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It's Not Just Obama's Fault

By: John Hood – October 30, 2013

The economic recovery from the Great Recession is painfully sluggish — and it's not all Barack Obama's fault.

Nor can the fault be laid solely at the feet of George W. Bush, or North Carolina Gov. Pat McCrory, or former governors Bev Perdue and Mike Easley. Such an observation may be jarring in the current hyper-partisan atmosphere. It won't excite party activists or provoke outraged letters to the editor. But it is true.

How do I know that the economy's slow-growth problem can't be attributed to any of the politicians I named, or even to all of them collectively? Because the facts won't permit it. North Carolina's economic performance, for example, began to lag the regional and national averages during the late 1990s. That's about the same time that America's average long-term growth rate — 2 percent a year in inflation-adjusted, per-person GDP — became unsustainable. According to the Cato Institute's Brink Lindsey, projections of future growth range from about 1 percent to 1.5 percent a year over the next two decades.

The difference between the previous trend and future trends may not sound like much. To grasp its significance, you need to apply the "rule of 70" to see how long it will take for the living standards of the average person to double. The math is simple: just divide 70 by the annual growth rate. At a rate of 2 percent, living standards will double every 35 years or so. At 1.5 percent, it will take 47 years. At 1 percent, a full 70 years.

Slower economic growth makes virtually every other problem worse. It means fewer people employed, higher poverty, higher demands on state and federal budgets for public assistance, lower levels of education and health attainment, and lower revenue collection at current tax rates, which will either result in tax-rate hikes or greater public borrowing.

The causes of the great slowdown are complex and often outside the purview of public policy. Indeed, they aren't even contained within the United States, as much of the developed world is also experiencing slower growth. Because of aging and other factors, fewer people are working as a share of the population. Because of the broadening of international trade and technological change, some people can no longer find work in their previous occupations and must be willing and able to retrain for something else. Because of adverse tax systems and the promise of retirement programs, people are saving less and thus reducing the stock of funds invested in new plants, equipment, and ideas. And the economic sectors growing the fastest — health care, education, and professional and personal services — have had the least success using new technologies and management practices to become more productive.

To put things in a local context, imagine that North Carolina's economy was a family farm. In the past, we produced many children and trained them effectively to work the land, which they needed to do in order to survive. But the next generation is smaller, less motivated, and in need of new skills to compete in the market for food and fiber. Furthermore, we've taken to eating our seed corn, rather than saving it to produce future crops, and failed to invest effectively in the latest equipment, techniques, and management practices.

Although the problem doesn't really have partisan roots, potential solutions will be politically controversial. Increasing labor quantity means either welcoming new immigrants, raising the retirement age (both in law and custom), or promoting the formation, stability, and fertility of families. Increasing labor quality means shaking up the current system for educating and training future workers, including managers and entrepreneurs. Increasing savings and investment means reforming the tax code and signaling to households that they'll need to save more for their own housing, health care, education, and retirement needs. And increasing productivity growth probably means spending less money on large bureaucratic institutions such as hospitals and universities as resources shift to more dispersed and wired networks of smaller, more entrepreneurial service providers.

These are the ideas Democrats, Republicans, and independents will be arguing about for years to come.