47
2.2.	Federal Budget Deficit, 1950–2015.....	50
2.3.	Interest Rates, 2010–2014 .....	52
2.4.	Treasury Bills Maturing in Late October–Early November, 2013.....	53
2.5.	Current Account Balance by Country, 2000–2013 .....	55
2.6.	Cumulative Flows into Mutual and Exchange–Traded Funds Investing in Emerging Markets, 2010–2014.....	56
2.7.	Household Deleveraging, 1990–2013.....	58
2.8.	Consumption and Wealth Relative to Disposable Personal Income (DPI), 1952–2013.....	58
2.9.	Business Investment and the Acceleration of Business Output, 1965–2013.....	62
2.10.	Real State and Local Government Purchases During Recoveries...	63
2.11.	State and Local Pension Fund Liabilities, 1952–2013.....	64
2.12.	Trade in Goods and Services, 2007–2013 .....	65
2.13.	U.S. Exports Growth, 2009–2013.....	65
2.14.	Current Account Balance, 1985–2013.....	66

2.15.	Housing Starts, 1960–2013 .....	71
2.16.	National House Price Indexes, 2000–2013.....	71
2.17.	Cumulative Over- and Under-Building of Residential and Manufactured Homes, 1996–2013.....	73
2.18.	Petroleum Net Imports, 1980–2015 .....	74
2.19.	Monthly Crude Oil Production and Net Imports, 1990–2013.....	74
2.20.	Wind and Solar Energy Production, 2000–2013.....	75
2.21.	U.S. Per Capita Consumption of Gasoline and Real Gasoline Prices, 2000–2013 .....	76
2.22.	Unemployment Rate, 1979–2014.....	78
2.23.	Nonfarm Payroll Employment, 2007–2014.....	78
2.24.	Unemployment Rate by Duration, 1990–2014.....	79
2.25.	Predicted vs. Actual Manufacturing Payroll Employment, 2000–2014.....	80
3.1.	Recovery Act Programs by Functional Categories.....	98
3.2.	Recovery Act and Subsequent Fiscal Measures by Functional Category.....	102
3.3.	Automatic Stabilizers and the Budget Balance, 2009–2013.....	102
3.4.	Fiscal Expansion as a Percentage of GDP.....	103
3.5.	Estimates of the Effects of the Recovery Act on the Level of GDP, 2009–2013.....	109
3.6.	Estimates of the Effects of the Recovery Act on Employment, 2009–2013.....	109
3.7.	Quarterly Effect of the Recovery Act and Subsequent Fiscal Measures on GDP, 2009–2012 .....	110
3.8.	Quarterly Effect of the Recovery Act and Subsequent Fiscal Measures on Employment, 2009–2012 .....	110
3.9.	Change in Nonfarm Employment .....	113
3.10.	Disposable Personal Income With and Without the ARRA .....	119
3.11.	Recovery Act Cumulative Public Investment Outlays, 2009–2013.....	124
3.12.	Advanced Renewable Electric Power Net Generation, 2000–2012 .....	129
4.1.	Growth in Real Per Capita National Health Expenditures, 1961–2013.....	154
4.2.	General and Health Care Price Inflation, 1960–2013.....	154
4.3.	Growth in Real Per Enrollee Health Spending by Payer.....	157
4.4.	Medicare 30-Day, All-Condition Hospital Readmission Rate, 2007–2013.....	166
4.5.	Inflation-Adjusted Premiums for Medicare Parts B and D, 2000–2014.....	173
4.6.	Recent CBO Projections of Medicare and Medicaid Outlays .....	176

5.1.	Nonfarm Private Business Productivity Growth, 1949–2012.....	185
5.2.	15–Year Centered Moving Average of Annual Growth Rates for Labor and Multifactor Productivity, 1956–2005 .....	187
5.3.	Growth in Productivity and Average Wage, 1947–2013.....	190
5.4.	Basic Research Expenditures in the U.S. by Source Funding, 2010 .....	195
5.5.	Composition of Total R&D Spending as a Share of GDP, 1953–2011 .....	196
5.6.	Relative Investment of the Telecommunications Sector, 2011 .....	199
5.7.	Exclusive and Shared Allocation of Radio Spectrum.....	202
5.8.	Federal Agencies with Most Spectrum Assignments.....	203
5.9.	Percentage of Households with Access to Download Speeds of 6 Megabytes per Second or Greater .....	209
5.10.	Patents Issued in the U.S. by Technological Category .....	213
6.1.	Trends in the Official Poverty Measure, 1959–2012.....	235
6.2.	Average Real Household Income by Quintile, 1967–2012 .....	236
6.3.	Women’s 50–10 Wage Gap vs Real Minimum Wage, 1973–2012.....	238
6.4.	Official vs Anchored Supplemental Poverty Rates, 1967–2012.....	243
6.5.	Trends in Market and Post–Tax, Post–Transfer Poverty 1967–2012.....	244
6.6.	Trends in Market and Post–Tax, Post–Transfer Deep Poverty, 1967–2012.....	246
6.7.	Percentage Point Impact on SPM Child Poverty for Selected Years.....	250
6.8.	Percentage Point Impact on Deep SPM Child Poverty for Selected Years.....	250
6.9.	Real Per Capita Expenditures on Select Programs, 1967–2012.....	254
6.10.	Economic Mobility for Children from First Income Quintile .....	256
6.11.	Recovery Act and Subsequent Extensions: Cumulative Person–Years Kept from Poverty, 2008–2012 .....	261
7.1.	Outlays for Grants to State and Local Governments, 1992–2012.....	281
7.2.	Inventory of Beds for Homeless and Formerly Homeless People, 2007–2012.....	287

## TABLES

2.1.	Administration Economic Forecast.....	85
2.2.	Supply–Side Components of Actual and Potential Real GDP Growth, 1952–2014.....	87



3.1.	Forecasted and Actual Real GDP Growth and Unemployment Rate .....	95
3.2.	An Overview of Recovery Act Fiscal Impact .....	99
3.3.	Recovery Act Programs by Functional Categories.....	99
3.4.	Fiscal Support for the Economy Enacted After the Recovery Act .....	101
3.5.	Estimated Output Multipliers for Different Types of Fiscal Support.....	108
3.6.	Estimates of the Effects of the Recovery Act on the Level of GDP .....	112
3.7.	Tax Relief and Income Support in the Recovery Act and Subsequent Measures, 2009–2012 .....	118
3.8.	Recovery Act Long Term Growth Investment by Category .....	123
3.9.	Recovery Act Outlays, Obligations, and Tax Reductions .....	135
3.10.	Recovery Act Fiscal Stimulus by Functional Category.....	136
3.11.	Fiscal Support for the Economy Enacted After the Recovery Act .....	140
3.12.	Summary of Cross–Sectional Fiscal Multiplier Estimates .....	146
4.1.	Real Per Capita NHE Annual Growth Rates by Payer and Spending Category .....	151
4.2.	Recent Trends in Several Indicators of Health Care Spending and Price Growth .....	155
5.1.	Sources of Productivity Improvement, Nonfarm Private Business, 1948–2012 .....	184
5.2.	Nonfarm Private Business Growth.....	186
5.3.	Average Annual Rates of Change in the Nonfarm Business Sector.....	191
6.1.	Poverty Rates by Selected Characteristics, 1959–2012 .....	229
6.2.	Poverty Rate Reduction from Government Programs, 2012.....	248

## BOXES

Box 2–1:	The 2013 Comprehensive Revision to the National Income and Product Accounts.....	60
Box 2–2:	Administration Trade Policy Initiatives.....	68
Box 2–3:	The Climate Action Plan .....	77
Box 2–4:	Unemployment Duration and Inflation.....	82
Box 2–5:	Immigration Reform and Potential GDP Growth.....	88
Box 3–1:	Other Administration Policy Responses to the Economic Crisis .....	104
Box 3–2:	The U.S. Recovery in Comparative International and Historical Context.....	116

Box 4–1:	Two Measures of Growth in Health Care Costs: Spending and Prices.....	152
Box 4–2:	How Will the ACA’s Coverage Expansion Affect Total Spending Growth? .....	163
Box 4–3:	The Cost Slowdown and ACA Reforms are Reducing Medicare Beneficiaries’ Out-of-Pocket Costs .....	172
Box 4–4:	Premiums on the ACA Marketplaces are Lower than Projected.....	175
Box 5–1:	Measuring Multifactor Productivity .....	183
Box 5–2:	Does Inequality Affect Productivity? .....	194
Box 5–3:	Just-in-Time Manufacturing .....	200
Box 5–4:	Spectrum Investment Policies.....	204
Box 5–5:	Electronic Health Records .....	210
Box 5–6:	The Leahy–Smith America Invents Act .....	216
Box 5–7:	Pay-For-Delay Settlements in Pharmaceutical Patent Cases .....	218
Box 6–1:	Flaws in the Official Poverty Measure.....	224
Box 6–2:	A Consumption Poverty Measure.....	226
Box 6–3:	Women and Poverty .....	231
Box 6–4:	Social Programs Serve All Americans.....	237
Box 6–5:	Raising the Minimum Wage .....	262
Box 7–1:	Impact Evaluations, Process Evaluations, and Performance Measurement .....	270
Box 7–2:	Using Behavioral Economics to Inform Potential Program Improvements .....	277
Box 7–3:	“Rapid Cycle” Evaluations in Center for Medicare and Medicaid Innovation .....	279