

America's False Sense Of Security

BY KLAUS F. ZIMMERMANN

*Its once-great
advantages are
shifting abroad.*

When nations' future economic prospects are assessed, the United States is often credited with having a "birth advantage," reflecting the fact that the U.S. population, in contrast to that of other developed countries, is continuing to grow.

And indeed, the U.S. population is currently expected to increase from 281 million at the beginning of this century to about 570 million by its end. This rise is generally interpreted as a sign of a profound future optimism about the country and an indicator of why the United States will continue to lead the world.

But is the United States really better prepared for the future because its population is expected to continue growing?

Without a doubt, population growth does have its benefits from the vantage point of aggregate GDP growth. By adding people, an economy has a near-automatic mechanism to grow since, between two nations at the same income level, the one with more people will tend to have a higher demand for goods and services than the one with fewer people, and higher means to increase supply.

However, aggregate GDP trends are a very incomplete indicator of a nation's actual economic performance. What matters much more, at least from the average person's perspective, is examining GDP growth on a per capita basis.

And on this front, the performance of the U.S. economy has been a disappointment. Measured at the median level, which eliminates the distorting effects of the extreme income gains of the top U.S. earners, U.S. per capita income since 2000—over the course of an entire decade—has increased only by a total of 1.6 percent, to about \$50,000.

**"INTERNATIONAL
ECONOMY**

**THE MAGAZINE OF
INTERNATIONAL ECONOMIC POLICY**

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While these numbers cast doubt on whether, or by how much, the past economic performance of the United States was actually ahead of that of other competitors, the more important question is whether that can be expected in the future.

A vital indicator of an economy's future performance is current trends in the field of education. And on this front, large U.S. metropolitan areas continue to struggle with high drop-out rates at the high school level. At the national level, the United States has a high school graduation rate of just 78 percent.

Such figures give rise to concerns about future U.S. productivity levels. It is important to remember that much of the U.S. economic advantage in the post-World War II period was due to the superior education level of the U.S. population compared to that of its competitor nations over the past sixty years. Other nations, including many in Asia such as Japan, Korea, Taiwan, and Singapore, have used the intervening decades to neutralize that U.S. education advantage. Neighboring Canada has even managed to pull considerably ahead of the United States.

And while it is true that large European countries also struggle with high dropout rates as well as an influx of immigrants, in its metropolitan areas, the problem is much more pronounced in the United States. For example, the United Kingdom has an upper secondary graduation rate of 89 percent—a full 11 percentage points higher than the U.S. rate.

The comparatively low high school graduation rate could also result in the presumed U.S. demographic dividend fast turning into a major liability. It is one thing to say that the U.S. economy will not run out of labor once the sizable baby boom generation retires. But it is quite another to believe that more people alone is all one needs.

Having a large pool of young people certainly looks like an advantage to cover the future financing needs of pay-go social security systems. But it is also important to remember that the better trained, and hence more productive, the future

workforce, the higher its income-generating potential, level of social security contributions, and overall living standards.

With a sizable share of the young population not even completing high school, that future scenario is very much in question.

But what about the fact that the United States is a magnet for immigrants, including highly educated ones? Doesn't that help to counterbalance these negative trends?

Recent evidence suggests that, even on this critical front, the U.S. advantage is shrinking. Nations from France and Germany to Singapore, not to mention India and China itself, have woken up to the fact that some of their nation's most talented people found the United States an attractive location to pursue their professional careers, especially in research-related fields.

And these countries have taken active measures to reverse, or at least stem, this brain drain. Recent numbers indicate that Indian and Chinese post-graduate students shorten the time they stay in the United States after they complete their degree. More and more of them find that opportunities on the home front are very appealing. In short, the global race is on for harvesting entrepreneurial talents.

With entrepreneurial talent increasingly distributed all over the globe, it may turn out that the 1990s, and the phenomenal success of Silicon Valley in particular, were an exceptional period for the United States. Rather than being a reflection of the uniqueness of the United States, it was at least as much the time before Indian and Chinese entrepreneurs really had any chance to use domestic capital markets to finance their ventures.

In other words, over the past two decades the U.S. economy benefited to a considerable extent from special circumstances, the tail-end of the home-made deficiencies on the part of major developing economies to rake in an entrepreneurship dividend.

That is no longer the case. For tell-tale evidence, look no further than the fact that even U.S. venture capitalists now scour the entire world far from their Silicon Valley roots to spot good investment opportunities for their funds.

The same is true for the economic benefits which U.S. universities were able to generate from focusing on commercializing their research and collaborating with the private sector. Other countries have since wised up and now offer their home-grown (or foreign-trained) talent very attractive opportunities.

All of this evidence points to one conclusion: Looking at a country's future growth potential, it is important to resist the comforting, but ultimately misleading temptation to extrapolate past trends merrily into the future. If one looks into the rear-view mirror long enough, one may glimpse a tempting vision of the future but miss all the real challenges that lie ahead. ◆