

Beneath the Recovery

Obstacles to Growth and Opportunity in the New Economy

March 2015



Concerns Are Shared Across Political Lines

"Our economy grows when businesses and entrepreneurs create good-paying jobs here in and America where workers and families are empowered to build from the bottom up and the middle out..."

- Hillary Clinton in New York on October 27, 2014

"Unemployment numbers are dropping. But if you've got a part-time job and still can't find full-time work -- or if you've just given up because you can't find a good job to replace the one you had -- you are counted as part of that drop in unemployment, but how much is your economic situation improving?"

- Elizabeth Warren at AFL-CIO National Summit On Raising Wages on January 7, 2015

"The people who have been hammered for the last six years are working men and women. We have today the lowest labor force participation since 1978. Ninety-two million Americans aren't working. And you want to talk about what's making life hard for working men and women, wage stagnation. Median wages today are equal to what they were in 1996, for 20 years."

- Ted Cruz at the Freedom Partners Forum on January 26, 2015

"Today's jobs report marks five years of uninterrupted private sector job growth – a momentous milestone in the longest uninterrupted stretch of private job creation in our history. However, it is clear that more must be done to grow the paychecks and bolster the financial security of the hard working middle class families who are the backbone of our economy."

- Nancy Pelosi on the February 2015 Jobs Report

"How do we recapture the prosperity and opportunity that once defined cities like Detroit? How do we restore America's faith in the moral promise of our great nation that any child born today can reach further than their parents? This is an urgent issue: Far too many Americans live on the edge of economic ruin."

- Jeb Bush at the Detroit Economic Club Luncheon on February 4, 2015



Executive Summary

Significant Improvement: Over five years after the Great Recession, the U.S. economy is showing signs of significant improvement across a variety of areas. Steady job and GDP growth, stock market increases, and sustained economic expansion all seem to indicate a rebounding private sector.

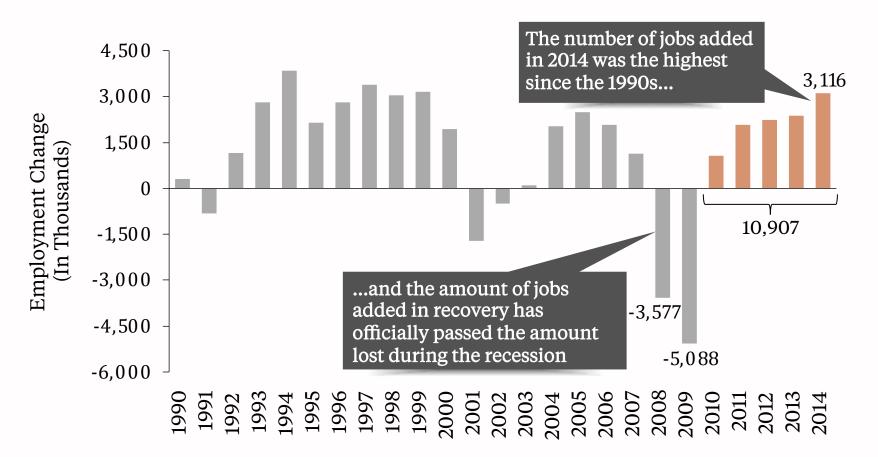
Cause For Concern: The unique nature of the recovery – as well as a better understanding of pre-existing negative trends – presents clear cause for concern. Shrinking labor mobility and participation rates, stagnant wages, and a steady decline in new business formation are serious structural challenges that were exposed – and exacerbated – by the recession, contributing to one of the weakest recoveries in the past several decades.

Identifying Challenges And Opportunities: The private sector is steadily becoming less dynamic and entrepreneurial, offering fewer opportunities and more limited economic mobility for workers. Many communities remain trapped in an equilibrium of economic decline and crumbling infrastructure, while lawmakers and regulators struggle to keep up with sweeping changes brought about through globalization and technology.



The U.S. Is Adding Jobs At A Solid Pace

• The number of jobs added in 2014 was the highest annual increase during the recovery and matched levels not seen since the 1990s.

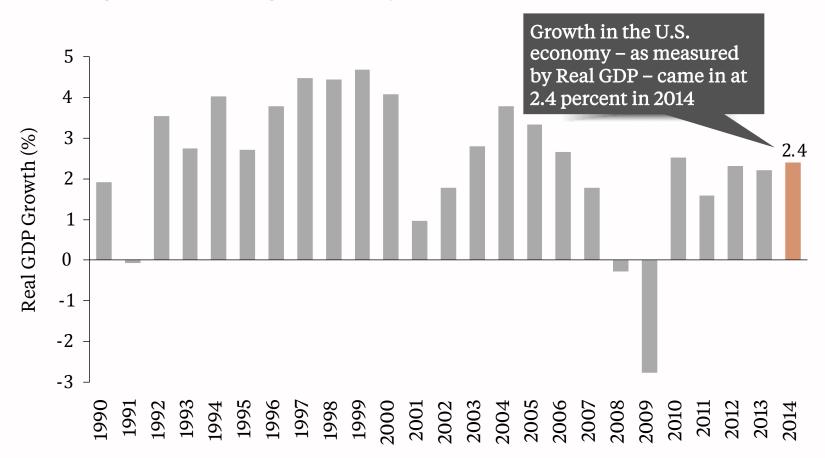


Source: Bureau of Labor Statistics 4



The Overall Economy Is Maintaining Growth

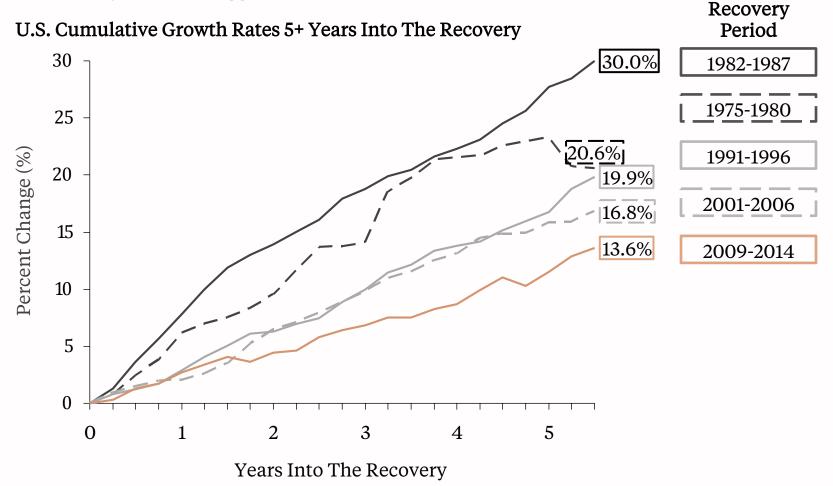
• The U.S. economy is growing at a solid pace, with 2014 growth the second highest annual growth rate during the recovery.





But Economic Growth Remains Sluggish

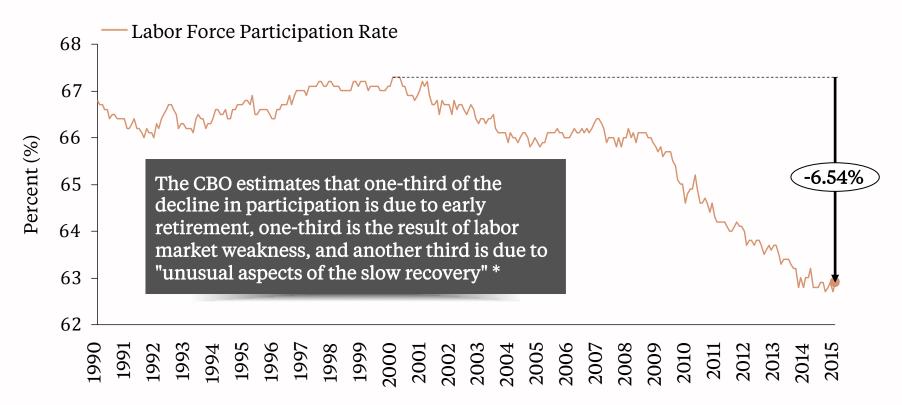
• Those on both the political right and left acknowledge what is true: the current recovery is more sluggish than those in the past.





And Workers Are Still On The Sidelines

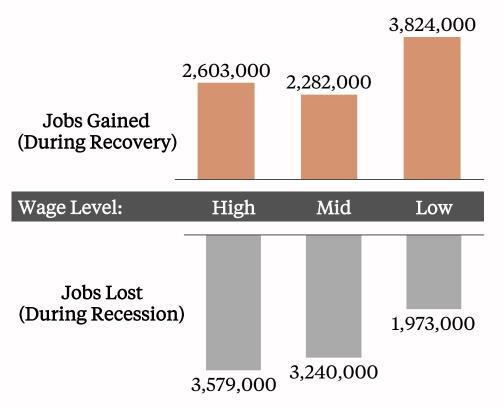
• The labor force participation rate – the percent of the working age population employed or looking for employment – has been declining since the early 2000s and hit its lowest point since the 1970s.





The Economy Lost High Wage Jobs

 High-wage jobs decreased the most during the recession, and the amount of lowwage jobs created in the recovery is higher than either high- or mid-wage, contributing to underemployment.



Some metro areas continued to lose high-wage jobs during the recovery...

- Las Vegas •
- Buffalo
- Sacramento •
- Hartford
- Philadelphia

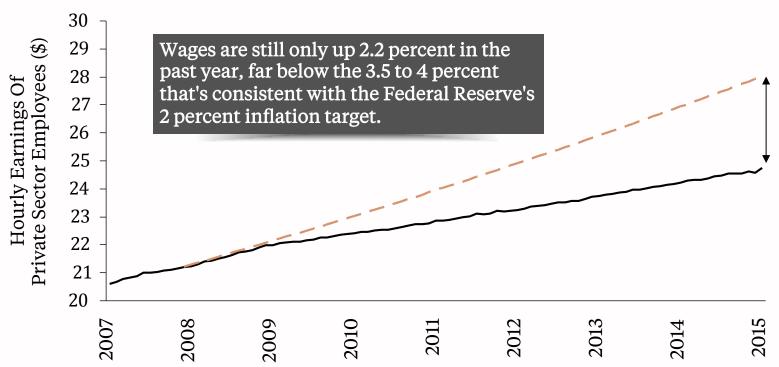
...and other areas lost high-wage jobs only to add low wage jobs

- St. Louis
- Tampa
- Riverside
- Columbus
- New Orleans
- Orlando
- Rochester
- Birmingham
- New York



Wage Growth Remains Low

- Economists today are debating the causes for wage stagnation. Median household income in 2013 was lower than it was in 1989, as real wage growth (adjusted for inflation) has largely remained unchanged.
 - Average hourly earnings of all private employees
 - Hypothetical, assuming 4 percent growth





U.S. Migration (Labor Mobility) Is Trending Lower

• Migration within the U.S. is trending downward at the inter-state, inter-county (same state), and intra-county levels. Lower mobility rates can lead to workers being trapped in areas that are economically distressed.



• Inter-state migration rates, or long-distance mobility, have decreased by roughly 40 percent since 1980.



• Inter-county (same state) migration rates, one way of measuring short-distance mobility, have decreased by roughly 43 percent since 1980.



Intra-county migration rates, a second measure of short-distance mobility, have decreased by roughly 20 percent since 1980.

Source: Federal Reserve Board



Distressed Investing Has Bipartisan Support, But Shortcomings Remain

• Federal programs that create incentives for private investment in distressed areas have a long history of bipartisan support, but have often had limited impact due to their small scale and burdensome structure.

Federal Program

- Empowerment Zones (EZ)
- Renewal Communities (RC)
- Enterprise
 Communities (EC)

 New Markets Tax Credit (NMTC)

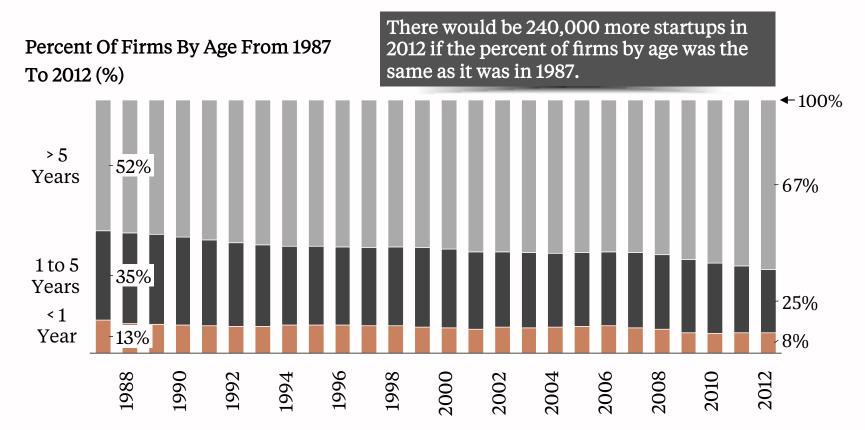
Details

- Historically, federal programs designed to increase investment in targeted regions have received bipartisan support.
- These programs were intended to reduce poverty and unemployment while boosting growth in targeted regions.
- However, studies examining the effectiveness of such programs are widely inconclusive – but point to fundamental shortcomings.
- When coupled with state and local programs, they may have a greater impact on labor markets than just state programs alone.
- According to the Government Accountability Office, 88
 percent of investors claim they would not have made the
 same investment had it not been for the NMTC.*
- More than \$31 billion has been invested in low-income areas through the NMTC. Additionally, estimates show that the NMTC generates more than \$8 of capital for every \$1 in federal subsidies.*



U.S. Entrepreneurship Hit An All-Time Low

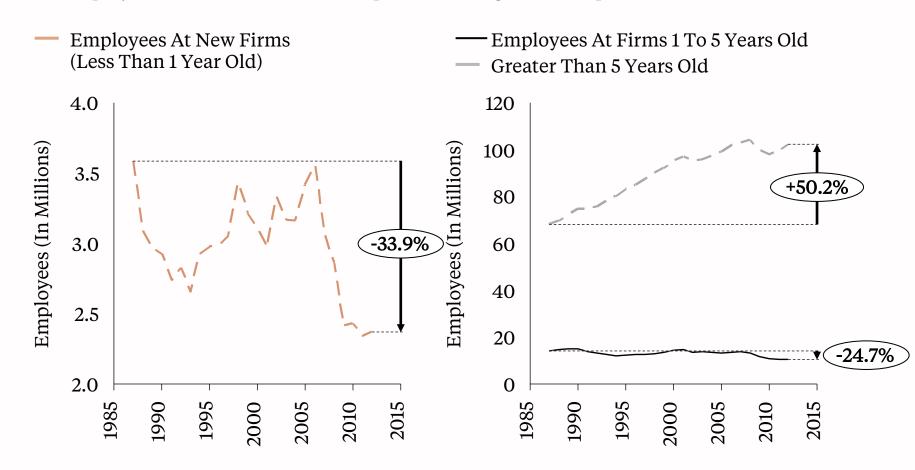
Over the past several decades, the economic activity of the private sector has become
increasingly concentrated in older firms. The recession exacerbated this problem,
bringing U.S. entrepreneurship to an all-time low. Today, startups represent their
smallest share of total U.S. firms since data collection began.





Workers At New Firms Has Declined By A Third

• Since 1987, the number of employees at older firms increased over 50 percent. Employees at new firms fell over 33 percent during this same period.

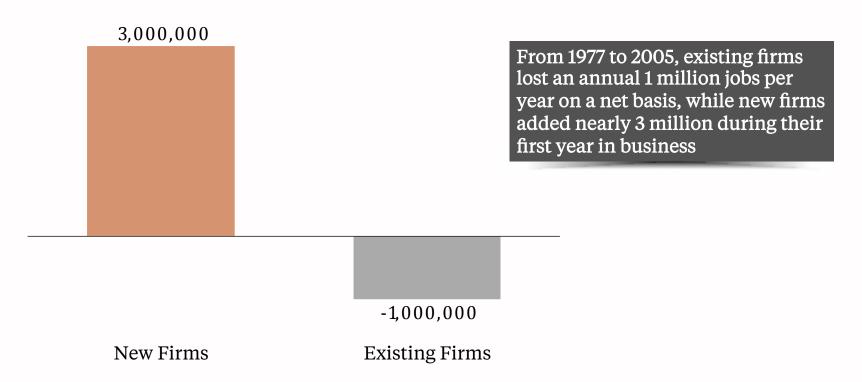




New Firms Are Net Job Creators

• While large firms account for a significant portion of gross job growth, startups account for the majority of net job growth as well as 30% of gross job growth. Net job growth takes into account both hires and layoffs.

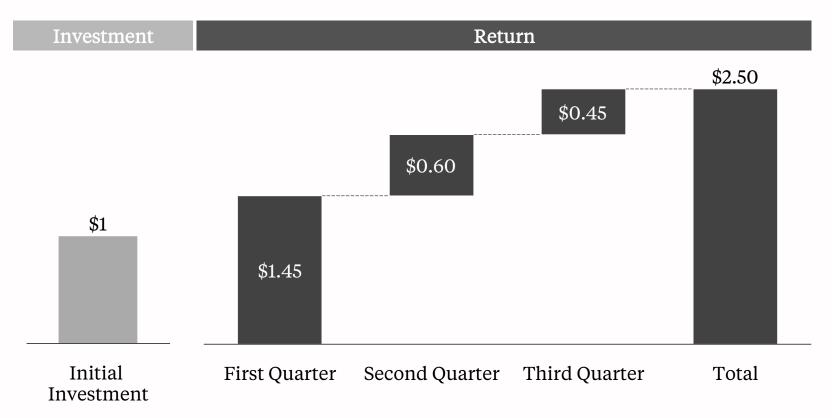
Annual Net Jobs Created (Startups versus Existing Firms)





Infrastructure Spending Yields Significant Gains...

• According to CBO estimates, an increase of \$1 in federal infrastructure spending in one calendar quarter has the potential to raise GDP by \$2.50 over the next several quarters. The economic impact of infrastructure investing is large.





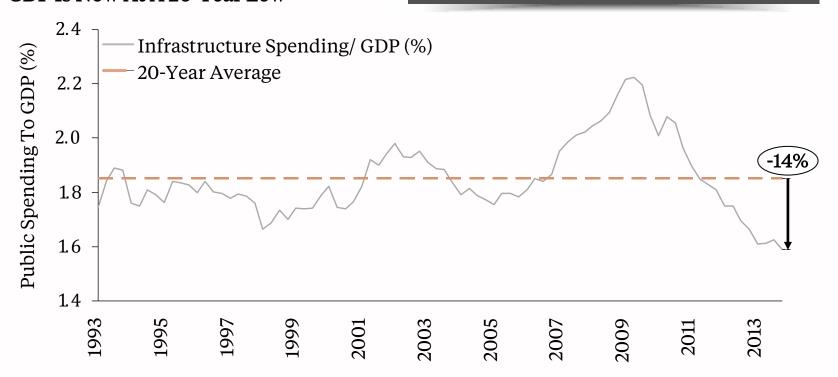
...Yet Infrastructure Investment Is At 20-Year Low

• The federal government's fiscal woes and the political gridlock in Washington have been putting the squeeze on infrastructure funding.

Public Infrastructure Spending To GDP Is Now At A 20-Year Low

While infrastructure spending increased in 2009, it was during the depths of the recession with declining economic growth; it has since fallen below historical levels

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Source: St. Louis Fed

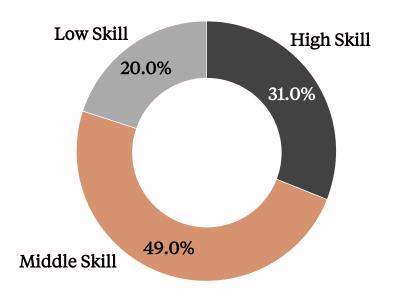


U.S. Employers Demand Higher Skills And Are Spending More On Training...

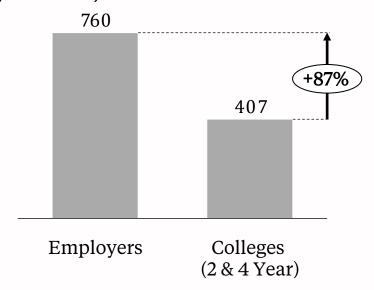
 Middle skills – defined as skills requiring training beyond high school – are becoming more important in the economy. Employers have begun to fill the need for these skills by providing their own formal and informal training.

Employees are increasingly required to have training beyond high school. Between 2012-2022, roughly half of all job openings are projected to require middle skills...

...and **training** is coming from a variety of sources. Employer spending on skills now outpaces total spending by colleges and universities on education.



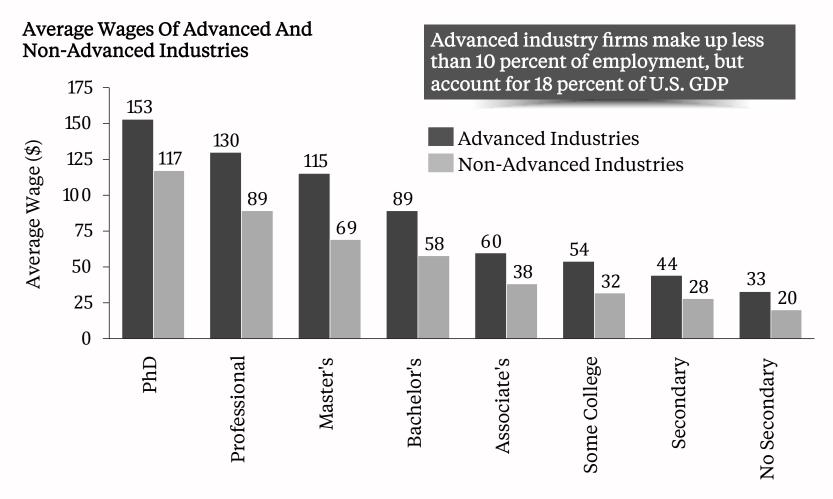
Annual Spending On Training & Education (\$ In Billions)





...Although Advanced Industries Pay More Regardless Of Skills

• Workers in advanced industries benefit from higher wages, and it's not just the sectors' highest skilled workers; less skilled workers benefit as well.



Source: Brookings



Identifying The Policy Opportunities

• EIG's focus is on the issues that can drive new business formations and capital investment, while offering the highest potential for bipartisan alignment.

Politically Viable

- Bipartisan
- Federal & States
- Within Budget

Economic Impact

- Startups
- Job Creation
- Dynamism

Distressed Investing

 Unlocking sustainable private investment in economically distressed regions

New Business Formation

 Creating an ecosystem for new businesses to form and thrive

Public Infrastructure

Policy Opportunities

 Pursuing innovative funding models for infrastructure modernization

Workforce Development

 Promoting creative approaches to modern workforce development