MONEYNEWS

Cato Studies Economic Growth

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The Cato Institute held a day-long program Dec. 4 titled "The Future of U.S. Economic Growth," featuring an array of scholars who have studied the factors that determine the outlook for growth and a long list of ideas, some familiar, others novel, for improving this outlook at the margin.

This article will review the conference's outlook for economic growth, some of the best ideas of the panelists, and make some concluding observations about one idea that is particularly intriguing.

On the first panel, Dale Jorgenson, an economics professor at Harvard, and John Fernald of the Federal Reserve Bank of San Francisco, two leaders in the study of economic growth, presented their interpretations of two different sets of statistics based, respectively, on the National Income Accounts and data from the Bureau of Labor Statistics. They compared statistics on labor productivity, growth of sectors of the economy that create and employ IT innovation and demographic trends that affect participation in the workforce.

Their conclusions are remarkably similar that an extended period of growth in the neighborhood of 1.75 percent is essentially baked in the cake, because the robust growth that the economy enjoyed as baby boomers entered the workforce roughly 50 years ago is now reversing as they leave it. Another perspective on the growth outlook is that the Congressional Budget Office has identified what it considers to be a "gap" in actual versus potential annual economic growth of as much as 3.5 percent, so that if even 0.5 percent could be recovered, it would help to push the growth rate over 2 percent. Good luck with that.

The highlights of the conference were the panels of experts who set out their best ideas for promoting economic growth. However, readers should bear in mind that this discussion takes place against the background of the big picture outlook for very modest growth. The title of these two panels was "What Is to Be Done," which cleverly evokes the title of a political tract published by Lenin in 1902.

The following are some of the suggestions, but the readers might enjoy following the link to the full set of proposals:

- Buy stuff to raise the money stock. Brad DeLong, an economic professor at the University of California, Berkeley, recalled that Milton Friedman proposed in 1979 that the monetary authorities move aggressively to ensure that adequate liquidity was supplied to the economy, and even though the assumptions that the velocity of money would be

stable hasn't panned out, DeLong argued that the authorities should keep doing this until growth is restored to normal levels. He did not address the potential for dangerous side effects, such as another bout of stagflation. It looks like he is going to get his wish, and this writer predicts that the Fed will keep expanding its portfolio and eventually buy stocks in the name of supporting the economy. Fed Chair Janet Yellen recently testified that the Fed is planning to take steps to support broker-dealers when this is timely.

- <u>One-stop business permits.</u> Several panelists decried the fact that the U.S. has slipped to 46th among countries with the most favorable conditions for starting a business. Columbia economist Edmund Phelps suggested that municipalities establish centers where entrepreneurs can obtain all of the necessary permits with one stop. Bowman Cutter, director of the Next American Economy Project at the Roosevelt Institute, expressed concern that the rate of business startups has declined, and he urged that cities follow the lead of former New York City Mayor Michael Bloomberg and promote high-tech startups.
- <u>Regulatory review.</u> Perhaps the most intriguing idea of all, and one of the most practical, came from Michael Mandel, chief economic strategist of the Progressive Policy Institute, who spoke of a bipartisan proposal to create a Regulation Improvement Commission that would emulate the Base Realignment and Closure (BRAC) process of identifying military bases for realignment and closure. The Commission would develop a package of proposals and then Congress would vote yea or nay on the entire package.

This writer has conceived another related idea. The Commission should establish a process for closing one major financial regulator for each two-year period and replace them with a regulator that would be independent of client interests and empowered to restructure "too big to fail" financial institutions promptly whenever they fall below capital levels proposed by reformers led by Sens. Sherrod Brown, D-Ohio, and David Vitter, R-La., and FDIC Vice Chairman Thomas Hoenig.