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The Problem with the U.S. Economy Isn't Something Politicians Can Fix

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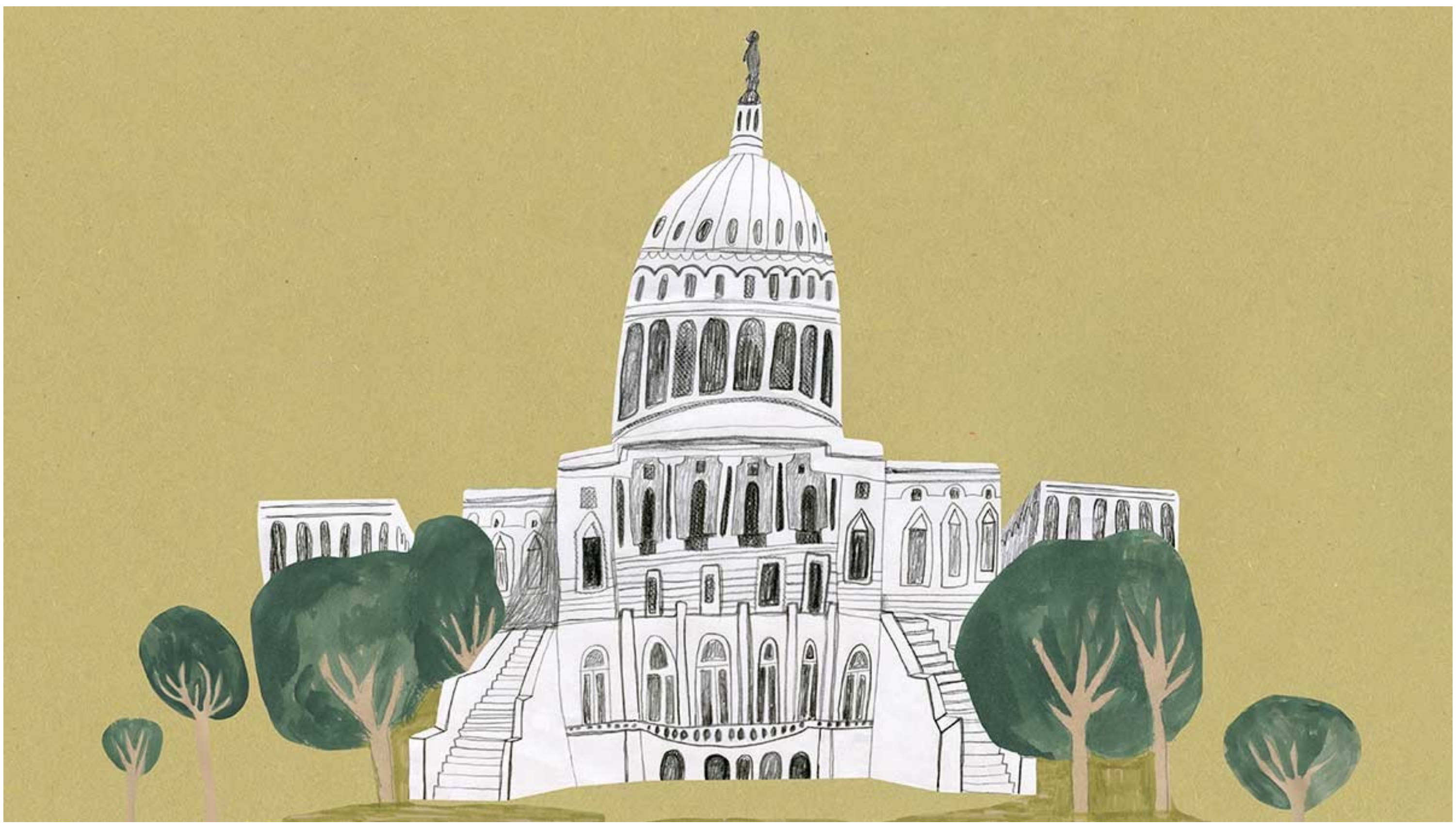

In August 2016 the Pew Research Center asked more than 2,000 U.S. adults about the state of the nation. Nearly half agreed that "compared with 50 years ago, life for people like you in America today is worse." Of those who said they supported Donald Trump's presidential campaign, 81% thought life has gotten worse.

Economists had a field day pointing out the error of the respondents' ways. By almost every objective measure, an overwhelming majority of Americans are better off today than in the 1960s. Houses are bigger and come with air conditioning. Crime rates are lower. Air and water pollution have been much reduced. Medical conditions that constituted death sentences are now mere annoyances. Fifty years ago, the telephone service for one in four U.S. households was a party line shared with the neighbors; today a "phone" is a private, portable device that is tens of thousands times more powerful than the computers that guided Apollo 11.

Yet if the discontented are wrong about the material facts, they are very right about the underlying reality. Fifty years ago, people across a broad swath of society saw their living standards improving year by year, and they expected much the same for their children. Today, according to Pew, only one American in four anticipates that the next generation will be better off than Americans are now. It is a bleak view of the future, arising from public expectations that will be very difficult for political leaders to fulfill.

The America those unhappy voters remember, or think they remember, had no shortage of discontents: The Vietnam War, the struggle against racial discrimination, rising crime, worsening pollution, the ever-present risk of nuclear war. Protests, strikes, and riots were staples of the evening news. But the memory that stands out is not one of turmoil but one of prosperity, of an America in which economic conditions were steadily getting better for almost everyone.

The boom lasted for a quarter-century, with only minor interruptions. Between 1948 and 1973, average hourly earnings in the United States rose 75%, adjusted for inflation, and the earnings of factory workers grew even faster. The unemployment rate for married men averaged a nearly invisible 3%, and few of those displaced workers remained jobless long enough to exhaust their unemployment benefits. High-school education became universal and college was a realistic goal for working-class children, bringing the tantalizing promise of upward mobility. The millions of families who moved from sagging double-deckers in worn-out cities to single-family homes in the suburbs, with a dog in the yard and a car in the garage, needed no convincing that they were better off.

Some of these achievements were the results of government policies and programs. But economic experts also claimed credit for the strong macroeconomic performance that underlay it all. The "New Economics," as it was called, claimed to have learned to use the tools at government's disposal — taxes, public spending, and monetary policy — to keep the economy on a course of low unemployment, minimal inflation, and steady economic growth. As Walter Heller, chief economic adviser to Presidents Kennedy and Johnson, proudly told an audience at Harvard in 1966, "Conceptual advances and quantitative research in economics are replacing emotion with reason."

In late 1973 matters changed abruptly. As late as October of that year, even as the Arab oil producers were cutting production, raising prices, and declaring an embargo against the United States, forecasts everywhere called for another year of strong growth. Instead, the world economy went into a tailspin. When recovery came, economic growth in all the wealthy economies was far more tenuous than before the oil crisis. Unemployment rates have generally been far higher, job losses more frequent, employee benefits less generous. Reversing the trend of the previous quarter-century, owners of capital have fared far better than owners of labor in almost every country. Nowhere have politicians succeeded in restoring the rapid, widely shared growth that their constituents were taught to expect.

The failure to bring back the good times is not for want of trying. The underlying problem, though, is one that governments can do little to fix: lagging productivity growth.

During the boom years, raising productivity was easy. Millions of sharecroppers and subsistence farmers were drawn into factory jobs where they did their work with advanced machinery instead of horses and mules. Large investments in education had an immediate payoff in the form of a more highly skilled workforce, and new expressways helped get goods to market more easily. Meanwhile, reductions in trade barriers forced companies to become more efficient if they hoped to survive. But once that low-hanging fruit was picked, raising productivity became a far more difficult task. After growing about 4.4% per year from 1951-1973, average productivity in 12 wealthy economies has grown less than 2% per year since 1974. Nothing governments have done — lowering taxes on business, deregulating and privatizing industries, funding scientific research, weakening unions, reforming education — has changed that trend.

Slow productivity growth is the main cause of slow economic growth, and slow economic growth makes it all but impossible for everyone's boat to rise. No wonder angry citizens want dramatic change — in Austria and Spain and South Korea just as much as in the United States. But while voters may see the problem in a political establishment that is out of touch, the populist politicians who are challenging that establishment are unlikely to fare better. In the short term, they may be able to medicate the economy with a big tax cut or a dose of deficit spending. When the effects of that treatment wear off, though, the effects of slow productivity growth will linger.

This is not a counsel of hopelessness. It's entirely possible that new technologies, as yet unknown or underutilized, will give productivity an unexpected boost. This is precisely what happened in the United States in the late 1990s, when the internet boom drove economic growth above 3% for three years running and briefly brought the lowest unemployment rate in 30 years. But such happy episodes don't occur on command. They are exceptions to the norm — a norm of slower improvement in living standards than any of us would like. The public may expect more, but our leaders have no way to meet those expectations.

Marc Levinson is author of several books, including *The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger*. His latest book is *An Extraordinary Time: The End of the Postwar Boom and the Return of the Ordinary Economy*.
