Article 3.3

A FUTURE FOR GROWTH—IF WE CHOOSE IT?

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Defenders of capitalism argue that the hierarchy and inequality of the system are worth it because, as Austrian economist Ludwig von Mises put it, capitalism "delivers the goods"—high and rising living standards. The long-term slowdown of wage growth in advanced capitalist economies, then, poses a challenge to the system's defenders. If capitalism is not only hierarchical and unequal, but increasingly does not "deliver the goods" to most, might we be better off replacing it with a different form of economic organization?

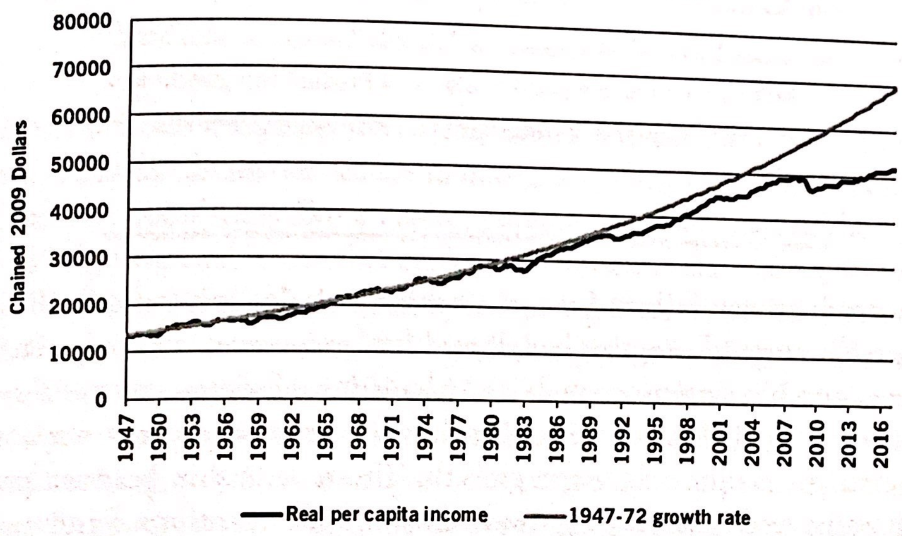
To the extent that wage stagnation is due to the changing balance of power between labor and capital, this reflects the unfairness of capitalism and its unequal distribution of wealth and power. From this perspective, the "Golden Age" of the post-World War II decades, with rising wages and steady improvements in working-class living standards, reflected that period's strong unions and progressive politics. Meanwhile, the stagnant wages and living standards since the 1970s are the result of union weakness and the growing dominance of conservative politics since the collapse of the New Deal coalition in the 1970s. On the other hand, to the extent that wages have stagnated for reasons unrelated to the capitalist system, wage stagnation may be regrettable—but does not reflect on the political question of whether we might be better off replacing capitalism with a different economic system.

Economist and Northwestern University professor Robert Gordon has been a leading advocate of the view that wage stagnation is largely an unfortunate result of circumstances beyond anyone's control or political remedy. In his recent masterpiece, *The Rise and Fall of American Growth,* Gordon pulls together his analysis of earlier economic growth, driven by important innovations such as water supply networks, electricity, and the internal combustion engine, which he argues have had a vastly greater impact on economic growth than anything developed over the past 50 years. Because of the exhaustion of technological progress, growth in productivity (output per hour of work) and in overall output have slowed, and brought down the growth rate for wages and living standards. It is all unfortunate, in Gordon's view, but beyond the power of either the state or organized labor to change.

However, Gordon is wrong on both counts: the slowdown in productivity is not "exogenous"—it is not due to causes outside of the capitalist economy, nor does it explain the slowdown in wage growth. Instead, both the productivity slowdown and wage stagnation are due to the go-slow economic policies followed by the United States and its major trading partners since the 1970s, policies intended to fight inflation even at the cost of higher unemployment rates and slower economic growth, policies chosen because economic elites gain by hoarding a larger share of an ever slower-growing pie.

How much has economic growth slowed? Gordon's argument rests on familiar grounds: The relatively rapid growth in the American economy (and other affluent capitalist economies) from the end of World War II through the early 1970s has not been matched in the nearly half-century since. Between 1947 and 1972, per capita income in the United States increased at a rate of 2.4% per year. This slowed to 2.0% per year for 1972–96, and then to only 1.3% per year since. The slowdown after 1972 means a reduction in per capita income of over 25% by 2017: Instead of the nearly $70,000 that it would have been in 2017 at the 1947–1972 growth rate, it is only about $52,000.

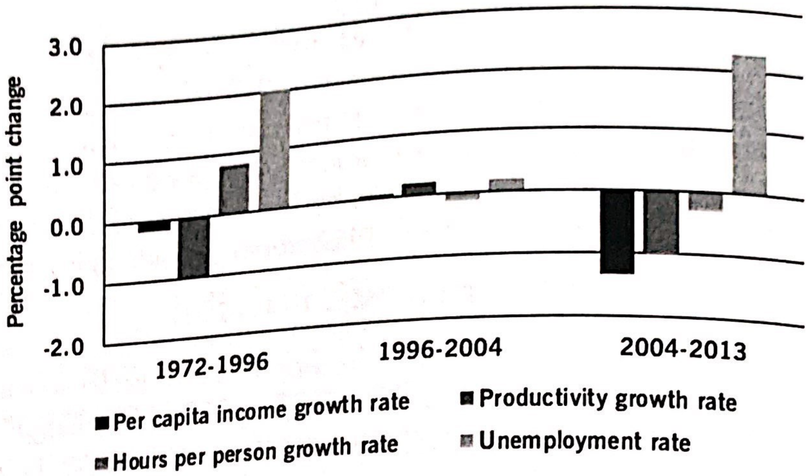
PER CAPITA INCOME, 1947–2017



What accounts for the slowdown in growth? Gordon attributes the slowdown to various "headwinds," with a focus on a fall in technological progress after the 1960s. In the 1972–96 period, rising employment, especially of women, compensated somewhat for falling productivity. More total hours of work counteracted low growth in output per hour worked, and buoyed up the growth in total output. In the tech boom of the 1990s, computerization boosted productivity growth enough to get per capita income rising at the old rate, though only briefly. Since 2004, demographic conditions, Gordon argues, have led Americans to drop out of the labor force, and productivity has fallen off due to declining technological innovation.

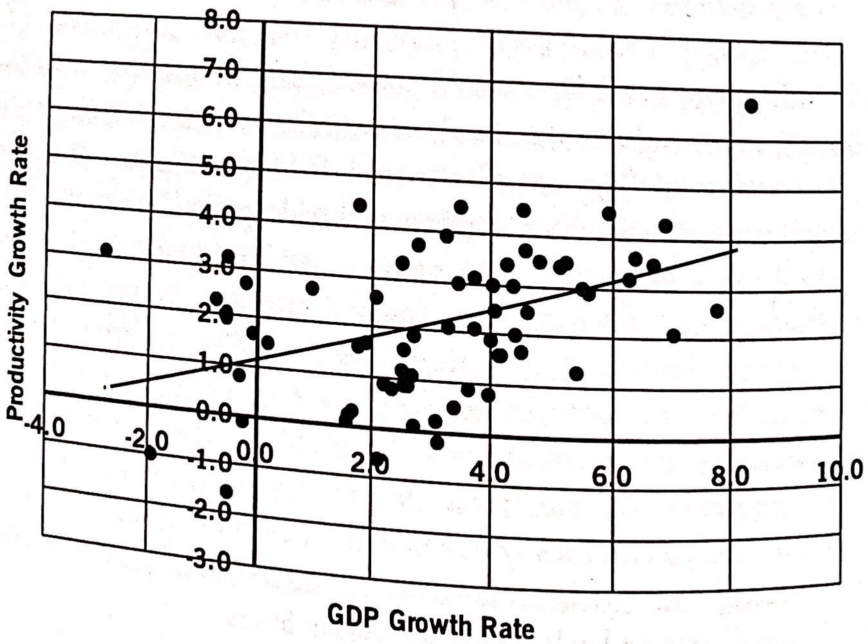
Gordon's main mistake is that he does not take account of changing macroeconomic conditions or total ("aggregate") demand. While focusing on the growth in the supply of inputs, workers, machines, and innovative ideas, Gordon ignores the other side of markets, the demand for output. Rather than a slowdown in supply, slow growth since the 1970s reflects a shortfall in aggregate demand because governments and monetary authorities have slowed economic growth in order to restrain inflation. Slow growth in aggregate demand has meant that workers face higher unemployment and shorter hours, and companies reduce investment in physical plant and in research and development—leading to slower growth in productivity. The long-term slowdown in growth coincides with a rise in unemployment, mostly due to deficiency of demand, except in the 1996–2004 period. During those years, booming demand drove job creation, technological progress, and overall growth back up to their earlier levels.

GROWTH RATES SINCE 1972



Why has productivity fallen? Loss of creativity or declining demand? Gordon's claim that technological progress has slowed for "exogenous" reasons—factors outside of the economic system, such as an exhaustion of ideas—is crucial to the argument that political decisions and the power of capital are not responsible for the slowdown in income and wage growth. The relationship between productivity growth and overall economic growth runs in both directions. Faster productivity growth may increase GDP growth, especially when falling costs may increase a country's exports. But faster overall economic growth, fueled by rising demand, also generates faster productivity growth by incentivizing productivity-enhancing investment and innovation. The relationship between productivity and GDP growth is strong enough to explain 60% of the decline in productivity between 1947–1972 and 1973–1996, and all of the decline in productivity since.

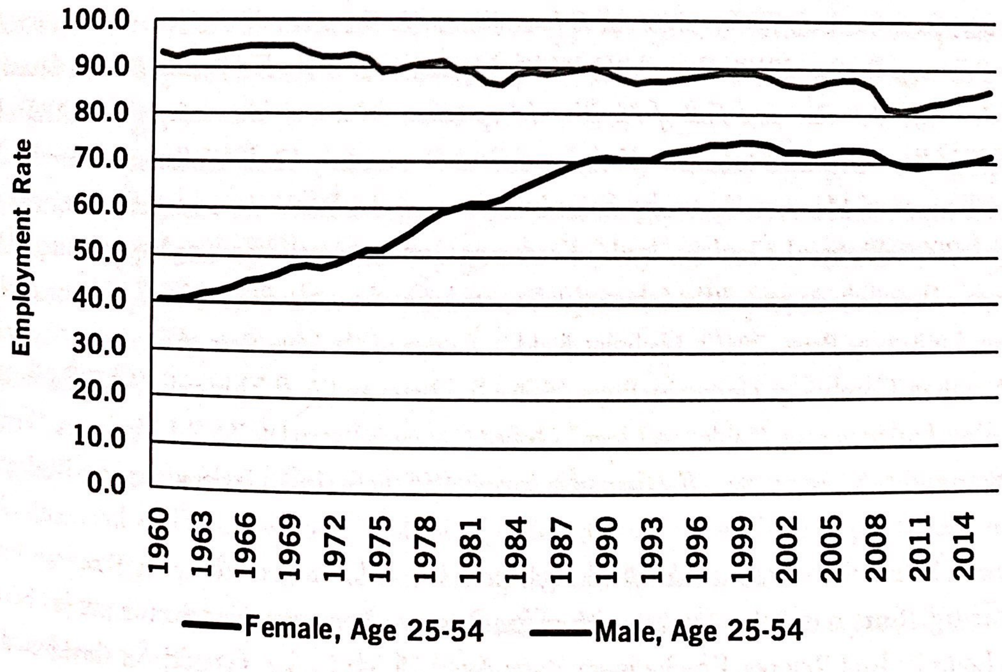
PRODUCTIVITY GROWTH AND GDP GROWTH, 1947–2017



Since the 1970s, however, government macroeconomic policy has emphasized "inflation targeting"—achieving very low inflation rates—at the expense of growth in incomes and employment. Slower growth in demand, meanwhile, contributes to slower productivity growth by discouraging new investments—in physical plants, research and development, and worker training. In addition, when demand is weak, labor markets are "slack," and workers have little bargaining power. Lower wage pressure, in turn, means lower investment in labor-saving technologies. Capitalists have favored such policies for a simple reason—they have undermined workers' bargaining power and therefore tilted the distribution of income in the capitalists' favor.

Why don't Americans work as much as they used to? In addition to the decline in productivity, Gordon attributes the decline in output to falling employment, caused by the aging of the U.S. population. But an aging population is only part of the explanation. Into the 1990s, compared with other capitalist economies, the United States had high and rising employment rates with a rapidly increasing share of women in the paid labor force. This began to change after 1990, and changed more dramatically after 2000. Women's employment peaked in 2000 and has fallen since then, and men's employment and labor force participation have fallen sharply since around 1970. The United States' paid labor force has gotten dramatically smaller compared to its potential because of falling demand for goods and services, and therefore falling demand for workers. As a result, a significant share of the U.S. population has given up looking for work. The problem originates from a drop in demand, not a fall in supply. An aggressive fiscal policy, as was proposed by Senator Bernie Sanders (D-Vt.) in his 2016 presidential campaign, could help to bring more people into the workforce and into employment; and policies, like those in some Scandinavian countries, to help parents with childcare costs could, especially, help promote women's employment.

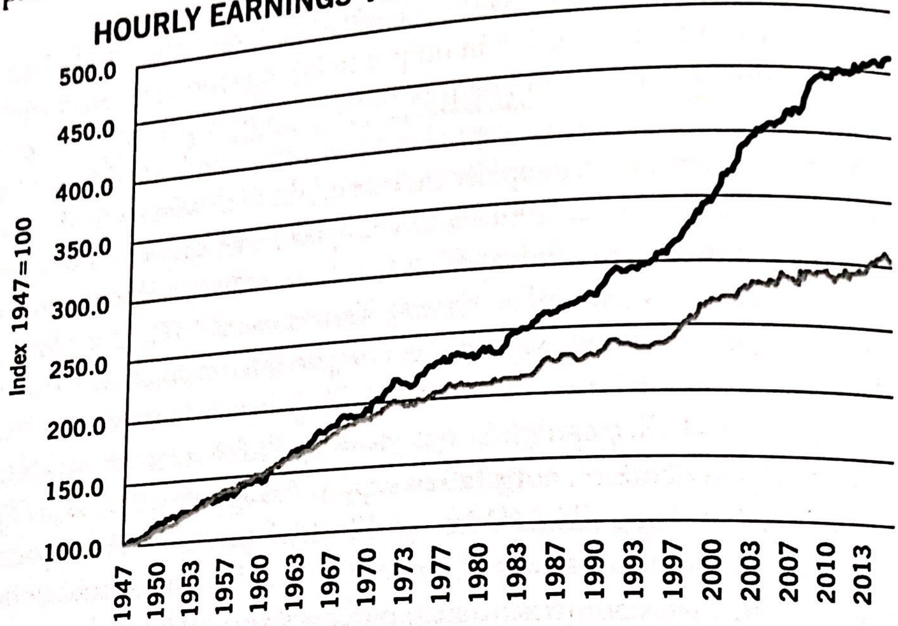
EMPLOYMENT RATES, FEMALE AND MALE, AGED 25–54



What about the distribution of income? Rising productivity is crucial for increasing national income but it does not necessarily determine the path of real wages. While for most of American history down to the mid-1960s, productivity and real wages grew together, since then they have diverged. From the mid-1960s through the mid-1970s, real wages grew by 1.5% a year but productivity grew nearly 1% a year faster.

For the next 20 years, however, real wages fell by around 0.5% a year even though productivity grew by over 1.7% a year; the slowdown in productivity growth of less than 1% a year was less than half the slowdown in wage growth of 2% a year. While wages have been rising since the mid-1990s, they have continued to grow at a much slower rate than productivity. Instead of leading to higher wages, rising productivity has fed growing corporate profits with a declining share of income going to labor. ❑

HOURLY EARNINGS VS. PRODUCTIVITY, 1964–2016



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