From Past to Present: Historical Trends of Economic Growth across States

Excerpt: The GDP growth rate of the United States represents an average figure, masking the wide disparities in economic growth across different states.

1. We all know that economic growth is important. But why? It is a vital sign of how well an economy is doing. If an economy is not growing much or not growing at all over a long period, it is considered stagnant. A slow growth rate usually suggests there are economic issues that need to be tackled to kickstart growth and improve the prosperity of the population. Overall, sustained low economic growth can create a cycle of challenges that hinder a state's ability to provide opportunities and improve the well-being of its citizens. As a result, at a national level, policymakers often aim to address and reverse low growth through various economic and structural reforms. However, at the state level, there is comparatively less discussion and emphasis on this key macroeconomic factor.

What is economic growth?

2. Economic growth is the increase in the size of an economy over time. It is measured by calculating the change in real GDP between the years you are interested in. Why *real* GDP? This is to remove the impact of inflation on the GDP figure. Economic growth figures are usually reported for a quarter or year.

3. However, understanding an economy based solely on the growth for a single year does not provide much insight beyond indicating whether it was a favorable or unfavorable year. In the short-term, an economy can experience significant fluctuations due to factors well beyond the control of either federal or state governments.

4. To really see how a state is performing, it is better to look at whether its economy has grown over a number of years, whether it is five, ten, twenty or even longer. State policies and programs take time to influence the economy—some take years, especially human capital investments such as education. Longer-term growth are more likely to reveal whether the state is pursuing sensible and growth-friendly policies.

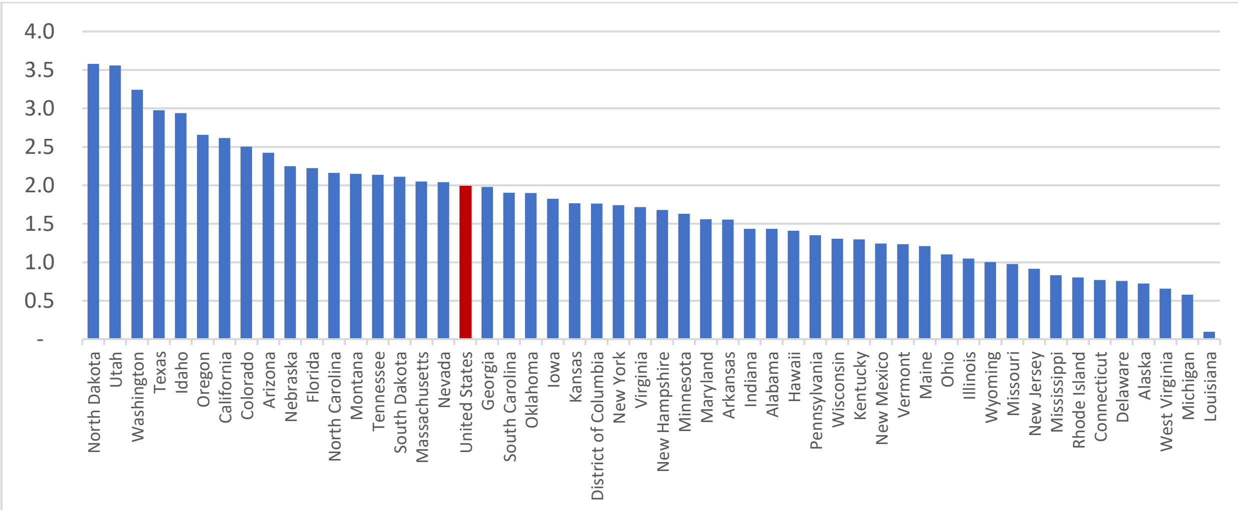
Variation in State Economic Growth Rates

5. Over the past twenty years, there has been wide disparity among states' economic performance, with some experiencing robust growth while many others have seen only moderate improvements. The top five states that achieved the most economic expansion from 2002 to 2022 were North Dakota, Utah, Washington, Texas, and Idaho. Their GDPs grew by an impressive 79 to 102 percent compared to their levels in 2002. Notably, North Dakota's economy doubled in size during this period. In contrast, Louisiana's economy saw a mere 1 percent growth over two decades. By way of comparison, the entire US economy grew by 48 percent over this period.

6. Typically, economic growth is presented through annual growth rates rather than a single cumulative figure. Over the period from 2002 to 2022, the annualized growth rate, also known as the compound annual growth rate for the US, was 2.0 percent. The annualized growth rates of the top five performing states ranged from 2.6 percent to 3.6 percent. But unfortunately, there were several states – a quarter of all US states – that performed poorly with annual GDP growth averaging 1.0 percent or less.

These are specifically, Illinois, Wyoming, Missouri, New Jersey, Mississippi, Rhode Island, Connecticut, Delaware, Alaska, West Virginia, Michigan, and Louisiana. This growth rate falls considerably below both domestic and international benchmarks.

Figure 2. State-level annualized GDP growth rate 2002-2022 (in percent)



Source: BEA. Note: Calculations based on real GDP (chained 2012 dollars) from 2002-2022.

7. The difference between a 1 percent and 3 percent growth rate is substantial. A seemingly small difference of 2 percent per year can lead to significant disparities over time. For instance, if your income was $50,000 in 2002 and increased annually by 1 percent, your current income would be $61,010. Alternatively, had your income grown at 3 percent each year, your 2022 earnings would have reached $90,306. That is a huge difference.

8. What insights can be found from reviewing the past two decades of state-level GDP growth rates?

- First, long-term economic growth exhibited substantial disparity throughout the nation during this timeframe, spanning from an average of 0.1 percent to 3.6 percent annually. This divergence translated into some states experiencing near economic stagnation while others enjoyed robust expansion.

- Second, no distinct pattern emerges by region or size of the economy. Thus, trying to understand what factors influence state-level GDP growth requires deeper analysis and a broader range of explanatory variables.

- Third, there are 17 states that grew by 2 percent or more annualized over the period 2002-2022. This is good news since it means that at least one-third of the number of states (that comprised 47 percent of total GDP in 2022).

- Fourth, 11 states experienced minimal growth. Their share of total GDP in 2022 was 11 percent. Prolonged periods of low growth in the medium- to long-term , underscore the need to revisit policies with an eye to raising the average growth rate. This becomes vital for enhancing peoples' incomes and opportunities, and fostering sustainable growth of the private sector.

Policy Implications

9. Why is economic growth important? By definition, economic growth means that the amount of goods and services being produced in an economy is growing – unless growth is negative, and in that case, it is shrinking. Usually, in economics, *more* is better than *less*. However, economic growth is just an average so it does not tell you where or who benefited from economic growth.

10. With positive growth, at least one group in the economy is benefiting from this increased production. Thus, understanding the sources of growth is very important to understanding

11. Economic growth can have many benefits and here are just a few:

- **Improves living standards:** Growth, especially inclusive growth, leads to higher incomes and wealth. This allows households to afford better goods and services and improves the outlook for businesses that rely on consumers.

- **Wider and/or better public goods.** Growth allows governments to increase the provision and quality of public goods such as basic public services, education, roads, and security, without increasing its indebtedness.

- **Better fiscal stability:** Growth goes hand-in-hand with higher revenues, generally tax revenues in high-income countries. These additional revenues can be used to either finance public goods and/or they can result in smaller deficits or repaying public debt.

12. However, economic growth is just an average so it does not tell you where growth came from or who benefited from economic growth. Nor does it talk about the "externalities" (or side effects) from growth. It has two characteristics that are especially important to consider when evaluating its societal benefits:

- **Inclusiveness:** Economic growth may not always guarantee higher incomes, better service delivery, or enhanced infrastructure for all. To determine inclusiveness, additional factors need to be analyzed, such as growth in personal income by income class, employment, and availability of quality services, should be considered. Government policies and the structure of the economy matter significantly.

- **Sustainability:** Rapid expansion of economic activity can sometimes come at the cost of environmental degradation and resource depletion. Sustainable growth, which takes into account ecological and social factors, is vital for preserving natural resources, minimizing negative environmental impacts, and ensuring the well-being of future generations. Thus, while pursuing growth, good policymaking considers the long-term implications and adopts strategies that ensure a balanced approach.

13. The benefits of economic growth are interrelated. There are both macroeconomic benefits such as greater fiscal sustainability, but also individual- or household-level benefits such as higher incomes and access to better services. Yet, growth does not guarantee that benefits are evenly distributed—even across states.

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