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Can Clinton or Trump Recapture Robust American Growth?

By ROBERT J. GORDON AUG. 8, 2016

The party conventions were rightly characterized as either relentlessly downbeat (Republican) or fervently optimistic (Democratic). The Republican view rests in part on poll numbers that show a solid majority of Americans think that the country is headed in the wrong direction. What has caused this malaise?

Perhaps it's the country's dismal economic growth rate: From 1947 to 2007, the economy grew at 3.4 percent per year. But over the last four years, gross domestic product expanded at only a sluggish 2.0 percent. In 2016, G.D.P. has barely reached 1 percent growth.

In the 2012 election, voters credited President Obama with the recovery from a calamitous recession. But they are now right to ask, "Is this all there is?" In 2016, voters expect Hillary Clinton and Donald J. Trump to provide solutions to the economy's languid growth.

Yet the widespread unease goes beyond slow growth and the accompanying wage stagnation. Underlying deep-seated voter anxiety follows trends that are decades in the making, including fears of insecurity that plague millions of Americans.

Some of these problems can be tackled with bold presidential policies. But there are limits, and other problems may lie beyond the realm of feasible solutions.

Start with the paltry G.D.P. expansion of the past few years. As modest as it has been, it can't proceed at the same rate for much longer, because it has depended in large part on rapidly increasing hours of work as the unemployment rate dropped from 10 percent in late 2009 to 4.9 percent now. With unemployment at close to its minimum feasible, or "natural," rate, further economic growth will be limited by a shortage of skilled workers.

Presidential candidates who promise faster growth will have to face up to the labor-force constraint. In the 1970s and 1980s, millions of women entered the labor force. Since the mid-1990s, however, female participation has leveled off, and baby boomers are retiring. This labor-force reversal by itself shaves about one percentage point from the growth that is realistic over the next decade compared with the last quarter of the 20th century.

Any economic growth beyond the limited increase in workers will depend on the expansion of output per hour, known as labor productivity. But that, too, has also slowed. From 1995 to 2004, productivity per hour grew at 3.1 percent each year, but at only 1.3 percent since 2004, and an even slower 0.5 percent over the past six years.

Why the decline in productivity?

Rapid productivity growth in the dot-com era of the late 1990s originated in computer manufacturing — information and communication technology equipment — but this manufacturing has vanished since almost all such equipment is now imported.

This effect of that new technology was another important source of growth. Out went typewriters and calculating machines, replaced by personal computers, spreadsheet and word-processing software, web browsers and e-commerce. Productivity also boomed in retailing, as Walmart and other "big box" stores revolutionized retail selection, layout and supply chain management.

But by 2004, the digital revolution had achieved most of its transition in business methods. Not much has changed in offices and at retail stores since then.

Slow productivity growth feeds directly into voter discontent by limiting wage increases. But as slow as productivity growth has been, wages have risen even less. In fact, real inflation-adjusted median wages have risen more slowly than productivity for most of the past 40 years. There are several reasons for this: Corporate profits have increased their share of the total pie at the expense of a lower share for employee compensation; the rising cost of medical care means that health insurance coverage is taking a bigger bite out of paychecks; and most important, rising inequality has siphoned off much of the extra income produced by productivity gains into the pockets of the top 1 percent.

Voter unease reflects more than the impact of wage stagnation. Globalization and automation have hollowed out manufacturing, eliminating millions of middle-income blue-collar jobs. Roughly six million workers who want full-time jobs hold part-time positions that lack employer-paid medical insurance and force them to juggle irregular schedules. An “atomization” of the workplace has led to the increased use of temporary and on-call workers like Uber drivers and episodic forms of employment that don’t offer traditional benefits. Medical insurance with high deductibles and co-payments threatens families with unpredictable financial setbacks in case of a medical emergency.

Furthermore, over the past generation, defined-benefit retirement plans paying a pension have been replaced by defined-contribution plans. These subject retirement savings to the vagaries of the stock market, and many people in their 40s and 50s have not yet recovered the level of real stock market or home equity wealth they had before the Great Recession. With the decline of marriage, there are fewer two-earner families. Young people are emerging from college with a debt burden that in many cases causes them to live with their parents delaying household formation, marriage and children.

Unfortunately for the candidates and the country’s prospects, the depth and breadth of these problems go beyond the reach of policies that might nudge the economy’s overall output growth rate up by a few tenths of a percentage point. The

slow pace of growth has also squeezed tax revenues, restricting the scope of potential government programs.

Policy changes can help: Imposing higher taxes on the superrich and eliminating tax loopholes and deductions that primarily benefit higher-income taxpayers would make some headway both against rising inequality and flagging tax revenue. Minimum wage increases directly attack inequality, because the wage boost to those who retain their low-income jobs substantially exceeds the extent of any resulting job losses.

The tax revenues from a superrich tax surcharge and from loophole-busting tax reform would provide the funds for a huge program of investment following the example of the Interstate Highway System, which is generally regarded as a prime source of robust productivity growth in the 1960s. Mrs. Clinton's proposals thus far include substantial infrastructure spending, and this is an area, along with tax reform, where she has the potential to gain bipartisan approval.

Breaking with most Republicans, Mr. Trump has also recently signaled an openness to a robust infrastructure-spending package.

Yet there are limits to individual policies. A better direction is to follow other nations like Canada, Australia and the Nordic countries. In those countries, insecurity is less acute because government institutions are more robust. Americans look abroad and wonder why we cannot enjoy the benefits of single-payer medical care, paid parental leave, lower-cost college education and uniform income-contingent college debt repayment.

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