

# MIDDLE CLASS ECONOMICS: ANALYZING COMPETING SOLUTIONS USING *REMI PI+*

what does *REMI* say? <sup>sm</sup>

Presented by Dr. Frederick R. Treyz, Chief Economist and CEO

# Agenda



- The State of the Middle Class
- The Politics of Middle-class Economics
- Nonpartisan Evaluations of Alternatives
- Dynamic Economic Impact Analysis
- Past Examples of Impact Analysis
- REMI PI+ Methodologies

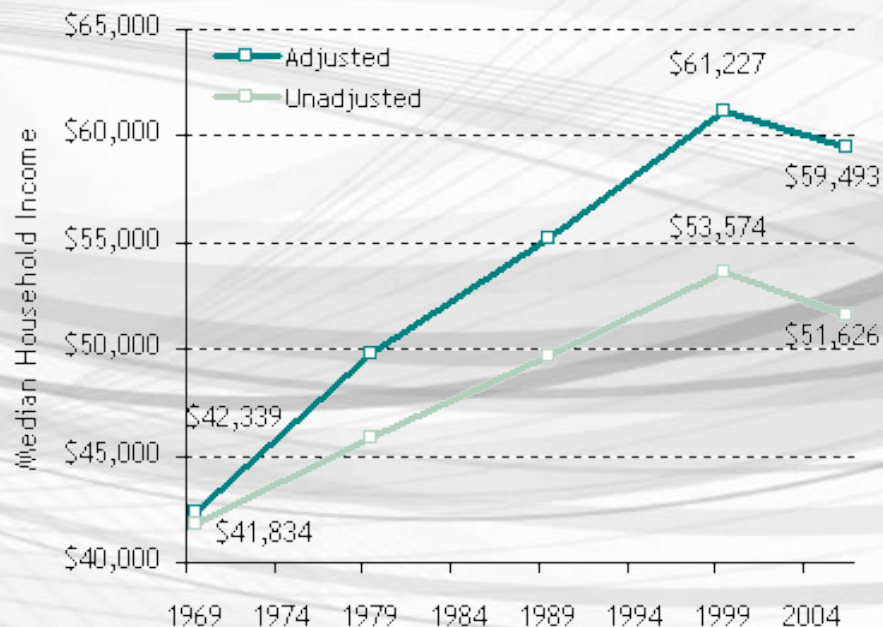
# Middle-class Economics



Even before the Great Recession, the median household income had declined after peaking in 1999.

*The median income looks better when adjusted for household size, but both figures show the same downward trend.*

Median Household Income, Unadjusted and Adjusted for Household Size: 1970-2006



Source: Pew Research Center

# No Recovery

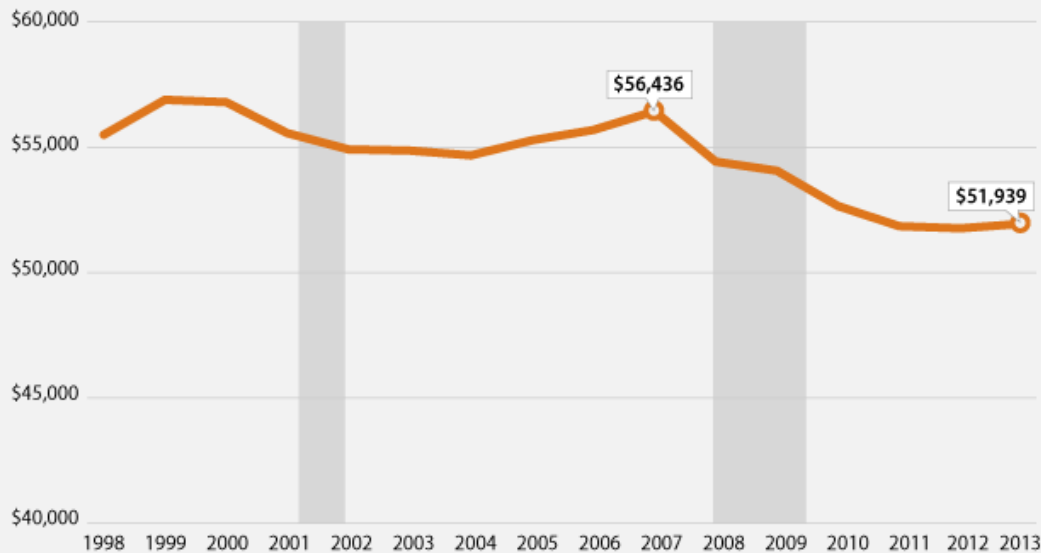


Even as the economy has improved, median household income has failed to rebound after the Great Recession – let alone return to its 1999 peak.

FIGURE 1

## Median household income remains far below pre-recession levels

Median household income, 2013 dollars



Note: Shaded bars indicate recessions as defined by the National Bureau of Economic Research.

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Graphic from Center for American Progress, based on census data

# Income Inequality

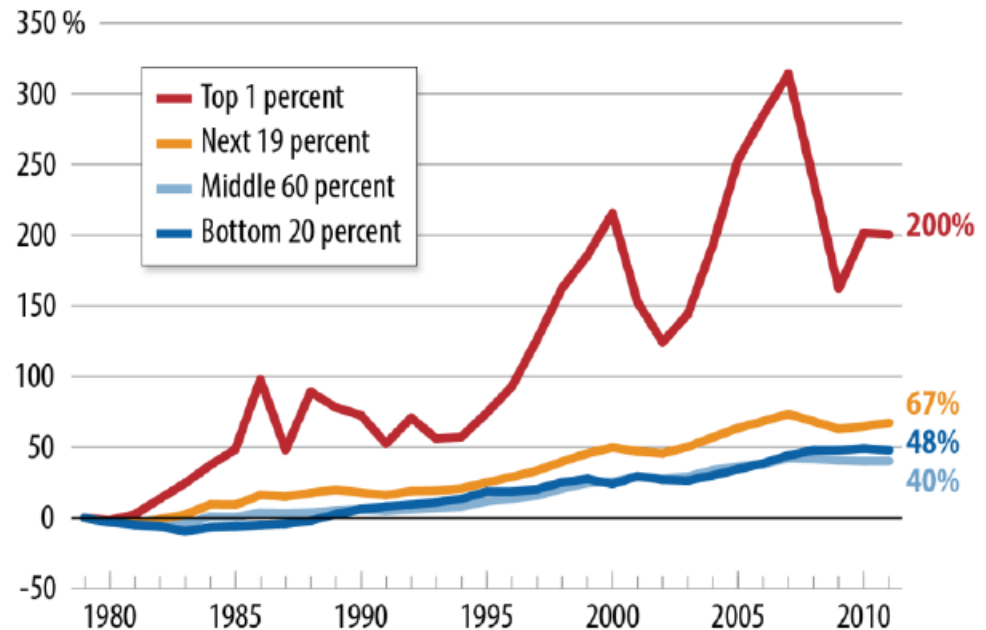


*Between the end of the Second World War and early 1970s, middle-class households shared in income gains.*

*For the past 30-plus years, though, the top 1% enjoyed much stronger income gains than the middle class.*

## Income Gains at the Top Dwarf Those of Low- and Middle-Income Households

Percent change in real after-tax income since 1979



Source: Congressional Budget Office

Graphic: Center On Budget and Policy Priorities



# Causes of Inequality



- *A number of trends are cited as possible contributing factors to income inequality:*
  - ▣ *Globalization:* Competition reduces demand and compensation for low-wage labor
  - ▣ *Technology:* Technological advances impact workers in different ways depending on their education and skill level
  - ▣ *Decline in private-sector unionization:* Employees have less bargaining power than in the past
  - ▣ *Family Structure:* Changes in family structure have led to more inequality
    - Family structure has shifted since 1960s with more two-earner families and more single-parent households
    - Unmarried parents' median family income grew **slower** than married parents from 1979 to 2012 (**16%** for unmarried parents vs. **30%** for married parents)
    - At same time, unmarried parents became a greater share of all families with children, from **22%** to **34%**
  - ▣ *Political favoritism:* Critics on both left and right warn that the political system is rigged for the well connected and against the middle class

# Political Agenda



Politicians from both sides of the spectrum are acknowledging middle-class families' **economic anxieties**.

*"That's what middle-class economics is – the idea that this country does best when everyone gets their fair shot, everyone does their fair share, and everyone plays by the same set of rules."*

- President Obama, State of the Union address


*"Far too many Americans live on the edge of economic ruin. And many more feel like they're struck in place, working longer and harder, even as they're losing ground."*

– Former FL Gov. Jeb Bush, Detroit Economic Club speech

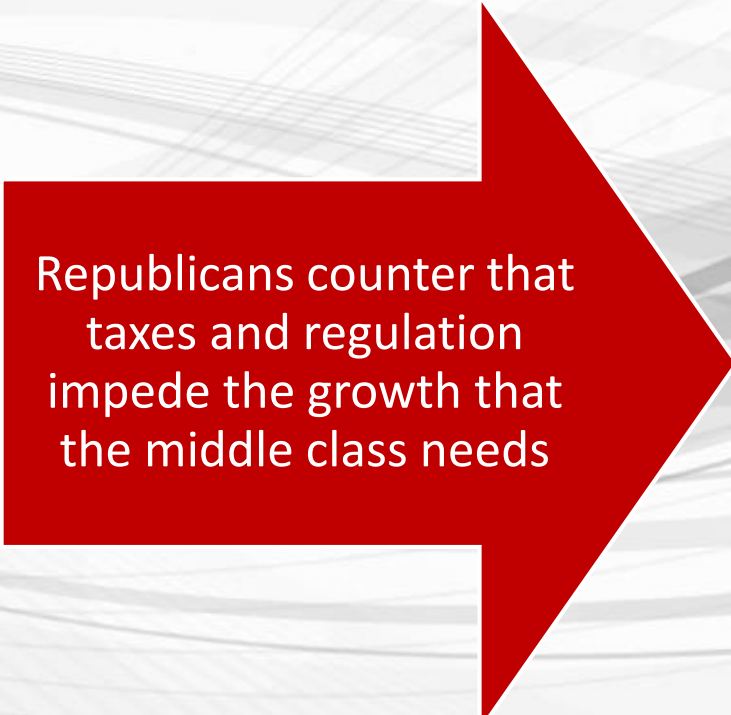
# What to do?



**While both parties talk about *middle-class economics*, they offer competing solutions:**



Democrats focus on new programs, paid for by taxes on the wealthy and corporations



Republicans counter that taxes and regulation impede the growth that the middle class needs



# Competing Solutions



David Brooks, a columnist for *The New York Times*, says recent policy prescriptions from former **Treasury Secretary Lawrence Summers**, a Democrat, and **Sen. Marco Rubio**, a Florida Republican, suggest both parties are adjusting the present economic challenges.

Commission on Inclusive Prosperity, co-chaired by Lawrence Summers	Sen. Marco Rubio, “Finding Economic Security in an Insecure Time” Lecture
Encourage profit sharing and ESOPs through expanded tax incentives	Promote higher education alternatives through accreditation reform
Increase minimum wage to keep full-time workers out of poverty	Consolidate federal anti-poverty spending into a flexible fund available to states
Invest more in infrastructure to provide jobs and support competitiveness	Encourage contributions to private school scholarships through tax credits
Improve employer-employee cooperation through works councils	Increase per-child tax credit from \$1,000 to \$2,500

# Evaluating “middle-class economics”



The White House is advocating a range of proposals based on what President Obama calls “*middle-class economics*”. The impacts of each plan requires careful analysis.

Child Care Tax Credits	Long-term Transportation Project Funding
Free Community College	Connecting Veterans with Jobs
Close Trust Fund Loophole	Minimum Wage
Increase Capital Gains Tax Rate	Guaranteed Sick Leave
Expand Access to High-Speed Internet	Health Care Coverage
Support Scientific Research	Ability to Buy Home

# Assessing Other Options



*“You can’t redistribute your way to economic growth.”*

- Thomas J. Donohue, president and CEO of the U.S. Chamber of Commerce, statement on the Obama Administration’s budget proposal

Some business leaders and policy makers criticize the White House’s proposed FY2016 budget for increasing spending and taxation. They offer ideas they say are more likely to expand the economy and provide jobs.

## Alternative recommendations:

- ☐ *Less regulation*
- ☐ *Simpler tax code*
- ☐ *Free trade agreements*
- ☐ *Approval of Keystone pipeline*

- Economic modeling can be used to weigh pros and cons of competing policy solutions
- PI+: Our tool for evaluating economic impacts over time
  - ▣ Can simulate the potential effects of different policies designed to help the middle class

# Impact Analysis



- What if the government increased the capital gains tax rate?
  - ▣ What would be the economic impact of investing new revenue in infrastructure projects or other policies?
  - ▣ Would the tax change crowd out or discourage private investment?
  - ▣ Economic impact analysis can show if the new public investment would more than offset any loss in private investment.



# Impacts of Major Policies



**AUTO BAILOUT** - "It's estimated that we would have lost another million jobs if we had not stepped in."  
*President Obama, from remarks at GM plant, 7/30/10*

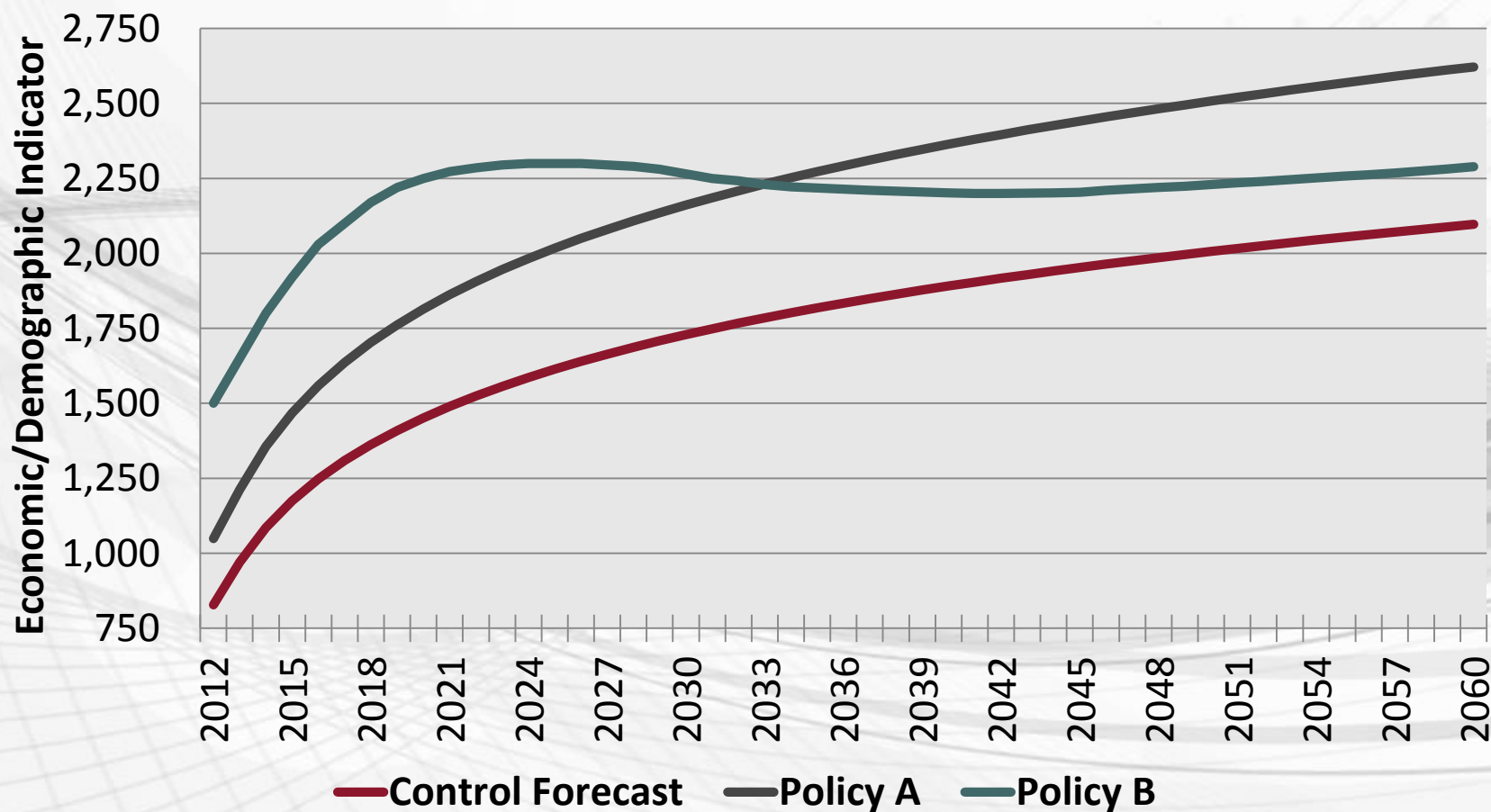
**MEDICAID EXPANSION** - "Every few days, state hospital associations and advocates for poor people issue reports asserting that the economic benefits of expanding Medicaid would outweigh the costs. The existence of such a report was a decisive factor in Ohio, where Gov. John R. Kasich decided to embrace an expansion...." *New York Times, 2/22/13*

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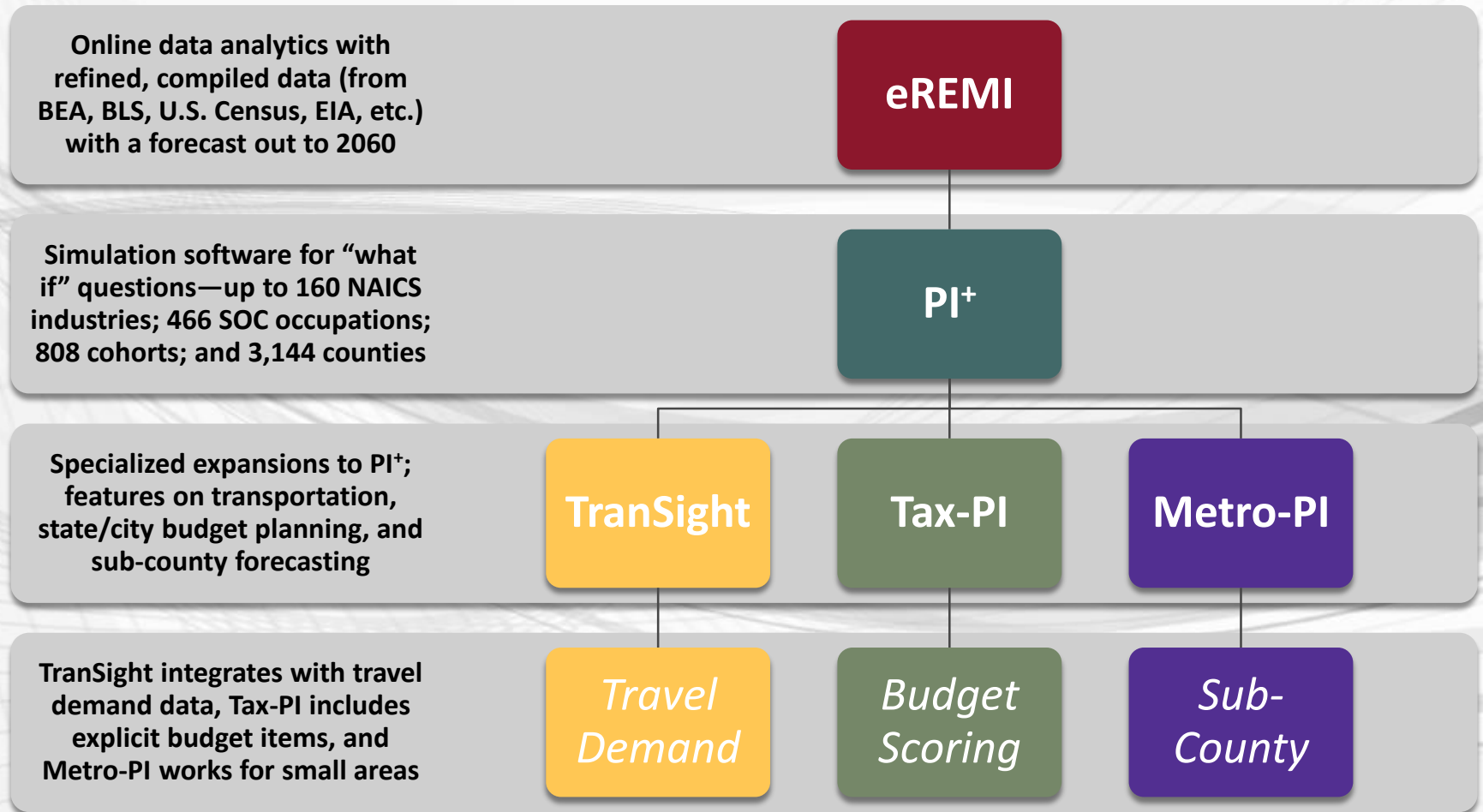
**SMALL BUSINESS TAX RELIEF** – "This common-sense bill has the potential to create up to 200,000 new jobs and it passed the House with bipartisan support. The president ought to seriously consider that before he carries out his threat to veto the measure." *Speaker John Boehner, citing NFIB analysis of a bill increasing the maximum Section 179 deduction, 2/13/15*

**IMMIGRATION REFORM** - "Independent studies affirm that commonsense immigration reform will increase economic growth." *The White House's official blog, citing REMI's immigration reform research, 8/1/13*

# Analytical Framework



# Modeling Tools



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# Regional Customizations



- How REMI defines model regions:
  - A county (or equivalent statistical unit) or...
  - A collection of counties
    - e.g. an MSA or a state
    - Can cross state borders
  - Multiple regions
    - No requirement for contiguousness
  - Customized by needs



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# Four Methodologies



## Input-Output (IO) Tabulation

- Industry-to-industry transactions and social accounting matrices (SAM)
- Supply-chains, regional purchase concepts (RPCs), and multipliers



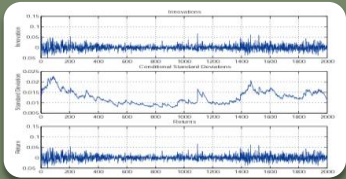
## Computable General Equilibrium (CGE)

- Long-term effects after markets “clear” back to a new equilibrium
- Dynamic adjustments to population, market shares, fuel mixtures, etc.



## New Economic Geography

- Endogenous productivity adjustments from industry/labor clustering
- Full trade-flows by industry and interregional competitiveness

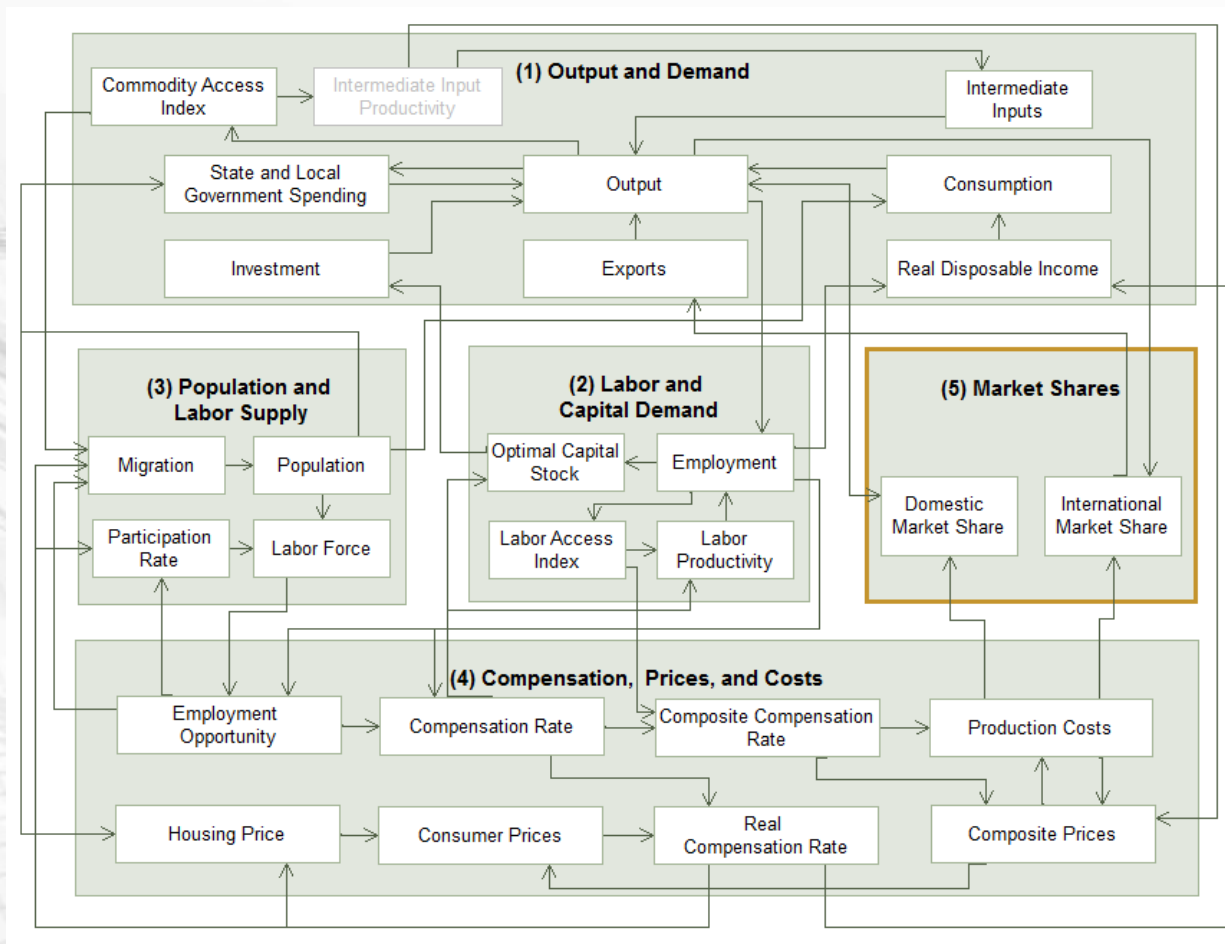


## Econometrics

- Estimation of statistical parameters from observable data
- Strength of responses, elasticities, preferences, and “time-lags”



# Model Structure



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