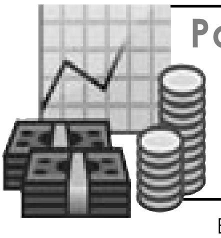

Popular Economics Weekly:

When Will the U.S. Grow Again?

By **Harlan Green** / Special to Voice

HARVARD ECONOMIST AND GW BUSH CHIEF ECONOMIC ADVISOR Greg Mankiw's recent *New York Times* Upshot column attempts to explain why U.S. growth is so slow. "Here is the sad fact," he says, "Over the last decade, the growth rate of real G.D.P. per person has averaged just 0.44 percent per year, compared with the historical norm of 2.0 percent. At a rate of 2.0 percent, incomes double every 35 years. At a rate of 0.44 percent, it takes about 160 years to double."

Mankiw blames it on policy missteps, e.g., when Barack Obama took office in 2009, the economy was in the midst of the Great Recession, and President Obama's advisers relied on standard Keynesian theory when they proposed a large increase in government spending to energize the economy.

But instead of waiting for the stimulus spending to take effect, Obama listened to conservative economists (such as G Mankiw) and supported tax increases too soon in an attempt to pay down the debt accumulated during the Bush administration. The economy hadn't yet recovered from a very Great Recession. President Roosevelt made the same mistake in 1937 when he also raised tax rates with a Republican Congress, which shrank growth so much that it prolonged the Great Depression.

We do have more signs of improved growth led by housing sales, which may offset some of the policy missteps – which were due in large part to misjudging the depth of the Great Recession. Sales of previously owned homes increased in May to the highest level in nearly a decade, the National Association of REALTORS reported, another sign of durable demand in the housing market despite ongoing headwinds. And a recovering housing market has historically been a leading economic indicator of healthier consumers, hence future growth.

Existing-home sales rose 1.8 percent to a seasonally adjusted annual rate of 5.53 million, the National Association of REALTORS said Wednesday. That was 4.5 percent higher compared to a year ago and the highest pace since February 2007 during the housing bubble.

Lawrence Yun, NAR chief economist, explained that existing sales continue to hum along, rising in May for the third consecutive month. "The primary driver in the increase in sales is more homeowners realizing the equity they've accumulated in recent years and finally deciding to trade-up or downsize," he said. "With first-time buyers still struggling to enter the market, repeat buyers using the proceeds from the sale of their previous home as their down payment are making up the bulk of home purchases right now."

Any recovery depends on boosting aggregate demand—the demand for goods and services from all sectors of the economy, including governments. And to date the Obama administration has been too lax in encouraging both private and public investment that would expand capacity, and so productive jobs.

This is particularly true of government jobs. State and local government employment has been the largest drag on job growth. State and local governments lost 129,000 jobs in 2009, 262,000 in 2010, 247,000 in 2011, and 29,000 in 2012, for a total of 669,000 jobs lost due to the Great Recession.

Through November 2015, reports Calculated Risk, state and local government employment is up a net 70,000. So, in the aggregate, state and local government layoffs are over. However, state and local government employment is still 561,000 below the pre-recession peak. Public sector jobs suffered the largest decline due to the Great Recession. Here is the comparison during presidential terms of government job creation.

The public sector grew during Mr. Carter's term (up 1,304,000), during Mr. Reagan's terms (up 1,414,000), during Mr. G.H.W. Bush's term (up 1,127,000), during Mr. Clinton's terms (up 1,934,000), and during Mr. G.W. Bush's terms (up 1,744,000 jobs).

However, public sector jobs declined significantly since Mr. Obama took office (down 638,000 jobs in 2015). These job losses have mostly been at the state and local level, but more recently at the Federal level. This has been a significant drag on overall employment.

Public employment is as important as private sector jobs. Not only does it put more people to work, it provides the necessary energy-transportation-communication networks without which private industry cannot operate.

Harlan Green has been the 11-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker.