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Boosting Growth

What the U.S. needs now is higher economic growth, measured by Gross Domestic Product (GDP). Higher GDP will heal the labor market, providing opportunity for rewarding, high-paying jobs and delivering increased tax revenue to finance necessary government expenditures.

In many economic circles, the focus has been on the lagging U.S. recovery. The 2008 recession exacerbated a slowdown in U.S. economic growth that has persisted over the past 20 years. See the chart for the average U.S. real GDP growth rates in 10-year increments from 1954 to 2013.

Jonathan Silberman, Ph.D.

Provided by the U.S. Income and Product Accounts and the Bureau of Economic Analysis, the numbers show a decline in the economic growth rate over the last 20 years (1993-2013). Economic growth averaged 2.56 percent compared with 3.07 percent over the past 60 years. The decline has worsened in the last 10 years (2003-2013), with the severe recession and substandard recovery dragging down the growth rate to an average of 1.72 percent.

A return to greater than 3 percent long-term real GDP growth requires the U.S. economy to make substantial structural reforms to boost growth.

GDP growth is equal to employment change plus productivity increases. Employment change has been negatively impacted by baby boomer retirements. Female labor force participation has peaked and the social safety net has increased, reducing the incentive for work. In addition, globalization and technology have led to more competition with developing countries, whose lower labor costs have undercut U.S. manufacturing and clerical jobs. In fact, the percent of the U.S. civilian adult population employed peaked in 2000 at just above 64 percent. Now, it's only 59 percent.

Productivity components are human capital (education), capital deepening (providing employees with equipment and technology) and efficiency gains. Productivity growth rates have slowed considerably in recent years, growing at 1.8 percent annually from 2005 to 2012, compared with 3.1 percent from 2000 to 2005.

Innovation and education are the main drivers of productivity gains. Federal research and development spending has declined from more than 2 percent of GDP in 1963 to 1 percent today.

The share of U.S. degrees awarded in science, technology, engineering and mathematics (STEM) continues to decline. In addition, the U.S. no longer leads the world in the percentage of 25- to 34-year-olds having some type of college degree. The U.S. now ranks 25th in the world for infrastructure quality, down from fifth in 2002.

The U.S. has substantial strengths to build upon in growing its economy. Among these are the rule of law that protects intellectual and personal property, a culture of entrepreneurship and innovation, best business management, flexible labor and capital markets, leading innovation in energy, big data and analytics, materials, biologics and biosciences.

The following structural reforms would help drive U.S. economic growth:

- Bringing innovation and productivity growth to sectors that are isolated from global competition, like government, education and healthcare
- Removing tax expenditures from the corporate and personal income tax
- Updating the social safety net
- Replacing payroll tax with a consumption tax
- Accelerating U.S. export growth in services and energy with free trade agreements.
- Having unlimited immigration of highly skilled workers; the late Steve Jobs had proposed giving green cards to all immigrants who earn advanced degrees in the U.S.

These policies will make a difference, and the vast majority of economists support them. □

Jonathan Silberman is a professor of economics at Oakland University. This is the first of his monthly columns on the economy. You can contact him at silberma@oakland.edu.

Growth Policy	Likelihood in Next Two Years
Immigration Reform [high-skilled]	70%
Corporate Tax Reform [remove tax expenditures; territorial system; lower rates]	45%
Fast Track Trade Authority	75%
Infrastructure Bank [public/private partnership]	45%