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Larry Summers Adapts His Advice for a New Era

By: Caroline Baum – December 5, 2013

Travel back with me to those wonder years of the late 1990s. It was a time of strong productivity growth. It was also a time of sham companies thinking that page hits would translate into sales, but let's focus on the positives for the moment.

"There was a general belief in the late 1990s that the U.S. had entered a permanent phase of higher productivity growth," said Michael Shaoul, chairman and CEO of Marketfield Asset Management. "Of course, it was illusory" -- just as illusory as the current belief that the U.S. has entered a permanent state of low productivity growth, recently identified as "secular stagnation" by economist Larry Summers.

My column this week takes on that discredited 1930s idea, recently revived by Summers. After reading my article, Shaoul e-mailed to remind me that Summers wasn't always so glum in his assessment of the U.S. economy's potential. Nor was his past analysis consistent with his present assessment that more deficit spending is the route to a better future. Just read the White House press release from Aug. 8, 2000, following news that productivity had increased 5.3 percent in the second quarter of that year. Here's an excerpt:

"This continuing productivity growth underscores the importance of maintaining the fiscal discipline that has been so crucial to this investment-led economic expansion. The majority in Congress continues to pursue a series of misguided tax breaks which, taken together, would bring America back to the era of deficits and knock us off the path of fiscal discipline that has led to this prosperity. Their approach is wrong for America. Let's work together to ensure that our strong economy will continue to grow."

Summers was Treasury secretary at the time. Nothing of economic consequence, such as the White House statement above, would have been delivered without his OK. It's instructive to know how Summers viewed the relationship between fiscal discipline and prosperity, at least back then.

The 2000 statement prompted nearly 700 stories on the subject that day, according to Bloomberg data. Productivity growth for the second quarter of 2000 has been revised to 8.7 percent. Only a handful of quarters witnessed that type of stratospheric productivity growth in the last half century.

Fast forward to today. Productivity growth has risen 1 percent on average during the last four years. Economists Robert Gordon and Tyler Cowen, along with the Cato Institute's Brink Lindsey, are talking about the end of technological innovation, implying America's best days are behind us.

Don't count on it, according to Shaoul. "Just at the point where everyone starts to believe the secular stagnation story, things will change," he says. "The Nasdaq has broken 4000. There are some interesting things being invented right here, right now. The energy sector has reinvented itself. Biotech is delivering on some of the promises of the 1990s. It's actually much more interesting than the 2000 cycle, which was just a housing boom."

If Nobel laureate Robert Solow was correct when he identified the productivity paradox in 1987 -- "We see computers everywhere except in the productivity statistics," perhaps some of the innovations Shaoul mentioned are already bearing hidden fruit.