

Reinventing the U.S. Economy



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The cover feature in this issue tells the story of mini-mills and the revitalization of the steel industry. It is a good example of how American business took advantage of an opportunity to employ new technology to produce a quality product at a lower cost. The creation of mini-mills is a remarkable accomplishment. Even more remarkable is the fact that American business routinely introduces new technologies to improve the production of old goods and introduce new goods.

There has been much talk in the media recently about reinventing government. Whether or not we can do that, we Americans are continuously reinventing our economy. Nowhere is this more clear than at the Smithsonian Air and Space Museum in Washington, D.C., where the Wright Brothers 1903 flyer is just down the hall from the spaceship that put men on the moon just 66 years later. You and I don't go to the moon, yet, but air travel has revolutionized how we get from place to place. As another example, consider this: the first computer built 50 years ago filled a small house. Yet it could only do a fraction of what today's personal computers can do. The nation's proven ability to reinvent its economy pretty much continuously derives from institutions that support competitive markets and encourage innovation by rewarding hard work.

One way of measuring technological progress is to track the increase in the productivity of American workers over time. Hourly labor productivity in the United States grew by 2.3 percent per year on average from 1890 to 1970. That may not sound like much, but at that rate of growth the U.S. economy doubled its output per worker every 30 years. Output per worker in the U.S. increased almost eightfold during that 80-year period!

Productivity growth has averaged only about 1 percent annually since 1970. The reasons for the productivity slowdown are not well understood, but a recent pickup in productivity growth in the last two years may indicate that the slowdown is coming to an end.

In the last analysis, economic growth is good because it means a rising standard of living for the average American worker. But what guarantees that the incomes of workers will grow commensurately with the growth in output per worker? The answer is that competition among businesses for labor means that workers will tend to be paid what they are worth, perhaps not continuously for each individual, but on average and over time. Investment in new technology that raises output per hour also makes workers worth more to business. A business whose wages do not keep pace with productivity eventually will lose its workers. The historical record shows that, over time, the real purchasing power of wages tends to rise at about the same rate as productivity growth. In this way incomes keep pace with output, enabling a growing supply of goods and services to be purchased by workers.

A recurring concern among Americans is that new technologies displace workers and cause permanent job losses. Inevitably, economic growth involves the creative destruction of older technologies. But the huge increase in wealth that economic growth creates can easily finance a safety net to assist displaced workers and others who may need training. Society needs to find efficient ways to deliver such assistance.

On the question of whether technological progress costs jobs overall, however, the record shows clearly that it does not. As long as our monetary and fiscal authorities pursue prudent policies, the growing incomes that accompany productivity growth will create enough purchasing power to maintain full employment.



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