The Future of Economic Growth

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The view expressed today are mine alone. They do not necessarily reflect those of the Federal Reserve Bank of Richmond or the Federal Reserve System.
U.S. Growth Rate Has Slowed

Source: World Bank
fred.stlouisfed.org
Agenda

- Why does the growth rate matter?
- What determines economic growth?
- How does long-run growth affect monetary policy?
Will Someone Please Think of the Children?

- Rule of 72

Number of Years It Takes the Economy to Double in Size at Varying Annualized Growth Rates
The Dismal Science: Misery Loves Company

World GDP Per Person

World Population
In 1798, my forecast for growth would have been: “Sunny with a perfect chance of zero growth!”
Modern Growth

U.S. GDP Per Capita

How to Explain the “Escape”?! 

- Robert Solow, who won the Nobel Prize in Economics in 1987, proposed a new growth model in the 1950s.

- Living standards determined by three things: capital, labor, productivity.

- Both capital and labor can permanently raise living standards but not growth.

- The only way to sustain long-run economic growth is through improvements to productivity.

- Solow estimated 80% of long-term growth in first half of the 20th century was explained by productivity.
So What’s Productivity Been Doing Anyway?

Source: University of Groningen, University of California, Davis
fred.stlouisfed.org
Why is Productivity Slowing Down?

- Are today’s innovations less “game changing” than in the past?
  - Robert Gordon: “What would you rather have: your iPhone or indoor plumbing?”
Why is Productivity Slowing Down?

- Maybe we can’t absorb “skill-biased” tech change as fast?

Sources:
- Census Bureau, www.census.gov/data/tables/time-series/demo/educational-attainment/cps-historical-time-series.html;
Why is Productivity Slowing Down?

- Or could it be a measurement issue?
  - Price indexes don’t do a good job of accounting for improvements in the same products
  - Ex: You could buy a much better TV in 2015 than you could in 1975 for the same nominal price
Everything is Amazing
Why Does the Fed Care? Because Low Growth Means We Need to Set Rates Low...
...And Low Policy Rates Create Risks

- Lower long-run interest rates push the Fed toward the zero lower bound (ZLB)

- Nominal interest rates can’t go below zero because of cash (though recent experiments in Europe and Japan show there is some wiggle room with moderately negative rates)

- What are the dangers of the ZLB?
  - Less room to respond to a crisis
  - Risk of deflation

- Are we stuck?
How Can We Get More Productivity Growth?

- Cultivate institutions that promote innovation
- Improve human capital with a focus on early childhood education so we can drive and absorb innovation
- Globally, more people = more ideas = more growth
  - But U.S. and world population growth rates are slowing
Managing Expectations: Really Rapid Growth Only Transitional

“Catch-up Growth” in Living Standards

Additional Resources

From Our Research Team


Books

