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## 7 :: The Quarter Century since the Death of Simon Kuznets

More than a quarter century has passed since the death of Simon Kuznets. The population of the United States today is more than a third larger than it was in 1985. And the total U.S. economy has doubled. Major new technological innovations such as the Internet, e-mail, and laptop computers have transformed communication, education, and research. Although some of the details of the new technology might have surprised Kuznets, the general thrust would not.

Kuznets expected technological innovation to accelerate, partly because of the larger number of people available to tackle the challenges, and partly because of the inherent tendency of the economy to reach and supersede successive ceilings. He recognized that this scenario required a progrowth culture and that such a culture was not inevitable. Not all societies are willing to trade present leisure for higher output in the future. He presumed that for, the foreseeable future, the progrowth culture would dominate a culture of leisure in the highly developed nations.

However, optimism was in the air during the post-World War II years when recessions were usually short and mild and recoveries were long and vigorous. The average recession following World War II lasted only eleven months, and the average recovery lasted about five years. Kuznets died during an exceptionally vigorous recovery that lasted nearly eight years.

The next several business cycles also had short, mild recessions and vigorous recoveries. It was not until the last year of the last Bush

administration and the first two years of the Obama administration that the country lapsed into a severe recession again. The current use of Keynesian antirecession policies failed to reinvigorate the economy, and the government share of GDP grew from 20 to 24 percent without significantly reducing unemployment. Although the recession finally came to an end at the start of 2012, the recovery has been anemic, with official unemployment rates hovering around 8 percent. Including voluntary withdrawals by discouraged workers, total unemployment was in the neighborhood of 16 percent.

In most post–World War II recoveries, the rate of growth of GDP has been about 6 percent, but, under current policies, the growth rate has sputtered between 1 and 3 percent. It will probably take some time before the data needed to explain adequately the course of the economy under the Obama administration are available.

However, in March 2012, the Conference Board, a nonpartisan research institution, announced that it was likely that economic conditions would continue to improve throughout the first half of 2012 (Conference Board 2012). Moreover, that same month Larry Summers, Secretary of the Treasury under President Clinton and one of Obama's early economic advisers, concluded that reducing government intervention in the economy could seriously compromise the recovery (Summers 2012).

But is the type of governmental intervention that emphasizes the redistribution of income from the rich to the poor adequate to counteract the high unemployment rate? This policy contrasts sharply with those of such previous Democratic presidents as John F. Kennedy, Jimmy Carter, and Bill Clinton, who put their main emphasis on promoting economic growth, trusting that a rising tide would raise all boats and high income would finance redistributive programs such as Medicare.

Another significant change that the last quarter century has seen is growth in Asia. Kuznets was aware of the acceleration of growth in Asia, but with the exception of Japan, where reliable data were available going back to the late nineteenth century, there was little long-term information about the region. Even for the third quarter of the twentieth century, reliable information on levels and growth rates of

population, income, and education levels for India and Korea were seen as shaky by scholars of these countries. In the case of China, many Western scholars questioned the believability of the statistical information released by the government and viewed it more as propaganda than as information.

In 1993, the World Bank published an influential monograph called *The East Asian Miracle* that focused on economic growth in Japan and seven other high-performing Asian economies: South Korea, Taiwan, Singapore, Hong Kong, Indonesia, Malaysia, and Thailand. These countries, it showed, were growing faster than any other region of the world between 1965 and 1990 (although it was noted parenthetically that China was also in the midst of an economic miracle). In its conclusion, the report singled out the essential policies for rapid economic growth, stressing macroeconomic stability, low inflation, competitive exchange rates, and high investment in education.

Beyond many technical issues about how to interpret the available information, there is a lively debate about how long China can continue growth at rates greater than ever before achieved for long periods of time. China has emerged as a major global factor in an array of product markets. Now second only to the United States in oil consumption and accounting for 40 percent of all the growth in global oil consumption in recent years, it has also become the world's largest consumer of steel, cement, and copper.

Most of China's growth in terms of per capita income (69 percent between 1978 and 2002) is due to increases in labor productivity. Within industry, there was an increase of 6.2 percent per annum in labor productivity and 5.7 percent per annum in agriculture. About 30 percent of China's growth rate is likely to continue to come from modest increases in the labor force participation rate and interindustry shifts. Much of its labor force is still in agriculture, so there is substantial potential for growth through a shift to industry and services as it moves toward the current technological frontier.

Investment in capital—especially human capital—is capable of rapid development in the next several decades. A college-educated worker is 3.1 times as productive, and a high school graduate 1.8 times as productive, as a worker with less than a ninth-grade education,

underlining the potential for growth. Ownership of automobiles and other major consumer durable products has also been increasing at spectacular rates. Between 1990 and 2007, Chinese households have increased ownership of air conditioners annually by 15 percent, computers by 32 percent, and cell phones by 48 percent. In 2011, China became the world's leading producer and consumer of automobiles.

The rapidly expanding economies of China and India have led many analysts to speculate on the reemergence of these two economic giants as global political players. The National Intelligence Council recently conjectured that, by 2025, U.S. political dominance will be replaced by what it calls *multipolarity*. This multipolarity is, it predicts, “unlikely to produce a single dominant nation-state with the overwhelming power and legitimacy to act as an agent of institutional overhaul” (National Intelligence Council 2008, 81). However, we are already in a multipolar world, one that the United States helped create. Our ability to influence international affairs is already constrained by the desires of Europe, Russia, India, and China. Diplomacy under the Clinton and Bush administrations was shaped by such recognition.

Our own view of future U.S. global influence is more conditional. A lot depends on the future rate of growth of U.S. labor productivity. If that continues at the annual rate of 2–4 percent, then it is possible that the United States will remain well ahead of its competitors in economic and political influence down to 2025 and beyond. Much will depend on the willingness of the United States to invest heavily in scientific research and development and to increase the share of the population educated in the sciences. We are optimistic on both these counts. Unlike China, whose past growth has depended on its ability to adapt to the existing technology of the United States and other OECD nations, the United States is at the current production frontier. Hence, its continued growth depends on the rate at which it can develop new technologies, a process that requires a plentiful supply of engineers to design new systems of production and distribution and new science on which these new systems will depend. Industry will respond to the new technologies, as they have in the past, because they will increase labor productivity and raise profits.