The Slow Growth Economy
Raising the Speed Limit

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Where Are We?

2016 at a glance

• 1.8 % real GDP growth
• 180,000 jobs per month
• Unemployment < or = 5%
• Household incomes and wealth are rising
• Inflation moving towards 2% objective

Outlook is for ongoing growth in 2017, 2018, …
The New Normal

Lower speed limits

• 1.7% - 2% real GDP growth
• 50,000-100,000 jobs per month
• Long-run Fed Funds Rate 2.8% - 3%

How did this happen?
Demographics

Potential GDP Growth

Source: Congressional Budget Office
And Productivity

Estimates suggest this could be lower
Americans Are Worried

Polls by Gallup, the Pew Charitable Trust and Politico suggest:

• Half of millennials say the American Dream is dead

• Only 52% of Americans say there is “plenty of opportunity”

• Only 47% of parents think their kids will have a higher standard of living than they enjoy

• Nearly 60% of parents think it will be harder for their kids to move up the economic ladder
We Can Raise The Speed Limit
Invest In Human Capital
How Will This Help?

Recall the Problems

• Slow labor force growth
• Slow productivity growth

Solutions

• Put more working age people to work
• Increase the skills/productivity of all workers
College Is Essential
Media Suggests Otherwise

• “Why a College Degree Doesn’t Matter Anymore” – *National Journal*, Real Clear Politics

• “10 More Reasons Why Parents Should Not Send Their Kids to College” – *Business Insider*

• “Why Kids Shouldn’t Go to College | James Altucher with Glenn Beck” – *The Blaze*, YouTube

• “PayPal Co-Founder Hands Out $100,000 Fellowships to Not Go to College” – *The Two-Way*, NPR
The Data Tell The Story
Graduates Earn More

Life-time earnings

$ millions

Bachelor's degree
Some college
High school

Have Lower Unemployment Rates

Unemployment rate by educational attainment

Source: BLS/Haver Analytics. Note: Unemployment rate shown is a 12 month moving average.
## More Job Opportunities

### Craigslist Jobs in Bay Area January 2016

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Count</th>
</tr>
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<tbody>
<tr>
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<tr>
<td>High School Degree</td>
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<tr>
<td>College Degree</td>
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</tbody>
</table>
Demand For College Degrees Rising

Demand for jobs by educational attainment

Source: Georgetown Center on Education and the Workforce
College Is The Ladder Up

Chances of getting to the top as an adult

- No College
- College

Percent

Source: PSID and author's calculations. Note: Percent of people who make it to the top quintile of the income distribution.
College Is An Investment
Very Competitive Return

Rates of return

Percent

16
14
12
10
8
6
4
2
0

Bachelor's degree

Stocks

Bonds

Source: FRBNY- Abel. Note: The rate of return for a bachelor's degree is defined as the average internal rate of return (the discount rate required to make the net present value equal to 0) in 2012. Stock and bond returns are average annual returns since 1950.
Average Breakeven Is Ten Years

Years to recoup the cost of college

Source: Federal Reserve Bank of New York - Abel
Leaving Talent On The Table
Future Workforce

2045 Predicted Population Shares

All Other Groups
38%

White and Asian
62%

Source: Pew Research Center
Room To Grow

Percentage of 25-29 year olds with at least a Bachelor's degree by race/ethnicity in 2015

Source: National Center for Educational Statistics
Benefits Of Closing The Gap

Improves potential growth of economy
• employ more of our working age population
• increase the skill level of our workforce

Protects the *American Dream*
• aspirations need evidence
References

Survey of Economic Projections, FOMC September 21, 2016


Abel, Jaison R., and Richard Deitz. 2014. "Do the benefits of college still outweigh the costs?." Current Issues in Economics and Finance 20, no. 3. (slides 13, 19, and 20)


References


http://www.cbo.gov/sites/default/files/cbofiles/attachments/44975-StyleGuide.pdf (slides 4 and 5)

http://nces.ed.gov/programs/coe/indicator_caa.asp (slide 23)