A Look at Trends of the US Economy

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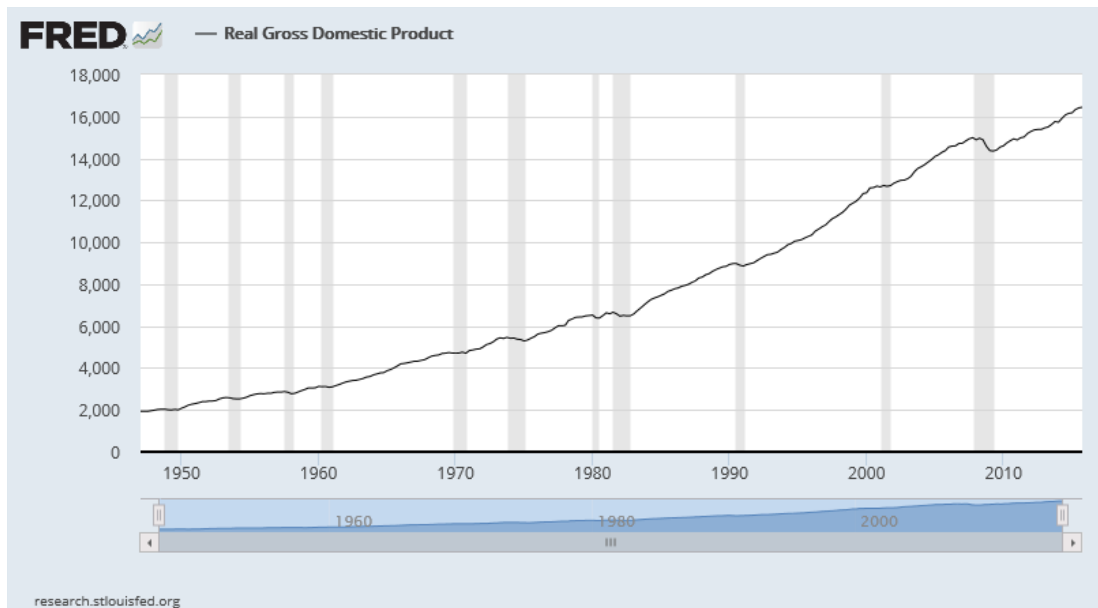
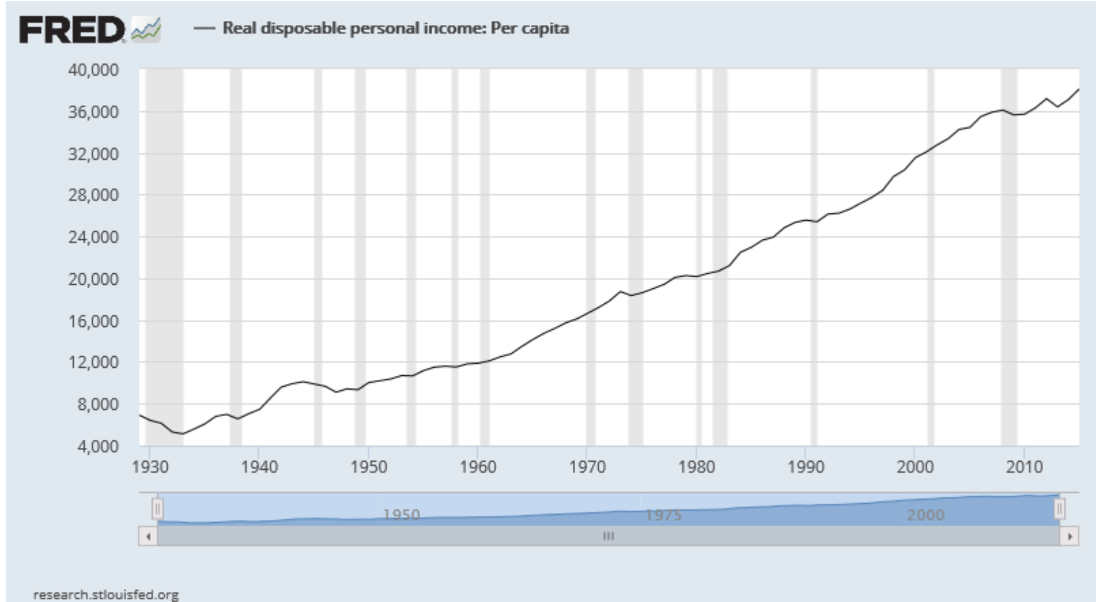
US output growth



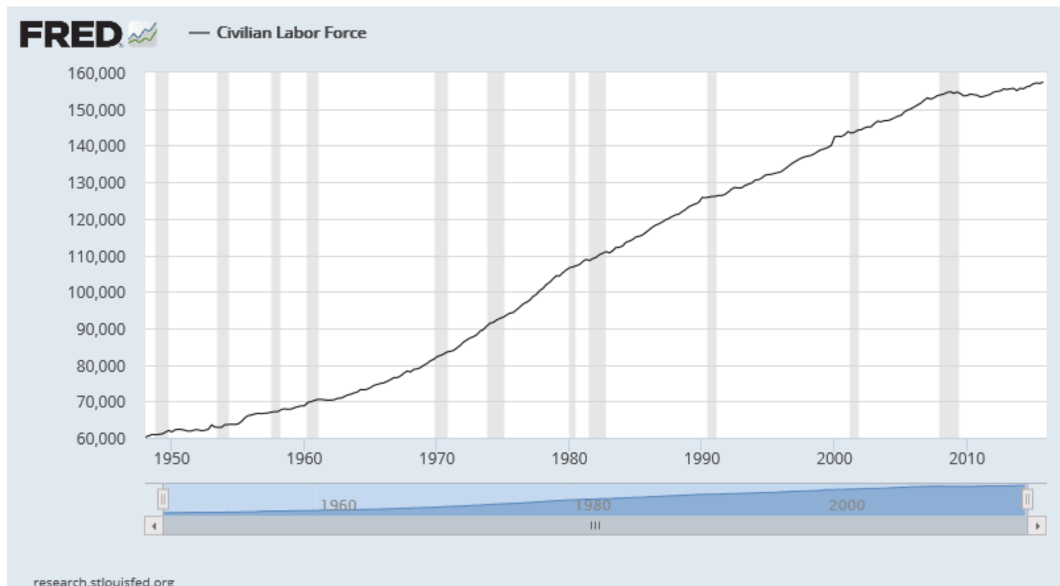
Total output has grown by an average of 3.2% annually since 1947, at an increasing rate up to the energy crises in the 1970s and 1980s and at a constant rate since. The grey areas are recessions with falling output, notably the energy crises of the 1970s and 80s and the financial crisis of 2008-9. The projection for the coming decades is continued output growth but at a slower rate.

US economic growth



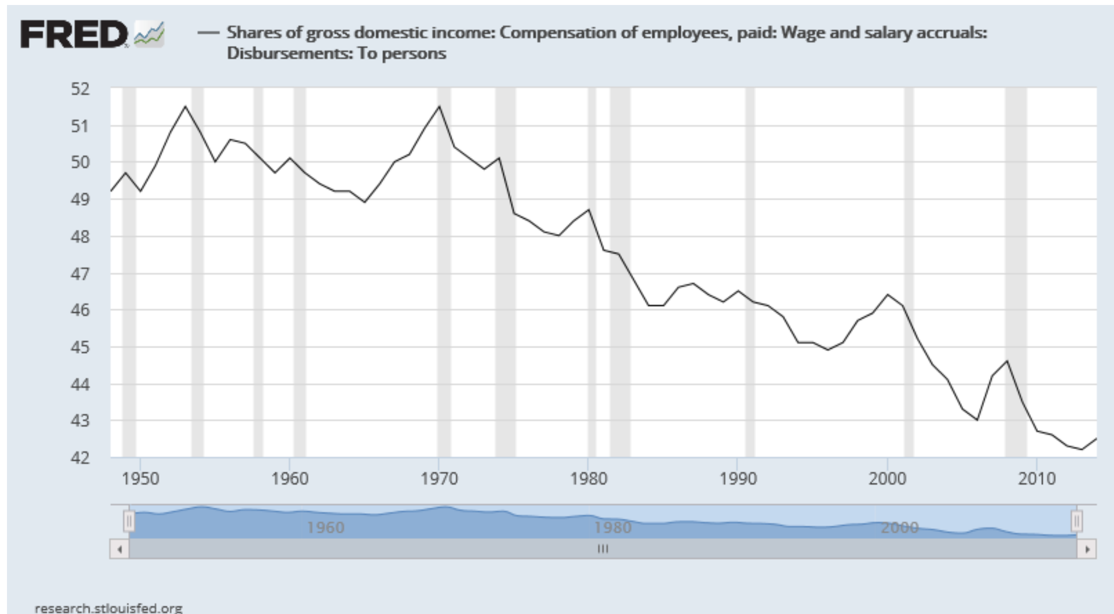
Economic growth measured by per capita income is the rule since the Great Depression but with variation and occasional decreases. Economic growth faltered during the energy crises and the financial crisis leading to dips following 2008. While the overall picture favors continued economic growth there is increased variation. Population grows naturally and since the 1990s due to immigration. While economic growth slows as an economy matures, recent variations suggest other effects on the economy. While improved technology may be able to raise the growth rate, the best bet is a slower economic growth over the coming decades with increased variation.

Labor force



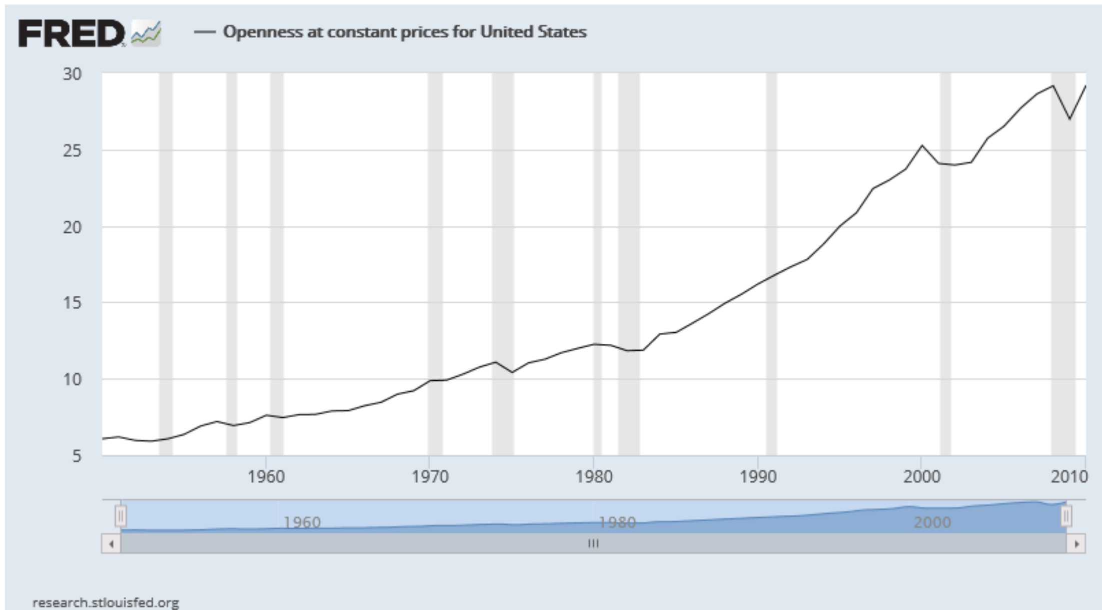
The labor force is the total number of people who work or are actively seeking work with part time workers counted accordingly. The labor force grew at an increasing rate during the 1960s and 1970s, and then at a steady rate up to the financial crisis in 2008. There are noticeable occasional decreases but the overall trend is upward. Slower growth starting with the financial crisis is noticeable. While the political focus remains on the unemployment rate, it would drop by decreasing unemployment benefits. The labor force will grow at a slower pace over the coming decades.

Labor share of income



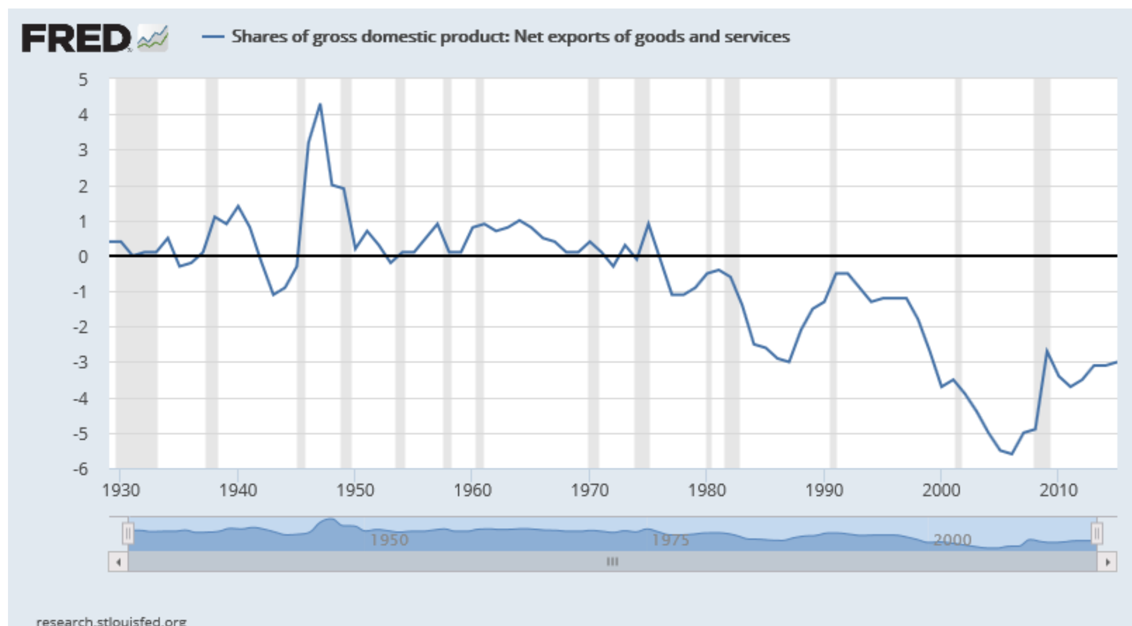
The share of GDP paid to labor has decreased slightly since the energy crises, from about 50% through the 1970s to about 45% since the 1990s. Owners of capital and natural resources are paid the balance of national income. Immigration continues to put downward pressure on wages due to the increased labor supply. The way to increase labor income is to increase labor demand with investment. Investment in physical plant/equipment/infrastructure is a gradual process that raises labor productivity. Investment in human capital through education and labor training also more time and resources, but pays off with increased labor productivity and higher wages. Legislated wage floors with the minimum wage or union wage amount to little more than wishful thinking. Expanding export industries raise labor demand and wages in those industries. The recommendations are investment and increased trade. The prospects are for labor to maintain a 40% share of income.

International trade



Openness is defined as the sum of exports plus imports relative to output, (X + M)/Y. Openness is a simple gauge of the importance of international trade to the economy, growing at an increasing rate since the 1950s as the economy becomes more involved in international markets. Europe and Asia trade about twice as much and most smaller countries trade much more. Trade provides imported goods and services at lower prices even if they could be produced inside the country. Consumers benefit from imports as do business firms importing intermediate products for domestic production. Trade also opens world markets to exports. The US leads the way in innovation by creating new products as it imports standard consumer goods and natural resource products. The US is a net exporter of business services such as engineering and financial services. Trade with the Pacific Rim and Latin America will increase over the coming decades. While there are losers as well as winners due to trade, the overall gains from trade are substantial.

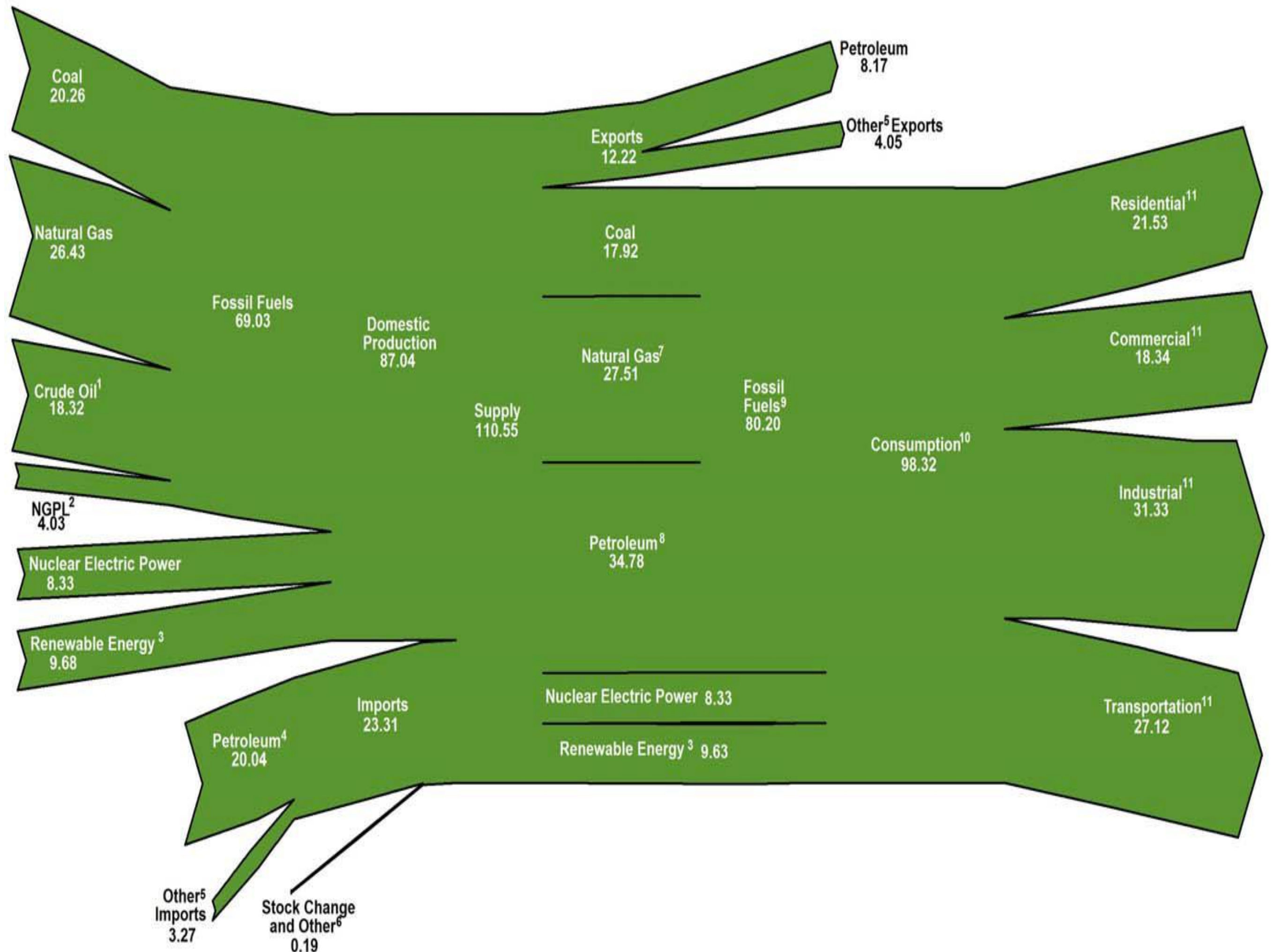
Trade deficits



Trade deficits have been the rule since the energy crises of the 1970s and 1980s. Import spending in excess of export revenue is financed by international lending as foreign investors buy US stocks, bonds, and other assets. Before the energy crises there were consistent trade surpluses. The US exports high tech manufactures and business services intensive in capital and skilled labor. Exports include machinery and equipment, airplanes, and a range of business services such as engineering, construction, and finance. Imports are labor intensive consumer goods, natural resource products, and until recently oil. Trade based on natural resources flows in both directions. The trade deficit of 3% equal to GDP will diminish due to increased domestic production and decreased oil imports.

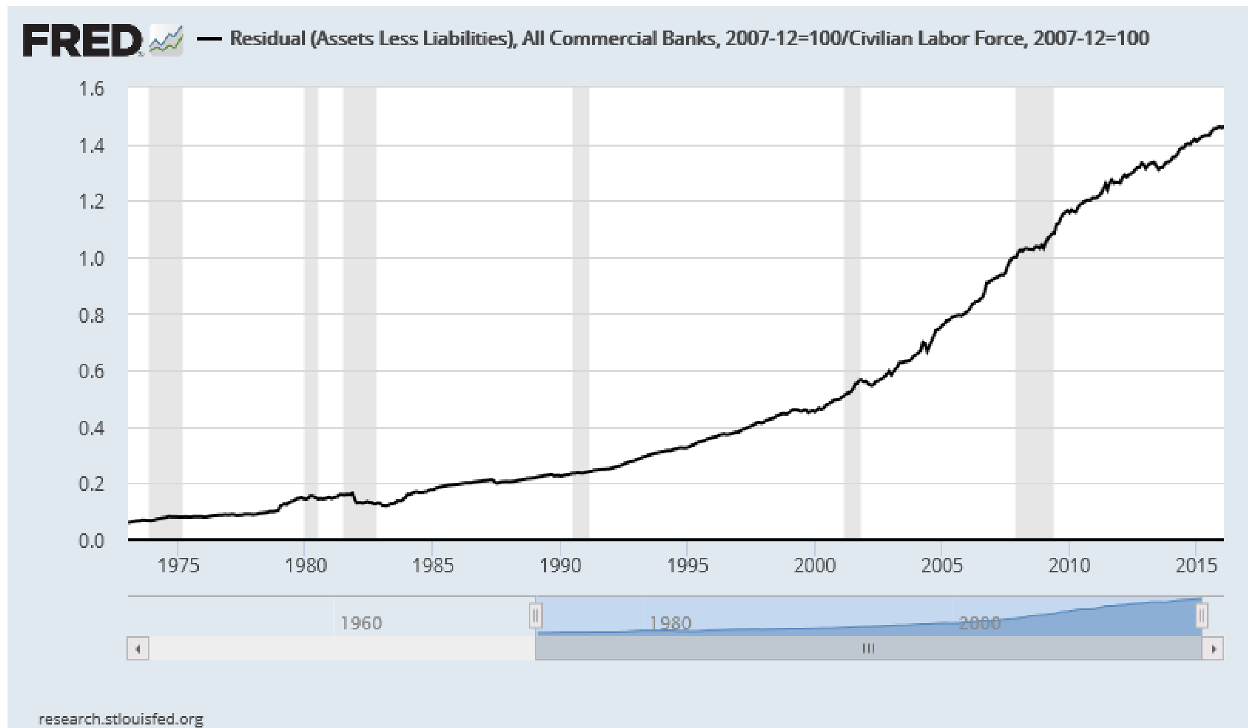
Energy markets

Flow chart from DoE Energy Information Agency



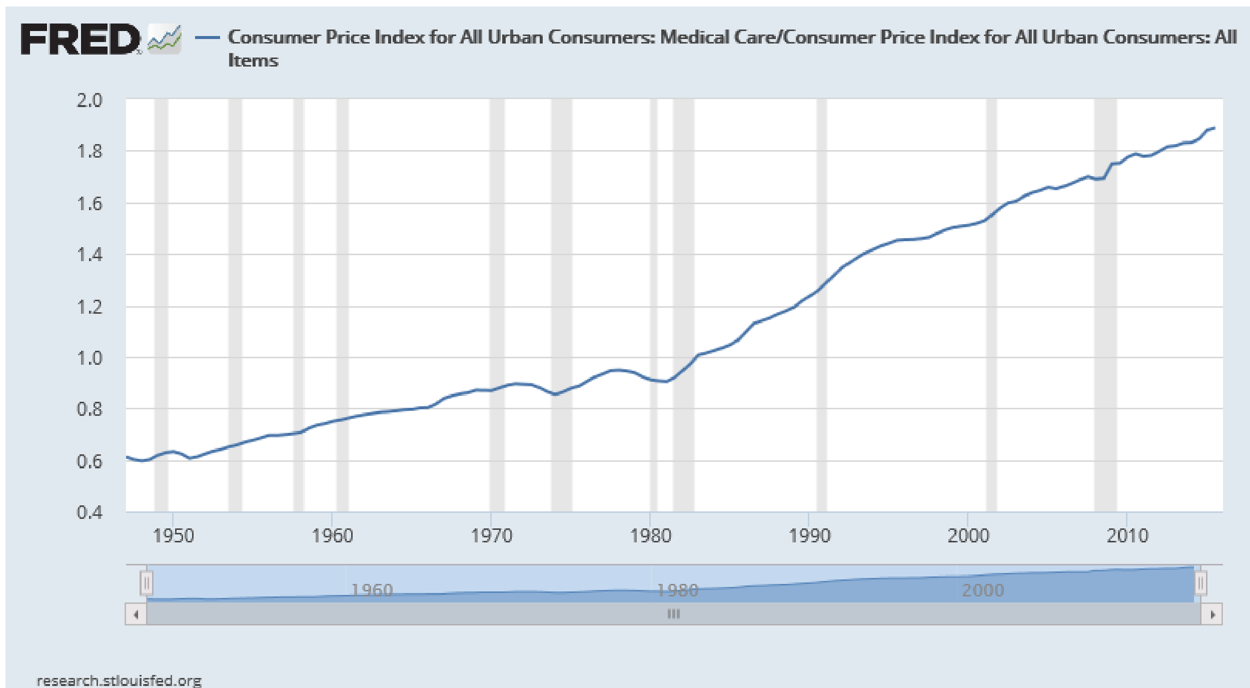
During the last few years the US has lowered oil imports due to hydraulic fracturing and increased domestic production. The falling world price of oil is a boon to importing countries but now lowers US production. Industry and transportation account for 60% of energy consumption. Turning off light bulbs at home would have no effect on energy efficiency but moving closer to work would. While wholesale competition has increased efficiency, retail competition has been less effective. The energy sector will slowly take an increasing share of income as hydrocarbons become scarcer over the coming decades. Alternative energy sources compete with hydrocarbons at $100 per barrel of oil. Extraction costs for oil worldwide average $25 per barrel. The alternative energy sector is more political than economic and can be considered a branch of government.

Financial markets



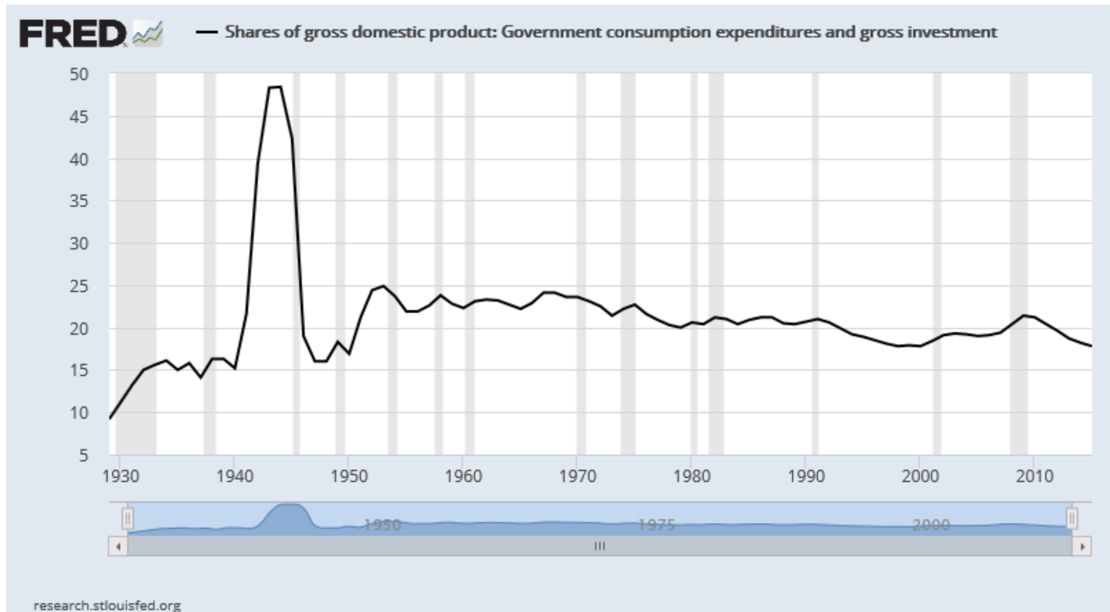
This plot of net assets per capita indicates growth at an increasing rate from the 1980s up to about 2000. Growth continued since 2000 at a steady rate but with more variation. Government regulators who moan about banks that are "too big to fail" should let them naturally shrink through bankruptcy. Bankruptcies will clear the books as smaller banks absorb assets of the crony capitalist failing "Wall Street" banks. Big banks would reorganize into smaller regional banks with better knowledge of local conditions. Bankruptcies would have limited the effects of the financial crisis in 2008 to a blip in the trend. Slower growth and increased variance are likely in the financial sector over the coming decades. If the government presumes a larger managerial role, the financial sector will slow and perhaps decline.

Medical prices



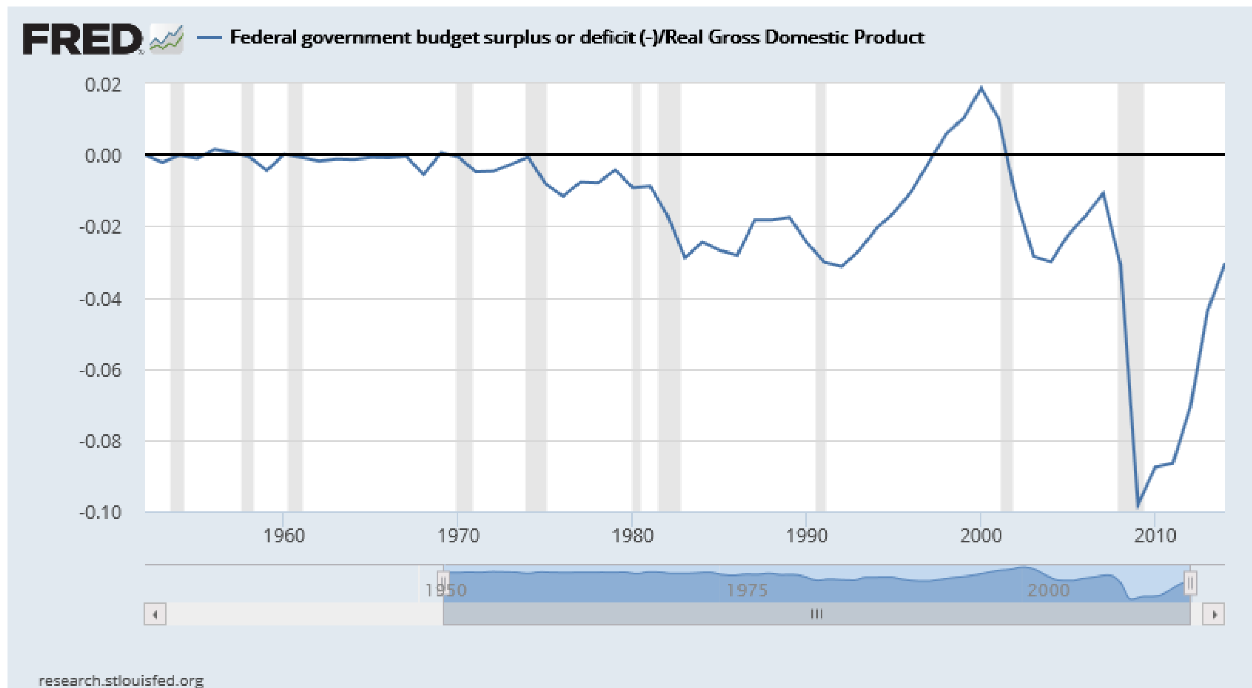
The rising price of medical care is due to the institutionalized price setting by medical, pharmaceutical, and insurance firms in explicit collusion with the government. The American Medical Association limits the supply of doctors to keep salaries of doctors high. Hospital associations with collusion from state regulators limit the supply of hospitals. The recently passed mandatory subsidized medical insurance law increases demand for medical services reinforcing rising demand and prices for medical care. The rate of price increase rose in the early 1980s. To be fair, the rising price reflects improved medical care over the decades. Rising costs and prices can be expected when the government is involved in a market. Medicare and Medicaid are already about half of the medical market. The politics favor a continued increasing role of government in the medical market. The price of medical care can be expected to continue rising with an increased burden of medical spending paid by healthy young taxpayers.

Government spending



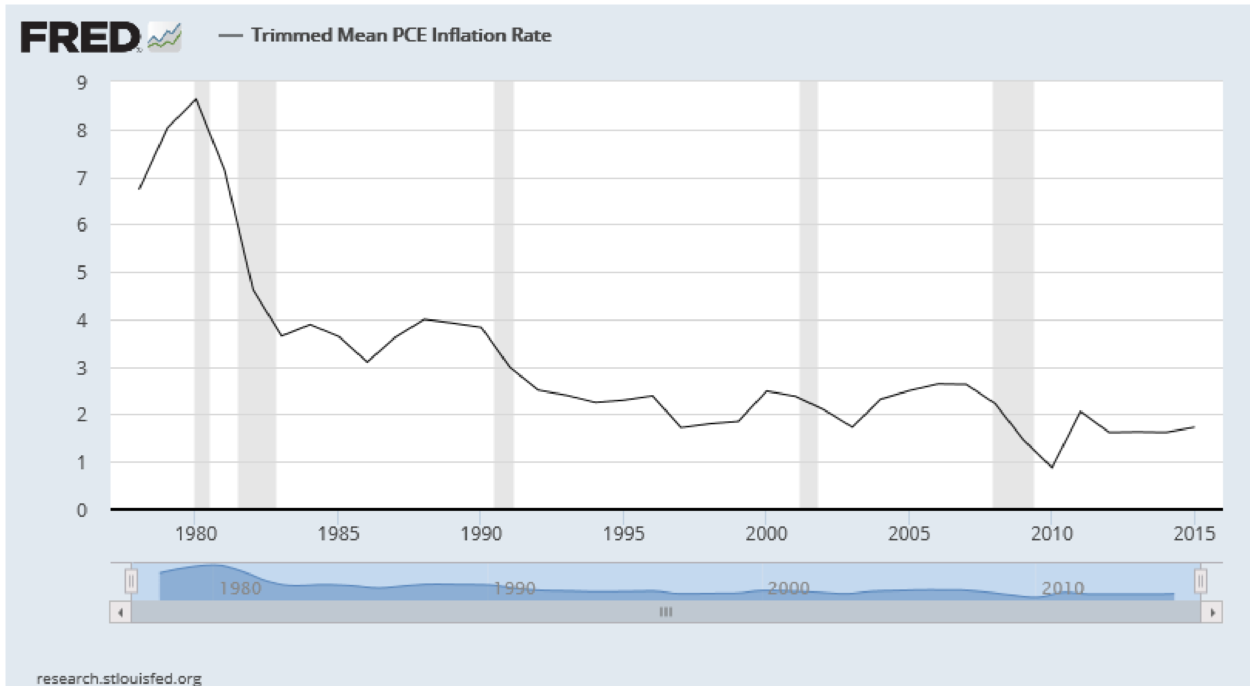
Government spending excluding transfers has been about 20% of GDP since 1980. World War II spending is apparent, almost half of total output. The spending on recent Mideast wars does not stand out. Stimulus spending during the financial crisis created a bump but had no effect on output. Since the 1950s government spending has been on a slight downward trend. While the level or change in government spending is political, the best bet is the 20% range over the coming decades short of transfer payments poised to increase with retirements and medical transfers.

Government deficits



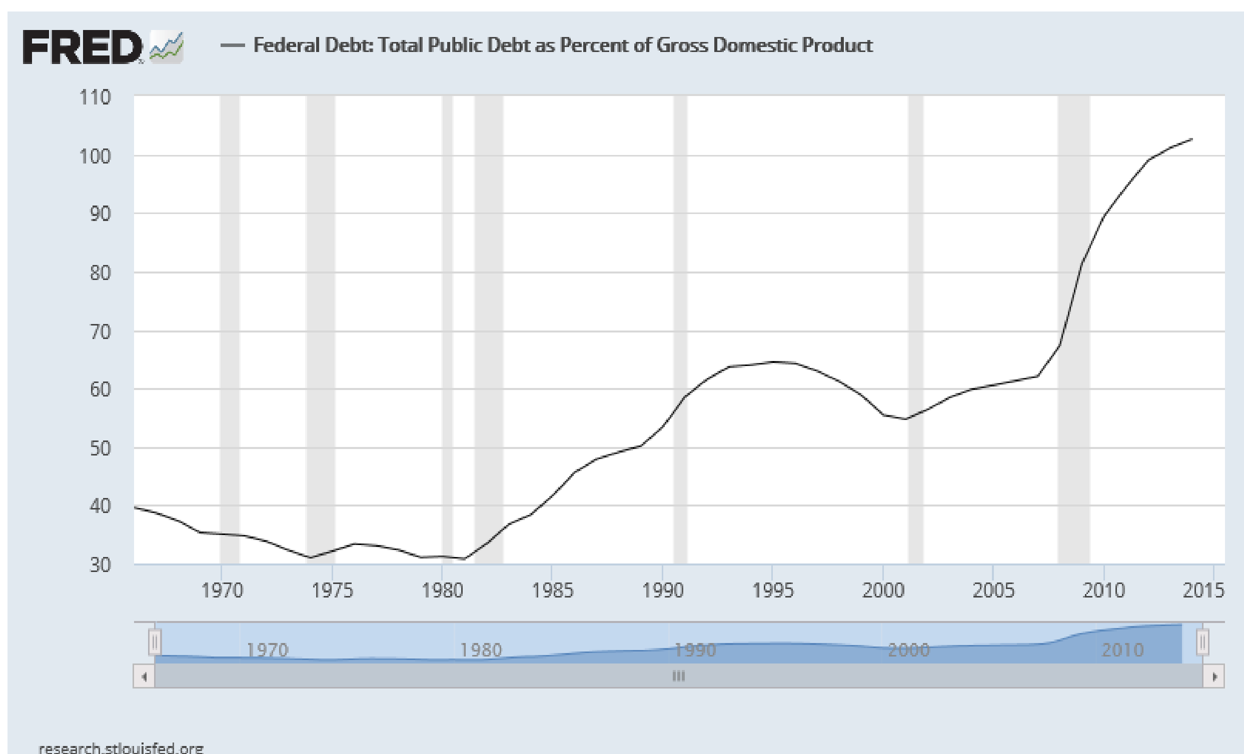
The government has a deficit when it spends more including transfer payments than it collects in tax revenue. The deficit is equal to tax revenue T minus total government spending G. Deficits were minimal until the energy crises, grew during the 1980s and 1990s, and grew dramatically since 2000 reaching 10% of output in 2010. The government prints dollars to cover the deficit spending. As that money is spent, prices rise. Deficits in the range of 4% of output can be expected to continue indefinitely ensuring inflation.

Inflation



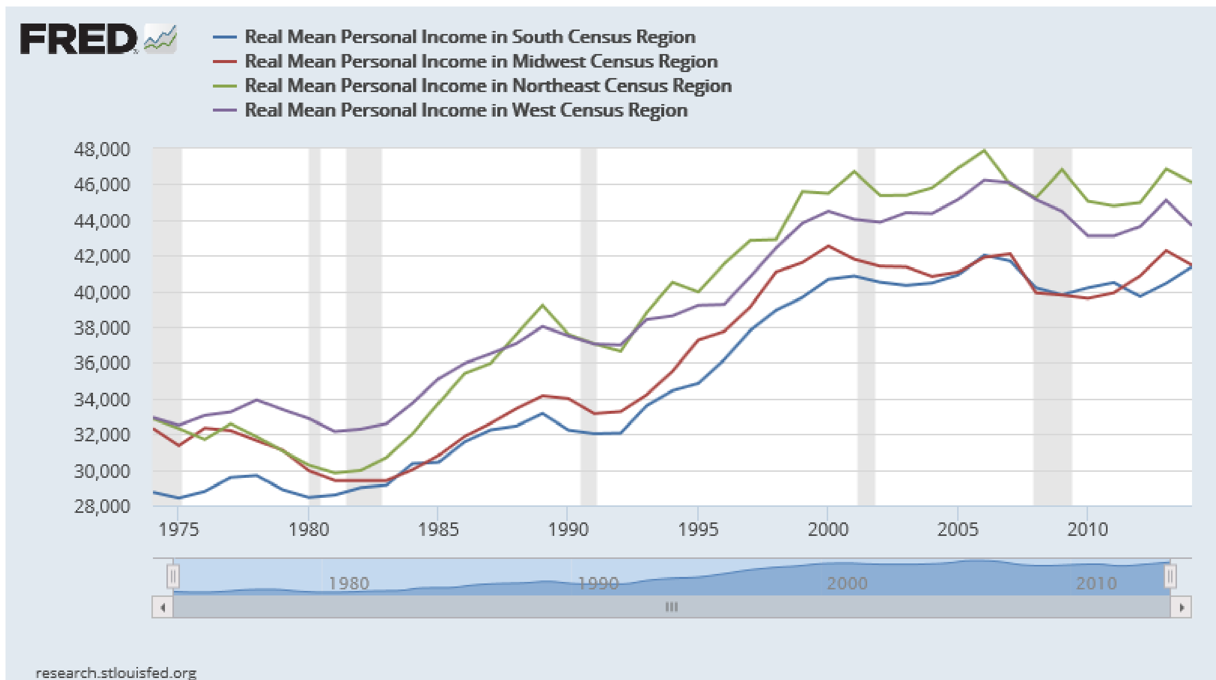
Inflation has fallen since the energy crisis to an average of 3%. Government deficits since 2000 have increased the money supply. Following the financial crisis, banks and businesses keep more cash on hand to ease inflation pressure. Inflation over the coming decades can be expected to increase to 5%. With 5% inflation a Big Mac costing $3 will cost $5 after a decade and $8 after two decades. Anticipating inflation reduces its effects on the economy. The best advice is to hold as few dollars as possible given the dollar will be a poor store of value. Real interest rates equal to nominal rates minus inflation will become more important.

Government debt



The result of government deficit spending is an increase in the government debt, now just over the level of annual output. This level of debt represents a 2% perpetual taxpayer liability in real terms. That is, real income in the US would be 2% lower forever just to pay the interest on the national debt. In Greece irresponsible government spending has led to a 4% perpetual interest payment. Unlike Greece on the euro, the US government will monetize its debt by printing dollars to make the bond payments as they become due. The resulting inflation is a tax on dollar holdings. The US followed this strategy for a similar level of debt after WWII paying the debt down to 30% of GDP over 30 years. Over the coming decades, government debt will remain at about the same percent of output as easy money policy leads to higher inflation as the debt is paid with less valuable dollars.

Regional economies



Regional outputs move together but with some changes in the rankings. Rising incomes in all regions characterized the 1980s and 1990s. Since 2000 regional incomes have been flat to falling in the West and Northeast. The South has closed the income gap since the 1970s as the Midwest fell and the West slipped behind the Northeast. The South has become more of a manufacturing center due to open shop laws, foreign direct investment, and inexpensive energy. Some Midwest states are moving to open shop laws, totally unthinkable two decades ago.

Political trends

There are two troubling political trends hurting the US economy. One is crony capitalism based on lobby spending, inside information, tax breaks, subsidies, and special government contracts. The other is the creeping socialist welfare system based on increased government control of the economy. Both lead to economic inefficiency. The middle path of a limited defined role for government in the economy requires a political willpower.

The coming decades

Expect some slowdown in economic growth. While improved technology may raise the growth curve, the best bet is slowing economic growth with more variation. Trade and foreign investment will increase in importance. The financial system will de-centralize with increased regional competition and no more government bailouts. While the bankruptcies will be painful for stockholders, assets will be reorganized under more efficient management. Wealth will be redistributed toward owners of increasingly scarce natural resources. Labor will only maintain its share of income but is overpaid relative to productivity. Certain labor skills will become more valued but unskilled wages will decline with immigration. Inflation in the range of 5% will diminish the perpetual taxpayer burden due to national debt but degrade the taxpayer burden of the defined Social Security retirement system.