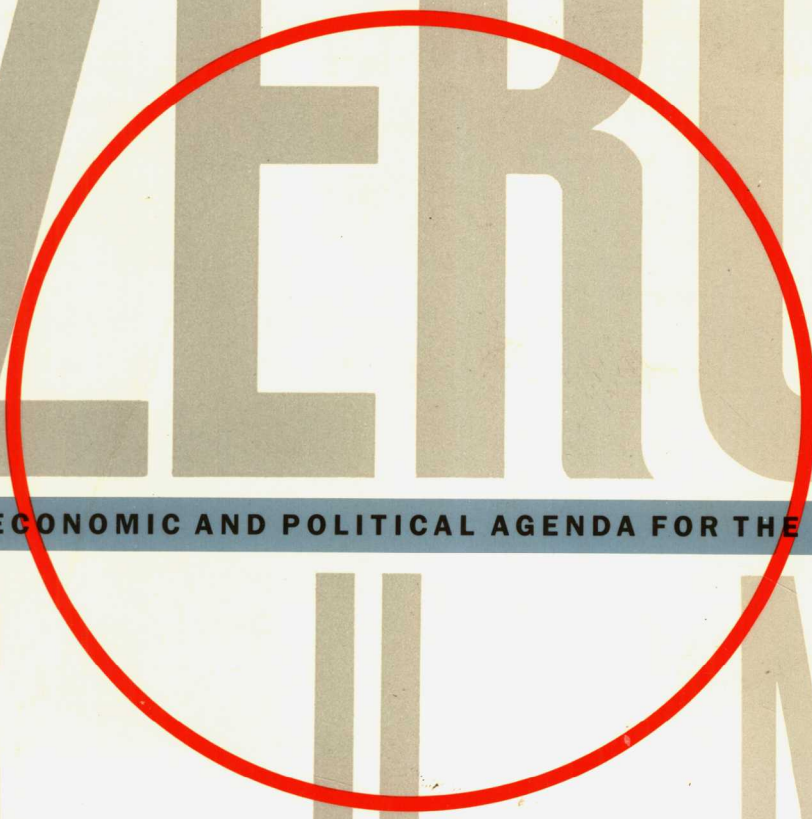


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# ZERO



AN ECONOMIC AND POLITICAL AGENDA FOR THE 80'S

# S U M

# SOLUTION

**LESTER C. THUROW**

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LESTER C. THUROW is Gordon Y. Billard Professor of Economics and Management at the Massachusetts Institute of Technology. He is a former Rhodes Scholar, a Fellow of the American Academy of Sciences, and the winner of awards for economic writing. He has served on various governmental commissions. Professor Thurow has been an economics columnist for *The New York Times*, the *Los Angeles Times* and *The Boston Globe*; he has written for *The New Republic*, *The Atlantic*, and many other periodicals. He is a regular contributor to *Newsweek*. He is the author of over a dozen books, including the best-selling *The Zero-Sum Society*, *Dangerous Currents*, and (with Robert Heilbroner) *Economics Explained*.

# THE ZERO-SUM

Lester C. Thurow



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# *SOLUTION*

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## *Building a World-Class American Economy*

A TOUCHSTONE BOOK

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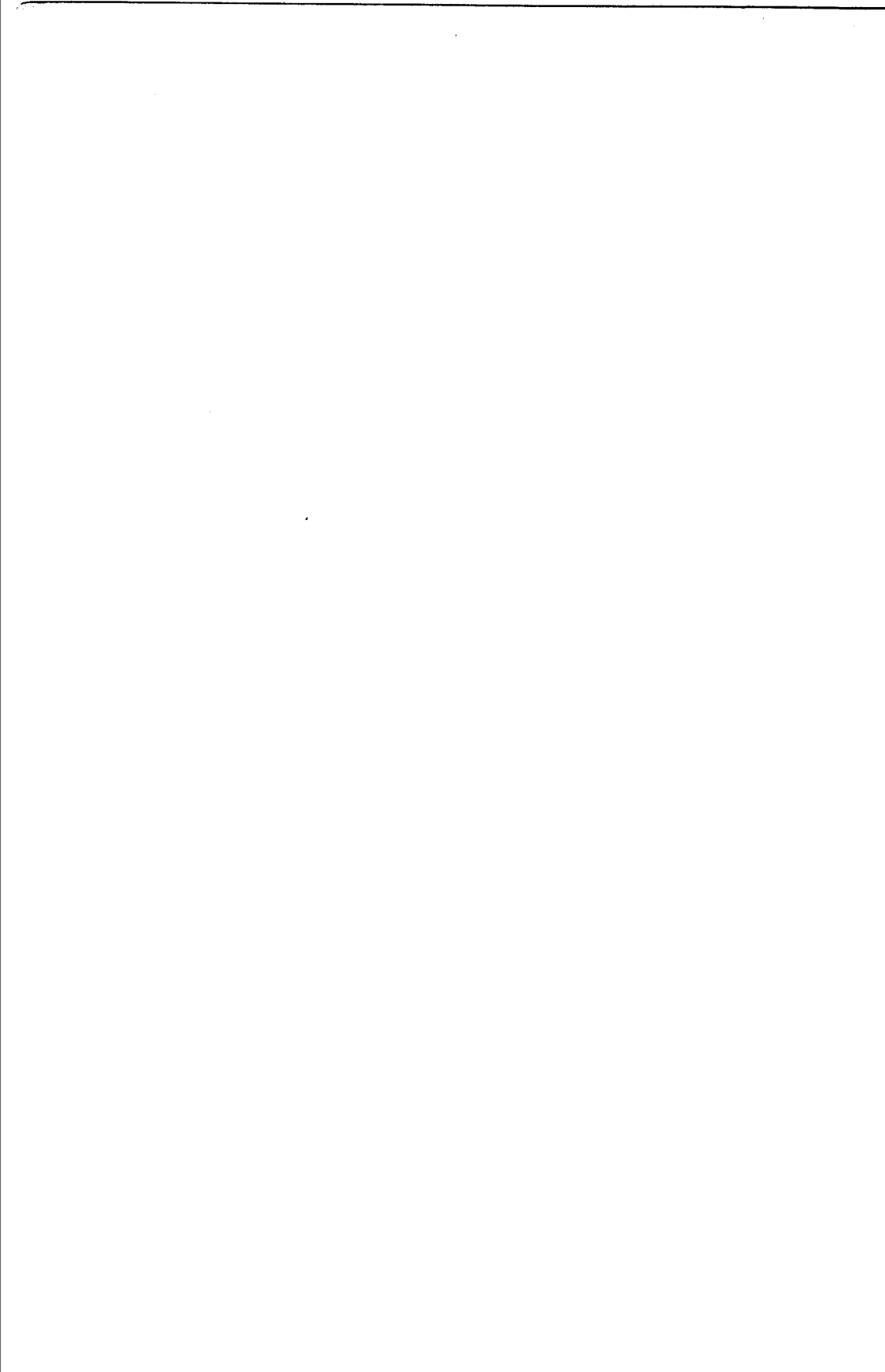
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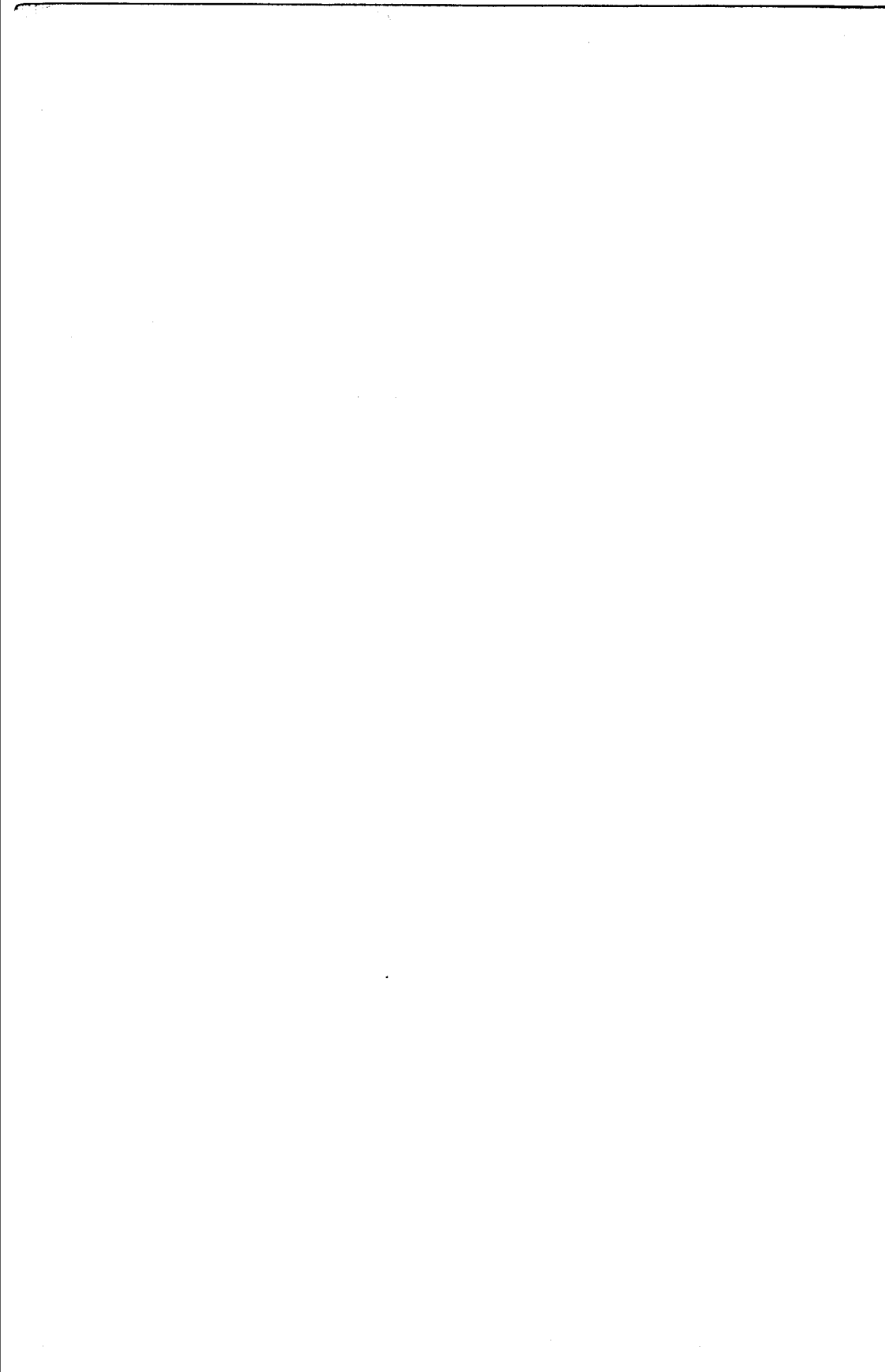


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**OTTO ECKSTEIN**  
**A Great Teacher, A Good Friend, A Super Human Being**



## PREFACE

In 1979 I wrote a book that was entitled *The Zero-Sum Society* when it was published in 1980. At the center was the thesis that America faced a set of structural problems, such as slow productivity growth, whose solutions required that significant economic losses be distributed to politically powerful interest groups. I argued that Americans would be better off in the long run if solutions were found, but that significant groups of Americans would be worse off in the short run. If more investment in plant and equipment was part of the solution to the productivity problem, Americans would have to consume less to permit more investment. Those who would be forced to consume less would have a lower standard of living and might fight attempts to impose losses upon them.

The losses imposed upon Americans by efforts to solve their problems would be at least as large as the benefits gained for some significant period of time—hence the title *The Zero-Sum Society*. America must pass through a zero-sum society to restore economic prosperity.

That book provoked two reactions. My unfriendly critics argued that the thesis was wrong. The American problem was too much government. Get government out of the economy and off the backs of the people and the economy would painlessly right itself.

My friendly critics agreed with the thesis but thought that I had

left them hanging. I had accurately described the problem but had not provided a solution.

Not surprisingly, the political process decided to test the thesis of my unfriendly critics. After all, if a painless prescription exists, why would any sensible person choose the painful prescription? A painless solution may not exist, but it is certainly worth a try. Such an experiment was conducted during the first four years of the Reagan Administration. The whys and wherefores will be examined in detail later in this book, but we now know the results. The painless prescription did not work.

Instead of stopping inflation painlessly by simply printing less money, inflation had to be stopped with a maxi-recession in 1981 and 1982 that drove unemployment up to levels not seen since the Great Depression. Instead of a supply-side recovery based on more investment and less consumption, America had a classical Keynesian demand-side recovery in 1983 and 1984. National savings rates were at all-time lows. By early 1985 no one was predicting further falls in unemployment; yet it was still at rates that formerly were seen only in the worst of recessionary times.

There was a weak cyclical recovery in productivity in 1983 and early 1984, but at the end of the first quarter of 1985 productivity was where it had been at the end of the second quarter of 1984: nine months with no productivity growth in America—a dismal record. In 1980 other industrial countries were just catching up with American productivity levels. By 1985 significant numbers of those countries had passed American productivity levels. In 1980 America was competitive on world markets: it had a \$2 billion surplus on current account. By 1984 America was massively noncompetitive on world markets: it had a current account deficit of \$102 billion.

To finance a noncompetitive economy and maintain a facade of prosperity, America had to begin massive foreign borrowings. In 1982 America had net foreign assets of \$152 billion. By the spring of 1985 it had spent all those assets, and sometime in early 1986 it would pass Brazil to become the world's largest net debtor, with international debts of over \$100 billion.

At home the policies that were supposed to produce a balanced Federal budget by 1984 had in fact produced America's largest-ever deficit. By 1985 the boom generated by Keynesian aggregate-demand policies was over, and rising international trade deficits were threatening to convert slow growth into no growth. For a limited period of

time this threat can be held off by using the Federal Reserve Board to lower interest rates, but lower interest rates cannot by themselves hold off a rising trade deficit forever.

Given that the painless prescription has not worked, it is time to return to reality. Given the reality of the zero-sum dilemma, what should be done? This is the question that my friendly critics asked concerning *The Zero-Sum Society*, and it is the question that *The Zero-Sum Solution* attempts to answer.

The answer is that we must engage in a massive mobilization to build a world-class American economy. If America's international military power were as weak as its international economic power, Americans would instantly put aside their immediate economic self-interests and rally around a common effort to re-create a world-class military power. And while doing so they would give consideration to equity and ensure that all were carrying their fair share of the load.

I believe that if Americans understand their position vis-à-vis their economic competitors, and understand the long-run significance of failing as a world-class economy, and further understand what must be done to create a world-class American economy, they will rally around an effort to build one.

This book attempts to build that very understanding. Where are we now in the world economy? Where are we likely to be ten years from now if we do nothing? What will happen if we fall behind the rest of the industrial world and are defeated on world markets? What must be done to make the American economy competitive in world markets? These are the questions that I attempt to answer.

America is now in a competitive fight for its economic life. Not since World War II has it been so significantly economically challenged. If one believes that competition is healthy, responding to the current international challenges can make the American economy better than it has ever been. I believe that Americans in all walks of life can and will respond to that challenge.

*The Zero-Sum Solution* is *Building a World-Class American Economy*.





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