The Washington Post

Witnessing a turning point

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October 14, 2013

When the history is written, I suspect the brutal budget battle transfixing the nation will be seen as much more than a spectacular partisan showdown. Careful historians will, I think, cast it as a symbolic turning point for post-World War II institutions - mainly the welfare state and the consumer credit complex - that depended on strong economic growth that has now, sadly, gone missing. The story behind the story is that prolonged slow growth threatens to upend our political and social order.

Economic growth is a wondrous potion. It encourages lending because borrowers can repay debts from rising incomes. It supports bigger government because a growing economy expands the tax base and makes modest deficits bearable. Despite recessions, it buoys public optimism because people are getting ahead. The presumption of strong economic growth supported the spirit and organizational structures of postwar America.

Everyday life was transformed. Credit cards, home equity loans, 30-year mortgages, student loans and long-term auto loans (more than 2 years) became common. In 1955, household debt was 49 percent of Americans' disposable income; by 2007, it was 137 percent. Government moved from the military-industrial complex to the welfare state. In 1955, defense spending was 62 percent of federal outlays, and spending on "human resources" (the welfare state) was 22 percent. By 2012, the figures were reversed; welfare was 66 percent, defense 19 percent. Medicare, Medicaid, food stamps, Pell grants and Social Security's disability program are all postwar creations.

Slow economic growth now imperils this postwar order. Credit standards have tightened, and more Americans are leery of borrowing. Government spending - boosted by an aging population eligible for Social Security and Medicare - has outrun our willingness to be taxed. The mismatch is the basic cause of "structural" budget deficits and, by extension, today's strife over the debt ceiling and the government "shutdown."

The temptation is to think that stronger economic growth will ultimately rescue us and make choices easier. This is economic growth's appeal. It provides the extra income to buy more of what we want. We explain the weak economy as the hangover from the financial crisis and the Great Recession. Their legacy of caution and pessimism will, with time, dissipate. The economy will strengthen. This is plausible.

But it's equally plausible that slow growth will persist. We rebel at the notion. As economist Stephen D. King writes in his book "When the Money Runs Out: The End of Western Affluence":

"Our societies are not geared for a world of very low growth. Our attachment to the Enlightenment idea of ongoing progress - a reflection of persistent postwar economic success - has left us with little knowledge or understanding of worlds in which rising prosperity is no longer guaranteed."

His glum outlook is more than idle speculation. In a recent column, I noted that annual U.S. economic growth has averaged slightly more than 3 percent since 1950, but predictions of future growth cluster around 2 percent. Significantly, the forecast slowdown reflects factors that are only weakly related, if at all, to the recession, as Cato Institute economist Brink Lindsey shows in a new study.

Lindsey attributes U.S. economic growth to four factors: (a) greater labor-force participation, mainly by women; (b) better-educated workers, as reflected in increased high-school and college graduation rates; (c) more invested capital per worker (that's machines and computers); and (d) technological and organizational innovation. The trouble, he writes, is that "all growth components have fallen off simultaneously."

Take women's labor-force participation. From 1950 to 2000, it surged from 30.9 percent to 59.9 percent; but in 2012, it was 57.7 percent, with the falloff starting before the recession. Some older women are retiring; some younger women are staying home. High school and college graduation rates have leveled off and, in some cases, declined. Business investment rates have also dropped. It seems that "only a surge in [innovation] can keep U.S. economic growth from faltering," writes Lindsey. But innovation, too, has weakened.

Admittedly, predictions like these aren't infallible. Growth could exceed expectations. Still, slow growth is more than scare talk. When adjusted for population increases, it reduces per capita income gains to a rough range between 1 percent and 1.5 percent annually, Lindsey calculates. That's half to three-quarters the historical rate. The increases would be small enough to be skimmed off by rising taxes, higher health-insurance premiums or growing inequality. For many households, it would mean stagnation or worse.

What looms - it's already occurred in Europe - is a more contentious future. Economic growth serves as social glue that neutralizes other differences. Without it, economic and political competition becomes a game of musical chairs, where "one person's gain is another's loss," King writes. There's a "breakdown of trust," as expectations are continually disappointed. It's an often-ugly process that is convincingly confirmed by Washington's current political firestorm.