4-27-2015

The Right Perspective for the U.S. Growth Rate

Paul Kim
Johnson County Community College, paulkim@jccc.edu

Right Perspective for U.S. Economic Growth Rate

By

Paul Kim, Ph.D.*

(Kyong Mal Kim, Ph.D)

*Paul Kim, Ph.D. is currently a Professor of Economics at Johnson County Community College, Overland Park, KS 66210. Phone 913-469-8500. He was the former Presidential Advisor to the President of South Korea in 1998 (Alumni Reminiscence: Fulbright 2010). His e-mail address is paulkim@jccc.edu. The author is greatly indebted to Professor Margaret Russell for her editorial work. He is also indebted to Professor Shun Wang for graphic design work.

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1.INTRODUCTION

I have established a hypothesis in my previous work in which I have claimed that there is a predicable (inverse) relationship between the productivity of a nation and (activities of) redistribution of power and income. The purpose of this paper is to build a new economic growth theory based on the above hypothesis, and apply that theory into historical facts of the United States since 1948 to 2014 in order to claim that U.S. economic growth rate today in 2014 or 2015 should be 2.4 % (or 2 % to 2.5 %), not 3% to 4 %. In another words, the U.S. economy today is growing at the rate that it should be at 2.4 % (2% to 2.5 %). Based on high degree of the activity of redistribution of power and income, the average growth rate which the U.S. economy can achieve today is between 2% and 2.5 % which is different from what is commonly accepted based purely on the historical average figure of 3% to 4%.

2. THE NEW GROWTH THEORY

I have developed a theory that there is (inverse) predicable relationship between activities of redistribution of power and income and the productivity of a nation[1]. This theory is graphically illustrated in the Figure 1. The productivity curve in the graph illustrates the inverse relationship

[1] Kim, Paul, "A New Economic Growth Theory,"(http://scholarspace.jccc.edu/econpapers/4)

between the level of the nation's labor productivity and the degree of activities to achieve redistribution of power and income. The movement from a to b demonstrates that the labor productivity of the nation declines from PR1 to PR0 as the activities of the redistribution of power and income are intensified or increased from R1 to R2. Thus, I have concluded that growing activities of the redistribution of power and income is the major reason why a nation's long run economic growth rate will decline when a nation reaches to advanced stage of economic growth. I intend to reinforce this conclusion in this paper using U.S.A. as a case study.

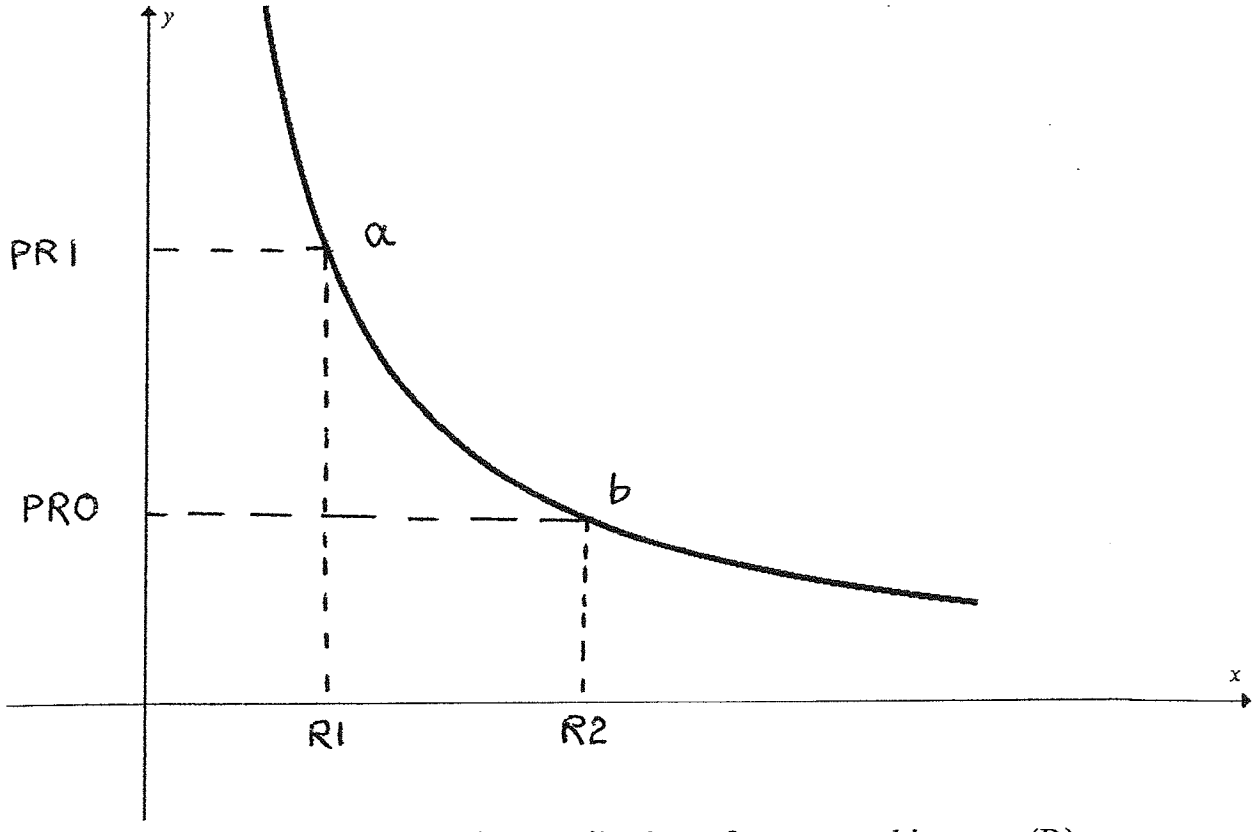


Figure 1- Productivities Curve

As the curve moves down further, its slope becomes flatter and flatter and becomes almost horizontal indicating that there is a limit to how much an increase in activities of redistribution of power and income can hurt the productivity of a nation.

3. THE HISTORY OF THE U.S. LABOR PRODUCTIVITY GROWTH RATE

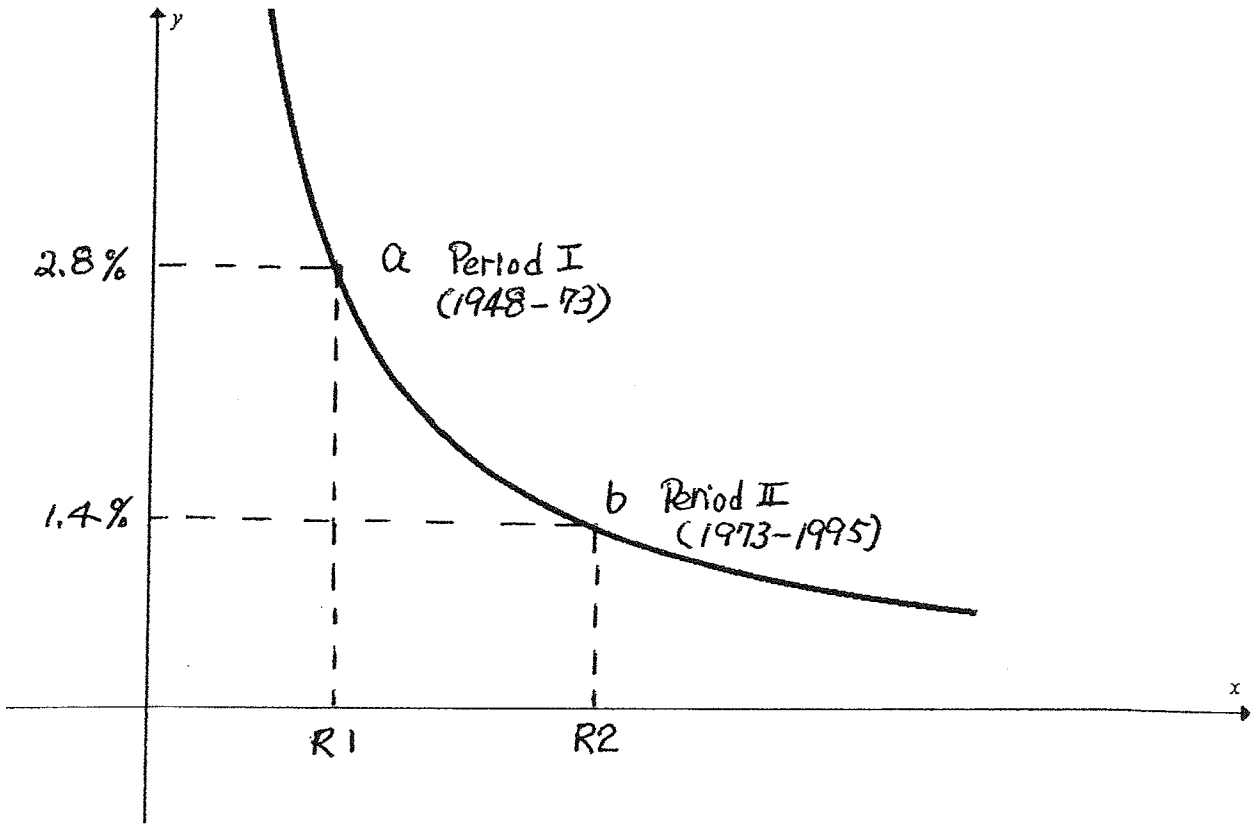
Table 1

	1948-1973	1973-1995	1995-2006
Growth rate of Labor Productivity	2.8%	1.4%	2.7%

Table 1[2] shows the history of the labor productivity growth rate for the U.S. I have plotted above information into Figure 1, which has become Figure 2. I have added the periods of years to that theoretical curve to apply the empirical facts to my theory. Period I (1948-1973) represents point a, which had the high labor productivity growth rate of 2.8 %. This came down to point b by period II (1973-1995) at which point the average labor productivity growth rate plummeted to 1.4%. I claim that this drop in the productivity growth rate is attributable to the activities of the redistribution

[2] The source: William J. Baumol and Alan S. Blinder, "Macroeconomics," 11th ed., (South-Western) 145. The original source: Bureau of Labor Statistics at www.bls.gov/data.

of power and income. (As a note, some of years from period I fall between a and b, and some of the years for period II fall between a and b.) The movement from a to b demonstrates that the productivity of the nation declined from PR1 to PR0 as the activities of the redistribution of power and income are intensified or increased from R1 to R2.

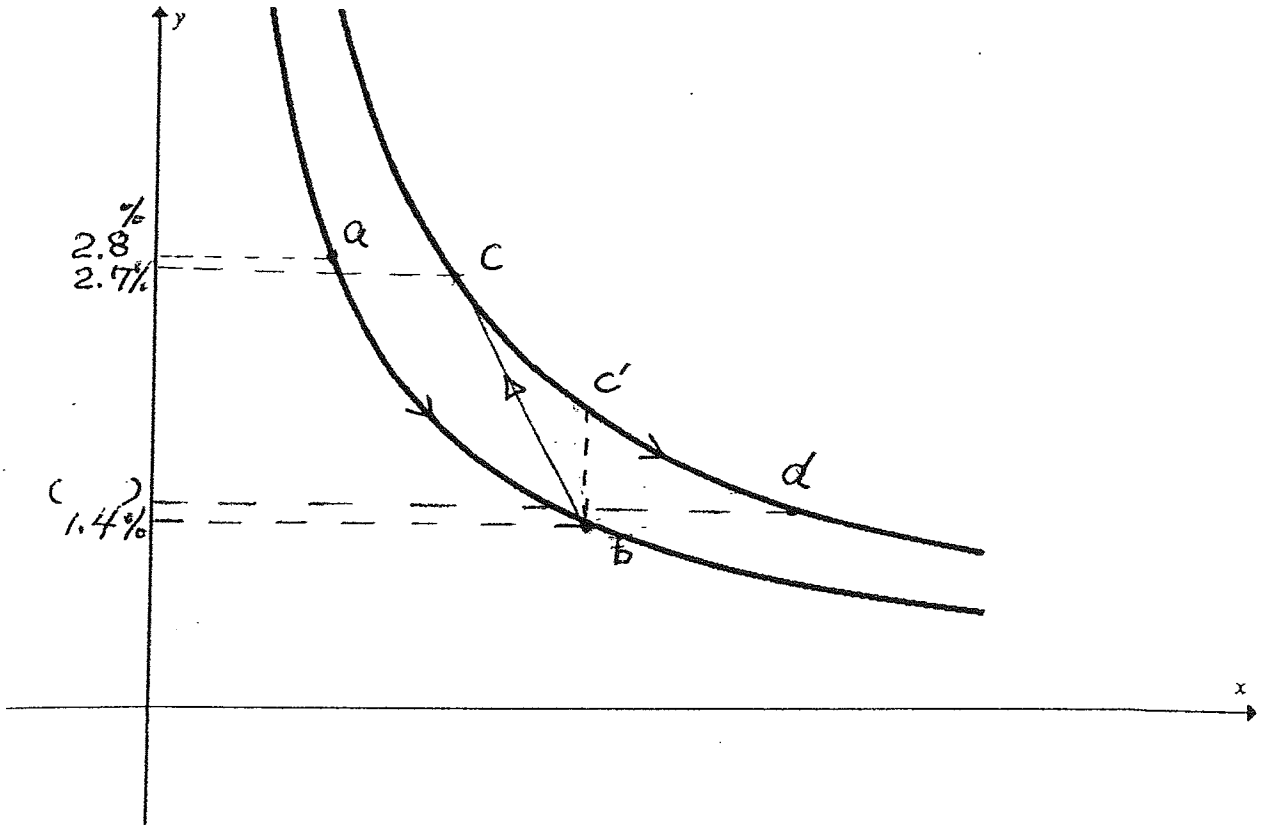


Activities of redistribution of power and income (R)

Figure 2- Productivities Curve

Now I will add the rest of the information from Table 1 into the Figure 1, and also add additional information for the period IV (2007-2014), which become Figure 3 as shown below.

Period III (1995-2006)- c Period IV (2007-2029)-d
Period I (1948-1973)- a Period II (1973-1995)- b



Activities of redistribution of power and income (R)

Figure 3- Productivity Curve

In Period IV (2007-2029), we have hypothetical information in which the year 2029 is the ending of the period (after twenty-two years of slow growth) before another economic boom take place. Thus, the year of 2029 could be any year from today, depending on when the next economic boom and technological advancement comes. And the average labor productivity growth would be approximately 1.4 % just like the Period II because as we move further down along the second productivity curve, its slope becomes flatter and flatter and becomes almost horizontal as noted before. Thus average labor productivity growth for the Period IV will be similar to that of the Period II, which is 1.4 %. Therefore we expect that any year (like 2014) during the Period IV which has 1.4 % labor productivity growth, should reflect on average labor productivity growth rate of the period. Thus, any time there is 2.4 % economic growth rate, we can conclude that will be a correct economic growth rate of that period (average economic growth rate for that period. (Note 2.4 % economic growth rate is computed based on 1.4 % of labor productivity growth rate + 1 % of labor input hour growth rate.)

Between the period II (1973-1995) and the period III (1995-2006), the productivity curve shifted upward which are shown in Figure 3. The dramatic shift of the productivity curve from point b to c was due to the rapid technological advancement and spectacular economic boom. In anther words, a sudden technological advancement boom came during the period of 1995-2006, which shifted the curve upward, during which activities of redistribution of power and income were overwhelmed by the forces of the technological and economic boom. (For example, the massive hiring of workers, especially new college graduates, during the boom made it almost impossible to participate the activities of redistribution of power, which is often observed in hiring process. Many large corporations utilized outside

hiring agents by-passing the internal hiring agents.) Because of the economic boom, old-time activities of redistribution of income become difficult or almost impossible to carry out as they once used to. This is reflected in the way in which the productivity curve is shifted upward, but the point moved from b to c to the left, not straight up to c'. The detail of the shift of the productivity curve can be shown as the point moving from b to c' (due to technological advancement), and then moving along the second productivity curve from c' to c (due to economic boom). The movement from c' to c shows the benefit gained from having economic boom in terms of reversing or reducing activities of redistribution of power and income. In another words, the way in which point moved from point c' to c indicates that some activities of redistribution of power and income were reduced or hindered by the momentum of the economic boom. On the other hand, the movement between two productivity curve from b to c' illustrates the effect of technological advancement. This brought a high productivity growth history, which recorded its rate to be 2.7%. However, once the technological and economic boom discontinued during 2007-2029, the productivity growth rate declined along the second curve, indicating strong activities of redistribution of power and income

After the shifting of the productivity curve once the economic boom was over, and then the same thing happened as before again. Activities of redistribution of power and income again appeared, which lowered the labor productivity growth rate as shown by the movement from c to d along a new productivity curve in the Figure 3.

The activities of the redistribution of power and income, but in a different context, are repeated. Such activities had caused the labor productivity growth rate to drop down from point c to d to approximately

near 1.4%. So it is the repetition of declining labor productivity to around 1.4 %, which is like a bottom floor for every cycle, or at least the past two cycles. Thus, it seems appropriate to say that for a given high degree of activities of redistribution of power and income (once economic boom disappear), the long-run labor productivity growth rate in the U.S. should seem to settle around 1.4%. With the addition of another 1% (growth rate of labor input or hours), the current U.S. economic growth rate should be 2.4 % (=1.4% +1% =2.4%).

In conclusion, for given degree of activities of redistribution of power and income, today the U.S. growth rate should be 2.4 %. Stated broadly or practically, it should be 2% to 2.5 % assuming that we cannot avoid current activities of redistribution of power and income.

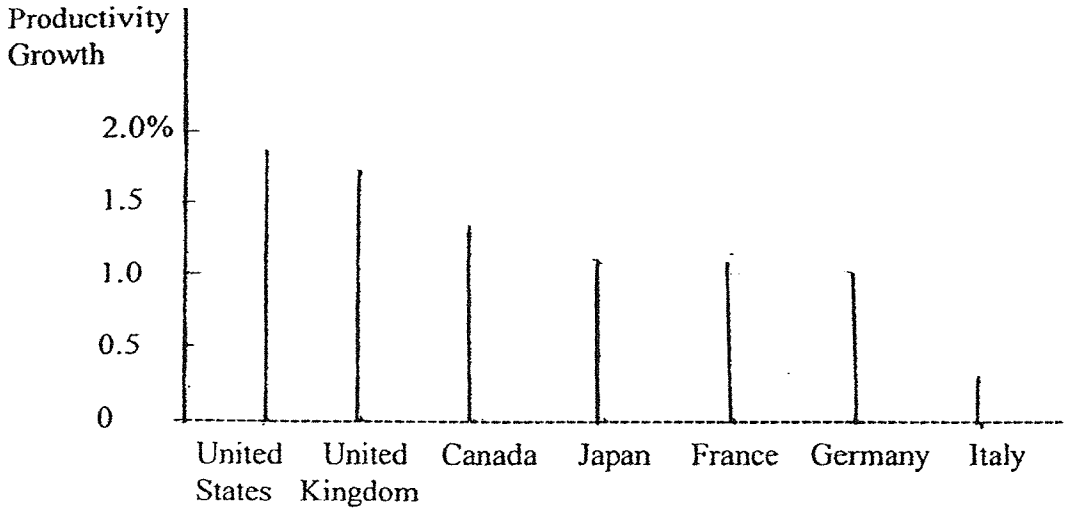
4. LABOR MOBILITY

Now I will explain examples of activities of redistribution of power and income and how these activities will adversely impact the productivity of labor. The economists have already proven in their research based on G-7 nations that the productivity of a nation depends on government regulations (and labor unions activities) on labor market[3]. These regulations are designed for redistribution of power and income (or trying to help workers).

[3] See R. Glenn Hubbard and Anthony Patrick O'Brien, "Macroeconomics," 2nd (Updated edition), Prentice Hall, 325-26.

Figure 4

Productivity Growth in the Leading Industrial Economies, 1996-2007[4]



According to the research of Hubbard and O'Brian, the labor productivity depends on labor mobility, which is in turn greatly influenced by government regulations as summarized in the Figure 4. Italy had the most government regulations and the lowest labor productivity growth, while the U.S. had the least government regulations and the highest labor productivity growth. The most European countries had restrictive government regulations, which decreased the labor mobility, thus leading to lower labor productivity growth. For example, government regulations in Italy made it difficult for the firms to fire the workers, and thus the firms

[4] The source: R. Glen Hubbard and Anthony Patrick O'Brien, "Macroeconomics," 2nd ed. The Original source: Organization for Economic Cooperation and Development, Economic Outlook, June 2008, Annex Table 12.

were reluctant to hire workers. The kinds of restrictive government controls over the labor markets in Europe are extensively discussed already.[5]

The research findings of their study proved why the U.S. had the highest productivity growth during the 1995-2006 because the U.S. had the least government controls in the labor market. Such government controls (and labor unions' rules) on labor market are obviously the examples of activities of redistribution of power and income. In another words, the U.S. had the highest productivity growth during 1995-2006 because the U.S. had least activities of redistribution of power and income among the G-7 nations. On the other hand, Italy had the lowest productivity growth during the same period because it had the highest activities of redistribution of power and income.

Figure 4 above shows the ranking of G-7 nations in terms of productivity growth in the leading nations during 1996-2006. If we plot this information in Figure 4 into my theoretical line of the productivity curve in the Figure 1, all these figures in the Figure 4 will approximately line up very closely to the productivity curve in the Figure 1. (The lesser the government controls on the labor market, which means the lesser the activities of redistribution of power and income, the higher the labor productivity of a nation.) This fact clearly demonstrates that labor productivity of a nation in the long run depend on the degree of activities of redistribution of power and income. Thus, the above fact proves that the hypothesis, which I have established that there is a predicable (inverse) relationship between the

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[5] See R. Glenn Hubbard and Anthony Patrick O'Brien, "*Macroeconomics,*" 2nd (Updated edition), Prentice Hall, 325-26. See for more information about how government controls in Europe impacted labor mobility and productivity of labor in Europe, Lee Coppock and Dirk Masteer, "*Principle of Macroeconomics,*" 213-16. Also see "Employment, Italian Style, *Wall Street Journal*, June 25, 2012.

productivity growth and activities of redistribution of power and income, is true or make sense based on multi-nations case study. Now I will prove the same hypothesis that there is inverse relationship between the productivity growth and activities of redistribution of power and income based on a single nation using U.S.A. as a case study. A simple logic is that there is no reason why the above hypothesis cannot be proven for a single nation if it is proven for multi-nations case study.

5. TEST TAKING REQUIREMENTS

I have demonstrated in my previous work that there is an inverse predicable relation between activities of the redistribution of power and income, and the productivity of a nation[6]. I used Japan as a case study to prove this inverse relation between these two variable mentioned above. I concluded that growing activities of the redistribution of power and income were the major reason why a nation's long run growth rate will decline when a nation reaches an advanced stage of economic growth. I intend to reinforce this conclusion in this paper using the U.S.A. as a case study.

Now I will discuss how activities of the redistribution of power and income are created in the workplace in the United States, and such activities would hinder labor mobility, thus lowering the productivity of labor.[7]

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[6]Kim, Paul, "A New Economic Growth Theory," htt//scholarspace.jccc.edu/econpapers/4). In that paper of Japan's case study, I claimed the productivity of a nation is impacted by the motivational elements as activities of redistribution of power and income is intensified. But in this paper based on a case study of the U.S, I claim that the productivity of a nation is mainly impacted by labor mobility as activities of redistribution of power and income is increased.

[7] This section is taken from my other work a short summary; see Kim, Paul, "The Reverse Mobilization of Labor," working paper, Department of Economics, Johnson County Community College.

An example of the instruments, which hinder the labor mobility and lower the labor productivity, is "test taking requirements," for new job applicants at Fortune 500 corporations and large corporations in the United States. Multiple agencies have created such an instrument as a result of the activities of redistribution of power and income. Thus, the creation and operation of the instruments, which hinder labor mobility is unintended result.

Because it is created by multiple agencies and its harm is unintended that no one can see that it hinder the labor mobility, thus the labor productivity of a nation as a whole in such a large scale. Therefore, activities of redistribution of power and income are carried out in what seems to be an harmless manner or in what seems to be well intended activities that no one would notice.

If we look at the private sectors in the U.S. (excluding government controls over the labor market) in order to examine the activities of redistribution of power and income, we will discover very active examples of activities of redistribution of power and income, although they are not obvious or hidden. Activities of redistribution of power and income are prevalent in the private sectors in the United States, and this is true especially after economic boom is over. Activities of redistribution of power and income, which will grow intensively once the economic boom is over (and become very serious during the recession) would bring down labor productivity.

"Test taking requirements" of job applicants at Fortune 500 corporations played a major role in hindering labor mobility, thus lowering the productivity of labor during 2007-2014. This was most clearly evident during 2011-2014, during which massive migration of labor force into non-

labor force took place (which lowered the official unemployment rate in statistics). Most Fortune 500 corporations now require multiple tests for new job applicants even before they have any opportunity to apply for a job. Some require a few test opportunities through email or other large number of tests (even up to 5 or 6 or more as a prerequisite for applying for a job or considered to have job interview). The vast majority of job applicants are worn out even before they get to the job interview. The reply of corporations take a long time, and some of them answer a few months later saying, "Sorry to inform you that you have not been accepted for a job interview."

It is important to point out the fact that the test taking requirements at Fortune 500 corporations are created by multiple agencies. The way in which such an instrument is created can be summarized in the following manner: It is often initiated by a chief executive officer of an institution or a president of an institution (or higher ranking manager). It is common practice that a chief executive officer in the U.S. has to offer some new idea or innovative idea (as how its institution should be operated) to be appointed to that position or to stay on that position. Thus, he often proposes some fashionable and innovative idea such as "transparency" or "technology," etc. He might propose, for example, to implement the technology test or sexual harassment test. I have called this stage of activity "laying eggs." Then, to implement such a new idea, a new department is created or the role of an existing department is expanded such as HR department. (Note that the work of such department is not designed to engage directly in producing products or service, which is the purpose of an institution, but designed to help or support the workers who directly engaged in the production of goods and service.)

Once such a department is created by either creating a new department or expanding the existing department, I call it, "hatching egg." Once the eggs are hatched, a new agency discovers that its new department is only temporary, so they intend to make its new department as an essential element of a firm or try to make their work to be permanent. Therefore they eventually make the technology test or the sexual harassment test to be "mandatory." This process is then is involved with activities of redistribution of power and income. Once it becomes mandatory, the new department will gain power. (Without a mandatory requirement, they will remain simply as a helper or they can disappear.)

Once the permanent nature of the newly arrived department is established by making test-taking requirement mandatory, they have gained the power. Then next step is to expand their power further or to expand the size of their department (thus activities of redistribution of power and income should be intensified). In order to take that step, new job applicants were now required to take a test. Since new job applicants were weakest group of any group, it was fairly easy to institute such a requirement for job applicants. This is how a new department can grow constantly creating tests and make everybody to take the tests as mandatory requirements both insiders as well as outsiders. Now the people who would interview new job applicants are required also take the tests. This is how a newly created department can grow expanding their department, thus gaining the power in the institution

Then there is another agency as a third group, which is required to hire new workers. If they happened to be ones who are overly concerned to keep job security or gain the power in terms of promotion or others, they can effectively use this instrument to slow down the hiring process or to

immobilize. (Labor mobility can be hindered if they wish to slow down hiring process or labor can be immobilized.) That means they have lowered the labor mobility.

By the time we have the instrument in operation, nobody see any connection between the declining productivity of labor and test requirements for new job applicants. Then we must know that a new chief officer will arrive soon, and he will lay eggs, and eggs will hatch, and thus the process will be repeated.

Labor mobility in the U.S. has been greatly immobilized and labor productivity has been declined since 2007 to 2014. Millions of skilled professional have been immobilized completely by migrating from labor force to non-labor force as they stopped looking for jobs. Statistically this caused unemployment rate to decline in the past years.

The lack of wage growth has become a strong concern even though recently number of hiring increased immensely. This means Fortune 500 corporations and large corporations are not keeping up with the pace of hiring. In order to experience the lack of wage growth when the number of new jobs created is strong (reaching 200,000 to 300,000 per month), large corporations and Fortune 500 corporations are not hiring enough to match with other firms. This fact is largely attributable to the test-taking requirement practice at Fortune 500 corporations and other large corporations, which have hindered labor mobility.

6. CONCLUDING NOTE

I have developed a theory in this paper illustrated by the productivity curves, which shows that the long-run growth rate of an advanced nation

such as the United States depends on the degree of activities of redistribution of power and income. Such activities would adversely impact the labor mobility and the labor productivity. I have proven the above hypothesis to be right, based on multi-nations case study as well as a single nation using the U.S.A as a case study in this paper. I have discussed "Test Taking Requirement," at Fortune 500 corporations as an example of the activities of redistribution of power and income for a single nation's case; I have also explained how it will impact labor mobility, and thus labor productivity.

During the economic boom (the Period I and III), the activities of redistribution of power and income were reduced, and thus facilitated labor mobility. For example, when massive hiring was carried out, the outside hiring agents were utilized to hire the workers; they did hire the new workers objectively for best-qualified workers. (Since they were outside agents, they did not get involved with activities of redistribution of power and income.)

On the other hand, during the stagnant period (the Period II and IV), outside hiring agents were hired as a formality, but their recommendations for hiring new workers were rejected or ignored by internal hiring managers so as to facilitate their activities of redistribution of power and income (or to gain their power and job security). Such activities of redistribution of power and income were largely facilitated through "test taking requirements"[8] which were implemented a massive scale during the stagnant period particularly during the period IV, which hindered the labor mobility

[8] No one intended nor knew that "test taking requirements" would become the instruments to hinder the labor mobility. When they were created or when they were administered, no one knew that they could be used by someone for the purpose of achieving the redistribution of power and income or gaining the power or keeping job security. It was unintended.

immensely, and which lowered the labor productivity of the nation substantially.

Living between two periods is living in two different dimensions, and involves totally different lifestyles. One cannot compare one lifestyle to another. One must evaluate within the same dimension. Thus, in order to evaluate the economic growth rate for today in the United States, one must evaluate it within the same period, (for example, the Period IV) or one must take the average of the growth rates within the same period. (One cannot take the figures from all different periods to come up with the average figure of the economic growth rate.) Therefore, the right economic growth rate for today should be the average economic growth rate of the Period IV, which is 2% to 2.5 %. If we have 2.4 % growth rate in 2015, that is the right growth rate for 2015, and we should not expect it to be 3 % to 4 %.

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