Balance: The economics of great powers from ancient Rome to modern America
Why We Wrote the Book

- The U.S. fiscal crisis as a problem of *economics*...

- ...Or as a problem of *politics*

- As foreshadowing decline? Or the ‘Ghost of Christmas Future’? What can we learn from history?
But First: Starting... and Stopping Growth

- An observation from 1913
- From AD 1000
- From Augustan Rome

*What happened to Rome?*
Factors in Declines / Growth ‘Stops’

- Paul Kennedy’s *Rise and Fall* ‘overstretch’ thesis at 25

- Poor reading of ‘economic power’?: Looking back — Soviet Union; looking forward: China
The Economics of Great Power

• What is the ‘wealth of nations’?

• Microscopes (GDP) and telescopes (Penn World Table comparisons)

• Smithian, Solovian, and Schumpeterian Measures
Two Pictures About the U.S. Position

Figure 2: Global incomes, 1950–2010.
(GDP per capita in 2005 U.S. dollars.)

Source: Penn World Table, Mark 7.1

Figure 3: Relative global incomes, 1950–2010.
(Percentage of U.S. GDP per capita.)

Source: Penn World Table, Mark 7.1

Is past prologue?
Economic Power

TABLE 3. CALCULATING ECONOMIC POWER IN 2010

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>Europe</th>
<th>China</th>
<th>Japan</th>
<th>South America</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita ($)</td>
<td>41,365</td>
<td>32,004</td>
<td>7,746</td>
<td>31,447</td>
<td>9,236</td>
<td>3,477</td>
</tr>
<tr>
<td>Growth</td>
<td>1.4%</td>
<td>1.2%</td>
<td>9.9%</td>
<td>0.5%</td>
<td>3.6%</td>
<td>7.7%</td>
</tr>
<tr>
<td>GDP ($T)</td>
<td>12,833</td>
<td>12,875</td>
<td>10,303</td>
<td>3,988</td>
<td>2,394</td>
<td>4,079</td>
</tr>
<tr>
<td>Economic Power</td>
<td>623</td>
<td>456</td>
<td>251</td>
<td>93</td>
<td>42</td>
<td>39</td>
</tr>
<tr>
<td>. . . relative to the U.S.</td>
<td>100%</td>
<td>73%</td>
<td>40%</td>
<td>15%</td>
<td>7%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Calculations by Hubbard and Kane, data from Penn World Table, Mark 7.1.

Punchlines here:  
Great Power decline = economic power decline
Stagnant institutions → economic power decline
Behavior Factors

- Bounded rationality
- National identity
- Loss aversion
- Time preference
### Decline as ‘Understretch’: *Balance*

<table>
<thead>
<tr>
<th>The Ruin of Rome</th>
<th>British Decimation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasure of China</td>
<td>Europa: Unity and Diversity</td>
</tr>
<tr>
<td>Rule of Slaves: The Ottoman Paradox</td>
<td>California Dreaming</td>
</tr>
<tr>
<td>Japanese Opening</td>
<td><em>U.S.A. Today?</em></td>
</tr>
</tbody>
</table>
U.S. Beyond the Consequence Horizon

- What our budget institutions were built for:

Source: Congressional Budget Office, *The Long-Term Budget Outlook* (June 2010); *Historical Data on Federal Debt Held by the Public* (July 2010).
What We Now Face

Source: Congressional Budget Office, The Long-Term Budget Outlook (June 2010); Historical Data on Federal Debt Held by the Public (July 2010).
### TABLE 12. OUTLAYS BY FEDERAL CATEGORY
(ANNUAL AVERAGE AS PERCENTAGE OF GDP)

<table>
<thead>
<tr>
<th>Period</th>
<th>Defense</th>
<th>Social Security</th>
<th>Medicare</th>
<th>Health (Medicaid, CHIP, and Exchange Subsidies)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940s</td>
<td>17.0</td>
<td>0.1</td>
<td>-</td>
<td>0.1</td>
</tr>
<tr>
<td>1950s</td>
<td>10.4</td>
<td>1.1</td>
<td>-</td>
<td>0.1</td>
</tr>
<tr>
<td>1960s</td>
<td>8.7</td>
<td>2.6</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>1970s</td>
<td>5.9</td>
<td>3.8</td>
<td>0.9</td>
<td>0.4</td>
</tr>
<tr>
<td>1980s</td>
<td>5.8</td>
<td>4.5</td>
<td>1.6</td>
<td>0.6</td>
</tr>
<tr>
<td>1990s</td>
<td>4.1</td>
<td>4.4</td>
<td>2.2</td>
<td>1.1</td>
</tr>
<tr>
<td>2000s</td>
<td>3.8</td>
<td>4.3</td>
<td>2.7</td>
<td>1.4</td>
</tr>
<tr>
<td>2010s*</td>
<td>-</td>
<td>5.1</td>
<td>3.8</td>
<td>2.3</td>
</tr>
<tr>
<td>2020s*</td>
<td>-</td>
<td>5.7</td>
<td>4.8</td>
<td>3.1</td>
</tr>
<tr>
<td>2030s*</td>
<td>-</td>
<td>6.1</td>
<td>6.3</td>
<td>3.6</td>
</tr>
<tr>
<td>2040s*</td>
<td>-</td>
<td>6.1</td>
<td>7.6</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Table is constructed with data from the Office of Management and Budget for 1941–70, then data from the Congressional Budget Office for 1971–2010.
Is This An ‘Economics’ Problem?

- Not really...
  - Economists’ warnings
  - Economists’ solutions (many...)

- ... though the classic ‘economist joke’ sheds light on the problem
And a ‘political prisoner’s dilemma’?
Looking for Help... Basketball
Causes for Optimism

- Sweden

- Canada

- *Citizen’s United* (We’re serious)
Looking for Help Again... *The Odyssey*

- Odysseus’ choice
- Which rules?
- How tight should the rope be?
How Will This Work Out?
THE ECONOMICS OF GREAT POWERS

BALANCE

FROM ANCIENT ROME TO MODERN AMERICA

GLENN HUBBARD and TIM KANE
Comments on BALANCE
by
Glenn Hubbard and Tim Kane

Jared Bernstein
CBPP
6/20/13
bernstein@cbpp.org
A Worthy Effort to Figure Out What’s Gone Wrong and How to Fix It

• Imbalances: Fiscal Policy and Polarization

• Missing: Most of the important real variables that are also out-of-balance: employment, earnings, income, wealth, trade, power(!)

• Tour through history of economic decline—fascinating, but brothers, can you paradigm?—what does it all mean?
Four Theories of Economic History

• “Great” (wo)men: Declinists from Diocletian to a series of Chinese Emperors
• “Great” ideas: Keynes: “the world is ruled by little else…”
• Great class struggles: Marx

• *Hubbard/Kane/(Ford)*: History’s just one damn thing after another!
Growth Theory: About Which We Need a Lot More Thought

- **Smith**: Specialization, Scale, Institutions(?)

- **Solovian**: Solow growth theory, investment in capital, labor quality...but arguably most important part—TFP—is residual.

- **Schumpeterian**: Innovation, ideas

Glenn/Tim—How to boost these?:

--**Smith**: I didn’t see much except praise for scale, but what about TBTF?

--**Solow**: I think assumption here is fix gov’t fiscal mess and this will take care of itself—I’m skeptical.

--**Schumpy**: Tax reform—again, I’m very skeptical.
Implications for the US

• Fiscal policy:

They write: “A smarter fiscal policy is one that prioritizes outcomes—more jobs, faster growth, less poverty—not inputs. The goal of good fiscal policy is less about equating revenue with outlays and more about the fiscal mix that optimizes long-term prosperity.”

• Except for “long,” I couldn’t have said it better.

• BUT HOW DOES THAT LEAD YOU TO A BBA??

• Their version has some nice wrinkles (doesn’t specify fixed levels) but it is a recipe for more gridlock, crises, and dysfunction
So, How Do We Constrain Congress?

• Reintroduce compromise, reduce polarization, find where we agree.

• EG, Hubbard/Kane agree with the following (I think):
  --the problem is not the size of gov’t: it’s thinking we can have size X for cost much<X;
  --we cannot achieve a sustainable fiscal path through cuts alone; new revenues must be part of the deal (lower rates, broader base—but not rev neutrality).

• This worked for most of our history—CDSH until Reagan.
We actually have some time to work this out—there is no near-term fiscal emergency

- Acting otherwise has proven counterproductive to the cause

Source: Linden, Time to Reset..., CAP, 2013
Budget Oxygen: Slower Growth in Health Costs

Projected Medicaid and Medicare Spending Has Fallen By $900 Billion Since August 2010

Note: FY=fiscal year. Congressional Budget Office baseline projections of Medicaid spending excluding spending related to the Medicaid expansion under the Affordable Care Act. CBO baseline projections of Medicare spending net of premiums, without sustainable growth rate (SGR) cuts or sequestration. May 2013 projections include actual spending for FY 2010-12.

Source: CBPP analysis based on Congressional Budget Office estimates.