The Rise and Fall of American Growth: The US Standard of Living Since the Civil War

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The conclusion of Robert Gordon's *The Rise and Fall of American Growth* is, in the author's own words, "startling." According to Gordon, a Northwestern University economist, the United States has entered a period of permanent economic stagnation that will be marked above all by growing social inequality and poverty.

The tone of the reviews of Gordon's book points to growing anxiety at the commanding heights of the financial aristocracy.

"Perhaps the future isn't what it used to be," writes Paul Krugman in the *New York Times*. "And you have to wonder about the social and political consequences of another generation of stagnation or decline in working-class incomes."

In the *Wall Street Journal*, Edward Glaeser's review, titled "Those Were the Days," notes that "Mr. Gordon has data on his side." Glaeser writes, "Looking toward the future, whatever miracles come from Silicon Valley, they are (as Mr. Gordon convincingly argues) likely to have a relatively modest impact on GDP. But I suspect they will do little to help the employment prospects for the more than 15 percent of men aged 25 to 54 who are jobless."

Similar concerns can be found in *Foreign Affairs* and the *Financial Times*. Writing in *Prospect* magazine, former Treasury Secretary Lawrence Summers calls Gordon's findings "disturbing." He writes, "I wish that I could convincingly rebut his claims."

In other words, the period of relative capitalist stability in the United States has come to an end. According to Gordon, the postwar period of rapid growth was an aberration that will not be repeated.

The "social and political consequences" of this are, as Krugman suggests, immense. The *New York Times* columnist, speaking on behalf of the ruling class, fears that tens or hundreds of millions of workers and young people will be forced into social struggle against the corporations and the government. This increasingly self-conscious fear of social revolution, bound up with a frantic and existential drive for profit, will further animate the deeply anti-democratic, authoritarian tendencies in the ruling class. The essential conclusion that flows from Gordon's book, which the author himself avoids, is that the world political situation is headed toward either social revolution or war and dictatorship.

The value of Gordon's book lies in its synthesis of economic empiricism and historical analysis. He begins in the year 1870, in the aftermath of the Civil War, which abolished slavery and marked the triumph of the wage labor system throughout the entire US. Gordon divides the history of post-bellum capitalist development into distinct periods: 1870 to 1920, 1920 to 1970, and 1970 to the present. A major strength of the book is the fact that Gordon tracks changes in the productive capacity of the US economy not only through standard measures of gross domestic product and annual income, but also by taking into account the impact of technological innovation on the living standards of the population.

After analyzing 145 years of American growth, Gordon concludes that annual growth from 2015 to 2040 will be 1.20 percent, with all measures of productivity as well as GDP growth per person remaining drastically lower than during the periods of 1920 to 1970 and 1970 to 2014. That is, the United States economy is in terminal crisis and living standards for the vast majority of the population will continue to deteriorate.

Social inequality

Gordon deals at length with the degree to which social inequality has become the dominant feature of economic and political life. Notably, he explains that the essential divergence in incomes is not between the top 1 percent and the bottom 99 percent, but between the top 10 percent and the bottom 90 percent.

Gordon refers to the postwar period of rising income for workers as the "great compression." He notes that "all that changed after the early 1970s," adding, "A giant gap emerged between the growth rate of real income for the bottom 90 percent and the top 10 percent of income distribution."

Average income for the bottom 90 percent, Gordon writes, "was actually lower in 2013 than it was in 1972." Almost all of the income loss among the bottom 90 percent took place from 2000 to 2013, as peak real income amongst the bottom 90 percent fell from $37,053 to $31,652, a decline of 14.6 percent.

"Meanwhile," Gordon writes, "the average real income for the top 10 percent doubled from $161,000 in 1972 to $324,000 in 2007, followed by a modest retreat to $273,000 in 2013." He notes additionally that "20 percent of American workers classified by income earn less than $9.89 per hour, and their inflation-adjusted wage fell by 5 percent between 2006 and 2012, while average pay for the median worker fell 3.4 percent."

On the basis of income, Gordon divides the US population into three categories: an upper group making up 21 percent of the population, a middle group accounting for 46 percent, and a lower group comprising 33 percent. From 1983 to 2013, the income of the lower group shrank from $11,400 to $9,300 while that of the middle group remained nearly the same, rising from $94,300 in 1983 to $96,500 in 2013. But for the upper group, income doubled from $318,100 to $639,400.

This yawning chasm between the rich and the rest of the population is inseparably bound up with the financialization of the US economy, which has left working and middle class families increasingly vulnerable to crises and downturns. Gordon cites a Federal Reserve study that "showed that more than 5 million households sold out of the stock market when it was low in 2009-10 and that only those in the top 10 percent of the income distribution have increased their holdings of stock since then." He continues: "Some of this tendency of lower-income households to 'bail out' of the market when it is low may come from a necessity to liquidate assets in the face of unemployment caused by a business cycle slump."

The rise of American capitalism

Gordon makes his predictions about future growth on the basis of an analysis of the development of American capitalism over a protracted period. He writes that the Untied States has experienced three periods of industrial revolution. The first took place roughly from 1770 to 1820 and included the cotton gin, the steam engine and other attendant inventions that laid the foundations for a socialized production process in factories and workshops.

A second industrial revolution took place at the turn of the 20th century and was based on the harnessing of electricity, the development of the industrial combustion engine, the spread of water and sewage treatment, and other advances in social infrastructure. This development "had its maximum effect on output per person and on productivity in the half-century 1920-70," Gordon writes.

As a result, "between 1940 and 1970, output per person and output per hour continued to increase rapidly, in part as a result of three of the most important subsidiary spinoffs of the second industrial revolution—air conditioning, the interstate highway system, and commercial air transport—while the world of personal entertainment was forever altered by television."

Gordon says that in comparison with the second period of industrial development, which "covered virtually the entire span of human wants and needs, including food, clothing, housing, transportation, entertainment, communication, information, health, medicine, and working conditions," developments in living standards have been minimal since 1970. "In contrast, only a few of these dimensions, in particular entertainment, communications and information, were revolutionized" by the third industrial revolution, which is based primarily on information and technology and not developments in production.

Gordon also notes that the modest boost in growth from 1994 to the mid-2000s was temporary, and that corporations had effectively incorporated the technological advances of the Internet into their business models by 2005: "The late 1990s represented a temporary, rather than a permanent, upswing in the pace of progress. The most recent decade, 2004-14, has been characterized by the slowest growth in productivity of any decade in American history, and this verdict of the productivity data is echoed by continuity rather than change in business practices in the worlds of offices, retail stores, hospitals, schools, universities, and the financial sector. In short, the changes created by the Internet revolution were sweeping but largely completed by 2005."

Gordon's conclusion is that the objective basis for significant economic growth is effectively nil:

"The 1870-1970 century was unique: Many of these inventions could only happen once, and others reached natural limits. The transition from carrying water in and out to piped running water and waste removal could only happen once, as could the transition for women from the scrub board and clothes line to the automatic washing machine and dryer. After 1970, innovation excelled in the categories of entertainment, information and communication technology…

"The timing of the stream of innovations before and after 1970 is the fundamental cause of the rise and fall of American growth. In recent years, further downward pressure on the growth rate has emerged from the four headwinds that are slowly strangling the American growth engine. Rising inequality has diverted a substantial share of income growth to the top 1 percent, leaving a smaller share for the bottom 99 percent. Educational attainment is no longer increasing as rapidly as it did during most of the 20th century, which reduces productivity growth. Hours worked per person are decreasing with the retirement of the baby-boom generation. A rising share of the population in retirement, a shrinking share of working age, and longer life expectancy are coming together to place the federal debt/GDP ratio after the year 2020 on an unsustainable upward trajectory. These four headwinds are sufficiently strong to leave virtually no room for growth over the next 25 years in median disposable real income per person."

Gordon's "four headwinds" to growth

Aside from the detailed information Gordon provides on the "headwind" of social inequality, the book explains that education, demographic changes and government debt have become major impediments to growth.

The figures Gordon cites on the crisis in education are staggering. "High school graduation rates increased from less than 10 percent of youth in 1900 to 80 percent by 1970, and the percentage of 18-year-olds receiving bona fide high school diplomas has since fallen, to 74 percent in 2000."

The US, he notes, "is the only country in which the graduation rate of those aged 25-34 is no higher than those aged 55-64." What's more, "a recent evaluation by the ACT college entrance test organization showed that only 25 percent of high school students were prepared to attend college as evidenced by adequate scores on reading, math, and science."

This poses a problem for growth, Gordon says. "The future does not look promising" on account of increased costs of schooling, debt loads, inadequate pre-K education, and unequal funding of school districts based on local property taxes. The devastated education system is a major reason for Gordon's prediction that lower per-person productivity will limit growth over the next several decades.

He also explains that demographic changes are paving the way for slower growth. During the post-war period, the entry of both baby boomers and women into the workforce produced a significant increase in output-per-person, which rose faster than productivity overall. Retiring baby boomers make up roughly half of those who left the labor force from 2007 to 2014, marking a decline from 66.0 percent to 62.6 percent and accounting for a total of 8.5 million job losses. The other half, accounting for 4.25 million jobs, is comprised of the share of workers younger than 55 "who have lost their jobs in an economic setting in which they do not expect to be employed again." Gordon notes that "a sizeable fraction of [these] have been able to obtain Social Security disability benefits."

He writes that because of this decline, "future growth in average output per person will be .4 points slower than that of labor productivity," and that "the effect of declining labor force participation will be combined with those of other headwinds to provide a projection for future growth in median real disposable income per person."

Median real GDP per person will increase by just .40 percent per year from 2015 to 2040, much lower than the rate of 2.61 percent from 1920 to 1970 and the rate of 1.34 percent from 1970 to 2014. Real median disposable income per person will increase by .30 percent per annum over the next 35 years, compared with 2.25 percent per year from 1920 to 1970 and 1.46 percent per year from 1970 to 2014.

Interestingly, median income growth is expected to be .40 percent lower than mean income growth from 2015 to 2040, indicating deepening social inequality. From 1920 to 1970, median income growth exceeded mean income growth by .20 percent. From 1970 to 2014, median income growth was .43 percent lower than mean income growth.

In terms of the growth of government debt, Gordon's position is that massive cuts will be needed that far exceed estimates from the Congressional Budget Office.

"The CBO estimates paint too rosy a scenario," Gordon writes, "because its forecast of future growth in output, and hence in federal tax revenue, is too optimistic. The CBO, as a result, has understated the future rise in the debt to GDP ratio. For 2024, the official CBO forecast is a ratio of 78 percent; mine is 87 percent. For 2038, the CBO is at 100 percent; my forecast is roughly 125 percent."

Gordon demands a massive overhaul of Social Security and Medicare, which will reach a zero balance by 2034 and 2030 respectively. "By definition, any stabilization of the federal debt-GDP ratio, compared to its likely steady increase with current policies, will require more rapid growth in future taxes and/or slower growth in future transfer payment."

Implications of the decline of US economic growth

Though Gordon doesn't state it so clearly, he paints a portrait of a society in catastrophic decline. The United States has not seen any significant improvement in living standards for 50 years. The economy is controlled by a tiny sliver of the population that has grown inordinately wealthy by sapping the wealth of the working class and waging war abroad.

The vast majority of the population has no say in the way the economy is organized and the government is incapable of meeting even their most basic needs. The ruling class is so shortsighted that in its insatiable drive for profits it has robbed public education and paved the way for a drop-off in economic productivity.

Gordon is a bourgeois economist. It is therefore not surprising that he does not explain that the decline of growth in the world's most powerful capitalist economy bespeaks an international economic crisis of historic dimensions. What's more, Gordon's explanation for decades of future stagnation is that the important inventions of 1870 to 1970 "could only happen once."

To state that a country with 350 million people in a planet of 7 billion is now exhausted of innovation and condemned to decades of decline is a confession of the bankruptcy of the capitalist system. It is an admission that the period of capitalist development, in Gordon's words, is not repeatable. It "could only happen once."

In this sense, Gordon's book makes the case for social revolution without intending to.

In reality, humanity has not exhausted itself of innovation and creativity. By taking the productive forces out of the hands of the financial aristocracy and placing them under the democratic control of the international working class, humanity can organize production to meet the needs of the world population.

Under such conditions, the possibilities for advances and innovation will be boundless. Freed from the fetters of the profit motive, humanity's productive strength will be unleashed toward the achievement of great tasks of engineering and innovation. Resources will be allocated not according to the needs of the stock market and the military-intelligence apparatus, but according to rational plans for international development. For the first time in history, humanity will consciously control the process by which society develops.

In *Literature and Revolution*, Leon Trotsky wrote that under socialism, society "will evolve with a now inconceivable élan." He continued:

"The communist way of life will not grow up blindly like coral reefs in the sea. It will be built consciously. It will be checked by critical thought. It will be directed and corrected. Life will cease to be elemental, and for this reason stagnant. Man will learn to shift rivers and mountains, to build people's palaces on the heights of Mont Blanc and at the bottom of the ocean; and he will impart to his existence not only wealth and color and dramatic tension but also a highly dynamic character. No sooner will one crust begin to form itself on the human existence than it will burst under the pressure of new technical and cultural inventions and achievements. Life in the future will not be monotonous…

"It is as difficult to say beforehand what are the limits of self-mastery that man may be able to reach as it is to foresee how far he can develop his technical mastery of nature… Man will grow incomparably stronger, wiser, subtler; his body will become more harmonious; his movements more rhythmical; his voice more musical. The forms of his existence will acquire a dynamic theatrical quality. The average man will rise to the stature of Aristotle, Goethe, Marx. And above these heights new peaks will rise."

This is the socialist alternative to the decades of poverty and stagnation foreseen by Robert Gordon under capitalism.