1995-2000: Brief Return to the Golden Age?

Christopher Brown
Professor of Economics
Arkansas State University

The views expressed here are those of the author and do not reflect the views of Arkansas State University or the Department of Economics & Decision Sciences. This article appeared in the Jonesboro Sun, November 4, 2001.

Judged on the basis of a wide range of indicators, the performance of the U.S. economy in the years from 1995 to 2000 was nothing short of amazing. 16.4 million new jobs were added during this period. Real output (GDP) per head increased from $28,508 to $33,673 (1996 dollars), a rise of 18 percent. Robust growth filled state coffers and gave elected officials more flexibility to respond to voter calls for tax relief. Strong labor market conditions facilitated a transition from welfare to work for many thousands of former AFDC recipients (caseloads are down nearly 50 percent nationwide). And homeownership surged.

But perhaps the most encouraging aspect of the 1995-2000 period was the reversal of two trends that confounded social scientists for more than 20 years. The first was a slowdown in average annual growth of productivity, or GDP per worker. The second troubling development of the post-1973 era was the tendency for the benefits of economic growth to be distributed mainly to households in the upper regions of the income distribution scale.

Economists regard productivity growth as the key determinant of long run improvements in the standard of living. If productivity grows at an average rate of 3.5 percent per year, then after 20 years the same labor effort can produce twice the quantity of goods and services. By way of comparison, a productivity growth rate of 1.5 percent means it will take nearly 47 years for the output yielded by a given expenditure of labor time to double.

Economists call 1947 to 1973 the “golden age” because (non-farm) productivity expanded at an annual rate of 2.9 percent. 1973-1995 has been dubbed the “big slowdown” because productivity growth diminished to an average annual rate of 1.3 percent. The long awaited surge in productivity growth finally appeared in the mid-90s, and the 2.5 percent annual growth rate achieved from 1995-2000 approached golden age standards.

The performance of the U.S. economy after 1973 calls into question the legitimacy of the “rising tide lifts all boats” axiom. For example, whereas the mean income of the highest fifth of families increased by 32 percent between 1973 and 1994 (from $98,827 to $129,962 measured in 1999 dollars), the inflation-adjusted mean income of the bottom two-fifths fell by 8 percent. Labor force participants without college degrees, many of whom work in non-salaried manufacturing and service jobs, found it especially difficult to improve their economic status after 1973.

Happily, there is evidence of a turnaround. The mean income received by the lowest fifth of households edged up by 14 percent between 1995-2000 (from $11,677 to $13,320). Average hourly earnings of those without college degrees (both men and women)
bottomed out in 1995 and, though wages have not moved back up to the levels of the early 1970s, at least the trend is up.

Can trends established after 1995 persist in the new reality emerging from the September 11th catastrophe? Several factors doubt on the likelihood that the performance standards of the late 1990s will be matched anytime soon.

For one thing, the U.S. economy is almost certainly in recession. This much seems obvious from the numbers on employment (800,000 jobs lost in the first nine months of 2001, 199,000 in September) as well as the determination of a normally conservative Federal Reserve Board to stimulate the economy. The historical record shows that recession is bad for productivity growth. Increases in the average output obtained from a unit of labor time are achieved through technical innovation (e.g., high speed printing, bar coding, or hybrid seeds), training of employees, and risk-taking behavior by firms. Business decision makers tend to defer major capital investments (e.g., the purchase of machine tools, computers, or aircraft) and costly training programs in an uncertain environment.

The attacks of September 11th, as well as the ongoing bioterrorism threat, will have resource allocation effects that may dampen future productivity growth. We are now forced to shift valuable human resources into security-related tasks that make no contribution to productivity growth. Similarly, we can expect firms to increase spending for surveillance systems and other capital goods which add nothing to output.

Weakness of the overall economy is typically felt most by those in non-salaried occupations in “cyclical” industries such as autos and consumer durables, steel, capital goods, and residential construction. The current downturn is unique with respect to the severe impact on the airline industry, hotels and motels, the rental car business, restaurants, and retail merchandising. These activities collectively accounted for much of the growth in employment during the 1990s, especially among high school graduates and women who maintain families. The slump in these industries is bound to have dispiriting consequences for many thousands of families striving to gain entry to the mainstream of American economic life.

What needs to be done? For starters, the economic stimulus package recently passed by the House should be set aside in favor a version that carefully targets individuals rendered most vulnerable by recent events. Many of the newly unemployed will not qualify for unemployment benefits. For those who do qualify, checks will be meager (a married individual with 2 children earning $10 per hour would receive $200 per week for a maximum of 26 weeks in Arkansas). Congress needs to look again at the eligibility requirements for unemployment compensation, as well as basic support levels.