The Growth Outlook Is Darkening

For over a century, the trend line for the long-term growth of the U.S. economy has held remarkably steady. Notwithstanding huge changes over time in economic, social, and political conditions, growth in real GDP per capita has fluctuated fairly closely around an average annual rate of approximately 2 percent. According to Brink Lindsey in "Why Growth Is Getting Harder" (Policy Analysis no. 737), however, there are strong reasons for doubting that this historic norm can be maintained. Lindsey, vice president for research at the Cato Institute, considers the four constituent elements of economic growth—labor participation, labor quality, capital deepening, and so-called total factory productivity—that are tracked by conventional growth accounting. "Over the course of the 20th century, these various components fluctuated in their contributions to overall growth," he writes. "The fluctuations, however, tended to offset each other, so that weakness in one element was compensated for by strength in another." However, the simultaneous weakening of all the components of economic growth in the 21st century does not mean that slow growth is inevitable from here on out. Nevertheless, it is difficult to resist the conclusion that the conditions for growth are less favorable than they used to be. In other words, growth is getting harder. "Consequently, policies that are more friendly to long-term growth will be needed if more robust growth is to be revived," Lindsey concludes.

ELIMINATING EGYPT'S SUBSIDIES

Subsidies to consumer goods, including fuels and food, account for almost one third of Egypt's public spending, or 13 percent of the country's GDP. As Dalibor Rohac, policy analyst at the Cato Institute's Center for Global Liberty and Prosperity, writes in "Solving Egypt's Subsidy Problem" (Policy Analysis no. 741), subsidies are highly ineffective in helping the poor and an increasingly unsustainable drain on the country's public finances and foreign reserves. "Yet reform remains a thorny issue in Egypt's unstable political environment—mostly because subsidies are the main instrument of social assistance used by the government," he writes. Subsidies to consumer goods and fuels have existed in the country since the 1920s. Various approaches are available for scaling them down. Eliminating subsidies and replacing them with cash transfers would produce significant savings and would be politically feasible. But "a successful reform of subsidies will

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will have to be accompanied by a series of complementary reforms, which would reduce food insecurity in the country and improve supply chains," Rohac writes.

FOOD STAMP FAILURE

The Supplemental Nutrition Assistance Program (SNAP), the program formerly known as food stamps, has become America's fastest growing social welfare program. As recently as 2000, just 17 million Americans participated in the program at a cost of less than $18 billion. Today, roughly 48 million Americans receive SNAP benefits, costing taxpayers more than $78 billion per year. Yet nearly 18 million American households remain "food insecure." According to Michael Tanner, senior fellow at the Cato Institute, in **"SNAP Failure: The Food Stamp Program Needs Reform"** (Policy Analysis no. 738), the evidence suggests that much of the increase was due not to the economy but to deliberate policy choices by both federal and state governments, which loosened eligibility standards and actively sought new participants. "At the same time," he writes, "evidence that the expansion of SNAP has significantly reduced hunger or improved nutrition among low-income Americans is scant at best." As Tanner demonstrates, SNAP has high administrative costs and significant levels of fraud and abuse. The program's work requirements are weak and frequently evaded. The program increasingly breeds greater dependence on government. It has little "bang for the buck." The time has come to reform the food stamp program by reducing its spending and enrollment and, ultimately, by returning responsibility for its operation to the states.

FINANCIAL SHUFFLE

Since the 2007–08 financial crisis, global regulators have engaged in a lengthy struggle to reshape the international financial system to make it more resilient under stress. In **"The New Autarky? How U.S. and UK Domestic and Foreign Banking Proposals Threaten Global Growth"** (Policy Analysis no. 743), Louise C. Bennetts, associate director of financial regulatory studies at the Cato Institute, and Arthur S. Long, partner at Gibson, Dunn, and Crutcher, evaluate two recent and transformative proposals: the "Foreign Banking Organization" proposal of the U.S. Board of Governors of the Federal Reserve System and the United Kingdom's "ring-fencing" plan. The authors argue that these measures amount to little more than a mandatory, inefficient shuffling of corporate entities and business units that will not help ward off future financial crises. "At the macro level," they write, "both proposals interfere with the ability of global banks to allocate capital and liquidity in the manner they determine to be most efficient." Bennetts and Long underscore the problems with national regulators adopting a parochial, protectionist, or "home country first" approach to regulation. They conclude that regulators should instead focus their attention on creating a credible, coordinated resolution process for globally significant firms.

DENSE DECREES

In response to state laws and federal incentives, metropolitan areas across the country are engaged in "sustainability planning" aimed at reducing greenhouse gas emissions. In many if not most cases, this planning seeks to increase urban population densities and replace low-density neighborhoods in transit corridors with dense, mixed-use developments. As Randal O'Toole, senior fellow at the Cato Institute, shows in **"Reducing Livability: How Sustainability Planning Threatens the American Dream"** (Policy Analysis no. 740), such planning tramples on property rights and personal preferences. "Surveys show that people of all age groups aspire to live in a single-family home with a yard," O'Toole writes. Yet planners in Portland, San Francisco, and other urban areas seek to reduce the share of households living in single-family homes to well below 50 percent by restricting the construction of single-family homes while subsidizing multifamily housing. To make matters worse, these policies are simply not effective at reducing green house gas emissions. As O'Toole concludes, these plans should be abandoned because they intrude on personal housing preferences and are cost-ineffective at saving energy and reducing emissions.

TRANSFORMING ANTITRUST

During his presidential campaign, Sen. Barack Obama sharply criticized the lax antitrust law enforcement record of the George W. Bush administration. Subsequently, his first assistant attorney general for antitrust even went so far as to suggest that the Great Recession was, at least in part, caused by federal antitrust policy failures during the previous eight years. In **"Antitrust Enforcement in the Obama Administration's First Term: A Regulatory Approach"** (Policy Analysis no. 739), economists William F. Shughart II and Diana Thomas of the Utah State University School of Business investigate how and in what ways antitrust enforcement has changed since President Obama took office in 2009. Reviewing four recent antitrust cases and the behavioral remedies that were imposed on the defendants in those matters in detail, they find that the Obama administration has been significantly more active in enforcing the antitrust laws with respect to proposed mergers than his two predecessors in the White House. In addition, the Federal Trade Commission, together with the Department of Justice, has "moved antitrust law enforcement away from traditional structural remedies in favor of very intrusive behavioral remedies in an unprecedented fashion," they write. Shughart and Thomas conclude that policy shift has further transformed antitrust law enforcers into regulatory agencies, a mission for which they are not well-suited, resulting in the Department of Justice and Federal Trade Commission being more vulnerable to rent seeking. ■