

By Dr. Mike Walden, North Carolina Cooperative Extension One of the major goals of the new Trump Administration is to increase the rate of economic growth in the country. The objective is to move from the two percent annual growth rate of recent years to four percent. What exactly does this mean? Technically, the national economic growth rate is measured by the annual change in "real gross domestic product." Translated from economic jargon, this is the growth in the country's production of both goods and services.

When the country's total production of goods and services accelerates, many beneficial things happen. More jobs are created, incomes rise faster, income inequality lessens and government borrowing is reduced. Of course - there may also be negatives - like increased traffic congestion, pollution, potentially faster increases in inflation and higher interest rates.

Still, the relatively slow two percent annual growth rate of recent years is cited by many as the reason numerous households have made little progress in their economic well-being. With two percent growth, it requires 35 years for the average standard of living to double. Doubling that growth rate to four percent means the standard of living is doubled in 17.5 years. The four percent growth rate has been elusive in recent years. While reaching this benchmark was common in the 1950s and 1960s, the four percent bar has been met only twice since 2000 and 11 times since 1980. Some economists contend the fast growth of the 1950s and 60s was due to a post-World War II economic bounce. Further, many analysts say recent slow growth is a result of demographics (an aging society and low birth rate) more so than public policy.

So there may be some strong headwinds blowing against the Trump Administration's goal of doubling economic growth. Nonetheless, if the new President and his team want to focus on boosting economic growth, what factors should they consider? Economic growth results from two components: growth in the labor supply and growth in labor productivity. Growth in the labor supply is an increase in the number of individuals available for work and working. Growth in labor productivity - which is output produced per worker - results from improvements in technology, machinery and worker training.

A look at the recent numbers for the labor supply and labor productivity easily reveals why economic growth has been slow. In recent years the annual labor supply in the country has increased 0.7 percent, and annual labor productivity has improved by 0.8 percent annually. Added together, these two factors give a yearly growth rate of 1.5 percent, just shy of the 1.7 percent annual rate averaged since the end of the Great Recession.

So how could labor supply and labor productivity be improved? A starting point with labor supply would be employing the 14 million individuals of working age who are either officially or unofficially unemployed. This total represents almost 10 percent of the current number of workers. So, adding a tenth of these folks to the workforce each year would conceptually increase annual growth by one percentage point for the next decade. However, a challenge with many of these individuals is not having the marketable skills desired by businesses.

Reducing tax rates on work earnings is another way to augment the labor supply. In particular, workers with valuable skills who have retired could potentially be enticed back to the work force if they kept more of what they earned.

Improving labor productivity can be accomplished in two ways: upgrading the skills of workers to allow them to work more efficiently, and improving the technology and machinery paired with workers. Upgrading worker skills begins with formal education but continues with students' interactions with businesses and job tasks. Some say the country is lacking in the business interaction component, implying more apprenticeships and business involvement in educational curriculum are needed.

There's also a debate about whether productivity-enhancing developments have recently stalled, as more new tech applications have been applied to "fun" activities like videoing, gaming and social media. If so, then a refocus on creating new technology to improve worker capabilities would add to our growth goal.

It's also been argued regulations are impeding productivity. A recent academic study estimated the cumulative effect of all regulations imposed since 1980 has been to reduce the annual economic growth rate by almost one percentage point. However, the study did not consider the potential benefits of the regulations.

Last is a tactic that doesn't neatly fall in either the labor supply or labor productivity category. This is reducing the country's international trade deficit, which is the excess of imports over exports. Currently the trade deficit totals \$460 billion annually, or almost 2.5 percent of total national production. Reducing this deficit would shift production to the U.S. and increase economic growth.

The question is how to accomplish it in a way that doesn't prompt foreign retaliation. For example, if imposition of a tax (tariff) on imports designed to reduce the amount of imports in turn causes foreign countries to do the same to our exports, then net gains are reduced.

A strong case can be made that improving economic growth is the challenge of our time. While the goal is clear, getting there is not. Can the Trump Administration - or any Administration - do it? You Decide!

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