



FEDERAL RESERVE BANK
OF SAN FRANCISCO

The Slow Growth Economy Raising the Speed Limit

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Mary C. Daly

Senior Vice President and Associate Director of Research
Federal Reserve Bank of San Francisco

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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

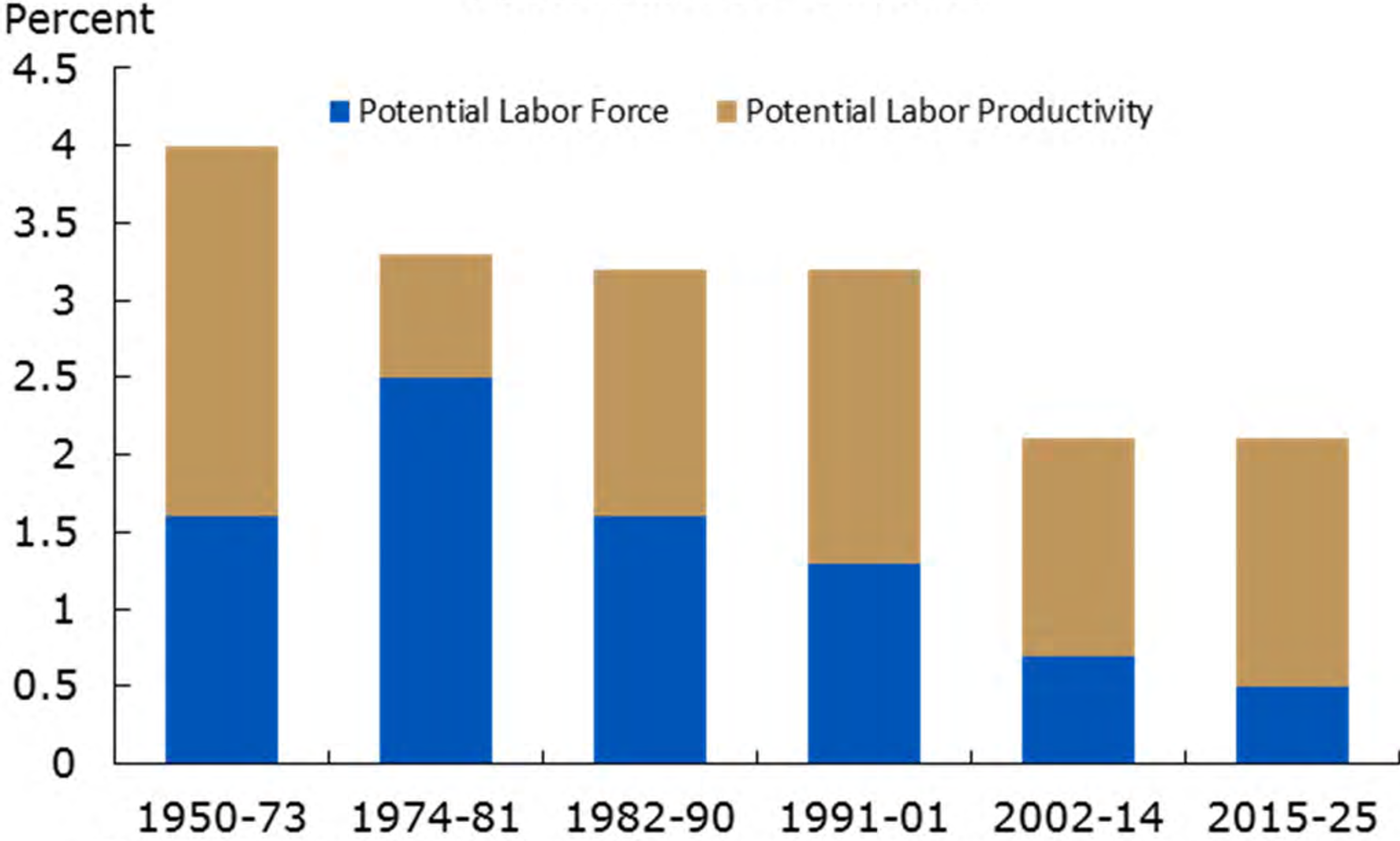
- 1.7% - 2% real GDP growth
- 50,000-100,000 jobs per month
- Long-run Fed Funds Rate 2.8% - 3%



How did this happen?

Demographics

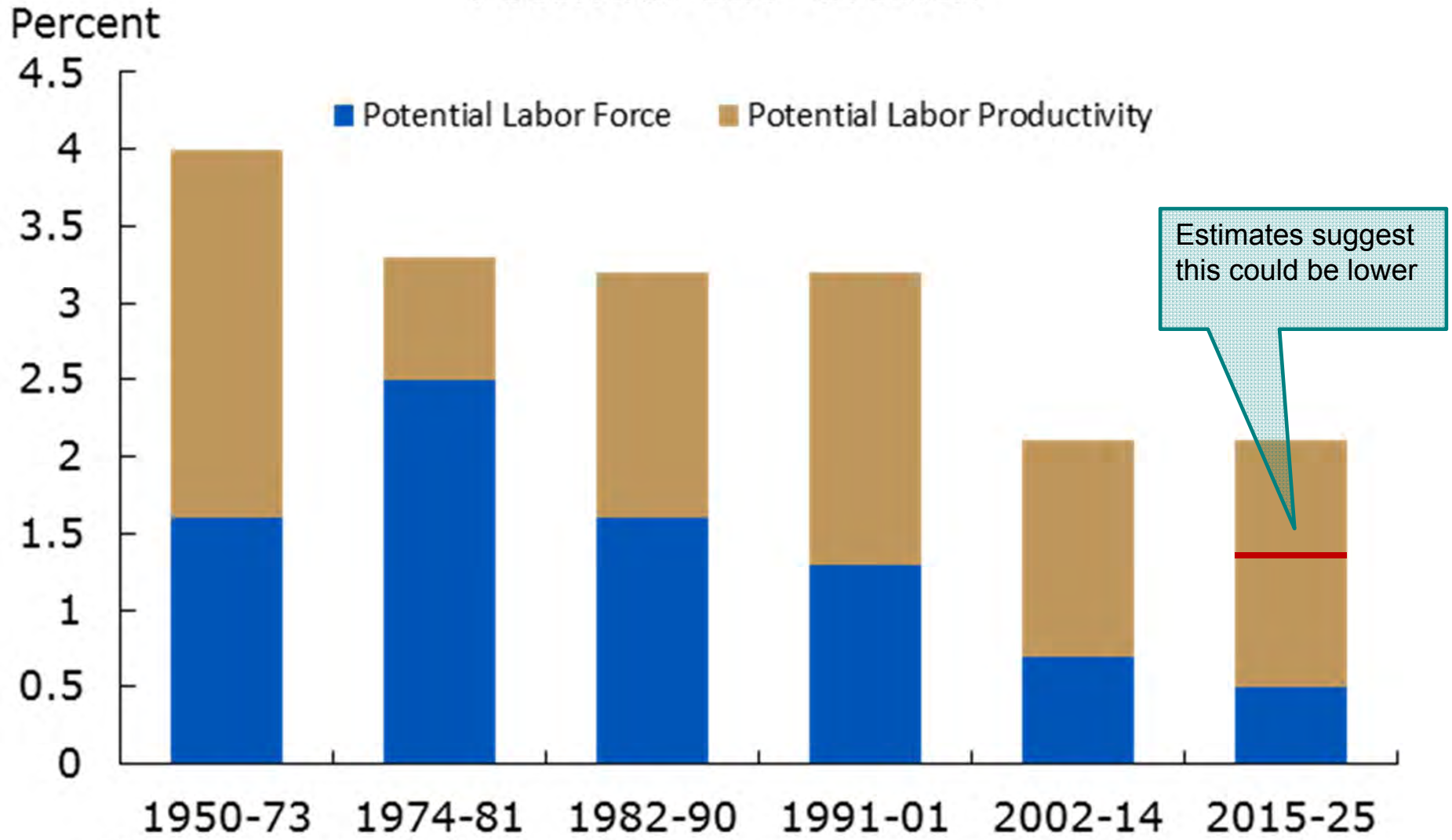
Potential GDP Growth



Source: Congressional Budget Office

And Productivity

Potential GDP Growth



Source: Congressional Budget Office

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

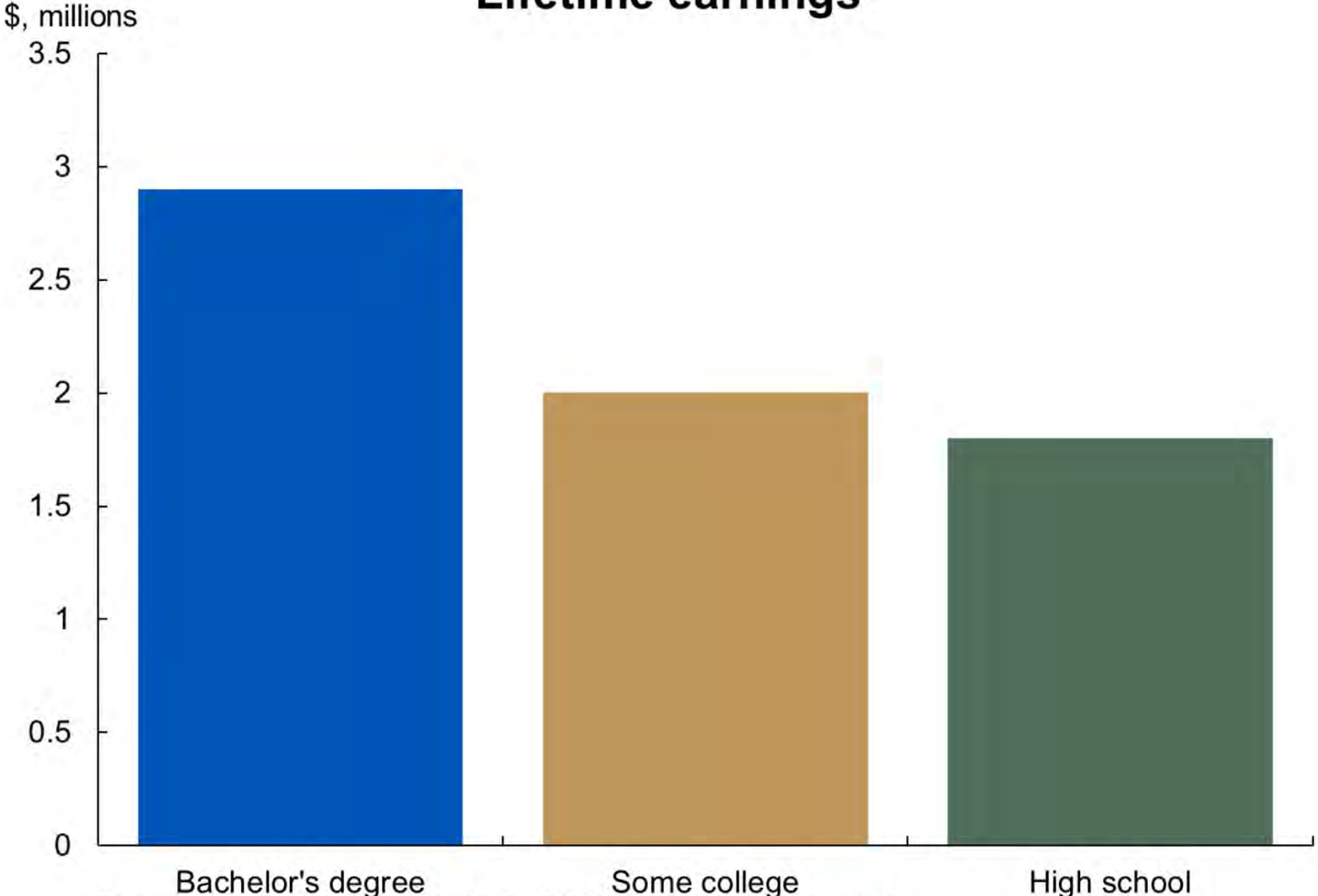
Media Suggests Otherwise

- “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

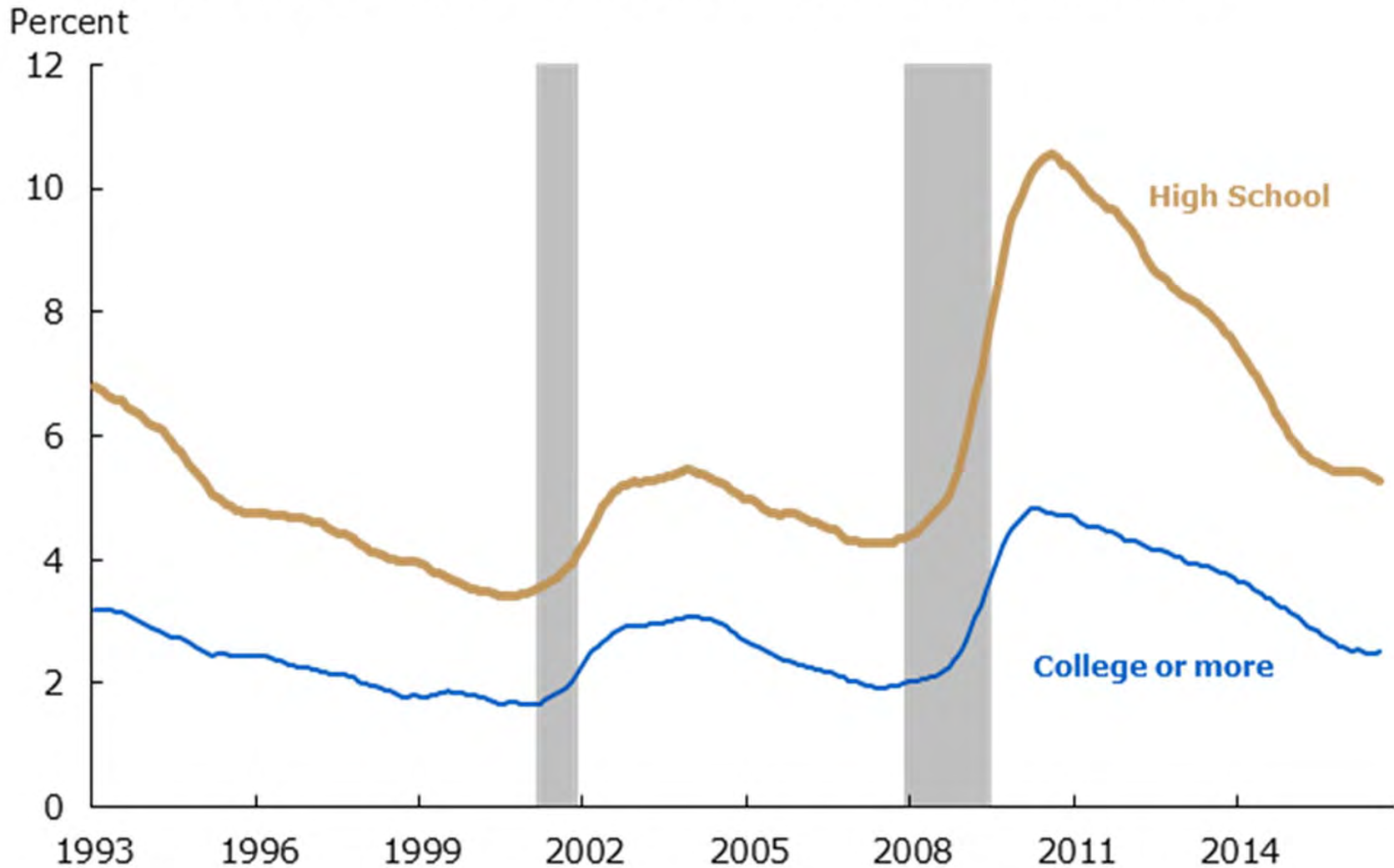
Lifetime earnings



Source: Federal Reserve Bank of New York - Abel. Notes: Average, full-time workers.

Have Lower Unemployment Rates

Unemployment rate by educational attainment



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

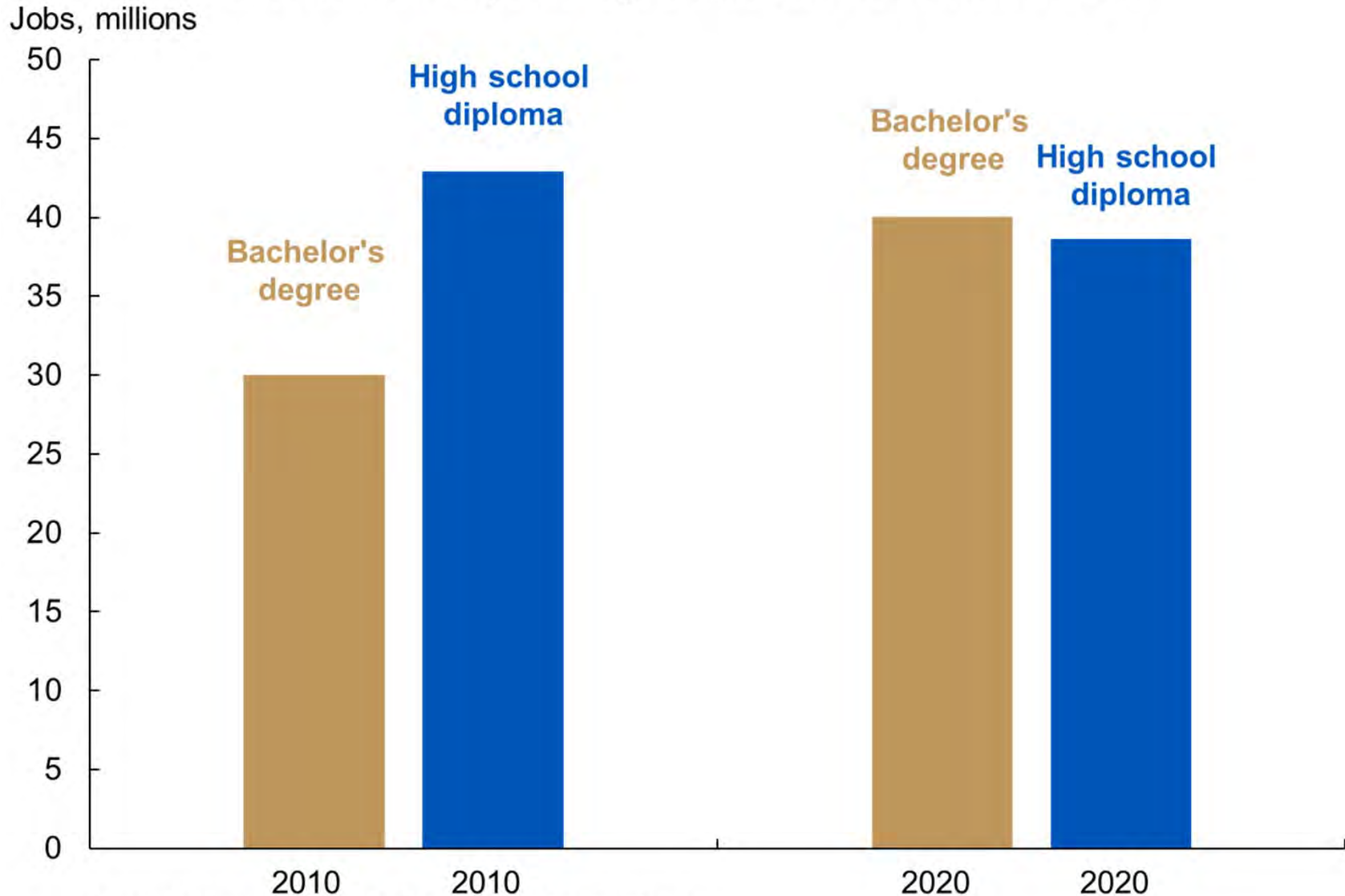
More Job Opportunities

Craigslist Jobs in Bay Area January 2016

GED	936
High School Degree	1,948
College Degree	3,327

Demand For College Degrees Rising

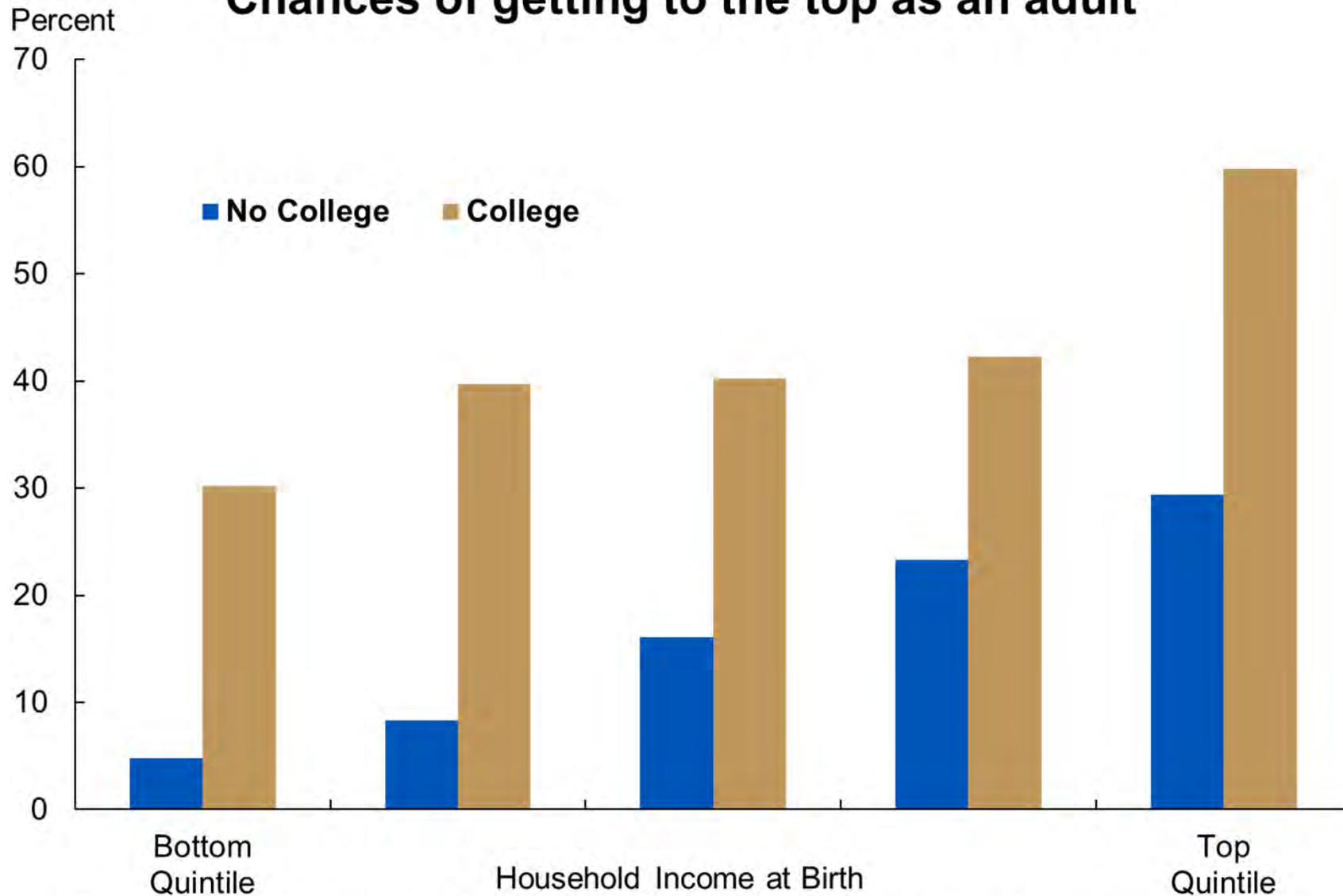
Demand for jobs by educational attainment



Source: Georgetown Center on Education and the Workforce

College Is The Ladder Up

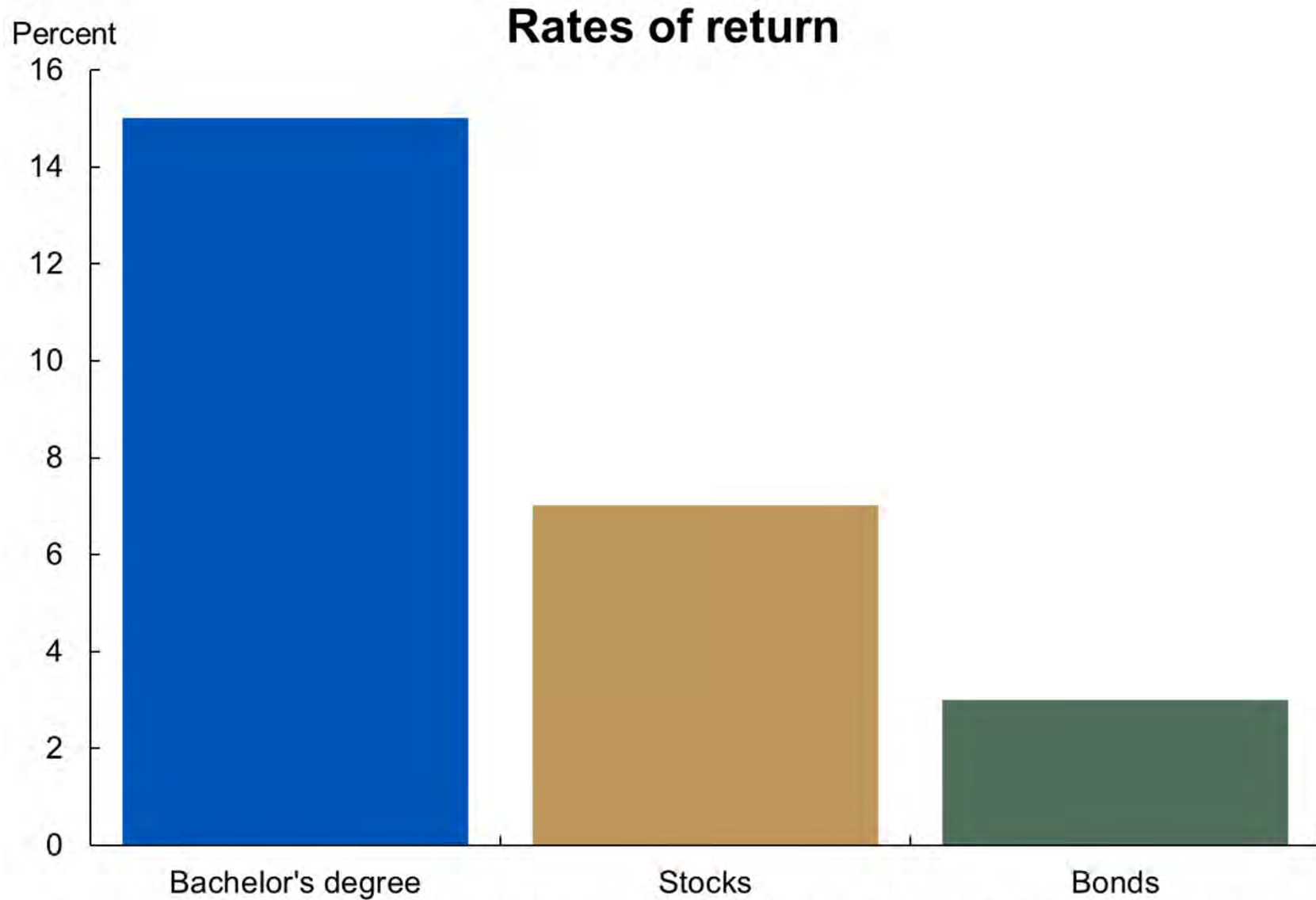
Chances of getting to the top as an adult



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

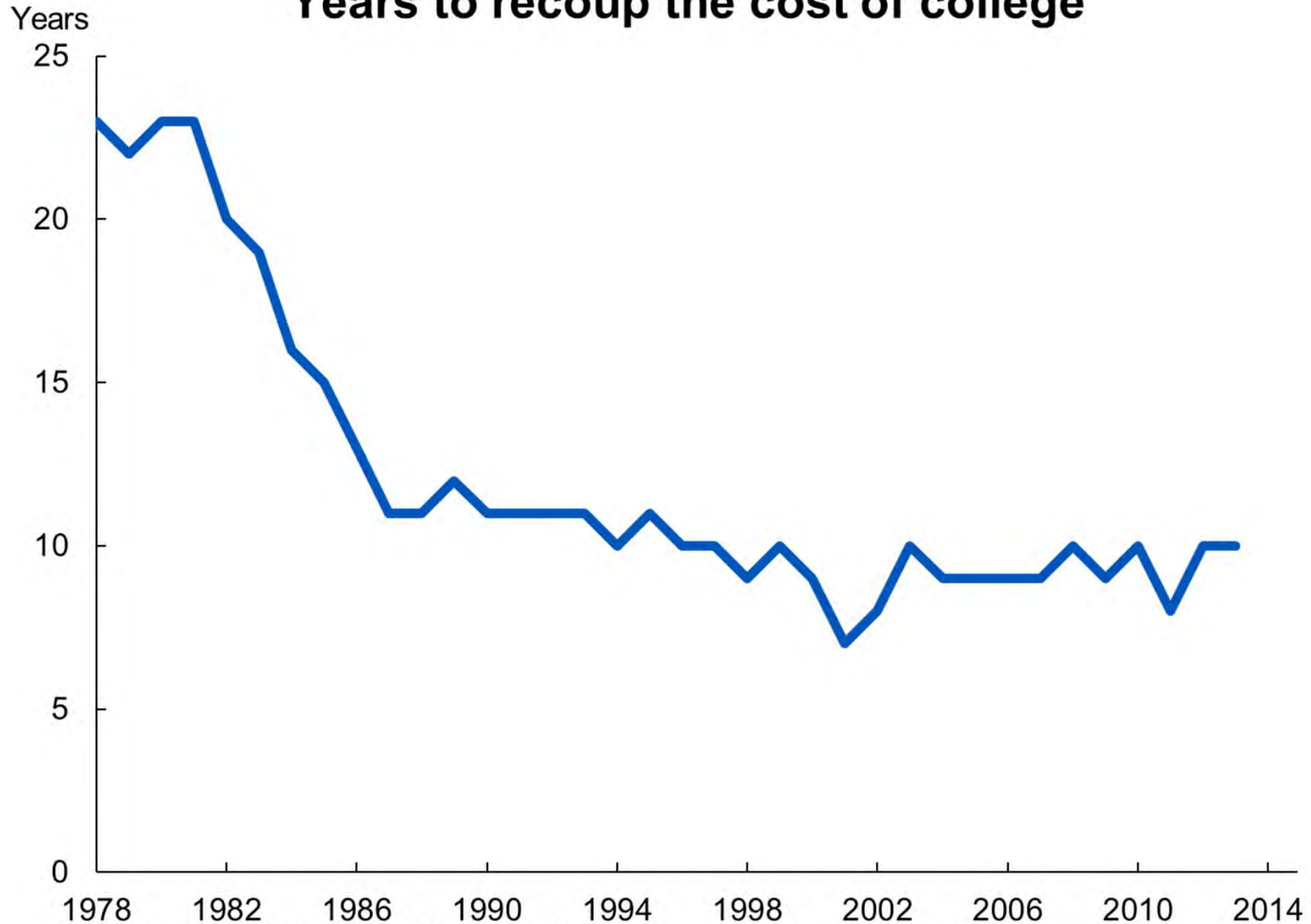
Very Competitive Return



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

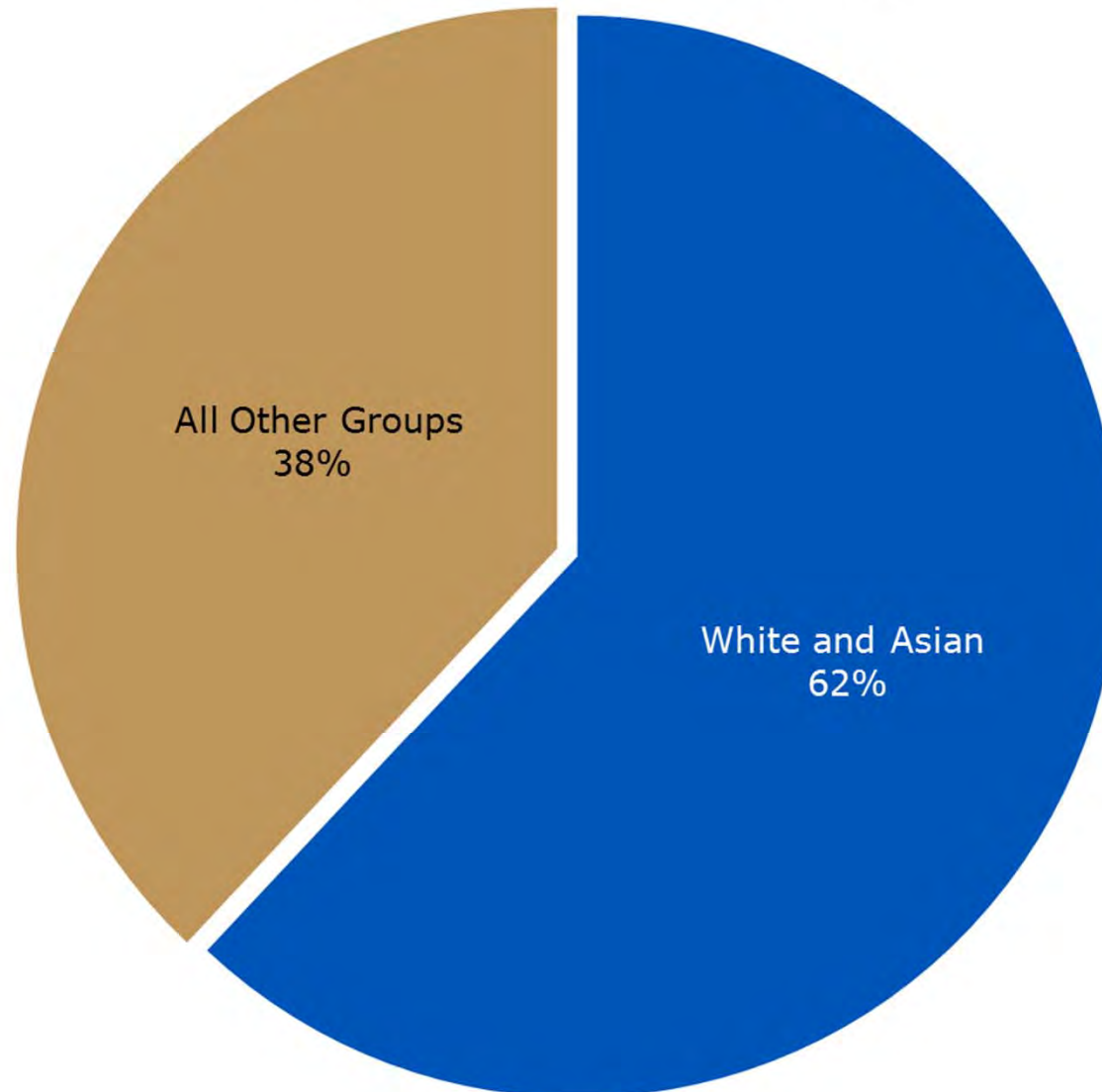


Source: Federal Reserve Bank of New York - Abel

Leaving Talent On The Table

Future Workforce

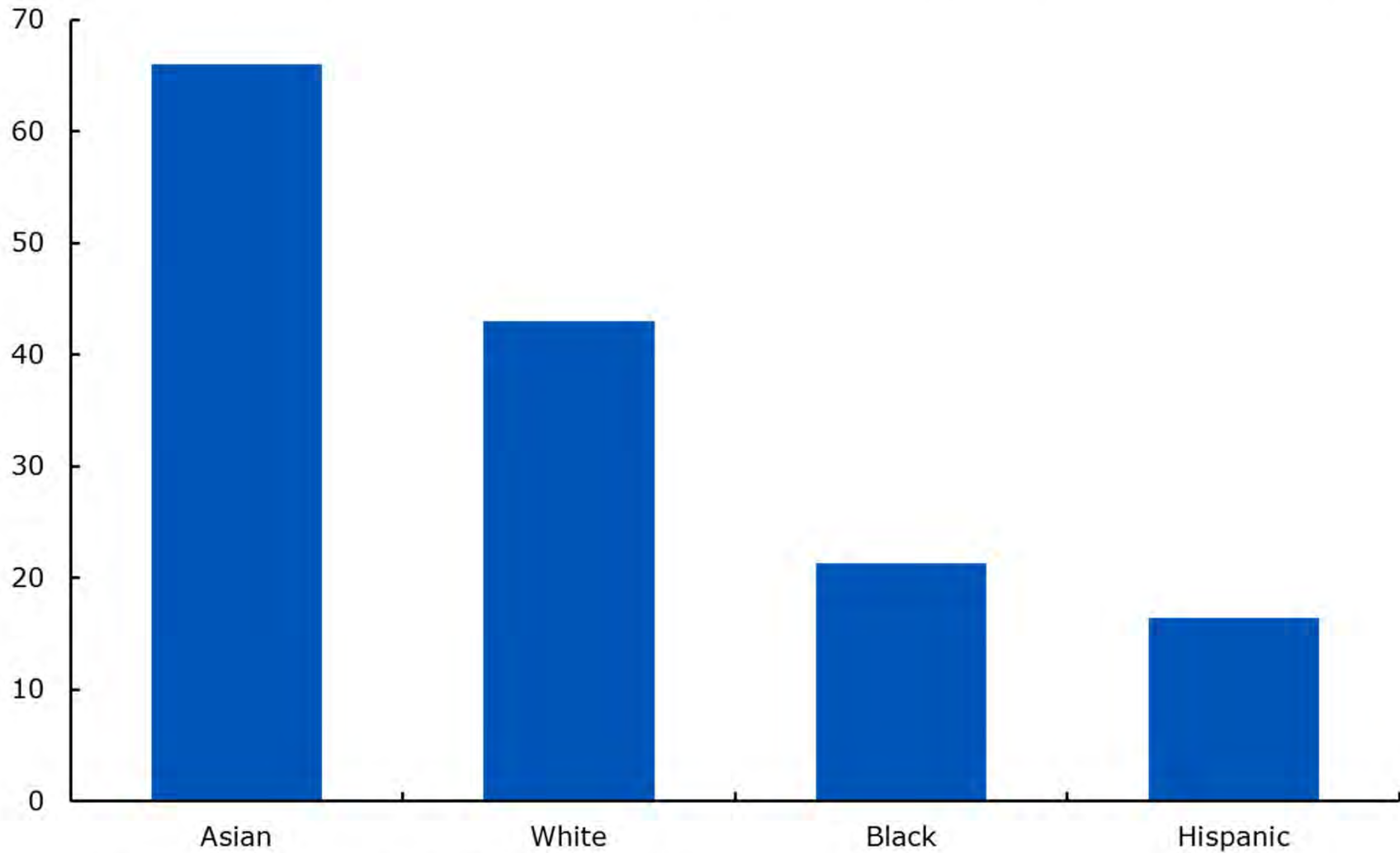
2045 Predicted Population Shares



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
Percent



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

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(slide 3)

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