Will the United States Maintain Its Economic Power in the 21st Century?

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Conversation Frame: There is not a precise definition of “economic power.”
Outline of Our Conversation:
Five Key Considerations for Economic Power

1. Economic Growth
   – How large is our total output of goods and services?

2. Income Distribution
   – Is the rising tide lifting all the boats?

3. The Rest of the World
   – How are we faring compared to other countries?

4. The Federal Budget
   – Do we have the fiscal means to project our power?

5. The Sense of the Citizenry
   – Do Americans feel economically powerful?
Disclosure:

I am an Independent Tigger.
#1: Economic Growth
America’s Speed Limit Is Slowing

- Even before the World Financial Crisis, post-2000 economic growth in America was slowing relative to 50 earlier years.

Source: U.S. BEA
Because Labor-Force Growth Is Slowing

- This slow-down is driven by the baby boomers being followed by the baby busters. Immigration is the wild-card.

Source: U.S. BLS
And Because Productivity Growth Is Slowing

- In the 20th century, about 80% of total U.S. GDP growth was driven by growth in labor productivity.

Source: U.S. BLS
#2: Income Distribution
America, the first ¾ of the 20th Century

Especially in the post-WWII generation, income growth was strong and broad.
America, the Last ¼ of the 20\textsuperscript{th} Century

The skewness of income growth is clear. What do we see if we unbundle this 99%?
Why My Hair Has Gotten So Gray: The Rising Tide Has Not Been Lifting All the Boats

• Change in U.S. average real total money earnings, by educational group, 2000 through 2013.

<table>
<thead>
<tr>
<th>Group</th>
<th>Employment Share</th>
<th>Earnings Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>HS Dropout</td>
<td>8.0%</td>
<td>-5.8%</td>
</tr>
<tr>
<td>HS Graduate</td>
<td>26.8%</td>
<td>-6.7%</td>
</tr>
<tr>
<td>Some College</td>
<td>27.8%</td>
<td>-10.9%</td>
</tr>
<tr>
<td>College Grad.</td>
<td>23.4%</td>
<td>-11.2%</td>
</tr>
<tr>
<td>Masters</td>
<td>10.0%</td>
<td>-7.6%</td>
</tr>
<tr>
<td>PhD</td>
<td>1.9%</td>
<td>+4.5%</td>
</tr>
<tr>
<td>MD,JD,MBA</td>
<td>2.1%</td>
<td>+12.3%</td>
</tr>
</tbody>
</table>

• 2013 real median income for U.S. households was $51,939. This was $493 below its level in 1989.
#3: The Rest Of the World
One Thousand Words From 1990
Another Thousand More-Recent Words
America’s Share of World Output Is Falling

- Faster GDP growth in many emerging markets—China most prominently—means a smaller U.S. share of world output.

Source: U.S. BEA and IMF
#4: The Federal Budget
Two Centuries of America’s Fiscal Strategy

Federal Debt Held by the Public

Percentage of Gross Domestic Product

Source: Congressional Budget Office. For details about the sources of data used for past debt held by the public, see Congressional Office, Historical Data on Federal Debt Held by the Public (July 2010), www.cbo.gov/publication/21728.
Past, Unfortunately, Is Not Prologue: We Are in “The Calm Before the Storm”
The Fiscal Storm Arises as Entitlements and Interest Crowd Out All Else

<table>
<thead>
<tr>
<th>Percentage of Gross Domestic Product</th>
<th>Social Security</th>
<th>Major Health Care Programs</th>
<th>Other Noninterest Spending</th>
<th>Net Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average, 1974–2013</td>
<td>4.3</td>
<td>2.8</td>
<td>11.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Spending</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>4.9</td>
<td>4.8</td>
<td>9.3</td>
<td>1.3</td>
</tr>
<tr>
<td>2039</td>
<td>6.3</td>
<td>8.0</td>
<td>6.8</td>
<td>4.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Spending</th>
<th>Individual Income Taxes</th>
<th>Payroll (Social Insurance) Taxes</th>
<th>Corporate Income Taxes</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average, 1974–2013</td>
<td>7.9</td>
<td>6.0</td>
<td>1.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Revenues</td>
<td>8.0</td>
<td>6.0</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>2039</td>
<td>10.5</td>
<td>5.7</td>
<td>1.8</td>
<td>1.4</td>
</tr>
</tbody>
</table>
#5: The Sense of the Citizenry
Americans’ Sense of Security Has Waned

• “Americans are starting to reduce long-term economic expectations in ways policymakers are struggling to get a grip on. ‘People are more negative about economic changes than they have been since our records began in 1946.’” --Financial Times recent

• “Which best describes your family’s financial situation?”
  – Getting Ahead: 21%
  – Have Just Enough to Maintain or Falling Behind: 78%
  (WSJ-NBC April 2014)

• “‘People don’t have a sense of control,’ says John Feehery, a Republican strategist … Stan Greenberg, a Democratic pollster, says people have been breaking down and crying during focus groups when talking about the economy.” --Financial Times recent
Many Voice Unease about the Global Jobs Competition

• “Globalization Backlash in Rich Nations” –*FT* (7/07)
  – “A popular backlash against globalisation and the leaders of the world’s largest companies is sweeping all rich countries.”
  – “Large majorities of people in the US and Europe want higher taxation for the rich and even pay caps for corporate executives to counter what they believe are unjustified rewards and the negative effects of globalization.”
  – “5% or fewer of those polled in the US and all large European economies (except Italy) saying they had a great deal of admiration for those who run large companies … In these countries, between a third and a half said they had no admiration at all for corporate bosses.”
Is This An Empowered Citizenry?

• “Do you think America is in a state of decline, or do you feel that is not the case?” (WSJ-NBC Aug. 2014)
  – Not in a state of decline: 31%
  – In a state of decline: 65%

• “U.S. Right or Wrong Track?” (WSJ-NBC Apr. 2015)
  – Headed in the Right Direction: 28%
  – Off on the Wrong Track: 62%

• “Do you feel confident or not confident that life for our children’s generation will be better than it has been for us?” (WSJ-NBC)
  – October 1990: 50% Confident vs. 45% Not Confident
  – December 2001: 49% Confident vs. 42% Not Confident
  – August 2014: 21% Confident vs. 76% Not Confident
Closing Thoughts
Reading Something Like This?
Will Government Leaders Bring on Sunrise With Expanded Public Investments?

• “U.S. Public Investment Falls to Lowest Level Since War” –FT
  • Sequestration will keep squeezing public investment.
Will Government Leaders Bring on Sunrise via High-Skilled Immigration Liberalization?

<table>
<thead>
<tr>
<th>Visa Category</th>
<th>General Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>H-1B Specialty Occupations</td>
<td>The job must meet one of the following criteria to qualify as a specialty occupation:</td>
</tr>
<tr>
<td></td>
<td>• Bachelor’s or higher degree or its equivalent is normally the minimum entry requirement for the position</td>
</tr>
<tr>
<td></td>
<td>• The degree requirement for the job is common to the industry or the job is so complex or unique that it can be performed only by an individual with a degree</td>
</tr>
<tr>
<td></td>
<td>• The employer normally requires a degree or its equivalent for the position</td>
</tr>
<tr>
<td></td>
<td>• The nature of the specific duties is so specialized and complex that the knowledge required to perform the duties is usually associated with the attainment of a bachelor’s or higher degree.*</td>
</tr>
</tbody>
</table>

How Many New H-1B Visas Does USG Allocate Each Year? How Many Visa Applications Did USG Receive for FY 2015?

“How America Loses a Job Every 43 Seconds”
My Wall Street Journal Op-Ed 3/26/14
Will Government Leaders Bring on Sunrise via Corporate-Tax Reform?

OECD Statutory Corporate Tax Rates, 2013

Red indicates country with worldwide taxation, blue territorial.
Does This Picture Make You More or Less Confident about Sunrise Dawning?

Party Polarization 1879-2013
Percentage of Overlapping Members First Dimension

\[ r = 0.85 \]

Senate

House

www.voteview.com
(McCarty, Poole, and Rosenthal)
Thank you.

I look forward to your questions.