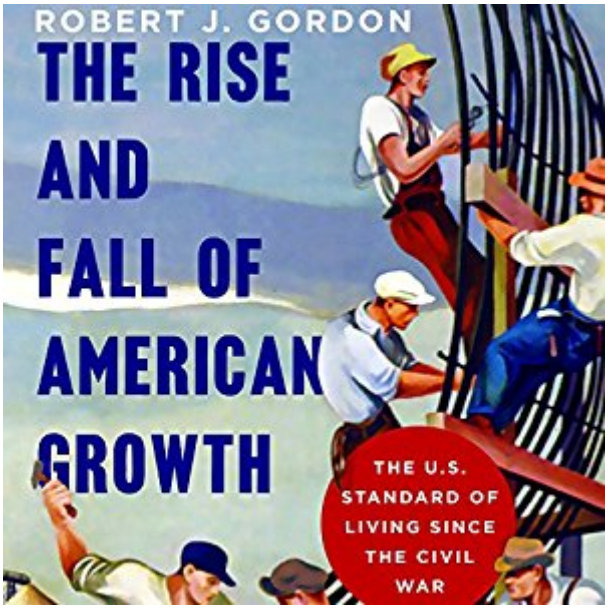
The Rise And Fall Of American Growth: The U.S. Standard Of Living Since The Civil War



Synopsis

A New York Times Best Seller In the century after the Civil War, an economic revolution improved the American standard of living in ways previously unimaginable. Electric lighting, indoor plumbing, home appliances, motor vehicles, air travel, air conditioning, and television transformed households and workplaces. With medical advances, life expectancy between 1870 and 1970 grew from 45 to 72 years. Weaving together a vivid narrative, historical anecdotes, and economic analysis, The Rise and Fall of American Growth provides an in-depth account of this momentous era. But has that era of unprecedented growth come to an end? Gordon challenges the view that economic growth can or will continue unabated, and he demonstrates that the life-altering scale of innovations between 1870 and 1970 can’t be repeated. He contends that the nation’s productivity growth, which has already slowed to a crawl, will be further held back by the vexing headwinds of rising inequality, stagnating education, an aging population, and the rising debt of college students and the federal government. Gordon warns that the younger generation may be the first in American history that fails to exceed their parents’ standard of living, and that rather than depend on the great advances of the past, we must find new solutions to overcome the challenges facing us. A critical voice in the debates over economic stagnation, The Rise and Fall of American Growth is at once a tribute to a century of radical change and a harbinger of tougher times to come.

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Customer Reviews

Northwestern economics professor Robert Gordon has a written a mostly very good and a very long

book (762 pages in the print edition) on the history of economic growth in the United States from 1870 to the present. In his view it is all about the rise and fall of total factor productivity (the gains in output not due to increased labor and capital inputs, or if you will technological improvements). I know this sound very boring, but he explains the growth in output in terms of how it affected the daily home and work lives of average Americans. In other words he tells a very good story as to how the typical American moved from a completely disconnected life without indoor plumbing in 1870 to a fully connected life with water, sewerage, electricity, radio and telephones by 1940. The American of 1940 would not recognize the life of an American in 1870 while the American of today would readily recognize the life of a typical 1940 American.To him much of this improvement is due to what he calls the second industrial revolution which was brought into being by the widespread adoption of electricity and the internal combustion engine. along with indoor plumbing remade the economy. In a way his book is a paean to industrial capitalism whose innovations brought about this revolution. Further, although it is hard to believe today, the introduction of the automobile in the early 1900s was the clean technology of its day. Simply put the major cities of the country were knee deep in horse poop and horse piss that local residents struggled to avoid. They were literally swimming in pollution.Compare this to the third industrial revolution we are experience today involving information technology, computers and communications. Sure those technologies have improved our lives, but how do they compare to indoor plumbing and electric lights. Gordon demonstrates through a careful analysis of the data that the information revolution peaked from 1996-2004 and has since slowed down. Specifically MooreÃ¢Â Â™s Law which states computer chip capacity doubles every 18-24 months which held from the late 1960s to the early 2000s broke down in the past decade to a pace of doubling every four to six years.Going forward Gordon is a Ã¢Â Âœtechno-pessimist.Ã¢Â Â• He views the 1870-1970 period as a one off event. The recent slowdown in productivity and economic growth certainly supports his view. Whether he is right, or not, only time will tell. Where I would disagree with Gordon is that he labels the rise of income inequality as an impediment to growth. To me that is a stretch because during his golden age of 1870-1940 there were two distinct periods of high and rising income inequality. The first was the gilded age of 1895-1910 and second was the roaring twenties. During those two time periods the standard of living for the average American grew rapidly and it is hard to see in the data that it was an impediment to growth especially when Gordon admits the official data grossly understated overall economic growth.I know that this review has hardly done justice to GordonÃ¢Â Â™s magisterial work. I highly recommend it for those interested in how our lives came to be.

There was virtually no economic growth for millennia until 1770 (0.06%/year from AD 1 to AD 1820), only slow growth then until 1870 (the kitchen was often the only heated room in the home, and carrying cold water from the outside and warming it was such a nuisance that some bathed only once/month). The world of 1820 was lit by candlelight, folk remedies 'treated' health problems, and travel was no faster than possible by hoof or sail - the railroad, steamship, and telegraph set the stage for more rapid progress after 1879. Then came remarkably rapid growth in the century ending in 1970, and slower growth since then. The economic revolution of 1870 to 1970 was unique, unrepeatable because many of its achievements could happen only once. Housework was increasingly performed by electric appliances, darkness replaced by light, and isolation replaced not just by travel but also by color television images. Most important, a newborn infant could expect to live not to age 45, but to age 72.The central 'figure' in these improvements is total-factor productivity growth (economic expansion over and above the growth of capital and labor) - beginning at less than 0.5%/year prior to WWI, rising to over 3% during the 1940s, then falling below 1% after 1970.What makes the period 1870-1970 so unique is that the inventions during that period cannot be repeated. Electricity made it possible to create much more useful light, the electric elevator allowed buildings to extend vertically instead of horizontally, small electric machines replaced huge and heavy steam boilers that transmitted power by leather/rubber belts - allowing buildings to return to horizontal expansion, motor vehicles replacing horses freed society from allocating a quarter of land to support the feeding of horses and needing a sizable labor force for removing their waste, and the Boeing 707 brought travel to near the speed of sound in 1958. Production/storage of food also was revolutionized during this century - the Mason jar made it possible to preserve food at home, the first canned meats were fed to Northern troops during the Civil War, and during the late 19th century an array of processes foods entered American homes. In 1916, Clarence Birdseye brought a method for freezing food, though this had to wait until the 1950s to become practical until the 1950s when electric refrigerators became capable of maintaining a zero temperature in their freezer compartments. In 1870, shoes and men's clothing were purchased from stores, but women's clothing was made at home by mothers and daughters. By the 1920s, most female clothing was purchased from retail outlets that did not exist in 1970 - urban department stores and mail-order catalogs. Public waterworks revolutionized housewives daily routine and protected every family against waterborne diseases. Development of anesthetics in the late 19th century made gruesome amputations a thing of the past, and antiseptic surgery reduced death rates. X-rays, antibiotics, and modern treatments were all invented and implemented in this special century.Hours released from housework (eg. they no longer had to lug water from outside, often 8 - 10 times/day,

with up to 50 gallons alone for a single load of laundry) became available for women to participate in market work. In 1870, more than half of men were engaged in farming, while working-class jobs in the city required 60 hours/week. Over half of teenage boys were engaged in child labor, and male heads of households worked until disabled or dead.At the 1851 Crystal Palace exhibition in London, Cyrus McCormick displayed a reaper that could do the work of 40 men, and Samuel Colt's revolver used interchangeable parts - a new and distinctive American method of manufacture.Total factor productivity after 1970 grew at barely one-third the rate achieved between 1920 and 1970. This puzzling decline in economic growth since 1970 is because advances since 1970 have tended to be channeled into activity having to do with entertainment, communications, and the collection and processing of information. Changes have become evolutionary and continuous. While IT and the communication it enables have progressed much faster after 1970 than before, but total spending on all electronic entertainment, communications, and IT amounted to only about 7% of GDP.Price indexes miss the quality and welfare benefits of new products (eg. TV vs. radio) , and overstate how much consumers pay for various items (eg. eggs in supermarkets vs. Walmart), and miss the contributions of safer working conditions and transportation (auto and airplane). The welfare benefits to consumers were greatest long ago - eg. the transition from the scrub board to automatic washing machine was more important than the shift from manual to electronic washing machine controls.Both the Great Depression and WWII directly contributed to the 1920-70 Great Leap in productivity. Had there been no Great Depression, there probably would have been no New Deal that promoted unionization and contributed to a sharp rise in real wages and shorter hours - the former promoting substitution from labor to capital and shorter hours by reducing fatigue. WWII and the New Deal also brought the TVA and Hoover Dam. During the high-pressure WWII economy, production miracles (eg. Henry Kaiser's shipyards) taught firms and workers how to operate more efficiently; also the federal government financed new plants and equipment - their acquisition cost in real terms was equal half the stock of privately owned equipment that existed in 1941. (The 'Republican' version contends that competition pushed American entrepreneurs to streamline and innovate - an explanation that fails to address the subsequent decline in the rate of improvements.) The war's aftermath then brought a pouring of money into higher education, and America's largely uncontested domination of international trade --> economies of scale and more jobs.Although the book is about the U.S., many of the inventions involved were made by foreigners in their own lands or who had recently moved to America. These include transplanted Scotsman Alexander Graham Bell, Frenchmen Louis Pasteur, Louis Lumiere for the motion picture, Englishmen Joseph Lister for antiseptic surgery and David Hughes for early wireless experiments, and Germans Karl Benz for the

internal combustion engine and Heinrich Hertz for key inventions making possible the 1896 wireless patents of the recent Italian immigrant Guglielmo Marconi. There were also new immigrants Alexander Carnegie, Nikola Tesla, Louis Chevrolet, Igor Sikorsky, and Enrico Fermi. The role of foreign inventors in the late 19th century was distinctly more important than 100 years later, when the personal computer and Internet revolution was led almost entirely by Americans, including Paul Allen, Bill Gates, Steve Jobs, Jeff Bezos, Larry Page, and Mark Zuckerberg - Sergei Brin is one of the few to have been born abroad.Breakthrough inventions of the 1920-1970 (Ford's assembly line, Toyota's 'Lean Production') era cannot be repeated, and thus the rapid economic growth they made possible won't be repeated either. Labor force growth has also slowed.Now the population is aging (requiring higher taxes to pay benefits, cover growing dementia) and educational attainment growth/performance vs. other nations flagging. Declining marginal returns presents another problem - if technology has already reduced costs by as much as 95%, further costs cuts are both harder to achieve and less noticeable. Our recent immigrants are predominantly poorly educated. The ratio of net investment to capital stock has been trending down since the 1960s (thanks to offshoring); there has been significant foreign investment - mostly in 'right-to-work' states. Moore's Law is sowing down - from its original 2 years doubling time to 8 years in 2009, now back to 4 years in 2014. Addressing global warming is fighting a bad, not creating goods; further it will limit the temporary benefits of lower oil/gas costs. 3D printing will not impact mass production very much, though it does help create prototypes and create very low-volume replacement parts. Smart-phones and smart-tablets have been prevalent since 2007 - mostly personal use. Growing government debt is another 'headwind.' Offshoring production (imports represented 5.4% of U.S. GDP in 1970, reached 16.5% in 2014) gives other nations an advantage in learning how to make modifications for new products - eg. those making TVs then learned how to do flat-screens, curved screens, touch screens, solar film, etc. However, pursuit of scale economies and foreign markets makes it unlikely that significant manufacturing will return to the U.S.The author is reluctant to predict the impact of driverless cars and robots, and is pessimistic overall about the future - he's dismissive of the impact of cell phones and the Internet, perhaps overly so. His rationale - increasing inequality.A major question for the future - will the best brains of the future build things of significant innovation as in the past, or dedicate their time to tasks like making Twitter more user-friendly? ("We wanted flying cars but instead got 140 characters." Peter Thiel, venture capitalist) Most of those with the highest incomes now come from a background of financial engineering, sports/entertainment, and top management. The first two groups obviously add nothing to our capital assets, and the latter group has repeatedly been shown to be compensated with little/no regard to value-added.Gordon

recommends legalizing drugs (War of Drugs costs an estimated $90 billion/year and is ineffective), allowing foreign-born graduates of our colleges to become citizens, increased taxes on the rich.Bottom-Line: America's best days are behind us. We've wasted a great deal of the sacrifices our forefathers made to make America great, thanks to paranoid fear of Communism and idiotic pursuit of Free Trade - the latter derived from selfish industrialists and lazy economists who have distorted the thinking of Adam Smith and David Ricardo from nearly 250 years ago