Fully Grown:
Why a stagnant economy is a sign of success

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The slowdown

The growth rate of GDP per capita in

- 20th Century: 2.25%
- 21st Century: 1.00%
What would you give up to reverse it?
Successes

- Demographics
- The shift into services
Success \neq Perfection
20th Century:

\[
2.25\% = -0.22\% + 0.96\% + 1.51\%
\]

21st Century:

\[
1.00\% = -0.12\% - 0.15\% + 1.26\%
\]
20th Century:

\[ 0.96\% = 0.70\% + 0.05\% + 0.45\% + -0.24\% \]

21st Century:

\[ -0.15\% = 0.31\% + 0.08\% + -0.35\% + -0.19\% \]
Falling family size

- Higher living standards
- The pill
- Women’s labor force participation
The shift to services

Graph showing the share of value added for different sectors over time from 1970 to 2015.

- **Manufacturing**
- **Health and social**
- **Prof. services**
- **Info. and comm.**
Goods productivity growth
> Services productivity growth
Labor makes the product
vs.
Labor is the product
The shift to services

[Graph showing the trend of value added in different sectors over time, with labels for Manufacturing, Health and social, Prof. services, and Info. and comm.]

Value added (1970=100)

Year

What else could it be?

- Market power?
- Mobility?
- Government?
- Inequality?
- Trade?
Market power?
Market power?

![Graph showing entry and exit rates over time](image)
Maybe led to lower reallocation rates but...
Also a shift to high-value products
Changes in taxes and regulations don’t line up with slowdown.
Rise in inequality doesn’t have strong link to productivity or human capital
Rise in trade doesn’t have strong enough effect on employment and growth
<table>
<thead>
<tr>
<th>Growth rate (%)</th>
<th>Explanation</th>
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</thead>
<tbody>
<tr>
<td>2.25</td>
<td>Average growth from 1950 to 2000</td>
</tr>
<tr>
<td></td>
<td><strong>Successes:</strong></td>
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<tr>
<td>-0.80</td>
<td>The effects of smaller family sizes and aging</td>
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<tr>
<td>-0.20</td>
<td>The shift from goods to services</td>
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<td></td>
<td><strong>Failures(?):</strong></td>
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<tr>
<td>-0.15</td>
<td>The decline in reallocation of workers and firms</td>
</tr>
<tr>
<td>-0.10</td>
<td>The decline in geographic mobility</td>
</tr>
<tr>
<td>≈ 0</td>
<td>Taxation and regulation</td>
</tr>
<tr>
<td>≈ 0</td>
<td>The increase in inequality</td>
</tr>
<tr>
<td>≈ 0</td>
<td>Trade with China</td>
</tr>
<tr>
<td>= 1.00</td>
<td>Average growth from 2000 to 2016</td>
</tr>
</tbody>
</table>
What would you give up to reverse it?
What’s the future?

Slow growth of GDP per capita...
  • ...of about 1% per year
Slow growth of GDP per capita...

- ...of about 1% per year
- ...that technology won’t reverse
Slow growth of GDP per capita...

- ...of about 1% per year
- ...that technology won’t reverse
- ...but maybe in 15-20 years an uptick due to demographics?
What’s the future?

Slow growth of GDP per capita...

• ...of about 1% per year
• ...that technology won’t reverse
• ...but maybe in 15-20 years an uptick due to demographics?
• ...and that’s okay
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