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My Turn

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The Myth of the American Economy

The U.S. has the world's highest standard of living. It's not utopia, but in the real world, our economy is the best there is." How often have you heard these statements either as an expression of national superiority or as a defense of the status quo?

Alas, they are simply untrue. Our country has not generated the world's highest per capita GNP since the early 1950s when we were surpassed by Kuwait. More important, perhaps, is the fact that we have been surpassed, or are about to be, by a number of countries in Europe. Among industrial countries, Sweden and Switzerland can each claim to be more successful with a per capita GNP 20 per cent above ours. We have also been passed by Denmark and are about to be surpassed by Norway and West Germany. Relative to achievements in the rest of the world, the U.S economy no longer "delivers the goods."

It is still, moreover, marked by large inequalities in the distribution of economic resources. The richest 10 per cent of our households receive 26.1 per cent of our income while the poorest 10 per cent receive only 1.7 per cent. And most of this small amount comes in the form of government income transfer payments. Blacks earn 69 per cent as much as whites; women who work full time earn only 56 per cent as much as men. If we look at the distribution of physical wealth, the top 20 per cent owns 80 per cent of all that can be privately owned in the United States and the bottom 25 per cent owns nothing (many of them, in fact, have debts that exceed their assets).

THE GROWTH OF INCOMES

Traditionally, the "world's highest standard of living" has been used to justify these inequalities. They may be regrettable, but they are a necessary price that must be paid for growth. After all, so the argument goes, a person near the bottom of the U.S. income distribution would be at least middle class in the rest of the world.

All of these propositions are called into question when we look at the countries that are outstripping us. With the growth of incomes in Western Europe, America's poor are no longer middle class abroad. They are poor. As we have seen, the top 10 per cent of all U.S. households receive fifteen times as much income as the bottom 10 per cent. In the industrial country with the world's highest standard of living, Sweden, the same ratio is 7. In the country with the world's highest rate of growth, Japan, the same ratio is 10. In the major country that is about to surpass us, West Germany, the same ratio is 11. The degree of inequality that exists in America (100 per cent more than that in Sweden, 50 per cent more than that in Japan, and 36 per cent more than that in West Germany) is clearly not necessary to sustain economic growth. (The U.S. does not, however, have the highest degree of inequality among industrial countries—that honor is reserved for France. We are only second.)

RATING PRODUCTIVITY

But our affluent competitors are interesting from another perspective. In the long run, standards of living are determined by productivity. Improvements in productivity allow us to have both more goods or services and more leisure. In this sphere the U.S. is clearly falling behind. Our competitors in Western Europe have enjoyed a sustained rate of productivity growth over the past two decades twice that of ours; Japan has achieved a rate of productivity growth three times ours. We have comforted ourselves with the idea that our poor performance could be explained by our economic leadership. Our competitors were achieving higher rates of productivity growth because they were simply adopting technologies already developed by us rather than developing new technologies themselves.

But as these countries have reached our level of productivity, their growth rate has not slowed down to ours. In the first five years of the 1970s, the level of industrial productivity rose 11 per cent more in Sweden, 17 per cent more in West Germany and 25 per cent more in Japan than in the U.S. These countries continue to outstrip us even though they have advanced to a point where they are now the leaders in industrial productivity. We are the ones with the "easy" task of adopting existing technologies.

Sometimes the poor productivity performance of the American economy is blamed on the size of the defense budget. We are using 6 to 7 per cent of our GNP for defense, West Germany and Sweden are spending only 3 per cent, and Japan only 1 per cent. There may be some truth in this argument, but military expenditures are often defended and seen by other nations as a vehicle for generating new technologies. If they are simply a negative weight slowing down economic progress, then this negative influence needs to be taken into account in setting our defense budget and in sharing defense expenditures with our allies.

The standard conservative response is to advocate the "liberation of free enterprise" and a reduction in social expenditures. Yet this is not how any of these countries have outperformed us—quite the opposite. Sweden is famous for the most comprehensive social-welfare system in the world; West Germany insists that union leaders hold places on corporate boards of directors; the Japanese Government controls and plans the economy to a degree that makes the U.S. seem like rugged free enterprise.

EXPENDITURES AND SUCCESS

"Liberating free enterprise" also runs into the facts about the U.S. economy. In the history of the United States our best decade in terms of growth in real per capita GNP (a 36 per cent increase) was that of the 1940s when the economy was run as a command (socialist) wartime economy. The second best decade (a 30 per cent increase) was that of the 1960s with all of its social-welfare programs. The *best* decade (a 22 per cent increase) prior to the advent of government intervention occurred between 1900 and 1910. Real per-capita growth since the advent of government intervention has been more than twice as high as it was in the days when government did not intervene or have social-welfare programs.

As both our own experience and foreign experience demonstrate, there is no conflict between social expenditures or government intervention and economic success. The lack of government planning, worker participation, and social spending may in fact be at the heart of our poor performance in recent decades. As we, and others, have shown, social reforms can be productive, as well as just, if done in the right way.

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