CHAPTER 1

MIDDLE-CLASS ECONOMICS: THE ROLE OF PRODUCTIVITY, INEQUALITY, AND PARTICIPATION

As the 2015 *Economic Report of the President* goes to press, the U.S. economic recovery continues to accelerate. The economy grew at an annual rate of 2.8 percent over the past two years, compared with 2.1 percent in the first three-and-one-half years of the recovery. The speedup is particularly clear in the U.S. labor market, where the pace of job gains has improved each year since President Obama took office. The American private sector has created 11.8 million new jobs over 59 straight months, the longest streak on record. 2014 was the best year for overall job growth since 1999, ushering in 3.1 million new jobs, and the unemployment rate fell 1.3 percentage points between 2013 and 2014, the largest decline in three decades. A reduction in long-term unemployment, one of the economy's major post-crisis challenges, accounts for most of the fall in the unemployment rate.

As the U.S. recovery has progressed, the economy has grown in a more sustainable way than before the global financial crisis began. In fact, the United States has improved several structural imbalances that jeopardized the economy's stability prior to the crisis. The domestic energy production boom has reduced U.S. dependence on foreign oil, helping to narrow the current account deficit and reduce U.S. dependence on foreign borrowing. Health-care prices have been growing at the lowest rate in nearly 50 years. The Federal Budget deficit has fallen at the fastest pace since the post-World War II demobilization, and households are spending less of their income servicing debts than they have in decades.

But one key benchmark of the economy goes beyond increases in national income accounts and decreases in financial deficits: the well-being of the middle class and those working to get into the middle class.

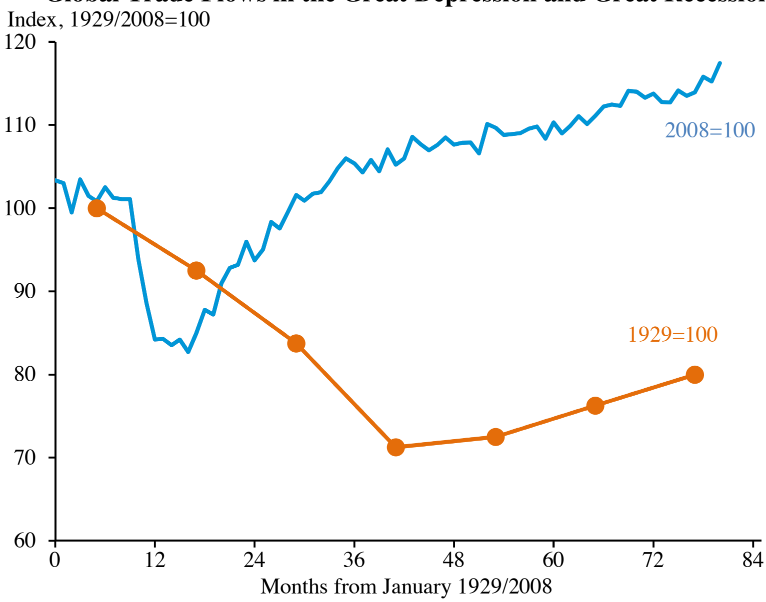
It is essential that a broad range of households share in the United States' resurgent growth. This year's *Report* views the recovery through the lens of the typical middle-class American family. It begins with a review of recent economic progress and provides historical and international context for the key factors impacting middle-class incomes: productivity growth, labor force participation, and income inequality. The President's approach to economic policies, what he terms "middle-class economics," is designed to improve these elements and ensure that Americans of all income levels share in the accelerating recovery.

The Progress of the U.S. Economic Recovery

After the global financial crisis, the United States and many other countries faced obstacles to recovery that were more challenging than those posed by a normal cyclical recession. Despite being hit particularly hard by the financial crisis, the United States has recovered faster than many of its developed-world counterparts. The recession began with a collapse in household wealth and global trade that initially exceeded the declines at the onset of the Great Depression, as shown in Figure 1-1a and Figure 1-1b. The headwinds to recovery included weak bank balance sheets that constrained credit supply, highly indebted consumers that constrained credit demand, and substantial investment overhang in key cyclical sectors such as housing.

Figure 1-1a

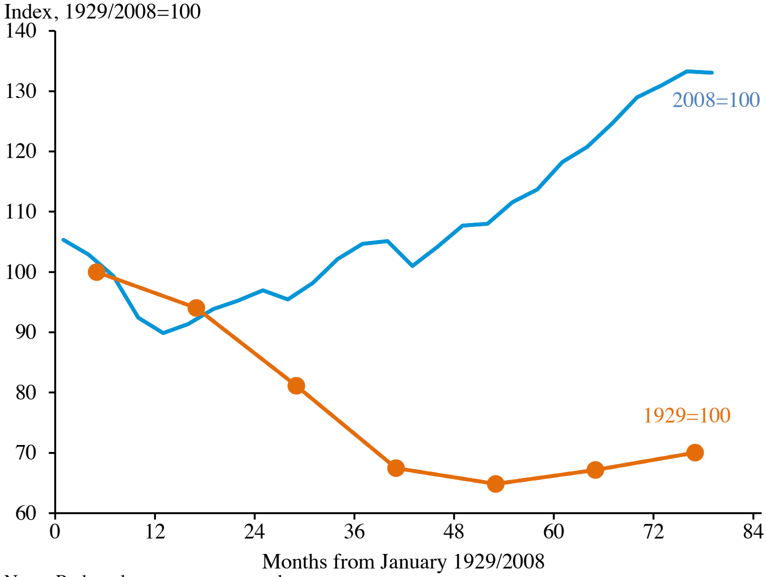
Global Trade Flows in the Great Depression and Great Recession



Note: Red markers represent annual averages.
Source: CPB World Trade Monitor; Statistical Office of the United Nations.

Figure 1-1b

Household Net Worth in the Great Depression and Great Recession



Note: Red markers represent annual averages.
Source: Federal Reserve Board of Governors; Mishkin (1978).

Table 1-1

Components of U.S. Real GDP Growth, Percent Change at an Annual Rate

	Start of Recovery (2009:Q2-2012:Q4)	2013 and 2014 (2012:Q4-2014:Q4)
Gross Domestic Product	**2.1**	**2.8**
Consumer Spending	2.0	2.8
Business Fixed Investment	5.2	5.1
Residential Investment	5.9	4.7
Exports	7.4	3.5
Imports	6.8	3.9
Federal Government	- 0.6	- 3.1
State & Local Government	- 2.2	1.1

Source: Bureau of Economic Analysis, National Income and Product Accounts.

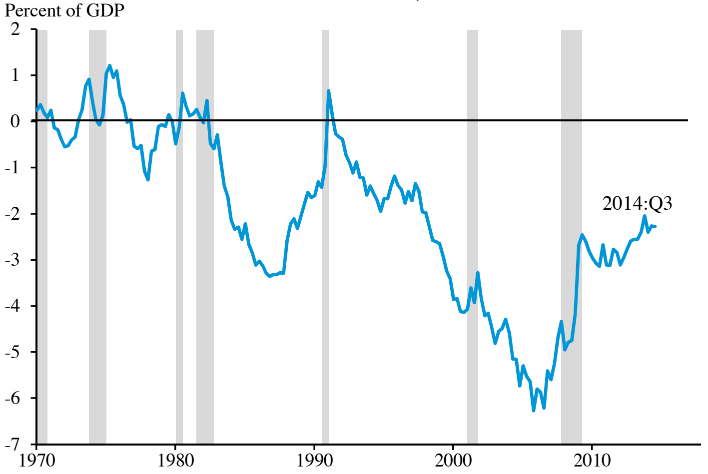
Box 1-1: Macroeconomic Rebalancing

A broad set of economic structural imbalances that pre-dated the financial crisis have improved in the recovery. The United States has reduced its indebtedness on four levels: in international trade (as a net recipient of global capital flows), in gross national saving (as a result of reduced Budget deficits), in the household sector, and in the private-business sector. On top of recent acceleration in U.S. output and employment growth, these structural improvements lay the foundation for more sustainable growth beyond the current business cycle.

On the international side, the current account deficit as a share of GDP—a measure of U.S. net transactions with the rest of the world in goods, services, and income—increased steadily for nearly two decades, but fell in the Great Recession and has continued to drift down in the recovery. Recently, the deficit fell to the smallest share of GDP since the 1990s. Drivers of the recent decline include the domestic energy production boom and an increase in domestic saving that has reduced the U.S. need for foreign financing.

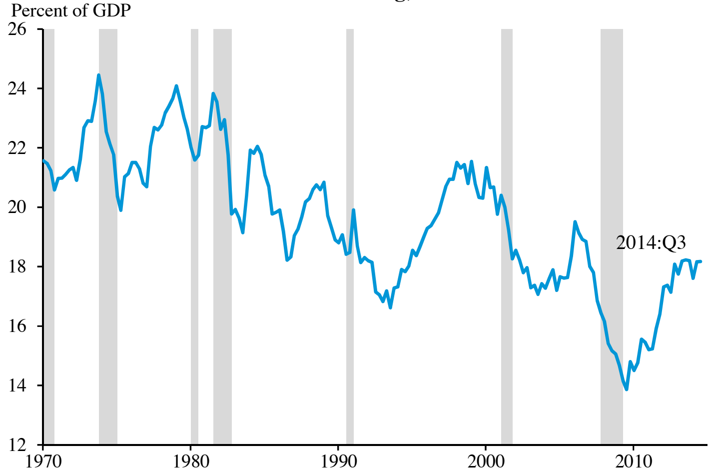
Domestically, gross saving has increased as a share of the economy, driven by the reduction in Federal dissaving amid the fastest pace of deficit reduction since the demobilization after World War II. The pace of discretionary spending reductions was faster than optimal, creating challenges for growth. However, when taken together with factors such

Figure 1-i
Current Account Balance, 1970–2014



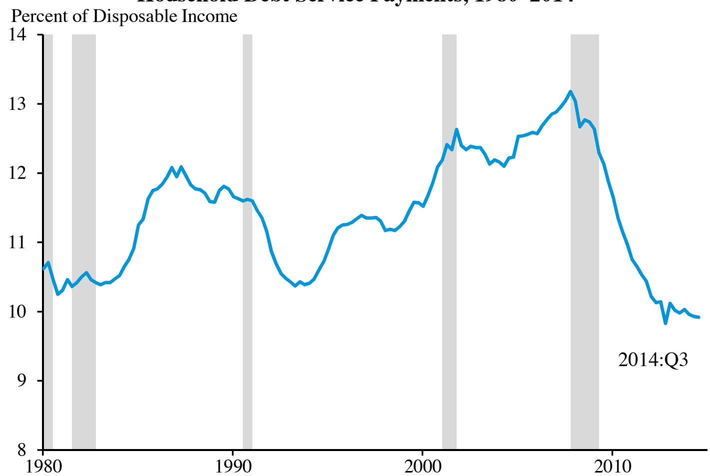
Note: Shading denotes recession.
Source: Bureau of Economic Analysis, U.S. International Transactions.

Figure 1-ii
Gross National Saving, 1970–2014



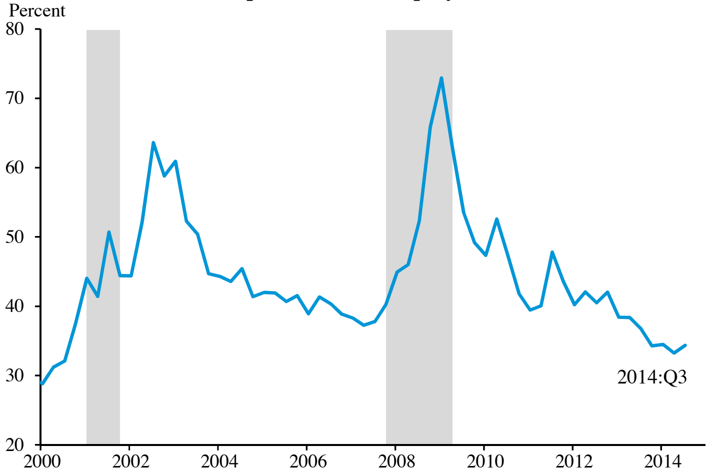
Note: Shading denotes recession.
Source: Bureau of Economic Analysis.

Figure 1-iii
Household Debt Service Payments, 1980–2014



Note: Shading denotes recession.
Source: Federal Reserve, Financial Accounts of the United States.

Figure 1-iv
Nonfinancial Corporate Debt-to-Equity Ratio, 2000–2014



Note: Shading denotes recession.
Source: Federal Reserve, Financial Accounts of the United States.

as revenue increases from high-income households and slower health cost growth, the economy is in a more sustainable position today compared with a few years ago.

While many households still face challenges, the aggregate ratio of debt-to-disposable income in the household sector has decreased to a level last seen in 2002, as households have both increased their savings and reduced their borrowing. The combination of lower debt levels and lower interest rates has reduced the aggregate value of households' debt-service payments to 9.9 percent of disposable income, the lowest level since at least 1980. America's corporations have also partially shed their debt burdens. Corporate debt-to-equity ratios in the non-financial sector have retraced all of the increase that resulted from the crisis.

The recovery's challenges were compounded by unprecedented State and local government spending cuts that dragged on growth through the first few years of the recovery. A wide range of shocks and slowdowns in other countries have also restrained the U.S. recovery.

The Recovery in GDP and Labor Markets

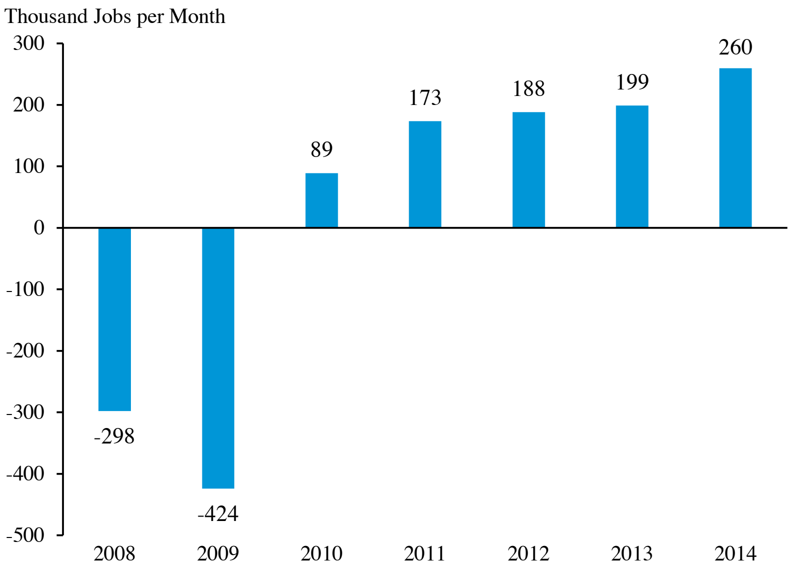
Although there is more work to do, the U.S. economy has managed a lasting and growing recovery amid these challenges. Despite the steeper initial declines, both trade and wealth recovered faster after the Great Recession than during the Great Depression. In 2013 and 2014, the U.S. economy grew 0.7 percentage point faster per year than in the first three-and-one-half years of the recovery. A large increase in personal consumption growth and a shift from State and local contraction to expansion contributed to the pickup over this period. More recently, growth in 2014 was aided by a shift toward a more neutral stance for Federal fiscal policy, an important reminder of the need for policymakers to avoid returning to the harmful impact of sequestration and fiscal brinksmanship.

The recovery's strength has been particularly pronounced in the labor market. The pace of total job growth rose to 260,000 a month in 2014, up from 199,000 a month in 2013, as shown in Figure 1-2.

As recently as 2013, most forecasters expected that the unemployment rate would not fall to 5.6 percent until after 2017—but it did so in December 2014, as shown in Figure 1-3. The labor force participation rate has stabilized since fall 2013. Long-term unemployment and the number of workers employed part-time for economic reasons – while still elevated – have also declined.

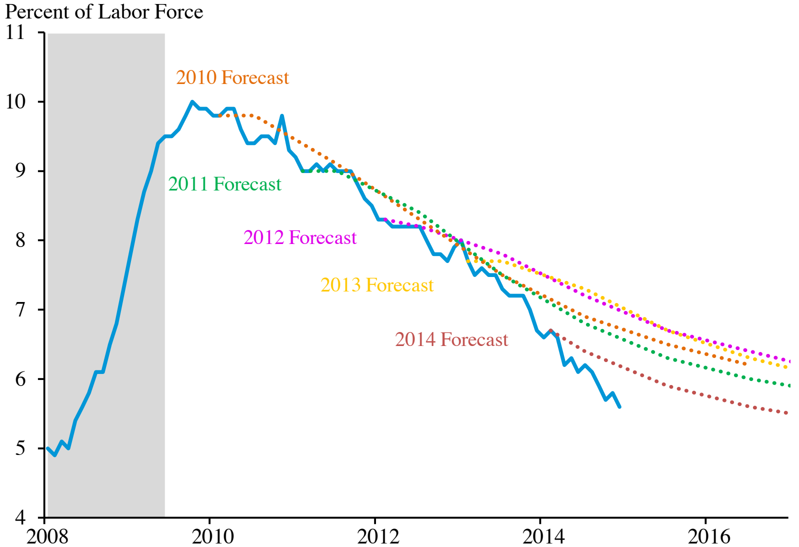
These labor market improvements have begun to translate into wage gains for middle-class workers. Average earnings for production and non-supervisory workers, shown in Figure 1-4, function as a reasonable proxy

Figure 1-2
Average Monthly Nonfarm Employment Growth, 2008–2014



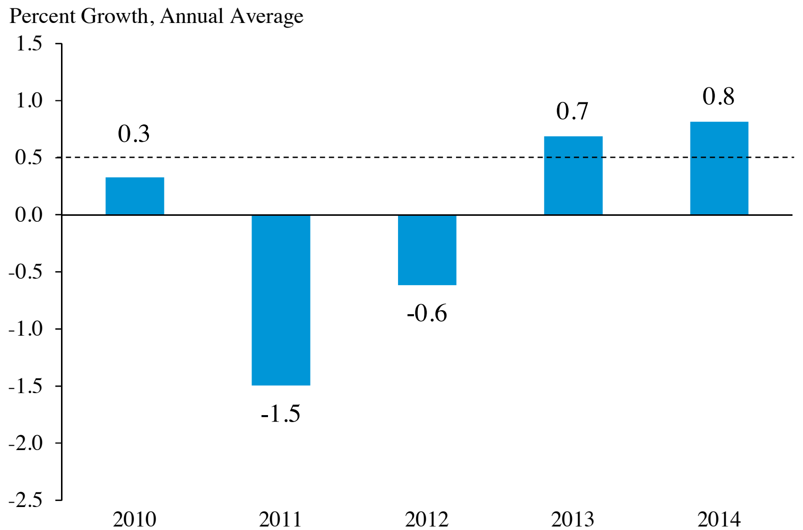
Source: Bureau of Labor Statistics, Current Employment Statistics; CEA calculations.

Figure 1-3
Unemployment Rate and Consensus Forecasts, 2008–2014



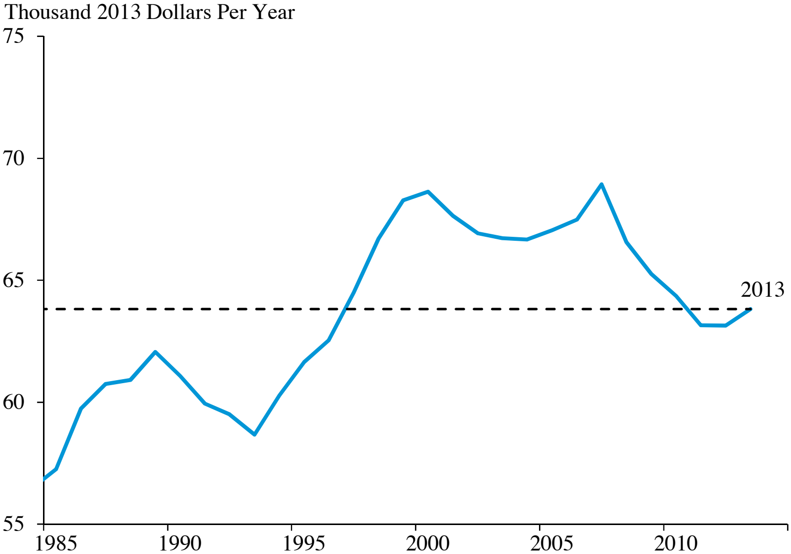
Note: Annual forecasts are current as of March of the stated year. Shading denotes recession.
Source: Blue Chip Economic Indicators; Bureau of Labor Statistics, Current Population Survey.

Figure 1-4
Real Hourly Earnings, Production & Nonsupervisory Workers, 2010–2014



Note: Dashed line represents 2001-2007 average.
Source: Bureau of Labor Statistics, Current Employment Statistics; CEA calculations.

Figure 1-5
Real Median Family Income, 1985–2013



Note: Dashed line traces the 2013 level of real median family income for comparison purposes.
Source: U.S. Census Bureau, Current Population Reports.

for median wages. Real hourly earnings for these workers rose 0.7 percent in 2013 and 0.8 percent in 2014.

This real wage growth, however, still falls well short of what is needed to make up for decades of sub-par growth. Real median family incomes were at mid-1990s levels in 2013, as shown in Figure 1-5. There is no denying the strength of the aggregate recovery, but its benefits have not yet been fully shared with middle-class families.

A Brief History of Middle-Class Incomes in the Postwar Period

The ultimate test of an economy's performance is the well-being of its middle class. This in turn has been shaped by three factors: how productivity has grown, how income is distributed, and how many people are participating in the labor force. Although many of these factors have evolved continuously, varying from year to year, it is instructive to divide the post-World War II years into three periods that capture major differences among the trends in these three variables. Specifically, these periods are: the Age of Shared Growth from 1948 to 1973, where movements in productivity, participation, and distribution aligned; the Age of Expanded Participation from 1973 to 1995, when women entered the labor force at a rapid pace but

Table 1-2

Middle-Class Income Growth and its Determinants, 1948–2013

	Age of Shared Growth 1948-1973	Age of Expanded Participation 1973-1995	Age of Productivity Recovery 1995-2013
Real Middle-Class Income Growth			
Average Household Income for the Bottom 90 Percent *(World Top Incomes Database)*	2.8%	-0.4%	-0.2%
Median Household Income *(Census Bureau)*	N/A	0.2%	0.0%
Median Household Income with Benefits *(CBO, adj. for household size)*	N/A	0.4%	0.4%
Median Household Income with Gov't Transfers/Taxes *(CBO, adj. for household size)*	N/A	0.7%	1.3%
Productivity Growth (annual rates)			
Labor Productivity Growth	2.8%	1.4%	2.3%
Total Factor Productivity Growth	1.9%	0.4%	1.1%
Income Shares			
Top 1 Percent	11.3% → 7.7% -0.1 pp/yr	7.7% → 13.5% +0.3 pp/yr	13.5% → 17.5% +0.2 pp/yr
Bottom 90 Percent	66.3% → 68.1% +0.1 pp/yr	68.1% → 59.5% -0.4 pp/yr	59.5% → 53.0% -0.4 pp/yr
Labor Force Participation Rate			
Overall	59% → 61% +0.1 pp/yr	61% → 67% +0.3 pp/yr	67% → 63% -0.2 pp/yr
Prime Age Male (25-54)	97% → 95% -0.1 pp/yr	95% → 92% -0.2 pp/yr	92% → 88% -0.2 pp/yr
Prime Age Female (25-54)	35% → 52% +0.7 pp/yr	52% → 76% +1.1 pp/yr	76% → 74% -0.1 pp/yr

Note: Income levels from the World Top Incomes Database and the Census Bureau are deflated with the CPI-U-RS price index, and income levels from the Congressional Budget Office (CBO) are deflated with the personal consumption expenditures price index. Income shares are provided by the World Top Incomes Database, cited below, median household income is provided by the U.S. Census Bureau, and median household income including benefits, transfers, and taxes is provided by CBO. CBO median income is extended before 1979 and after 2010 with the growth rate of Census median income.
Source: World Top Incomes Database; Census Bureau; Congressional Budget Office; Bureau of Labor Statistics; Bureau of Economic Analysis; CEA calculations; Saez (2015).

productivity slowed and distribution worsened; and the Age of Productivity Recovery from 1995 through 2013, when productivity improved (at least until the run-up to the financial crisis) but participation declined and income inequality continued to worsen.

The Age of Shared Growth (1948-1973)

All three factors—productivity growth, distribution, and participation—aligned to benefit the middle class from 1948 to 1973. The United States enjoyed rapid labor productivity growth, averaging 2.8 percent annually. Income inequality fell, with the share of income going to the top 1 percent falling by nearly one-third, while the share of income going to the bottom 90 percent rose slightly. Household income growth was also fueled by the increased participation of women in the workforce. Prime-age (25 to 54) female labor force participation escalated from one-third in 1948 to one-half by 1973. The combination of these three factors increased the average income for the bottom 90 percent of households by 2.8 percent a year over this period. This measure functions as a decent proxy for the median household's income growth because it ignores the large, asymmetric changes in income for the top 10 percent of households. At this rate, incomes double every 25 years, or about once every generation.

While these levels of shared income growth and low income inequality worked to benefit the middle class, it is important to recognize that these factors do not capture the many non-economic dimensions (such as racial and gender discrimination) on which the United States has made considerable progress over the past half-century. Accordingly, while this period illustrates the combined power of productivity, income equality, and participation to benefit the middle class, it is not necessarily a model for other important aspects of domestic policy.

The Age of Expanded Participation (1973-1995)

Starting in 1973 and running through 1995, two of the three factors that had been driving middle-class incomes derailed. Labor productivity growth slowed dramatically to only 1.4 percent annually, in part due to the exhaustion of pent-up innovations from World War II, reduced public investment, dislocations associated with the breakup of the Bretton Woods international monetary system, and the oil shocks of the 1970s. Not only did the economy grow more slowly in these years, but these smaller gains were distributed increasingly unequally—the share of national income that went to the top 1 percent nearly doubled, while the share that went to the bottom 90 percent fell accordingly. As a result, productivity gains did not boost middle-class incomes and average income in the bottom 90 percent declined by 0.4 percent a year during these years. One important factor that prevented a larger fall in middle-class incomes was greater labor force participation. The share of dual-income households rose as women surged into the labor force even faster than in the Age of Shared Growth.

Some alternative and likely more accurate measures of middle-class income show slight increases during these years. Real median household income as measured by the Census Bureau rose by 0.2 percent a year from 1973 to 1995. And after including employer-paid health premiums and adjusting for changing family size, the Congressional Budget Office (CBO) estimates that median income climbed 0.4 percent a year, and 0.7 percent a year after taxes and transfers. But regardless of how it is measured, middle-class income growth clearly slowed dramatically over this period.

The Age of Productivity Recovery (1995-2013)

The third period is defined as lasting from 1995 through 2013, though it will take a longer perspective to understand whether and how the Great Recession and the current recovery fit into this period. Amid the worst recession since the Great Depression, the average real income for households in the bottom 90 percent declined at a 0.2 percent annual rate during these years. When including employer-paid health premiums and adjusting for family size, median income rose 0.4 percent a year according to CBO data, still considerably slower than in the Age of Shared Growth. Largely as a result of substantial tax cuts, post-tax and post-transfer incomes rose at a 1.3-percent average annual rate in this third period.

Labor productivity grew at a 2.3 percent annual rate over the period as a whole, near the rates achieved in the first era, fueled by a new economy that made unprecedented advances in the production and use of information technology. However, these gains did little to contribute to rising wages for the middle class as the trend of worsening inequality from the previous era continued into this period. The share of income going to the bottom 90 percent fell to 53 percent, well below the 68 percent earned by this group in 1973. Meanwhile, the labor force participation rate fell as women's entry into the workforce plateaued and even started to drift down, albeit at one-half the pace of the decline in prime-age male participation, a notable trend over the entire postwar era. After 2008, the retirement of the baby boomers added to the decline in participation.

While productivity growth was high on average from 1995 to 2013, it varied substantially within this period. It was higher from 1995 to 2005, declined prior to the start of the crisis, and then was adversely affected by the crisis itself. Understanding the degree to which the years 1995 through 2013 should be considered a single regime for the productivity growth rate, or one with an adverse break in the trend during or just before the crisis, will take many more years of data and analysis.

The Importance of Productivity, Inequality, and Participation

As productivity, the income distribution, and participation evolved over the past 65 years, middle-class incomes went from doubling once in a generation to showing almost no growth at all by some measures. But if these three factors had recently continued the strong trends observed in earlier periods, the outcome for typical families would be quite different. Four counterfactual thought experiments give a sense of the magnitudes involved in this dramatic change:

- *The impact of higher productivity growth.* What if productivity growth from 1973 to 2013 had continued at its pace from the previous 25 years? In this scenario, incomes would have been 58 percent higher in 2013. If these gains were distributed proportionately in 2013, then the median household would have had an additional $30,000 in income.
- *The impact of greater income equality.* What if inequality had not increased from 1973 to 2013, and instead the share of income going to the bottom 90 percent had remained the same? Even using the actual slow levels of productivity growth over that period, the 2013 income for the typical household would have been 18 percent, or about $9,000, higher.
- *The impact of expanded labor force participation.* What if female labor force participation had continued to grow from 1995 to 2013 at the same rate that it did from 1948 to 1995 until it reached parity with male participation? Assuming that the average earnings for working women were unchanged, and maintaining the actual histories of productivity and income distribution, the average household would have earned 6 percent more in 2013, or an additional $3,000.
- *The combined impact of all three factors.* Finally, if all three factors had aligned—if productivity had grown at its Age of Shared Growth rate, inequality had not increased, and participation had continued to rise—then these effects would have been compounded and the typical household would have seen a 98-percent increase in its income by 2013. That is an additional $51,000 a year.

In combination, these factors would have nearly doubled the typical household's income had they sustained their more favorable readings from earlier historical periods. Productivity, inequality, and participation constitute the fundamental challenges facing the future of middle-class incomes, and this year's *Report* addresses policies designed to strengthen all three. But first, this chapter situates the United States' recent progress in these dimensions in a global context.

Table 1-3

Counterfactual Scenarios for Productivity, Inequality, and Participation

Thought Experiment	Factor	Base Period	Percentage Impact on 2013 Average Income	Income Gain to Typical 2013 Household
Impact of Higher Growth	Total Factor Productivity Growth	Age of Shared Growth (1948-73)	58%	$30,000
Impact of Greater Equality	Share of Income Earned by Middle Quintile	1973	18%	$9,000
Impact of Labor Force Participation	Female Labor Force Participation Rate	Age of Shared Growth, Age of Expanded Participation (1948-95)	6%	$3,000
Combined Impact	**All of the Above**		**98%**	**$51,000**

Note: These thought experiments are intended to demonstrate the importance of these three factors for middle-class incomes. They do not consider second-order effects or interactive effects. The first thought experiment assumes that an increase in productivity is associated with an equal increase in the Census Bureau's mean household income. The second thought experiment uses the Census Bureau's mean income of the middle quintile as a proxy for median income. The third thought experiment assumes that newly-participating women will have the same average earnings as today's working women, and halts the growth of female labor force participation when it matches male participation. The first and third thought experiments assume that income gains are distributed proportionally such that mean and median incomes grow at the same rate. Dollar gains are calculated off a base of the Census Bureau's median household income in 2013. The fourth thought experiment compounds the effects of the first three.
Source: World Top Incomes Database; Census Bureau; Congressional Budget Office; Bureau of Labor Statistics, Current Population Survey; Bureau of Economic Analysis; CEA calculations.

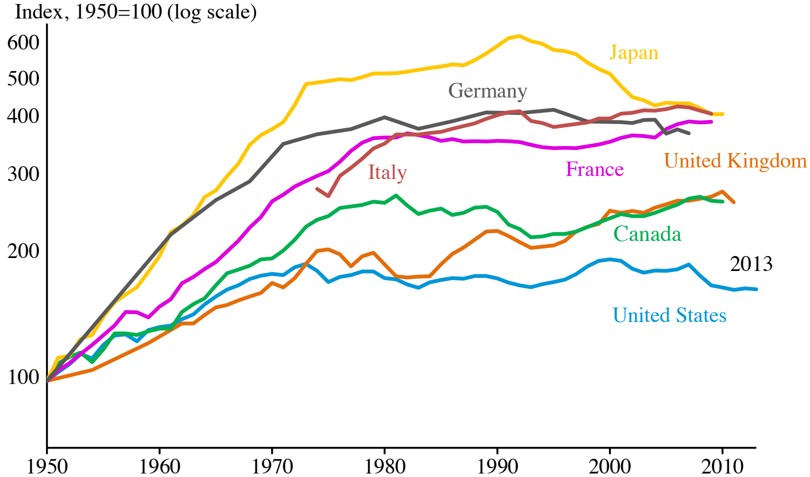
The Drivers of Middle-Class Incomes: An International Comparison

A wide range of advanced economies has faced similar challenges for middle-class incomes. Most of today's large advanced economies experienced rapid growth in the immediate post-World War II years followed by substantially slower growth and plateauing, as shown in Figure 1-6. That development took place relatively early in the United States (around 1973) and later in other countries (for example, around 1980 in France and Canada). In Japan, middle-class incomes slowed in the 1970s and have substantially declined over the past two decades.

Labor Productivity Growth

The first driver of incomes—labor productivity growth—underlies the progress of both potential GDP and family income. Over the past year, the

Figure 1-6
Growth in Real Average Income for the Bottom 90 Percent, 1950–2013



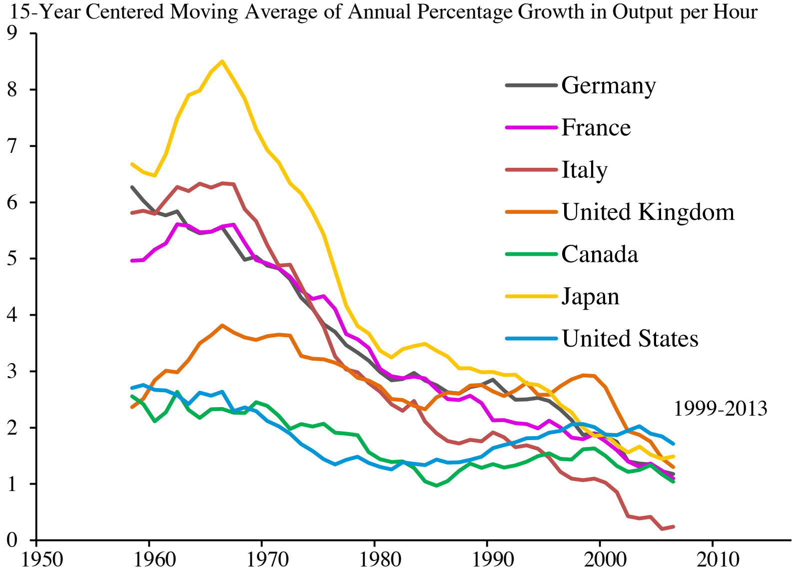
Note: Data for all countries exclude capital gains. For Germany, data excluding capital gains is unavailable after 1998, so this chart displays data including capital gains adjusted for the historical relationship between capital-inclusive and capital-exclusive incomes. Italian data begins in 1974 and is indexed to the average of the other series at that point. Italian data is calculated by CEA from the income level and share of the top 10 percent as provided by the World Top Incomes Database.
Source: World Top Incomes Database; Saez (2015); CEA calculations.

Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) reduced their productivity growth estimates for many high-income countries. In recent years, the United States has been somewhat better situated than many other advanced economies, in part because this country has been the center of much high-tech innovation. In fact, the United States has defied the trend in other high-income economies by experiencing a pickup in productivity growth over the last 20 years. In contrast, productivity growth has generally declined in most other high-income economies over the same period, as shown in Figure 1-7.

Income Inequality

The second important factor influencing the dynamics of middle-class incomes is inequality. This, too, is a global issue. In the United States, the top 1 percent has garnered a larger share of income than in any other G-7 country in each year since 1987 for which data are available, as shown in Figure 1-8. From 1990 to 2010, the top 1 percent's income share rose 0.22 percentage point a year in the United States versus 0.14 percentage point a year in the United Kingdom. While comparable international data are scarce after 2010, the gains of the top 1 percent continued since then in the United States, until a noticeable downtick in 2013.

Figure 1-7
Labor Productivity Growth, 1951–2013



Source: Conference Board, Total Economy Database; CEA calculations.

Labor Force Participation

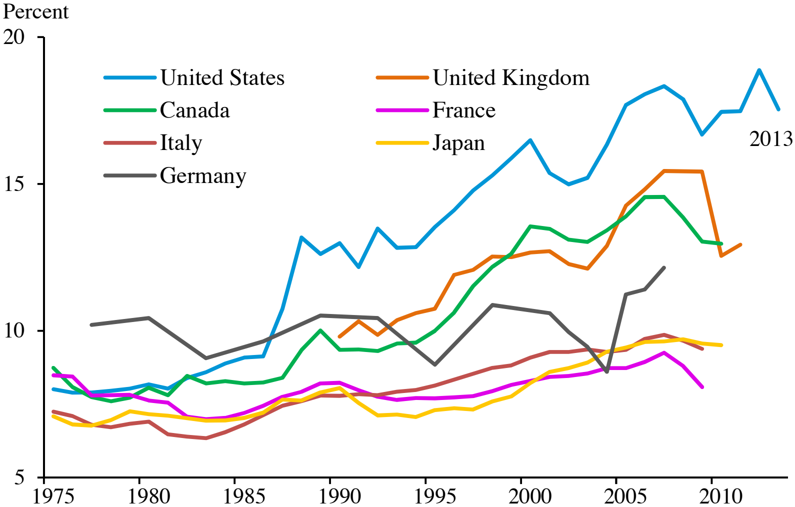
The third driver of income growth is labor force participation, discussed in more detail in Chapter 3. Although the United States has enjoyed a strong labor market recovery amid surging employment, its labor force participation rate has fallen more than that of other high-income countries.

The recent decline in the labor force participation rate is largely the result of demographic changes. Since 2008, when the first of the baby boomers turned 62 and became eligible for Social Security, the baby boom has become a retirement boom. This loss of productive workers was compounded by the severe recession that hit around the same time. But even before either of these events, the economy already faced labor force participation challenges, including a long-running decline in male labor force participation and an end to the rapid increase in female participation.

Since the early 1990s, the United States has experienced a marked decline in labor force participation among males aged 25 to 54 ("prime age"), as shown in Figure 1-9. In this regard, the U.S. experience has been something of an outlier compared to many other high-income countries. Since the financial crisis, U.S. prime-age male participation has declined by about 2.5 percentage points, while the United Kingdom has seen a small uptick and most large European economies were generally stable. Of 24

Figure 1-8

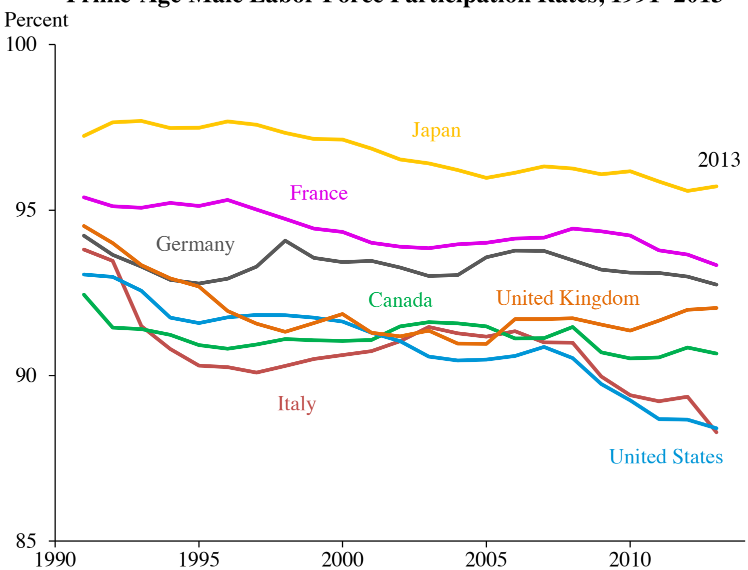
Share of Income Earned by Top 1 Percent, 1975–2013



Note: Data for all countries exclude capital gains. For Germany, data excluding capital gains is unavailable after 1998, so this chart displays data including capital gains adjusted for the historical relationship between the capital-inclusive and capital-exclusive ratios.
Source: World Top Incomes Database; Saez (2015).

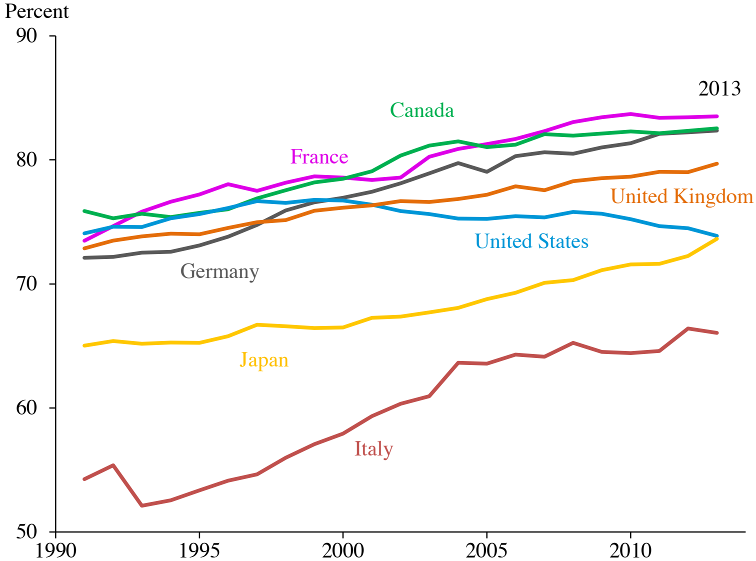
Figure 1-9

Prime-Age Male Labor Force Participation Rates, 1991–2013



Source: Organisation for Economic Co-operation and Development.

Figure 1-10
Prime-Age Female Labor Force Participation Rates, 1991–2013



Source: Organisation for Economic Co-operation and Development.

OECD countries that reported prime-age male participation data between 1990 and 2013, the United States fell from 16th to 22nd.

The story is somewhat similar among prime-age females. Historically, the United States showed leadership in bringing women into the workforce. In 1990, the United States ranked 7th out of 24 current OECD countries reporting prime-age female labor force participation, about 8 percentage points higher than the average of that sample. But since the late 1990s, women's labor force participation plateaued and even started to drift down in the United States while continuing to rise in other high-income countries, as shown in Figure 1-10. As a result, in 2013 the United States ranked 19th out of those same 24 countries, falling 6 percentage points behind the United Kingdom and 3 percentage points below the sample average. A recent study found that the relative expansion of family leave and part-time work programs in other OECD countries versus the United States explains nearly one-third of the United States' relative decline (Blau and Kahn 2013).

The challenges facing productivity growth, inequality, and labor force participation are all substantial. As this *Report* further details, the United States has important structural opportunities that can help address each of the challenges, though the degree to which we do so will also depend on the policies that we choose to adopt.

The 2015 Economic Report of the President

The well-being of the middle class and those working to get into the middle class is the ultimate test of an economy's performance. The best way to grow the economy on a sustainable and inclusive basis is to address squarely the three drivers of incomes: productivity growth, income inequality, and labor force participation. With these factors in mind, this year's *Report* reviews the progress the economy has made and identifies the areas where more work is needed.

Chapter 2 reviews the macroeconomic performance of the U.S. economy during 2014, including the growth of output and employment, the continued decline in the unemployment rate, the housing market, the growth of wealth over the year, and the improvement in the deficit as a fraction of GDP. The chapter also explains the economic assumptions about future growth that underlie the President's Fiscal Year 2016 Budget, including the economic benefits of the President's agenda.

Chapter 3 reviews the opportunities and challenges facing the U.S. labor market. Perhaps no recent economic development has been more surprising than the rapid fall in the unemployment rate, spurred by the pickup in the rate of job growth in 2014. But economic performance must be gauged by more than just the unemployment rate—a successful job market also encourages labor force participation, supports quality jobs, and facilitates effective job matching of workers and positions.

The American workforce and family lives have changed drastically over the last half-century. Women now represent almost one-half the workforce, married couples increasingly share child-care responsibilities, and people live—and work—longer than in the past. Chapter 4 examines these recent changes in American family life and their implications for labor markets. It also as analyzes Americans' access to paid leave and workplace flexibility policies and the economic evidence on how these policies can benefit workers, firms, and our economy. Both Chapter 3 and Chapter 4 address two factors affecting middle-class incomes: labor force participation and the income distribution.

Chapter 5 shifts the focus to productivity growth with an examination of business tax reform as well as a briefer discussion about the complementary issues in individual taxation. The chapter summarizes the international context for business tax reform, describes the President's approach to reform, and documents four channels through which reform can boost productivity and living standards: encouraging domestic investment, improving the quality of investment, reducing the inefficiencies of the international tax system, and investing in infrastructure.

Chapter 6 reviews the profound transformation of the U.S. energy sector. The United States is producing more oil and natural gas, generating more electricity from renewables such as wind and solar, and consuming less petroleum while consuming the same amount of electricity. To build on this progress, to foster economic growth, and to ensure that growth is sustainable for future generations, the President has set out an aggressive all-of-the-above clean energy strategy. This chapter lays out the key elements of the strategy: enhancing energy security and laying the foundation for a low-carbon future in ways that also support economic growth and job creation.

Finally, Chapter 7 situates the United States in the context of the global economy. The United States is more integrated with the rest of the world than ever before. This chapter examines the impact on the economy of increased global interdependence, through both international trade in goods and services and financial transactions in international capital markets. It presents empirical evidence on the economic effects and benefits to the middle class of enhanced U.S. trade, highlighting the United States' central position to take advantage of the growth in world trade in services. These issues are important for understanding both productivity growth and the distributional implications of globalization.

Conclusion

The 2015 *Economic Report of the President* considers the recovery and our economic future from the perspective of the typical American family. Although workers have begun to reap the benefits of our accelerating recovery, a skewed income distribution and subdued labor force participation have restrained the full benefit of U.S. growth from accruing to the middle class. As the economy continues to grow, President Obama's focus on middle-class economics is designed to foster productivity growth in a shared and sustainable way, so that the typical family participates fully in the Nation's resurgence. These are the values that should drive American economic policy in this next age for the middle class, and they are the values that animate this *Report*.