
U.S. economy faces four headwinds, economist warns

By Kerry Pechter *Wed, Feb 19, 2014*

Economist Robert J. Gordon of Northwestern disagrees with the “techno-optimists” who believe that the U.S. is on the cusp of a surge in technological change. He thinks we’re already well into an innovation slowdown.

A new [paper](#) from a Northwestern University economist posits that the growth rate in the U.S. over the next several decades, at least for most people, will be lower than the 2.0% average per capita GDP growth that the country experienced between 1891 and 2007.

“Future growth will be 1.3% per annum for labor productivity in the total economy, 0.9% for output per capita, 0.4 % for real income per capita of the bottom 99% of the income distribution, and 0.2 % for the real disposable income of that group,” wrote Robert J. Gordon in NBER Working Paper 19895.

- Gordon identified four “widely recognized and uncontroversial” headwinds: Demographic shifts will reduce hours worked per capita, due to the retirement of the Baby Boom generation and an exit from the labor force both of youth and prime-age adults.
- Educational attainment will stagnate at a plateau as the U.S. sinks lower in the world league tables of high school and college completion rates.
- Inequality continues to increase; the bottom 99% of earners will see a rate of real income growth that is fully half a point per year below the average growth of all incomes.
- A projected long-term increase in the ratio of debt to GDP at all levels of government will eventually lead either to higher tax revenues and/or slower growth in transfer payments.

Gordon disagrees with the “techno-optimists” who believe that the U.S. is on the cusp of a surge in technological change. He thinks we’re already well into an innovation slowdown. “In the eight decades before 1972 labor productivity grew at an average rate 0.8% per year faster than in the four decades since 1972,” his paper said.

Historical examples cited in the paper suggest that “the future of technology can be forecast 50 or even 100 years in advance.” The paper assesses innovations anticipated to occur over the next few decades, including medical research, small robots, 3-D printing, big data, driverless vehicles and oil-gas fracking.

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