THE UNITED STATES ECONOMY

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OUTLINE—Continue Focus on Growth

I Growth Potential of the US
   – Productivity Advance
   – Labor Force Growth

II Factors Sustaining Productivity Advance

III Recent Economic Performance
   -- Effective Demand
   – Why less than Potential
GROWTH POTENTIAL

• Record of Productivity Growth
  – Huge Quarter to Quarter and Year to Year Variability (+10.0 to -6.0)
  – Consistent Weighted Average About 2% per year
  – Likely to Continue
Labor Force Growth
  -Rising Through 1970s – About 2%
    Increasing Female Participation
    Baby Boom Generation
  -Declining to About 0.7% Today (TFR 2.06)
Potential Growth About 2.7%
More During Recovery Period—Unemployed Rule of Thumb – Okun’s Law
SUSTAINING PRODUCTIVITY

Natural Resources
  Energy
  Agriculture
Innovation Culture
  Cultural Acceptance/Promotion
Government Support—Also Foundations
Research Universities
Our People
  Never Satisfied
Immigration
GROWTH IN THE UNITED STATES
Part 2
UNEMPLOYMENT IN US

Civilian Unemployment Rate (UNRATE)

Shaded areas indicate US recessions.
2013 research.stlouisfed.org
THE GREAT RECESSION 2008-9

I. Why is it different
   – A. Caused by financial mistakes
      1. Excessive risk taking by financial institutions
         -- Led to Housing bubble
         -- Is regulation required to keep them sensible?
      2. Excessive borrowing by households
         -- Sub-prime mortgages
         -- House equity borrowing
         -- Credit card debt
      3. Longer Recovery Time required to correct balance sheets
         -- By saving out of income
      4. Slow recovery
         -- Weak consumption
         -- Sequestration
      5. Sustained by Monetary Policy
SHORT TERM CHALLENGE

• Long Term Unemployment
  – A. Loss to the Economy
    • 1. Loss of skills
    • 2. Leave labor force
  – B. Human Costs
    • 1. Within family
    • 2. Society

C. Political Costs
  1. Loss of Faith in Institutions
MEDIUM TERM CHALLENGE

• Federal Budget Deficit
MEDIUM TERM CHALLENGE

• Budget Deficit

• A. Expenditures
  – 1. Medical
  – 2. Social Security
  – 3. Defense

B. Revenues
  1. Level
  2. Distribution of burdens
LONG TERM CHALLENGE

Unequal Distribution of Income and Wealth

• A. Trends
• B. Causes
• C. Consequences
• D. Policy Alternatives
  – 1. Education—especially early years
  – 2. Worker training
  – 3. Minimum wage
  – 4. Progressive taxation
CONCLUSIONS

• Why the US is a Blessed Country
  – A. Natural Resources
    • Agriculture
    • Energy
  B. Diverse People
    Immigrant Society
  C. Political Stability