# What Went Wrong and Who To Blame

*By Michael Coblenz*

Many Democrats have absolute scorn for the Tea Party movement. They view their ideas as out of touch with reality, and their members as little more than conservative absolutists. But I think Democrats are foolish to ignore the Tea Parties and their followers. They give voice to a generalized sense of anxiety that many people are feeling. They're just louder, and perhaps angrier than most. They, like just about everyone, are worried about budget deficits and confused that some banks are too big to fail. They're concerned about the stock market melt down and the anemic job market. They're frightened about home foreclosures and their depleted retirement funds, and they're angry at bank bailouts and the stimulus package, which they feel reward the wrong people and addresses the wrong issues.

All of these are legitimate concerns, and all need to be addressed. But perhaps it is easiest to start with a simple question that seems to summarize the prevailing discontent of the Tea Parties and many other American. This was stated succinctly by a woman at a Tea Party rally who said: "I just want to know what happened, and who to blame."

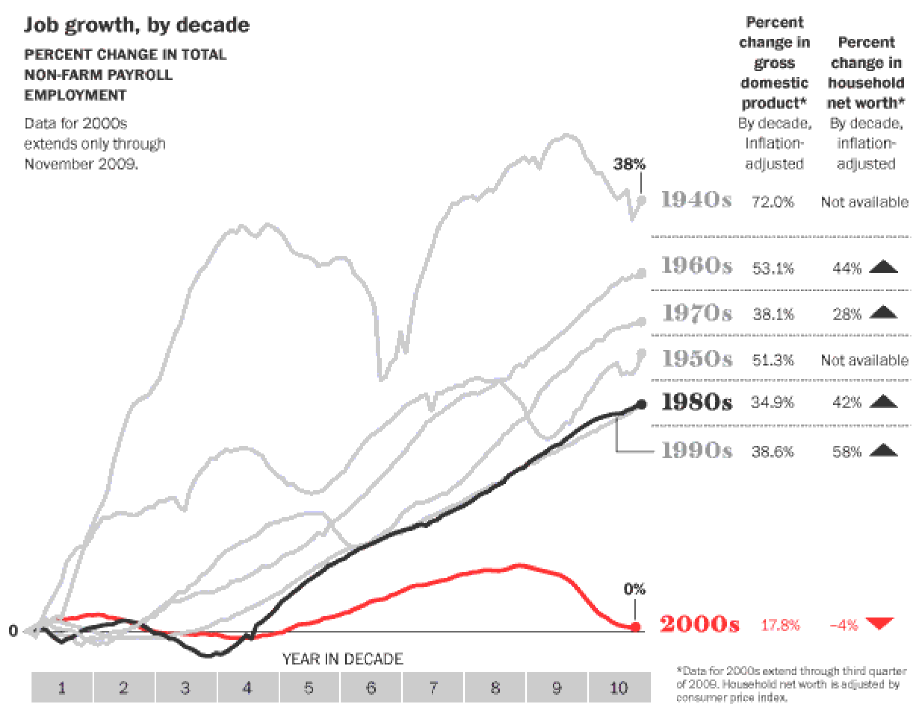
Those are fair questions, and Democrats are remiss to ignore them. Conservatives are very willing to provide a simple answer to both questions: Liberals.

According to Conservatives, liberal policies are responsible for our national decline. Liberal social policies caused the nation's moral decline and this contributed to a loss of moral authority and standing in the world which has allowed other countries to challenge us politically, militarily and economically. Liberal government regulation, most notably work-place safety and environmental regulations hamstrung business and led to the erosion of our industrial base. And labor unions drove up the cost of business and drove many companies overseas.

Many liberals snicker when they hear this. Often they laugh it off as the story line of people who didn't get their way. But many conservatives really, truly, believe it. I spent seven years in the military among very conservative people, and I heard this general story often enough to know that the people telling it believe it to be true. And this they believe it, I think it needs to be addressed or it just hangs there.

Are liberal policies to blame for the current economic situation, or is it something else? I think we should save the question of blame for later and start by trying to understand exactly what has happened to the U.S. economy.

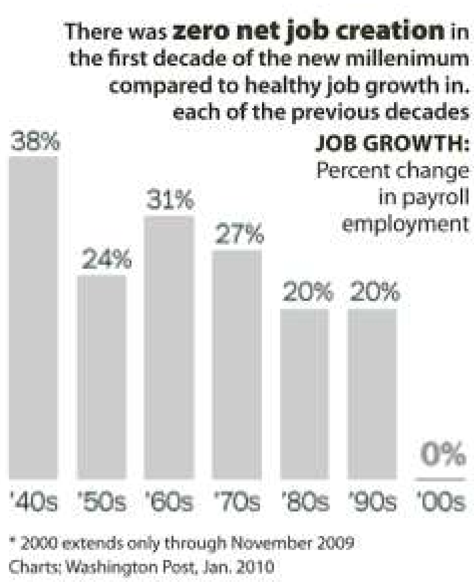
One of the best representation of what happened is in the following two charts which I "borrowed" from the Washington Post:




This chart shows job growth in each decade since the end of World War Two. A quick glance at the chart shows that the first decade of this century was truly dismal, but it also shows that job growth has slowed since the early post-war era. This also seems to be mirrored by GDP growth, which was high in the post war years, and has declined since then. In the 1940's the U.S.

economy, as measured by GPD, grew by 72%. That growth was a product of pent-up demand from the Depression, and the fact that we were helping much of the world rebuild after the destruction of the Second World War. GDP Growth was still in the 50% range in the 1950's and 1960's, but it slowed significantly in the 1970's. Why the change? One reason is that by the end of the 1960's most of Europe and Asia had fully rebuilt from the war, and those countries were now competing directly with the United States. As one example we started to see foreign cars on the American road in the late 1960's, and by the 1970's they were making serious inroads into the American automobile market. The economic situation of the late 1970's was also significantly impacted by the energy crisis of the mid-70's.

Growth was a modest 34.9% in the 1980's, or about 3.5% per year. Not bad, but not the boom years of post-war America. GDP growth increased slightly in the 1990's, to 38.6%. This was due, in large part, to the introduction of computers into the American workplace. The introduction of computers had a down-side. They allowed companies to be more efficient by relying on technology rather than employees. So even though the economy was growing in the 1980's and 1990's, the job market was not growing at the same rate. The following chart shows the steady decrease on job growth since the end of World War Two.



This chart largely comports with research conducted by Lakshman Achuthan of the Economic Cycle Research Institute, which shows that the private sector labor market grew, on average 3.5 percent a year in the 1950's, 60's and 70's. Obviously some years were better than others, but in that thirty year period, there was solid job growth. In the 1980's and 1990's job growth slowed down. During that twenty year period the job market grew by 2.2 percent per year. Quite a bit slower than in the immediate post war period, but still positive. Then, in the first decade of this century, the job market grew by a dismal 0.9 percent per year.

Clearly the American economy is not performing as robustly as it once did. The question is not "who to blame" for this, but rather "why did this happen?" It might be emotionally satisfying to blame someone, but it doesn't get us any closer to a solution.

I believe that there are three reasons for this slow-down in the American economy: (1) automation, (2) computerization, and (3) globalization.

Globalization, in particular the rise of China as an industrial power, is often the chief scapegoat, but to blame it all on China is to miss an important point. It often seems like we don't make anything in the United States anymore, just buy it all from China. But that is far from true. In 2007 the United States produced about 1.8 trillion dollars worth of manufactured goods. China produced 1.1 trillion, or only about 60 percent of the United States. So we still make a lot of stuff, and in fact the United States is still the world's dominant manufacturing nation, though China is absolutely gaining. But the US isn't making the kind of inexpensive consumer goods that most of us deal with on a daily basis. And manufacturing is still a major part of our economy. In 1950 manufacturing accounted for about 20% of the American economy, and it continued to be about 20 percent of the economy until the mid-1990's. A statement released by the National Association of Manufacturers in 1995 noted that "manufacturing's share of the U.S. economy, as measured by real GDP, has been stable since the late 1940s.... The overall share remains the same over the business cycle." But this began to decline in the mid-1990’s. According to the BEA, manufacturing is now about 15% of the U.S. economy.

One major reason for this decrease is certainly global competition, and particularly Chinese manufacturing. China first allowed unregulated business in 1979. It took a few years for these businesses to become fully operational and to established distribution systems, but because of extremely low wages China quickly became a manufacturing center. The decline in American manufacturing began in the mid-1990’s, as cheap Chinese imports began to flood into the market.

But again, China is only part of the story. Another component is automation, or the use of increasingly sophisticated machinery to do industrial jobs. While the manufacturing share of the economy remained relatively stable from the 1950’s through the 1990’s, manufacturing employment decreased steadily. In 1950, about thirty five percent of the labor market was involved in industrial manufacturing. By 2000 it was just under ten percent. So manufacturing went from one in three jobs to one in ten. That’s a huge change. Factories can produce as many goods with a third of the workforce, and the reason is automation. Anyone who has been to a modern factory can see this. Factories used to be a buzz of human activity, now they are a buzz of industrial robots.

As an example of automation, let’s look at coal mining. Coal mining is an extraction industry, not a manufacturing industry, but automation has had approximately the same impact. The following chart shows a steady increase in coal production since 1950. It also shows the steady increase in productivity of each coal miner, and the result is a steady decrease in the number of people working as coal miners.

| Year | Total U.S. Coal Production | Total U.S. Coal Miner Employment | Annual Production Per Miner |
|---|---|---|---|
| **1900** | 269,684 | **448,581** | 0.60 |
| **1910** | 501,596 | **725,030** | 0.69 |

| | | | |
|---|---|---|---|
| **1920** | 658,265 | **784,621** | 0.84 |
| **1930** | 527,172 | **644,006** | 0.82 |
| **1940** | 512,256 | **530,388** | 0.97 |
| **1950** | 560,388 | **488,206** | 1.15 |
| **1955** | 490,838 | **258,616** | 1.90 |
| **1960** | 434,329 | **188,451** | 2.30 |
| **1965** | 526,954 | **144,864** | 3.64 |
| **1970** | 612,659 | **146,078** | 4.19 |
| **1975** | 654,641 | **193,787** | 3.38 |
| **1980** | 829,700 | **228,569** | 3.63 |
| **1985** | 883,638 | **169,281** | 5.22 |
| **1990** | 1,029,076 | **131,306** | 7.84 |
| **1995** | 1,033,000 | **83,462** | 12.38 |
| **2000** | 1,073,600 | **71,522** | 15.01 |
| **2006** | 1,162,750 | **82,595** | 14.08 |

(Information from U.S. Bureau of Labor Statistics and the Energy Information Administration.)

Part of the reason for the jump in productivity in the 1990's was the increase in surface mining, which uses front-end loaders and dump trucks instead of miners. But the major trend in mining, like the major trend in industrial production, in increased use of automated equipment, increased efficiency, and increased production per worker.

Computers have also changed the American workforce. Companies used to have secretarial pools and accounting departments full of bookkeepers. Now they have computers with word-processing and accounting programs on every manager's desk. When I began practicing law in 1995, most attorneys had a legal secretary, and most large law firms also had secretarial pools. (The law is a paper intensive business.) Now at big firms the norm is one secretary for every three lawyers. That is a huge reduction in the number legal secretaries. This same trend has played out across a number of low wage, low skill, white collar careers. Architects and engineering firms used to have teams of draftsman, now they have one or two CAD (computer aided design) technicians.

So that's what happened, and a brief description of why. Now, who's to blame for that?

Was it liberal social policies? Did China industrialize because the Supreme Court banned prayer in public school in the 1960's, or allowed abortion in the 1970's? Probably not. China probably industrialized because of internal Chinese politics.

Was it the cost of labor or the burden of environmental regulation? I doubt that Bill Gates developed the software that made computers accessible to millions of users because he is anti-union or disagrees with environmental laws.

These things happened because the world changed. The world changes. Society changes. Scientific and technological advances are a product of human curiosity and creativity. New products change the world. Edison changed the world with the light bulb. Henry Ford changed the world with the affordable automobile. Thomas Watson, Jr., changed the world by making affordable computers that could sit on a desk. And Bill Gates changed the world by making those desktop computers usable by the average person. Each of these technological changes changed the economy, changed society, and changed our world.

Computers, automation, and globalization have changed the world. And these changes are having a profound impact on the American Economy.

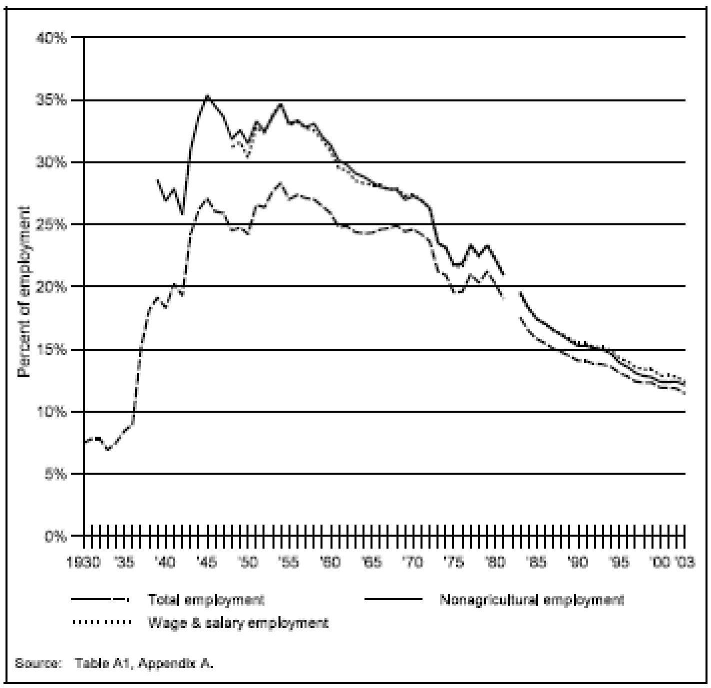
Before we go further, let's look at a couple of the things that conservatives blame for the changes in the American economy.

First, unions. Conservative's have long disdained unions, and have long blamed them for the demise of the American industrial economy. They assert that unions drive up the cost of labor and reduce employer flexibility. According to many Conservatives, business would do better, and the economy would flourish, without unions.

Well, union membership has been in steady decline since the 1950's, from nearly a third of the workforce to just over 10%. But this decline in union membership has not resulted in notable increases in profitability for businesses nor an overall improvement in the economy.

The following chart shows the steady decline in union membership over the last few decades.

**Figure 1. Union Membership as a Percent of Employment, 1930-2003**




(From "Union Membership Trends in the United States" by Gerald Mayer, Congressional Research Service. http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1176&context=key_workplace)

Conservatives have long argued that unions are a drain on the economy. If this is true then fewer union members would mean a reduced burden on business and smaller drain on the economy. This, in turn, should create a more robust economy. But from the data discussed above we know this is not true. In fact, as union membership has decreased, so has the overall level of employment gains, and yearly change in GDP as shown in Charts 1 & 2.

Environmental regulations. Conservatives also argue that environmental regulations create an unnecessary burden on business, and are, therefore, responsible for some of the weakness in the American economy.

The Clean Air and Clean Water Acts went into effect in the early 1970's. Industrial facilities that emit pollutants are now required to install equipment to limit their emissions. This undoubtedly had some impact on the cost of doing business, but how significant is this impact?

The overall economy grew at a fairly good pace through the late 1970's and 1980's, seemingly without much impact from environmental regulations.

**US GNP Data - Annual Percentage Change**

| Year | Percent | Year | Percent | Year | Percent | Year | Percent |
|---|---|---|---|---|---|---|---|
| 1948 | 10% | 1968 | 9% | 1988 | 8% | 2008 | 4% |
| 1949 | -1% | 1969 | 8% | 1989 | 7% | 2009 | -2% |
| 1950 | 10% | 1970 | 5% | 1990 | 6% | | |
| 1951 | 16% | 1971 | 9% | 1991 | 3% | | |
| 1952 | 6% | 1972 | 10% | 1992 | 6% | | |
| 1953 | 6% | 1973 | 12% | 1993 | 5% | | |
| 1954 | 0% | 1974 | 9% | 1994 | 6% | | |
| 1955 | 9% | 1975 | 9% | 1995 | 5% | | |
| 1956 | 6% | 1976 | 12% | 1996 | 6% | | |
| 1957 | 5% | 1977 | 11% | 1997 | 6% | | |
| 1958 | 1% | 1978 | 13% | 1998 | 5% | | |
| 1959 | 8% | 1979 | 12% | 1999 | 6% | | |
| 1960 | 4% | 1980 | 9% | 2000 | 6% | | |
| 1961 | 4% | 1981 | 12% | 2001 | 3% | | |
| 1962 | 8% | 1982 | 4% | 2002 | 3% | | |
| 1963 | 6% | 1983 | 9% | 2003 | 5% | | |
| 1964 | 7% | 1984 | 11% | 2004 | 7% | | |
| 1965 | 8% | 1985 | 7% | 2005 | 6% | | |
| 1966 | 9% | 1986 | 6% | 2006 | 6% | | |
| 1967 | 6% | 1987 | 6% | 2007 | 5% | | |

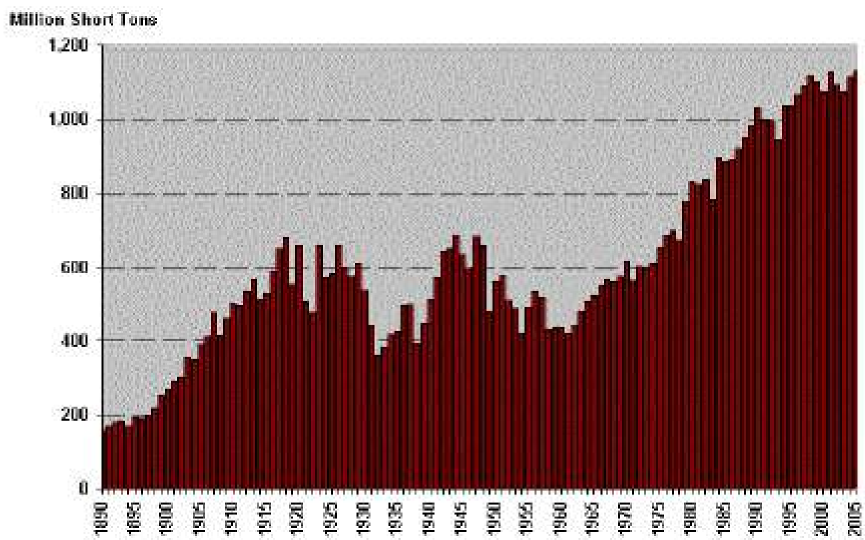
The annual percentage change in Gross National Product : 1948 to present.

(Chart from ForcastCharts.com)

In fact, if you look at the numbers, some of the nation's most robust growth occurred in the late 1970's, just when businesses were first required to comply with the Clean Air and Clean Water Acts. So it is hard to argue that these laws had a significant impact on the economy.

Let's look at one industry which should be particularly vulnerable to impact of environmental laws: coal. As can be seen in the following chart, coal production has been increasing since the 1960's. The trend line continued up until about 2000, when it seems to have leveled off. (As noted above, even as production has increased, employment has decreased.)

**Figure 1. United States Coal Production, 1890 – 2005**




Sources: Annual Coal Report, (and predecessor report titles), DOE/EIA-0584 (years 1993-2003) and DOE/EIA-0118 (years 1976-1992); Energy Information Administration: Washington, DC. In-house file data from U.S. Bureau of Mines, Annual Coal Production surveys by Bureau of Mines and by U.S. Geological Survey (years 1890-1975): Washington, DC. Link to the data.

(From The Department of Energy see, http://www.eia.doe.gov/cneaf/coal/page/coal_production_review.pdf)

Coal should be particularly susceptible to the effects of environmental laws. Not only is it dirty to produce, it is dirty to burn. If the Clean Air Act had a significant impact on industrial productivity, that should be seen in the production of coal. But there is no change in the upward trend of coal production through the 1970's and 1980's. Coal companies like to blame every economic woe on environmental laws and environmentalists, but the overall trend tells a very different story.

**The Question is not "who do we blame" but rather "what do we do now?"**

Casting blame may be cathartic, but it doesn't help solve anything. The real issue is how to solve these problems. The first step to a solution is an understanding of the causes of the problem. We don't get anywhere when we try to solve the wrong problem. That is essentially what President Bush tried to do. His solution for the nation's economic problems was massive tax cuts and deregulation. And that didn't work. As shown in the charts above, the economy during the Bush years was the worst it's been since the end of the Second World War. Simply put, the reason that Bush's solutions didn't help the economy was because they were a solution to the wrong problem. The problem was not and is not overregulation and an oppressive tax burden. These can certainly cause a variety of economic problems, but they are not the underlying cause of our current economic problems. The current situation is largely because automation and computerization have dramatically changed the American workforce, and foreign competition has dramatically changed the economic landscape. These are altering the labor market and the economic well being of the American worker (and voter).

So we're not going to solve our problems with tax cuts and deregulation. We're only really going to solve our economic problems if we correctly identify the causes of those problems. So how do we solve the problem of job losses due to automation and computerization? And how do we dealing with emerging economic competition from countries like China? We have to create new jobs in new industries.

**The Issue is about more than Job Losses**

These economic changes mean we have a less robust economy and a smaller employment base. A shrinking economy and a declining job market has many impacts beyond the inability of people to find work. First, our government is largely funded by income tax. Fewer jobs mean less income, and this means lower tax receipts and shrinking government revenues. And since government hasn't shrunk, this means budget deficits. This, of course, is not the sole cause of budget deficits. We have budget deficits for a number of reasons, but all relate in some degree to the changing economic landscape. First, government has continued to grow at about the same rate over time, but the overall economy has not grown at that same rate. So the two lines diverged, and the space between the lines is the deficit. Second, and related, our government made commitments in a different era. The government created and modified social programs at a time when the economy was growing strongly, but the economy no longer has the same growth rate. For example, in 1975 Congress created the automatic cost of living adjustment (COLA) for Social Security. So after 1975, social security benefits increased based on increases in the Consumer Price Index. The problem is that the labor market and aggregate national income does not increase at the same rate. Occasionally it outstrips the CPI, but in most years it trails it. And every year that it lags, the gap between money going into the program grows less than money going out, and we have deficits in those programs.

But this is not just a problem related to the government or government programs. Private companies created retirement and health insurance programs for employees in the 50's, 60's and 70's, when those industries were strong and dynamic. But now many of those companies are no longer growing at the same rate, and they have what are known as legacy costs that they can no longer afford. This creates a serious quandary. These retiree benefits were created by contracts, which these companies should be required to honor.  But on the other hand, these legacy costs could bankrupt some of these companies, which would mean that retirees would lose all of their benefits, and currently employees lose their jobs.

There are other negative consequences to the slowing job market. For example, fewer jobs means less economic mobility. As a result it is more and more difficult to move up the economic ladder, and this results in an increasingly rigid class structure. The declining job market also has an impact on the distribution of wealth. The economy grew at a healthy rate in the 80's and 90's, but the job market didn't, so the disparity between the working class and the professional class grew.

What can we do now to alter this landscape and solve these problems? Some people suggest that the solution is balancing the federal budget and eliminating the budget deficit. The budget deficit is certain a serious problem. Money lent to the government is money not available for more productive private enterprise. But make no mistake, the deficit is the product of the changing world economy and of our current economic woes, it is not the cause. Balancing the budget won't bring back jobs lost to automation, because it didn't cause those job losses in the first place.

The cause, as described above, is changing technology. And so let me suggest that the solution is also changing technology. The real solution lies with an understanding of the foundations of economic growth. I mentioned the impact of Edison and Ford and Watson and Gates. Technological change drives the economy. Economic growth is often the product of invention, innovation and technological changes. One of the things that we – the government and the private sector – can do to improve the economy is to encourage technological advancement. There are two current and obvious areas where there is a great deal of potential for technological growth and change: new green energy and a new modern infrastructure.

A modern infrastructure is one of the most important components of a modern economy. This country grew and expanded because of our investment in infrastructure: first canals then trains, then the interstate highway system. Today the United States has an antiquated and rapidly deteriorating infrastructure. Other countries have modern, efficient, and multi-faceted transportation systems, and the U.S. needs to have the same to compete. As anyone who has flown recently knows, our air transport system is a hodgepodge and a mess. High speed rail could provide a good alternative, particularly east of the Mississippi where major cities are relatively close together. Some people suggest that the reason to build a new high speed rail system is to put people to work on construction, but that's a short term benefit. The real reason is that a modern economy needs an advanced transportation system.

Green and sustainable energy is also an excellent opportunity. Carbon based energy sources – particularly coal and petroleum – are finite resources and will eventually run out. Their price will also rise as global demand increases. So it makes sense to develop alternatives now, while it is still relatively cheap. As an added benefit, these alternative energy sources – wind, solar, hydro – also produce less carbon (and in many cases no carbon) than fossil fuels, so there is an environmental benefit as well. But the main benefit is to spur economic growth. Both will also produce spin off business activities. I should note that China, which has nearly double digit growth, is working like crazy on both high speed rail and alternate energy like wind and solar. If we cede those technologies to other countries, we will only fall further behind, and that will benefit no one.

So what went wrong and who's to blame? Well, the world changed. And we need to change with it, or we will be left further behind.