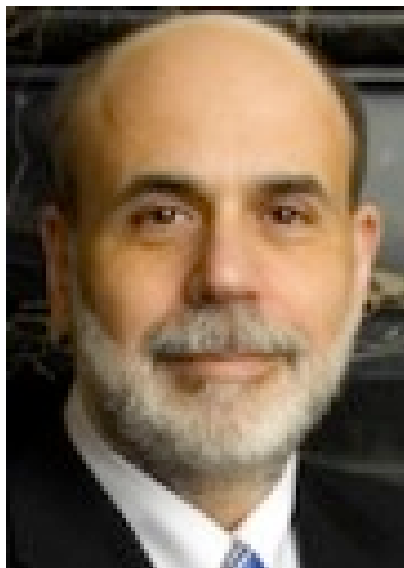

When Growth is Not Enough

By Ben Bernanke Thu, Jun 29, 2017

'It may be that the most rhetorically populist president since Andrew Jackson will, in practice, not be populist enough,' writes the former Fed chairman in this excerpt from an address this week to the European Central Bank Forum on Central Banking in Sintra, Portugal.



The immediate postwar era, say 1945-1970, was an extraordinary period, economically speaking. Following fifteen years of depression and war, Americans were once again able to enjoy peace and prosperity. A substantial backlog of technological and commercial innovations was available to be exploited, and producers faced enormous pent-up demand for consumer goods and housing.

The federal government provided expansive support for education, through the GI Bill for example, and undertook major infrastructure projects like the interstate highway system. Importantly, for a time the U.S. economy had no effective competition, either from war-ravaged Europe and Japan or from not-yet-emerging markets.

There was plenty of economic change and what we would now call disruption, but strong catch-up growth, active economic policies, and America's monopoly position resulted in widely shared economic gains. It's not really surprising that the period evokes nostalgia as a time of national greatness.

However, as Robert J. Gordon has documented, the pace of technological and economic change in the middle of the past century was historically quite unusual and unlikely to be sustained. By 1970 or so, the backlog of commercial and technical opportunities available at the end of the war had been used up, and the conversion to a civilian, consumer-driven economy was complete.

Outside of a brief productivity spurt associated with the IT revolution, the past 45 years or so have been historically more 'normal' in terms of economic growth and productivity gains. Productivity growth has been particularly anemic over the past decade.

Equally important, American economic dominance faded, as Europe and Japan recovered and as what we now call emerging-market economies accounted for increasingly larger shares of global output and trade. The emergence of China as a global trading power was particularly disruptive, with adverse effects on the wages and employment opportunities of many American workers of moderate or lower skills.

In contrast, high-skilled workers tended to be favored by global economic integration, particularly those whose talents were scalable to the size of the market, such as managers of internationally active firms or of

global hedge funds.

Of course, similar forces were playing out in Europe and elsewhere, with effects that depended on the policy response. In the United States, in the immediate postwar era, feelings of social solidarity and economic optimism had helped to generate political support for significant expansions in government spending on education, health, and infrastructure. The introduction of Medicare and expanded Social Security benefits provided economic security for the elderly in particular.

However, the postwar glow faded as America divided over a variety of big issues in the 1960s and 1970s, including the Vietnam War and the civil rights movement, and as economic growth began to slow. The Reagan revolution heralded a more constrained approach to economic policy, aimed primarily at fostering aggregate economic growth by empowering the private sector.

Examples of such policies include tax cuts and tax reform under Reagan, a number of consequential trade agreements under Reagan's immediate successors, financial deregulation and welfare reform under Clinton, and more tax cuts and trade opening under the second President Bush. Missing from the mix, however, was a comprehensive set of policies aimed at helping individuals and localities adjust to the difficult combination of slower growth and rapid economic change.

Why policy was not more proactive in this area is an interesting question: Perhaps the failures of Lyndon Johnson's Great Society and the inflationary monetary and fiscal policies of the 1960s and 1970s hurt the reputation of activist policies and helped revive American's *laissez-faire* inclinations. Perhaps the stresses in the heartland were not sufficiently understood until it was too late. Perhaps the politics didn't align.

Whatever the reason, it's clear in retrospect that a great deal more could have been done, for example, to expand job training and re-training opportunities; to provide transition assistance for displaced workers; to mitigate residential and educational segregation; to promote community redevelopment; and to address serious social ills through addiction programs, criminal justice reform, and the like.

Greater efforts along these lines could not have reversed the adverse trends [inequality, etc.] I described at the outset—notably, Europe, which was more active in these areas than the United States, has not avoided populist anger—but they would have helped. They might also have muted the disaffection and alienation with which our political systems are currently grappling.

Which brings us to the present. Whatever one's views of Donald Trump, he deserves credit, as a presidential candidate, for recognizing and tapping into the deep frustrations of the American forgotten man, 21st century version. That frustration helped bring Trump to the White House.

Whether the new president will follow through in terms of policy, however, is not yet clear. Trump's economic views, which mirror the odd combinations of factions that make up his coalition, are a somewhat unpredictable mixture of right-wing populism and traditional supply-side Republicanism.

The policies that his administration has actually proposed or endorsed so far lean toward the latter, including health care bills that would significantly reduce insurance coverage among lower-income people,

tax cuts for both individuals and corporations, and a relaxation of financial, environmental, and other regulations.

Policies that would more directly address the needs of the people who elected Trump, such as community redevelopment, infrastructure spending, job training, and addiction programs have recently received a good bit of rhetorical attention from the White House, but it remains to be seen whether that attention will be translated into programs and budgets.

Ironically, it may be that the most rhetorically populist president since Andrew Jackson will, in practice, not be populist enough.

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