September 2, 2014

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Population Growth Leads to Booms, Busts, and Spiraling Costs, not Economic Sustainability

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America's population grew at an annual rate of 0.7% this year, which according to the U.S. Census is the slowest rate of growth since 1937.[i] According to these Census data, the fastest population growth years for the United States historically were in the periods between 1900-1915 and 1947- 1962, when the nation grew on average just under 2% per year. A growth rate of 0.7%, comparatively, is small. Some economists are quick to point out countries in Europe (as well as Japan) that are now experiencing negative growth; it has produced economic problems, such as there not being enough young workers to sustain retirees.[ii] Slow population growth leads to slow (or negative) economic growth, these economists say, and this is far from optimal. As Paul Ehrlich noted in an earlier article, Paul Krugman of Princeton University on the left and John Makin of the American Enterprise Institute on the right *both* endorse the need for a growing labor force to stimulate economic growth.[iii] But this causal claim—that population growth by definition leads to economic growth—is *far* from established.

At the same time as they have been arguing for increases in population growth, conservative lawmakers have been passionately advocating for a smaller, leaner government. Here are some examples:

"If you like small government you need to work hard at having a strong national defense that is not so militant. Personal liberty is the purpose of government, to protect liberty - not to run your personal life, not to run the economy, and not to pretend that we can tell the world how they ought to live." –Ron Paul[iv]

"We believe in individual initiative, personal responsibility, opportunity, freedom, small government, the Constitution. These principles, these American principles are key to getting our economy back to being successful and leading the world." –Mitt Romney[v]

"No government ever voluntarily reduces itself in size. Government programs, once launched, never disappear. Actually, a government bureau is the nearest thing to eternal life we'll ever see on this earth!" –Ronald Reagan[vi]

Given that conservatives want (and have traditionally wanted) to reduce the size of government, it might come as paradoxical that they simultaneously advocate population growth and economic growth.

I wanted to explore this potential paradox, and to do so I examined the following questions: (1) What *is* the size of our government? (2) What does it *change with*? (3) Is it possible to experience population growth and economic growth without the simultaneous growth of government bureaucracy?

Size of Government

My investigation first took me to historical White House Office of Personnel Management (OPM) statistics on the aggregate number of government employees since 1962. Surprisingly, I noticed that the total number of federal employees in the U.S. government has actually stayed nearly *constant* (if anything, it has declined) since the 1960s.[vii] This can in part be explained by the continuing drawdown of uniformed military personnel ever since mandatory conscription programs ended after the Vietnam War. Yet population growth and the size of the economy's labor force grew steadily during this time period. The size of federal government, at least in terms of personnel factors, does not seem to grow with increases in population. It is important to note that these numbers do not include the size of state or local governments.

At the state level, looking comparatively at U.S. Census data in 1992 and 2012 we find similarly constant levels of personnel growth, even as U.S. population has grown. In fact, total "full-time equivalent employees" numbered about 3.8 million in 1992,[viii] and in 2012 numbered just over 3.7 million people.[ix] Some states have grown while others have shrunk, but personnel numbers do not seem to grow nonlinearly with population levels.

At the local level, however, government growth in terms of personnel has been pronounced between 1992 and 2012. By far the largest division of government, Census data estimates that a sum total of U.S. local government employees numbered around 8.5 million people in 1992.[x] That number rose to around 10.6 million people in 2012, a staggering 24% increase in personnel.[xi] Population growth in the U.S. between 1992 and 2012 (according to U.S. Census data) was around 22% for that time period.[xii] At the local level, it seems that population growth and local government personnel growth increase fairly linearly, which makes sense given the infrastructure needs of local government.

But what of growth in terms of *cost?* Statistics from the White House Office of Management and Budget (OMB) documentation show steady increases in *both* government revenue and cost since the 1960s, by orders of magnitude in line with GDP growth.[xiii] Among the largest increases have been entitlement programs. Medicaid's budget share went from just $770 million in 1966 to $265 billion in 2013.[xiv] That budget share is only expected to increase. The growing size of entitlement programs, however, might be explained by workers beginning to retire and the rising costs of health expenditures, themselves wholly different variables. Therefore, I decided to isolate discretionary spending by itself. Taking a look at OMB historical data for discretionary spending, I found the following: spending outlays for discretionary programs have increased, steadily, year by year as well.[xv] There were certainly small dips (particularly in 2012 and 2013 in light of the sequester, I suspect) but the overall trend in discretionary spending has been one of growth. I am not making the bold claim that population growth necessarily *causes* increases in government size. I have merely noticed a statistical correlation, one that may help those thinking about how to reduce the size of government.

So what *is* government size? Is it measured by the number of federal (or state or local) government employees? In that case, government has not grown to the same extent as has our population, or has grown in line with our population at the local level. Yet is government growth measured by increases in *cost*? If so, then we have seen steady and perhaps ultimately unsustainable growth, both in terms of entitlement programs and discretionary spending.

Growth as Fueling Unsustainable Bubbles

There needs to be further examination of whether a strategy of pure "growth" – using population growth to fuel GDP growth, with the side-effect of increasing government *costs*— generally leads to sustainable economic success, or rather short-term "booms" and "busts". The business cycle, and our entire systemic definition of modern economics, defines growth through Gross Domestic Product (GDP): "the sum total of goods and services produced within a given country within a given year." Therefore, it should come as no surprise that, when using GDP as the near single indicator for perceived economic success, population growth is touted as necessary. But as more products and services are produced, more government *costs* are sometimes incurred, as well. "Pro-growth" policies emphasize growth unsustainably, often in one or more specific sectors of the economy. That growth is often based on speculation—not the actual standards of living or economic well-being of citizens, but an estimated value of products and services (GDP)—and the bubble eventually pops. We are left to pick up the pieces of our popped economic bubble; we often do so by slashing interest rates and once-again finding ways to "grow" the economy.

If conservative members of Congress really support *small government* – not necessarily in terms of government employee size but in terms of *cost* – then they ought to simultaneously oppose the pro-growth economic emphasis on GDP. Rather than wringing their hands about the 0.7% population growth released by the census, as Americans did from across the political spectrum, perhaps they ought to regard it as welcome news.

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MAHB Blog: http://mahb.stanford.edu/blog/booms-busts-and-spiraling-costs/

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[i] "2013 Population and Housing Unit Estimates." *The United States Census Bureau.* 22 May 2014. http://www.census.gov/popest/?eml=gd&utm_medium=email&utm_source=govdelivery

[ii] Smitka, Michael. "Japan's Macroeconomic Dilemmas: The Implications of Demographics for Growth and Stability." *Japan's Macro Dilemmas*. Lexington, VA: Washington and Lee University, 2014. The problems expressed by Smitka and others are generally overrated and can be ameliorated by smart policy adjustments (see Ehrlich PR, Ehrlich AH. 2006. Enough Already. New Scientist 191: 46-50) – and, of course, they ignore the huge ecological negatives of continued growth among the rich (Ehrlich PR, Ehrlich AH. 2013. Can a collapse of civilization be avoided? Proceeding of the Royal Society B http://rspb.royalsocietypublishing.org/content/280/1754/20122845).

[iii] Ehrlich, Paul. "Economists' Growth Insanity." *Millennium Alliance for Humanity and the Biosphere.* 29 April 2014. http://mahb.stanford.edu/mahb-blog/

[iv] "Ron Paul – Quotes on Government Size." *BrainyQuote*. Accessed 23 May 2014. http://www.brainyquote.com/quotes/quotes/r/ronaldreag147680.html#qtMBI75kDDgk2vDr.99

[v] "Mitt Romney – Quotes on Government Size." *BrainyQuote.* Accessed 24 May 2014. http://www.brainyquote.com/quotes/keywords/small_government.html#7faEULpfkJYuZt4z.99

[vi] "Ronald Reagan – Quotes." *BrainyQuote*. Accessed 27 May 2014. http://www.brainyquote.com/quotes/keywords/small_government.html#7faEULpfkJYuZt4z.99

[vii] "Total Government Employees Since 1962." *The Office of Personnel Management*. Accessed 9 May 2014. https://www.opm.gov/policy-data-oversight/data-analysis-documentation/federal-employment-reports/historical-tables/total-government-employment-since-1962/#note1

[viii] "1992 Public Employment Data: Total, All States." *U.S. Census*. 1 July 1992. Accessed 12 June 2014. http://www2.census.gov/govs/apes/92stus.txt

[ix] "2012 Public Employment and Payroll Data: State Governments." *U.S. Census*. 1 July 2012. Accessed 12 June 2014. http://www2.census.gov/govs/apes/12stus.txt

[x] "1992 Public Employment Data: Local Government." *U.S. Census*. 1 July 1992. Accessed 12 June 2014. http://www2.census.gov/govs/apes/92emptot.dat. *Note:* The 1992 data are only available as *DAT* files and might be difficult to interpret without data code. The following spreadsheet helps codify each category in the 1992 data: http://www2.census.gov/govs/apes/92emptot.id.

[xi] "2012 Public Employment and Payroll Data: Aggregate Local Governments." *U.S. Census*. 1 July 2012. Accessed 12 June 2014. http://www2.census.gov/govs/apes/12locus.txt

[xii] "Historical National Population Estimates." *The U.S. Census.* 11 April 2000. Accessed 12 June 2014. http://www.census.gov/population/estimates/nation/popclockest.txt

[xiii] "Outlays for Mandatory and Related Programs: 1962 – 2019." *The Office of Management and* Budget. Accessed 9 May 2014. http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/hist08z5.xls

[xiv] Ibid.

[xv] "Outlays for Discretionary Programs: 1962 – 2019." *The Office of Management and* Budget. Accessed 9 May 2014. http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/hist08z7.xls