March 9th Edition

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At the end of the month, FERC will meet to answer how EPA rules that will shut down some power plants will affect the consumers relying on that energy. According to the Washington Examiner, the commission will look into how the number of onerous rules passed by the administration “could create a situation in which areas served by midwestern power plants experience rolling power outages.”

The 31 largest US banks are facing part two of the Federal Reserve’s stress test this week. The Fed will rule on Wednesday if each of the banks’ plan to return dollars to shareholders in the event of a worst case scenario matches the Fed’s standards. This is a qualitative test and according to one person familiar with the process at PwC, “No one is able to predict with precision how the Fed’s models will impact them.” Last week, each bank passed their stress test.

Eakinomics: The Missing Wage Growth

This past Friday’s jobs report featured good headline numbers — 295,000 jobs and a 5.5 percent unemployment rate — but was otherwise unsatisfying. In a sharp setback from the strong January report, February featured flat inflation-adjusted average hourly earnings (“no wage growth” in english) and a repeat of past experiences in having the unemployment rate fall for the wrong reason — people leaving the labor market. To my surprise, some of the coverage focused on the job number. The Wall Street Journal reported “The strongest stretch of job creation in two decades pushed the U.S. unemployment rate into the Federal Reserve’s target zone, keeping the central bank on track to raise interest rates as early as June and jolting investors worried about higher borrowing costs and slimmer corporate profits.”

I think the more important piece of data was the absence of wage growth which is, in turn, linked to poor growth in U.S. productivity. Consider the chart (below). The first bar shows the average growth rate of GDP since the 1st quarter of 2010, while the second shows the average growth rate of labor inputs (growth in jobs plus growth in average hours per worker). This difference, shown in the 3rd bar, is a measure of productivity — growth in output per unit of labor input. As the chart makes clear, nearly all of the (tepid) increase in GDP has been due to (tepid) increase in jobs and hours and only a tiny fraction to productivity gains.

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When productivity rises, firms can meet the demand of recovery and sell more without additional hiring. This, in turn, makes it possible to compensate those same workers more highly — wage gains. At the root of the poor wage performance in this recovery is poor productivity performance. Productivity is the result of a complicated recipe of investments in capital goods, technological improvement, management advances, innovation in new products and processes and worker skills. The bulk of productivity-enhancing activities are centered in firms and require outlays of one type or another. The poor productivity record is perhaps unsurprising given the absence of a policy environment supportive of the business community; an approach that ultimately takes its greatest toll on the middle class.

From the Forum

A View from the Court Room: King v. Burwell by Brittany La Couture, AAF Health Care Policy Counsel

Week in Regulation by Dan Goldbeck, AAF Research Analyst

The Budgetary and Economic Costs of Addressing Unauthorized Immigration: Alternative Strategies by Ben Gitis, AAF Policy Analyst; and Laura Collins, AAF Director of Immigration Policy

The U-6 Fix by Douglas Holtz-Eakin, AAF President