Why the Economy Doesn't Roar Anymore

The long boom after World War II left Americans with unrealistic expectations, but there's no going back to that unusual Golden Age

THE SATURDAY ESSAY

By Marc Levinson

The U.S. presidential candidates have made the usual pile of promises, none more predictable than their pledge to make the U.S. economy grow faster. With the economy struggling to expand at 2% a year, they would have us believe that 3%, 4% or even 5% growth is within reach.

But of all the promises uttered by Donald Trump and Hillary Clinton over the course of this disheartening campaign, none will be tougher to keep. Whoever sits in the Oval Office next year will swiftly find that faster productivity growth—the key to faster economic growth—isn't something a president can decree. It might be wiser to accept the truth: The U.S. economy isn't behaving badly. It is just being ordinary.

Historically, boom times are the exception, not the norm. That isn't true just in America. Over the past two centuries, per capita incomes in all advanced economies, from Sweden to Japan, have grown at compound rates of around 1.5% to 2% a year. Some memorable years were much better, of course, and many forgettable years were much worse. But these distinctly non-euphoric averages mean that most of the time, over the long sweep of history, people's incomes typically take about 40 years to double.

That is still significant progress. Looking back over an 80-year lifespan, a typical person in a wealthy country would have seen his or her annual income quadruple. But looking from one year to the next, the improvements in living standards that come from higher incomes are glacial. The data may show that life is getting better, but average families feel no reason to break out the champagne.

Today, that is no longer good enough. Americans expect the economy to be buoyant, not boring. Yet this expectation is shaped not by prosaic economic realities but by a most unusual period in history: the quarter-century that began in the ashes of World War II, when the world economy performed better than at any time before or since.

The victory of the Allies in 1945 was followed by economic chaos. In 1946, France's farms could produce only 60% as much as they did before the war; many of Germany's remaining factories were carted off to the Soviet Union as wartime reparations; and anger over price and wage controls—imposed during the war to stanch inflation and channel resources into critical industries—brought strikes across Europe, North America and Japan. Japan and most European countries couldn't import coal for power plants and grain to feed their people. The future looked bleak.

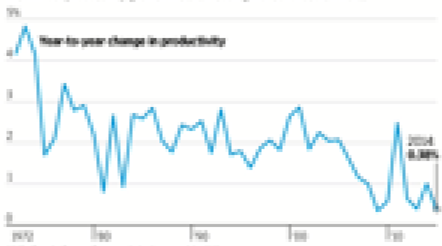
And then, in the first half of 1948, the fever broke. In January, U.S. officials administering occupied Japan announced a new policy, the "reverse course," which emphasized rebuilding the economy rather than exacting reparations. In April, President Harry Truman signed the Marshall Plan. In June, U.S., British and French military authorities in occupied Germany proclaimed a new currency, the deutsche mark, ending the Soviet Union's efforts to cripple the German economy.

During the same months, the Soviets lowered the Iron Curtain across Europe, destroying democracy in Czechoslovakia and risking nuclear war by blocking road access from western Germany to Berlin. By literally fencing themselves off and thereby limiting their ability to interfere with the Western economies' resurgence, the Soviets and their captive allies made it easier for the rest of the world to grow.

It did more than just grow. It leapt. The quarter-century from 1948 to 1973 was the most

A Return to the Ordinary

Mean labor productivity growth in seven leading industrialized countries*



*U.S., Canada, France, Germany, Italy, Japan and the U.K.
Source: Organization for Economic Cooperation and Development
THE WALL STREET JOURNAL.

striking stretch of economic advance in human history. In the span of a single generation, hundreds of millions of people were lifted from penury to unimagined riches.

At the start of this extraordinary time, 2 million mules still plowed furrows on U.S. farms, Spanish homemakers needed ration books to buy olive oil, and in Tokyo, an average of three people had to cook, eat, relax and sleep in an area the size of a parking space. Within a few years, tens of millions of families had bought their own homes, high-school education had become universal, and a raft of government social programs had created an unprecedented sense of financial security.

People who had thought themselves condemned to be sharecroppers in the Alabama Cotton Belt or day laborers in the boot heel of Italy found opportunities they could never have imagined. The French called this period *les trente glorieuses*, the 30 glorious years. Germans spoke of the *Wirtschaftswunder*, the economic miracle, while the Japanese, more modestly, referred to "the era of high economic growth." In the English-speaking countries, it has more commonly been called the Golden Age.

The Golden Age was the first sustained period of economic growth in most countries since the 1920s. But it was built on far more than just pent-up demand and the stimulus of the postwar baby boom. Unprecedented productivity growth around the world made the Golden Age possible. In the 25 years that ended in 1973, the amount produced in an hour of work roughly doubled in the U.S. and Canada, tripled in Europe and quintupled in Japan.

Many factors played a role in this achievement. The workforce everywhere became vastly more educated. As millions of laborers shifted from tending sheep and hoeing potatoes to working in factories and construction sites, they could create far more economic value. New motorways boosted productivity in the transportation sector by letting truck drivers cover longer distances with larger vehicles. Faster ground transportation made it practical, in turn, for farms and factories to expand to sell not just locally but regionally or nationally, abandoning craft methods in favor of machinery that could produce more goods at lower cost. Six rounds of tariff reductions brought a massive increase in cross-border trade, putting even stronger competitive pressure on manufacturers to become more efficient.

Above all, technological innovation helped to create new products and offered better ways for workers to do their jobs. To take but one example: In the late 1940s, telephones were still rare and costly in Europe and Japan, but by the early 1970s, they were ubiquitous.

Economic performances that at first seemed miraculous were soon seen as normal. The boom went on year after year. Australia, Austria, Denmark, Finland, Germany, Italy, Japan, Norway, Sweden—all enjoyed a quarter-century with only the briefest of economic doldrums.

Unemployment, for all practical purposes, was nonexistent. Economic volatility seemed to have been consigned to the dustbin of history. And with experts such as Walter Heller, the head of the Council of Economic Advisers under Presidents Kennedy and Johnson, and Karl Schiller, the West German economy minister from 1966 to 1972, telling the public that wise government management had made recession a thing of the past, there was every reason to expect the good times to continue.

And then, on Oct. 6, 1973, Egypt and Syria attacked Israel, setting off the Yom Kippur War. Arab members of the Organization of the Petroleum Exporting Countries showed their support by doubling the price of oil and cutting off exports to the Netherlands, Portugal, the U.S. and others.

The 1973 oil crisis meant

American factory workers work on rotary engines for aircraft, circa 1950.

more than just gasoline lines and lowered thermostats. It shocked the world economy. Politicians everywhere responded by putting energy high on their agendas. In the U.S., the crusade for "energy independence" led to energy efficiency standards, the creation of the Strategic Petroleum Reserve, large government investments in solar power and nuclear fusion, and price deregulation. But it wasn't the price of gasoline that brought the long run of global prosperity to an end. It just diverted attention from a more fundamental problem: Productivity growth had slowed sharply.

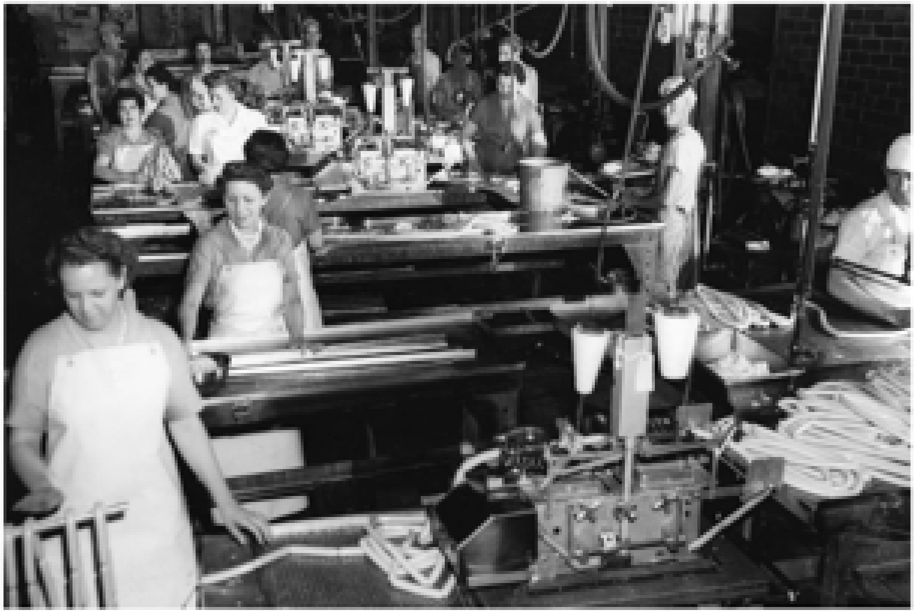
The consequences of the productivity bust were severe. Full employment vanished. It would be 24 years before the U.S. unemployment rate would again reach the low levels of late 1973, and the infinitesimal unemployment rates in France, Germany and Japan would never be reached again. Through the rest of the 20th century, the jobless rate in 28 wealthy economies would average nearly 7%.

According to the late British economist Angus Maddison, the world's overall economic growth rate dropped from 4.9% a year from 1951 through 1973 to an average of just 3.1% for the balance of the century. Economic growth slowed even more swiftly in the wealthy economies. Incomes merely crept ahead, and families' sense of stability vanished as weak economic growth undermined the financial underpinnings of the welfare state.

Government leaders in the 1970s knew, or thought they knew, how to use traditional methods of economic management—adjusting interest rates, taxes and government spending —to restore an economy to health. But when it came to finding a fix for declining productivity growth, their toolbox was embarrassingly empty.

With economic planners and central bankers unable to steady their economies, voters turned sharply to the right. After elections in 1976, Sweden's Social Democrats found themselves out of office for the first time since the Great Depression. Conservative politicians such as Margaret Thatcher in the U.K., Ronald Reagan in the U.S. and Helmut Kohl in West Germany swept into power, promising that freer markets and smaller government would reverse the decline, spur productivity and restore rapid growth.

But these leaders' policies—deregulation, privatization, lower tax rates, balanced budgets and rigid rules for monetary policy—proved no more successful at boosting productivity than the statist policies that had preceded them. Some insist that the conservative revolution stimulated an economic renaissance, but the facts say otherwise: Great Britain's productivity grew far more slowly under Thatcher's rule than during the miserable 1970s, and Reagan's supply-side tax cuts brought no productivity improvement at all. Even the few countries that seemed to buck the trend of sluggish productivity growth in the 1970s and 1980s, notably Japan, did so only temporarily. A few years later, they found


Employees working the production line at hotdog maker Kahn's & Company in Cincinnati, Ohio, 1950.

themselves mired in the same productivity slump as everyone else.

What explains the global downshift in productivity growth? Some of the factors are obvious. Once tens of millions of workers had moved from the farm to the city, they could not do so again. After the drive for universal education in the 1950s and '60s made it possible for almost everyone in wealthy countries to attend high school and for many to go to university, further improvements in education levels were marginal. Projects to widen and extend expressways didn't deliver nearly the productivity pop of the initial construction of those roads.

But there is more to the story. Productivity, in historical context, grows in fits and starts. Innovation surely has something to do with it, but we have precious little idea how to stimulate innovation—and no way at all to predict which innovations will lead to higher productivity.

Moreover, the timetable cannot be foreseen. Thomas Edison began wiring lower Manhattan for electric light in 1882, but electrification didn't have a notable effect on productivity in U.S. factories until the 1920s. Computers were developed during World War II and widely used in business by the 1970s, but as late as 1987, the economist Robert Solow could quip, "You can see the computer age everywhere but in the productivity statistics."

It is tempting to think that we know how to do better, that there is some secret sauce that governments can ladle out to make economies grow faster than the norm. But despite glib talk about "pro-growth" economic policies, productivity growth is something over which governments have very little control. Rapid productivity growth has occurred in countries with low tax rates but also in nations where tax rates were sky-high. Slashing government regulations has unleashed productivity growth at some times and places but undermined it at others. The claim that freer markets and smaller governments are always better for productivity than a larger, more powerful state is not one that can be verified by the data.

Here is the lesson: What some economists now call "secular stagnation" might better be termed "ordinary performance." Most of the time, in most economies, incomes increase slowly, and living standards rise bit by bit. The extraordinary experience of the Golden Age left us with the unfortunate legacy of unrealistic expectations about our governments' ability to deliver jobs, pay raises and steady growth.

Ever since the Golden Age vanished amid the gasoline lines of 1973, political leaders in every wealthy country have insisted that the right policies will bring back those heady days. Voters who have been trained to expect that their leaders can deliver something more than ordinary are likely to find reality disappointing.

Mr. Levinson is a former

finance and economics editor of the Economist. This essay is adapted from his new book, "An Extraordinary Time: The End of the Postwar Boom and the Return of the Ordinary Economy," which will be published on Nov. 8 by Basic Books.