US Economic Growth and Competitiveness

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Brookings
Where Do We Stand?

• GDP growth was slow 2004-2017.
  – Financial crisis
  – Weak productivity growth.
  – Slow labor force growth, aging population.
• Large and persistent trade deficits
  – China problem, but deficits pre-date China WTO.
• Large and persistent federal budget deficits.
• There is more earnings inequality. Wage stagnation for those at the median and below.
• US many strengths: technology, people, system.
US Economic Growth Fell in Half Post 2004
Growth Picked up to 3 percent in 2018
But predicted to slow again

Compound annual growth rate of real US GDP

Source: US Bureau of Economic Analysis
*Forecast from IHS Macroeconomic Advisers
### Aging Population Means Low Labor Force Growth

**Increased Pressure on Federal Spending**

Ratio of Over 65 to Under 65 is Doubling

<table>
<thead>
<tr>
<th>Year</th>
<th>Population 65+/25-64</th>
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<tbody>
<tr>
<td>1960</td>
<td>0.198</td>
</tr>
<tr>
<td>1990</td>
<td>0.247</td>
</tr>
<tr>
<td>2010</td>
<td>0.245</td>
</tr>
<tr>
<td>2030</td>
<td>0.416</td>
</tr>
<tr>
<td>2060</td>
<td>0.480</td>
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Source: U.S. Bureau of the Census. From James Poterba, MIT, NBER.
Labor Productivity Growth Very Slow Since Early 1970s
Except for a Decade Starting in 1995

Nonfarm business output per hour
Compound annual growth rate

Source: Bureau of Labor Statistics
Productivity growth in mature economies has been falling. US is not alone. Productivity growth has slowed recently in emerging economies.

Source: The Conference Board Total Economy Database, April 2019 (*Provisional)
Why is Productivity Growth so Slow?

• Not much impact yet from all the great new technologies
  – Solow paradox? Future is better or Robert Gordon pessimism.

• Manufacturing large productivity contributor.
  – Sector is smaller, production shifted overseas. Computer and semiconductor productivity slowed

• Wholesale/retail productivity growth has slowed.

• Best practices are not spreading to all firms.

• Inadequate worker skills. Infrastructure deteriorating.

• Too much or badly designed regulation.

• Measurement: not whole problem but services tough to measure
Large, Chronic Current Account Deficits
Current account includes goods deficit, services surplus, net foreign income

Average Current Account Balance as a percent of GDP

Source: BLS

Source: U.S. Bureau of Economic Analysis/FRED
The Deficit for Manufacturing Trade Getting Larger

Manufacturing Trade Balance as a percent of Gross Output

Source: Bureau of Economic Analysis; Census Bureau/Haver Analytics

Notes: (1) Trade balance data pre-1999 adjusted from SIC to NAICS classification.
(2) Gross output data pre-1997 adjusted to reflect current release.
US Has Chronic Trade Deficits. Why?

• US spends more than it produces. Imports the difference. US is not a big saver.
• Federal deficit (4¼ percent of GDP in 2018) is a subtraction from national saving.
• Foreigners are eager to lend money and sell goods in return. Glut of global savings.
• Resulting capital inflow keeps the dollar high.
Why such a large deficit in manufacturing?

• US low tariffs, large market, excellent distribution system
• US companies focus on design, technology, distribution and marketing, less on manufacturing
• Paradox: US services, farmers and oil and gas very competitive. Make it harder for manufacturers to compete (keep dollar up).
• What about trade deals?
  – Important to stop technology theft
  – Rapid growth of China has made it hard for the US to adjust to shifting trade patterns
  – Penalizing Chinese imports would move the deficit elsewhere
Some Future Economic Risks?

• Risk of recession. Global growth is slowing.
  – Good news: no inflation. Bad news: limited scope for monetary or fiscal policy to respond
• If slow productivity growth continues, median incomes and wages will grow slowly, if at all
  – Leads to discontent, belief future is bleak
• Disillusion with open trade and investment.
• Financial crisis if US debt becomes too high.
  – Interest rates rise, dollar falls
• Robots/AI/ML: some risk to jobs. Rising profit share, weakness of wages. Superstar economy.
What Should Policy Do?
Business Friendly Policies that Support Social Cohesion

• Current budget policy is nuts.
  – Need not pay off debt. Find a sustainable path.
  – Alternate sources of revenue; control entitlements.
  – Reduce budget deficits to reduce the trade deficit

• Improving productivity growth is largely up to private sector
  – Productivity should improve as technologies mature.
  – Digital technologies not spreading to smaller companies. Policy must foster competition. Help tech dissemination

• The Tax Cut and Jobs Act lowered corporate tax rate, favored investment, boosted growth in 2018. Worsened the deficit.
  – Keep the statutory rate down, but raise more revenue
What Should Policy Do? Continued

Business Friendly Policies that Support Social Cohesion

• Control health care costs (not Medicare for all)

• Use technology to improve education and training
  – US educ system good for academics. Does not provide 21st century skills to high school grads or older workers.

• Improve transportation infrastructure

• More efficient regulation
  – Bank capital requirements not the Volcker Rule
  – Carbon tax not detailed emissions controls.

• Work with allies to improve trade rules

• Fund science and basic R&D