



THE

AMERICAN

ECONOMY

The Struggle for
Supremacy in
the 21st Century

NICOLAS SPULBER

The American economy
The struggle for supremacy in the 21st
century

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Nicolas Spulber



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This work focuses on the economic challenges the American economy has met during the post-World War II era and on the new challenges – represented notably by the competing economies of Japan, Germany, and the entire European Union – which confront it as the 21st century approaches. The book shows how the transformations brought about by international competition fit into the long-term processes of economic growth and change with respect to structural mutations, technological development, the role of government, and the evolution of government-business relations.

Professor Spulber presents a detailed critique of the thesis alleging that the American economy has experienced some kind of decline. He demonstrates not only that such a decline has not taken place but also that the economy will continue to strengthen if growth and change are primarily left to emerge from the impulses and incentives of the private economy.

Cambridge studies in economic policies and institutions

The American economy

Cambridge Studies in Economic Policies and Institutions

Editor

Professor Mark Perlman, University of Pittsburgh

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Preface

This book focuses on the economic challenges which the American economy has had to meet during the post-World War II era, and on the new challenges – represented by the competing economies of Japan, Germany, and of the entire European Union – which confront it in the perspective of the 21st century. The book shows how the transformations brought about by *challenge and response* fit into the long-run processes of economic growth and change with respect to structural mutations, technological development, the role of the government, and the evolution of government-business relations. The book presents a detailed critique of the thesis according to which the American economy had reached its developmental “summit” in the late 1960s/early 1970s, since when supposedly it has been drawn increasingly into a process of decline. This downward slide, which is said to parallel the alleged decline of the United Kingdom in the 19th century, could, according to the partisans of this thesis, be averted only by a crucial shift of U.S. policies toward more investment, a holistic approach to industrial-technological change, and the selective targeting for “absolute advantage” in foreign trade of certain high-tech industries and products. The book demonstrates not only that such a decline has not taken place, but also that the American economy will continue to move forward energetically, enterprisingly, and successfully if growth and change are left to emerge from the impulses and incentives of the private economy.

Before the U.S.’s encounter with the supposedly increasing menace of the triple juggernaut of Japan, Germany, and the European Union competing with it in the contest for industrial-technological supremacy in the 21st century, one should not forget that the United States had already successfully met other great challenges. From 1917 until 1991, the world’s main economic, political, and military developments had been deeply impacted, directly or indirectly, by the epochal changes which had taken place in the former empire of the Russian Tsars. Throughout its life span of over 70 years, the anti-Western and anti-capitalist Soviet system exercised a totalitarian dictatorship over the peoples of the Romanov’s great domain covering one sixth of the surface of the globe. In addition, after World War II it commanded a vast allegiance from and an immense influence over the rest of the world, thanks to the illusions it had

generated about the nature and the purpose of its rule, as well as about its supposed capacity to harness the "vagaries" of the market and to plan growth and change in an orderly fashion. Soon after World War II Soviet military power reached its apogee. But the Soviet economy, saddled with a growing military burden, was increasingly falling behind that of the rapidly developing United States and its Western allies. Yet the Soviet Union's mastering of nuclear technologies and the beginning of its space exploration placed that country in a nightmarish balance of terror with the world's leader, the United States. This paradoxical "bipolar" era lasted until the collapse of the Soviet Union in 1991.

Throughout these perilous post-World War II years, the United States met Soviet military challenges head on while steadfastly providing an effective shield behind which the entire Western world could continue to grow and develop. Finally, by 1991, the Soviet economy collapsed, the Soviet empire disintegrated along multiple fault lines, and the Soviet military threat receded. For a still unspecified time, the deepening of vast and unrelenting economic, social, and ethnic crises in the former USSR, the long and agonizing efforts to restructure its society on a new basis, and, last but not least, the end of the so-called cold war, removed this challenge from the horizon and opened up a new historical epoch.

Even while the Soviet military threat was still an important presence, the United States started to face another kind of challenge, represented by the rising and rapidly growing competitive economies of Japan (along with certain minor Asian countries), of Germany, and of the expanding European Union. Under the impact of these conflicting factors, how exactly did the United States maintain its world economic leadership, undergo the appropriate economic transformations, and confront both the Soviet military challenge and the rising economic challenge posed by reindustrialized Japan and Germany? What directions did it chart as the old balance of power started to break down and as the other kinds of challenges began to grow? Finally, how has the United States decided to approach the complex contest for industrial supremacy in the 21st century?

Certainly, immediately after World War II, triumphant America enjoyed an unchallenged economic hegemony which remained uncontested until the mid 1960s. From then on, the U.S. supremacy started to be eroded by a number of vexing and at times apparently unrelated problems both at home and abroad. At home, the great U.S. postwar economic expansion began to falter in the late 1960s, toward the end of the Vietnam War, as the American economy stumbled through combinations of stagnation and inflation punctuated by intermittent but painful recessions. By the early 1970s, the American economy was beginning to experience serious stress under the unfolding of vast yet subtle and apparently unrelated mutations in regard to production processes, interrela-

tions between manufacturing and services, business organizational patterns, and the volume and structure of foreign trade. Abroad, large-scale transformations shook the economic environment at an unrelenting pace. While the United States was still providing the West's military shield, the American economic leadership seemed to be overshadowed by the advances of its new competitors. Their high rates of savings and investment, massive adoption and adaptation of certain U.S. technologies, and faster economic growth rates nurtured a growing challenge to the U.S. performance.

What exactly happened then to the worldwide economic position of America, to its powerful and complex manufacturing, to its skills, to its traditional inventiveness and daring innovation? Was the U.S. falling behind certain critical technological changes which were taking place at dizzying speed in the rest of world, particularly with regard to management strategies and organization, commercial research and development, and foreign trade? Had it been riveted, so to speak, to its ever-advancing military technologies, while its enemies and competitors had been transforming, updating, and upgrading their civilian-oriented industries? Had a final industrial realignment among the great powers already occurred – a realignment which was irremediably affecting the contest for industrial and technological supremacy in the 21st century? Was the U.S. government forced to attempt post-haste, as it were, the reshaping of the American economy's structure – its patterns of manufacturing, technology, output, and employment – through global administrative intervention based on an all-out industrial-technological strategy?

In discussing these issues and their wide-ranging implications, this book falls into four parts. In Part I, I focus on the processes of U.S. economic growth and change while the nation countered the Soviet military challenge from the end of World War II to the threshold of the 1990s. In Part II, I examine the form and content of the competitive challenge presented by the revitalized ex-enemy countries, Japan and Germany, and by the European Union; sketch the basic features of so-called organized capitalism; and argue against the criticisms of our "individualistic" reliance on market-determined outcomes. In Part III, I place our present situation in historical perspective, focusing on the structural transformation of the American economy from the threshold of the 1870s to the threshold of the 1990s. I pay particular attention to long-run changes in income, employment, and public expenditures, consider in detail the shifts in manufacturing and in services, and conclude with a comparison of U.S. performance with that of the other industrially developed countries. Finally, in Part IV, I discuss the main *directions* of U.S. policies as the struggle for technological leadership in the 21st century grows in scope and intensity. I examine in detail the tenor of the industrial-technological proposals advanced by the Clinton-Gore administration, which are bound to have a deep impact on a number of fundamental issues, including the framework of future government-

business relations. As we shall see, these proposals indeed concern United States policies with regard to the crucial question of the allocation of the national product between consumption and investment; the relationship between government and business, particularly as it affects the growth and development of U.S. manufacturing and technology; and the approaches to competition and cooperation in what has become known as the "global market." The suggested changes involve, more specifically, a shift in emphasis from the demand to the supply side (a perspective now commonly shared by centrist Democrats and Republicans); a transition from a policy of ad hoc intervention in the market to a fully integrated industrial policy; and the search for new strategies in foreign trade, encompassing not only export targeting for high-tech industries but also various barriers (other than tariffs) to foreign penetration, and the creation and expansion of a regional trade bloc (NAFTA).

It is interesting to note that notwithstanding the historically preponderant strength of the powerful U.S. industrial machine, whenever a great challenge rises on the horizon – be it Soviet nuclear and outer-space defiance in the 1950s, or the intense Japanese industrial and economic competitive confrontation from the 1980s on – quite a number of our decisionmakers, policy analysts, and guiders of public opinion seem ready to assume that the United States is losing its leadership, is falling behind, and is incapable of rapidly adjusting to change. Eventually, a subtle mobilization of energies does take place in U.S. policy and the economy, a gathering of forces which finally shapes, first of all under the impulses and incentives of the market, new responses which more than counterbalance the presumed scope and strength of the foreign contenders. Thus, the former Soviet Union did open up the outer-space era with the launching of Sputnik in the late 1950s, but the United States leadership, with the concurrence of the nation, eventually succeeded in achieving an undisputed lead in space exploration. Japan's rapid industrial growth in the 1980s bested the United States in some respects for a while. However, ultimately, powerful growth and change in the American economy, along with the difficulties experienced by the Japanese economy in the early 1990s, finally made Japan recede in the American consciousness both as a *threat* and as a *model*. But paradoxically, the policy proposals which germinate in the periods in which America is alleged to be in decline are those which may finally shape its basic policies at a time when the presumed decline is already perceived as unfounded. In a strange fashion, then, the aging challenges and their deferred policy repercussions ultimately shape, to a large extent, the future's development.

This book is addressed to economists, historians, and policymakers, but hopefully it will also be of interest to the educated public at large. The research on which it is based was funded in part by generous grants-in-aid extended to me by Professor George Walker, Vice-President and Dean, Research and Univer-

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Contents

<i>List of figures</i>	page ix
<i>List of tables</i>	x
<i>Preface</i>	xiii

Part I A challenge met

Introductory note	3
1 Postwar growth and change	5
1-1 Phases and issues	5
1-2 A powerful processor	13
1-3 The determinants of growth	17
1-4 Competition and cooperation in global markets	20
1-5 "Twin" deficits and U.S. indebtedness	26
2 Government-business relationship	35
2-1 Divergent and convergent policies	35
2-2 The traditional compass of economic intervention	48
2-3 Federal and industry influences on science and technology	58
2-4 R&D in the states and the universities and colleges	65
2-5 Concluding comments	68

Part II The new challenge and its implications

Introductory note	79
3 The challenge	82
3-1 MITI and Japan's economy	82
3-2 The state, the banks, and the German economy	94
3-3 Relations within Europe	102
3-4 The workforce and its "S&E" core	105
3-5 Speed, size, proportions	110
4 The implications	114
4-1 The decline diagnosis	114

4-2 Holistic industrial policy proposals	119
4-3 Critique of the decline thesis	125
4-4 From the New Deal to a holistic industrial policy	132
4-5 Concluding comments	143

Part III The long-run development of the U.S. economy

Introductory note	149
5 The structural transformations	151
5-1 Phases of growth and change, 1869–1989	151
5-2 The making and remaking of manufacturing	159
5-3 The changes in services	164
5-4 Debt, investment, and competitiveness	172
5-5 The Group of Seven and the U.S. performance	177
6 The state machine and the evolving economy	183
6-1 The state and its agenda	183
6-2 The federal budget and the agenda	189
6-3 The state and the consumer's interests	193
6-4 The state and the producer's interests	198
6-5 Concluding comments	202

Part IV The road ahead

Introductory note	207
7 New priorities	210
7-1 Paradigmatic reversals	210
7-2 Technological strategy and industrial policy	215
7-3 Fair trade, reciprocity, and regionalism	220
7-4 Spending shifts and living standards	225
7-5 Contrasting perceptions of growth and structural change	228
8 Contests at technological frontiers	232
8-1 On "catching up" and "surpassing"	232
8-2 Changing the technological system	238
8-3 Advancing in the age of information	243
8-4 Policy emphases, priorities, and goals	246
8-5 Concluding comments	247

<i>Notes</i>	253
<i>Index</i>	279

Figures

1-1 United States industrial production, 1965–1989	<i>page</i> 10
1-2 Input-output table	15
1-3 United States foreign trade, 1965–1989	21
II-1 Industrial production: international comparisons, 1960–1983	80
5-1 U.S. national income and employment by sectors: selected years, 1869–1989	155
5-2 Development changes, 1900, 1950, and 1987	180
6-1 U.S. tariff rates, 1860–1987	199

Tables

1-1	U.S. growth, employment, and inflation during main economic phases, 1947–1990	<i>page 6</i>
1-2	U.S. real gross national product: selected years, 1947–1988	12
1-3	Global input-output flows in the American economy, 1967, 1977, 1982, and 1987	16
1-4	U.S. international investment position: selected years, 1970–1988	28
1-5	U.S. budget receipts, outlays, and surplus or deficit: selected years, 1945–1989	30
1-6	U.S. gross federal debt: selected fiscal years, 1945–1989	32
1-7	Major industrial countries: net public debt, 1980, 1982, and 1989	33
2-1	R&D expenditures at universities and colleges, 1981 and 1988	66
3-1	United States and Japan: employment patterns: selected years, 1947–1989	88
3-2	Japan: employment in manufacturing, 1960–1989	90
3-3	United States and Germany (West): employment patterns: selected years, 1967–1989	99
3-4	Germany (West): employment in manufacturing, 1960–1989	100
3-5	U.S., Japan, and Germany (West): selected size indicators, 1988–1990	112
3-6	U.S., Japan, and Germany (West): gross domestic product, 1970, 1980, and 1988	113
4-1	U.S.: quinquennial changes in manufacturing employment, 1960–1990	126
4-2	United States, Japan, and Germany (West): comparative structures of manufacturing output, 1989	131
5-1	U.S.: structure of investment in fixed nonresidential private capital: selected years, 1900–1989	153
5-2	U.S. national income and employment by sectors: selected years, 1869–1989	154

5-3	U.S.: major occupation groups, 1900–1989	157
5-4	U.S.: the ten leading manufacturing industries: selected years, 1860–1987	163
5-5	U.S.: classification and evolution of employment in services: selected years, 1929–1989	166
5-6	U.S. credit market debt outstanding: end of year, 1949–1989	168
5-7	U.S. international investment position: selected years, 1869–1989	174
5-8	Group of Seven: percentage distribution of manufacturing production: selected years, 1870–1936/38, of world output; 1980 and 1987, of OECD output	178
5-9	Group of Seven: GDP per capita and total GDP: selected years, 1900–1987	179
6-1	U.S. government employment, 1914, and decennial changes, 1929–1989	184
6-2	U.S. gross national product by end use: decennial changes, 1929–1989	185
6-3	U.S. federal government and total government receipts, expenditures, surpluses, deficits, and gross federal debt: decennial changes, 1929–1989, with 1995 estimates	186
6-4	U.S.: shares of the government “core” in total federal budget outlays, 1940 and decennial changes, 1949–1989, with 1995 estimates	188
6-5	U.S.: synoptic composition of federal receipts and outlays, 1940, 1959, and 1989	190
6-6	U.S.: percentage composition of federal outlays by function groups, 1940, and decennial changes, 1949–1989	192
8-1	Economic growth in three leading economies, 1870–1913, 1900, and 1913	237
8-2	Economic growth in three leading economies, 1973–1984, 1973, and 1987	239