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978-0-521-45679-1 - Understanding American Economic Decline

Edited by Michael A. Bernstein and David E. Adler

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The public has long been painfully aware of the economy's current instability. The contemporary recession has brought to the foreground problems which have been germinating for decades. Falling real wages, inconsistent productivity growth, and the loss of international competitiveness in major industries are all outgrowths of long-term developments that predate the current crisis. As the United States moves from a position of global economic leadership to one of economic interdependence, we need new approaches to explain the dramatic changes in the U.S. economy.

It is the underlying premise of this volume that the inadequate and uneven performance of the American economy that has persisted for over two decades can only be understood within a historical context that spans at least a half century. Moreover, the contributors to this book are united in their conviction that economic instability and unemployment in the contemporary United States are ultimately not cyclical but structural, resting on an outmoded institutional organization of the economy. To recapture economic growth, structural reform of the U.S. economy is urgently needed.

This collection of essays, written by leading scholars, presents a systematic analysis of the nation's economic woes. The authors furnish more than hard-hitting criticisms of the U.S. economy. They also attempt to offer solutions to America's most pressing economic problems.

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*Understanding
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Edited by

MICHAEL A. BERNSTEIN and DAVID E. ADLER



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For Teresa Odendahl and Vanessa Drucker

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Foreword: Writing about the economic future

ROBERT L. HEILBRONER

It has always been the ambition of economics to anticipate the future. I do not mean that the discipline has ever pretended to an ability to make hard-and-fast predictions – along with the rest of social inquiry, economics had a hard enough time explaining the past. I am speaking of another kind of ambition that differs from true prediction in that its arguments rarely concern specific events, much less explicit timetables. This aspect of economics can be described as *historical vision*, with the odd twist that the word “historical” refers to the future rather than the past. That is why I have used the deliberately imprecise term “anticipate” to describe the unique ambition of economics, whose increasing unreliability constitutes an important underlying premise of this book.

Writing about the ideas of the great economists many years ago, I called their future-oriented visions “scenarios.” The word was intended to emphasize the drama-laden character of their exercises in social analysis, in which a few simple assumptions about human and physical nature formed the basis for complicated narratives involving the rise and fall of social classes and the viability of entire social orders. Marx is, of course, the textbook case in point, but the description applies as well to Adam Smith and John Stuart Mill, John Maynard Keynes and Joseph Schumpeter. By way of contrast, no such single large-scale historical vision is present in these essays. As the book’s title announces, the theme of decline is central to its multifaceted analysis, but the theme does not have the focused dialectical inevitability that characterized Marx’s apocalyptic drama or the ironic character of Schumpeter’s tragicomedy. This is, therefore, a volume of essays that reflects a different appraisal of our historical situation from that of the past. Decline is seen as a blend of economic

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malfunction and political lack of will – neither of them “inevitable” in the classical sense, both of them perhaps remediable, at least to some extent, by appropriate policy measures.

Economic malfunction differs from past prognoses because it does not suggest that somehow capitalism has lost *its historic élan vital* – the drive to accumulate capital. Stagnation has appeared in every capitalist nation over the last two decades, but the cause is not seen as a climacteric of the system’s trajectory, reflected in a collapse of confidence that brought on the Great Depression. Rather, stagnation appears to be one of those periods of relative saturation that regularly follow transformational booms – the lackluster sequel to the railroad age and the automobile age and, in our case, the age of the jetliner, creator of the largest new industry of the postwar world, tourism.

Thus the malfunction of the last decades appears to be rooted as much or more in the quality as in the quantity of investment. Production processes have been automated, largely to the disadvantage of the middle levels of skill. Business organizations have been radically slimmed down under the impetus of new communication and information networks, to the detriment of employment as a whole and middle management in particular. And although it plays only a small part in the essays to follow, it ought to be noted that the continued expansion of output, even at its laggard pace, has begun to manifest an ominous effect on the environment – the first hints of an environmental overreach of truly frightening proportions.

As a result, economic failure appears at two levels. At the macro level, post-transformational doldrums have once again slowed down the pace of advance below that needed to assure full employment. Meanwhile, at the micro level the new technologies of the system are exerting powerful effects on social and economic life – quickening the pace of production, economizing on storage, eliminating redundancy, enhancing the use of high-science technology – alas, without providing the propulsive capabilities of the older “transformational” technological leaps. Hence investment brings social problems without the accompanying economic vitality that would make those problems easier to address.

We do not know whether a new transformational rejuvenation awaits us. Meanwhile, however, decline has been intensified and prolonged by a second element, also different from the scenarios of the recent past. This is the lack of the political will needed to offset, or even to take the place of, spontaneous growth. Curiously enough, although we cannot explain the

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misbehavior of investment, there is no lack of explanations for the political aspect of decline. In part it reflects the then unforeseen inflationary consequences of the great boom of the 1960s. Today the fear of inflation serves as a reason – and more significantly, a rationale – for a general wariness concerning government expenditures. In part, the lack of will can be seen as a “normal” swing of the political pendulum from the New Deal Left to the Reagan–Bush Right, but it probably reflects as well the growing political conservatism of the more successful unionized working class during the earlier boom years.

No doubt there are other specific explanations as well. But what is important to all the diagnoses and remedies of these essays is the recognition that a political negativism has seriously compounded the difficulties of the economic sector. Much of the stagnation and social disarray of what is now almost twenty-five years of decline could have been alleviated had government itself been utilized as a source of transformational change, but this was far beyond the political possibility curve. Here we should note that in a volume of this title written thirty, twenty, even ten years ago, the word “socialism” would surely have appeared as an imaginable alternative social formation. That possibility is not in any of these essays. For better and for worse – it is important to stress the conjunctive – it is a limitation placed on our political and economic futures by the fate of the Russian aberration.

In such a setting of antipathetic political attitudes, one can see why “prediction” becomes impossible, and even “anticipation” hazardous. Nevertheless, anticipation is what we all hunger for, and it is what this book is about. Can the American decline be corrected? Is the vision of a high employment, high social responsibility capitalism a possibility – not as a scenario of inevitable change, but as a political and economic framework toward which perceptible progress can be made? In one way or another, the essays that follow are all concerned with this central question.

As I have said, the essays take the measure of what must be done, without pretending to a degree of foresight that is not possible in today’s world. Our authors observe the economy from many vantage points, comparing its behavior with that of other capitalisms, analyzing the political and economic failures of crucial sectors, such as finance and corporate organization, seeking perspectives on its historic position in the larger global setting. No single unified “scenario” underlies these essays

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because none exists in an age in which economic behavior has become less dependable and politics more strategic. Instead, we find many appraisals as to what can be done, within the limits of our historical situation.

Taking the measure of our current situation is, however, only half the task of this ambitious effort. Anticipation – no matter how tentative – requires prior diagnosis, and diagnosis in economics, as in medicine, ordinarily takes place in a language that the patient does not understand. To repair that serious breach of communication is a second important purpose of this undertaking. In no way does that make this a book of economic “popularization.” Its authors are interested in describing overlooked or misperceived aspects of the current economic scene, not in setting forth readable versions of conventional views. But their purpose lies not only in presenting new perceptions about our economic prospects, but in communicating the meaning of these perceptions in ways that will engage, not bewilder, their readers.

Perhaps that is only to say again that *Understanding American Economic Decline* begins from the premise that a better-working American economy will not emerge spontaneously from the dynamics of the system. It will require new political mechanisms, and these mechanisms in turn require a new degree of political will. The essays that follow cannot provide the political and institutional changes required to halt and reverse the trend of American social and economic life. What they can and do provide is the informed understanding from which to construct a more prosperous and equitable American economy.

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Consider a nation in which family income is growing at a brisk rate, and has done so, with only brief interruptions, for nearly twenty years. The number of individuals classified as poor falls steadily, from roughly 40 million to just under 25 million in less than a decade. Unemployment is low. Just one working parent, as is common in this economy, can easily support an average family. It is a fundamental belief of this society, and a not unrealistic one given continually improving economic and social conditions, that children will surpass their parents' standard of living. This nation's economic competitiveness on world markets is unchallenged. Its currency is an international standard of value. The nation is globally hegemonic; its domestic economy is little affected, let alone dominated, by outside competitors.

And this nation's government attracts "the best and the brightest." Though many question the government's foreign policy aims, few doubt its effectiveness and efficiency, as exemplified by a wide variety of public works programs. The government is seen, on the whole, as beneficial, providing unemployment insurance, social security, medical coverage for the elderly, and ultimately, economic stability and growth.

This nation, of course, was the United States of only thirty years ago, during a time of prosperity which all Americans born before 1960 can remember. Rapid material growth rates were matched by equally optimistic attitudes on the part of policy makers. One of the most widely read and influential economics texts of its time could state, "The reason for virtual disappearance of great depressions is the new attitude of the electorate . . . Economic science *knows how* to use monetary and fiscal poli-

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cy to keep any recessions that break out from snowballing into *lasting* chronic slumps.”¹

And now consider an economy in its worst depression since the 1930s. Close to one in three college graduates takes a job which does not require a college degree, and the downward economic slide for non-college graduates is even more severe. Real wages have been flat or falling for decades, predating the current slump. Two-income families are a necessary though not always adequate strategy for keeping household income from falling.

Internationally, productivity growth in this economy has been lagging behind that of other industrial nations for almost two decades. Industry after industry has experienced a loss in international competitiveness. Trade deficits soar. This nation no longer clearly dominates the world economy. And the government is seen as ineffectual and inefficient. Indeed, government itself is seen as the source of many of the nation’s economic troubles.

For most of the American public, this hypothetical contrast is all too real. They have experienced what they perceive to be a steady economic decline for the past several decades. Diminished expectations generated by inadequate economic performance have expressed themselves both in rising middle-class resentment and powerful discontent among the poor.

Many policy makers also share the public’s bewilderment and anxiety. The self-assurance of the economics doctrines of the 1960s, which claimed to know how to achieve simultaneously acceptable rates of growth, unemployment, and inflation, has been shattered.

In their place, new policy prescriptions to combat the recession are eerily reminiscent of economic doctrines widespread in the early days of the Great Depression of over a half century ago. Much of current economic thought holds that fiscal policy cannot lower unemployment and that balanced budgets are the only successful approach to maintaining growth. Yet received wisdom has not allowed policy makers to formulate effective responses to the recession or to the long-term decline. The economy has failed to prosper in the wake of three administrations committed to supply-side economics. This failure indicates the sterility of existing mainstream economic theory.

This volume of original essays argues that recent U.S. economic deterioration has deep structural, historical, and institutional roots rarely ad-

1 Paul A. Samuelson, *Economics, 8th Edition* (New York: McGraw-Hill, 1970), 250.

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dressed by mainstream economic theory and policy. The origins of the current crisis go beyond mere policy errors or cyclical fluctuations to involve profound issues of institutional organization including the U.S. financial system, government–business relations, labor–business relations, and inter- and intrafirm cooperation. We attribute U.S. economic problems and slow growth rates to an economy structured and organized in ways better suited to the 1950s than the 1990s.

The essays in this volume all share this institutional and historical perspective. This approach is largely outside the focus of mainstream economic theory – theory which has yet to offer a convincing explanation of contemporary economic decline in the U.S. Although our methodological approach is not easy to model or quantify, qualitative phenomena such as institutional arrangements do have quantitative impacts as seen in fluctuations in national growth rates. One goal of this volume, therefore, is to inspire a new approach to economic analysis, one where formal models have meaningful applications. Some of the essays investigate the theoretical limitations of the mainstream perspective. Others demonstrate that mainstream policy, in particular supply-side economics, has not only failed to strengthen the economy but weakened it.

The anthology analyzes the underlying causes of America’s persistent economic difficulties, the ineffectiveness of current policy responses, the social impact of the difficulties, and finally what must be done to get the economy back on track.

Our contributors have conceived their essays on these topics as broadly as possible. The first part includes two essays providing a historical overview of the growth and development of the American economy since 1945. The essays in the second part, concerned with structural change in more recent decades, focus on such issues as corporate behavior and strategies, the transformation of labor productivity in major manufacturing and service industries, and the macroeconomic consequences of the Cold War period. Policy concerns are explicitly addressed in the third part with essays on current economic stagnation and the contradictions of recent policy making, the failure of Bush/Reaganomics, and a comparison of national strategies for the enhancement of global competitiveness. The distributional and social impacts of contemporary American economic performance and policy form the fourth part and frame the essays, which discuss the changed position of organized labor, the effect of structural change on the gender and racial distribution of employment opportunities, the social impact of income inequality on minority populations,

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and intergenerational downward mobility in recent years. A concluding part offers observations on the economic policy puzzles and persistent growth difficulties that face the nation.

Our approach has profound policy implications, a major concern of the authors. Current economic policy debates are largely limited to arguments over short-term policies such as income tax cuts or revision of capital gains assessments or federal budget deficits. This book suggests that these preoccupations of political leaders and pundits do not address the underlying causes of American economic decline. They therefore offer inadequate solutions to long-term slow growth. The policy initiatives proposed in this book call for more substantive reforms that are institutional in nature – focusing on such matters as technology, labor training, income distribution, and financial and managerial practice.

Most discussion of U.S. economic decline has been intellectually unsatisfying. One common argument is simply to deny that the U.S. has suffered from a loss in international competitiveness. Another response is to acknowledge a decline, but to give it no credence, saying in effect: so what if times are tough? This nihilistic argument does not attempt to explore the origins of contemporary economic stagnation. Theories or journalistic accounts that do acknowledge there are problems with the U.S. economy and attempt to investigate how these problems arose are hampered by limitations in mainstream economic theory itself. Mainstream models are not well suited to discussing actual experiences of growth which are situated in a nation's history as well as its institutional, political, and social structure. Though these factors can be forced to fit into conventional economic analysis, the resulting equation is too reductive to yield meaningful insight into why and how nations grow. More to the point, mainstream theory, with its formal preoccupations, is in general not really concerned with why the United States has experienced a relative decline or why other industrialized countries are on a more rapid growth trajectory. What went wrong in the United States, why its economy has declined, is not just a question left unanswered by mainstream economics; it is a question rarely asked by mainstream economics. The essays in this volume confront U.S. economic decline head on, investigating its roots in U.S. historical and economic and political structures. And a meaningful and accurate diagnosis of what is really wrong with the U.S. economy is a necessary step towards national economic renewal.

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As with all publications, this volume is the product of the joint labor of several people. Some of them are identified in the table of contents, but there are others who are not. Mention should be made of six of them here. Michael Edelstein, Chair of the Department of Economics of Queens College in the City University of New York, lent decisive support and encouragement at a very early stage in our work. Mary Klemme and Lorel Wirkus, of the Department of History at the University of California, San Diego, provided exemplary word-processing and clerical assistance. Janis Bolster and Robert Racine, our production editor and copy editor, respectively, also deserve special mention.

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