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The age of experts: a review of Marc Levinson's an extraordinary time

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How good were the good old days? Was the post-World War II economic boom in the United States and other developed countries a truly special period, one that we cannot expect to repeat, even over centuries-long time frames? Where did those exceptional growth rates come from, and what—if anything—can we do to bring them back?

In *An Extraordinary Time: The End of the Postwar Boom and the Return of the Ordinary Economy*, the economic historian and journalist Marc Levinson, author of *The Box*, poses these questions. His answer is that the quarter-century from 1948 to 1973 was truly exceptional and that the good times are not coming back. They were, he writes, "an economic golden age across the world" [inside cover] and, because of the rapid rise in oil prices in the 1970s and the economic ups and down since then, "we are not likely to see its equivalent again" [p. 270].[1]

Levinson presents a richly detailed account of the development of macroeconomic models and their use in the postwar period by governments trying to harness the chaos of economic innovation and growth. That tale is the sterling contribution of this book: the emergence of the statutory role of government to pursue and attain economic growth and stability. The arrival of this era of *dirigisme* is now largely forgotten and Levinson recounts it effectively.

But Levinson's pessimism about future growth asks that we ignore essential elements of the human story and of economic history. The global economy made great progress before 1948 and after 1973; if you do not care only about people in the United States, the most recent quarter-century is the most special one of all. Levinson's conclusion—that we are destined to revert to an "ordinary economy," one characterized by stagnation and unproductivity—is deeply wrong.

1 Innovation versus stability

As a general rule of economic progress: no change, no growth. The tensions and balances between governments, the entrepreneurial and professional classes, and rank-and-file workers ebb and flow depending on which economic condition dominates: innovation or stability. It is difficult to have both.

But, in the U.S. in 1948–1973, we found instead a period of innovation and income stability. The U.S. had earlier experienced rapid innovation, or growth, in many of the years between the Civil War and World War I, and then again in the 1920s. But the growth was usually chaotic and disruptive, with many people hurt by the side effects of innovation. The 1948–1973 period was indeed special, in that the fast-growing U.S. economy is remembered as relatively stable, with fewer people hurt, and the perception that social cohesion provided the lubricant for great change without great angst.

You'd be forgiven if you just scratched your head: *what* social cohesion? The civil rights battle raged over the entire period. In 1960, the sunny midsummer of our history, John Kennedy ran for president on a platform of "get[ting] this country moving again" following the 1958 recession, which was one of three over the previous eight years and was the deepest since the Great Depression. The

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[1] This latter quote is from the last sentence of the book.

chaos that reigned from the Kennedy assassination through the end of the Vietnam War more than a decade later is nobody's idea of social cohesion. And that last period took up two-fifths of the special quarter-century; it was no brief interruption.

And that was just the United States. For much of the world, 1948–1973 was a turbulent and sometimes violent period. From the Soviet Union to the Cultural Revolution in China to the coups and kleptocracies in emerging markets, life was chaotic and desperately poor. As Levinson recounts: "There is no sugarcoating the brutality that, for many people … in many corners of the world, … was part of everyday life" [p. 44].

2 Levels matter

Rates of change are felt more keenly by the human mind than levels. And some of the social cohesion in the 1948–1973 period was real: as many as 80% of Americans saw themselves as middle class. They went to the same schools, spoke the same language, and shared the recent memory of a war that was almost lost.[2] Despite increasing urbanization, small-town living—where people from all walks of life rub shoulders and are forced to get along—was still the predominant memory, if not the present reality.

But, setting aside emotion and invoking rationality, would you rather live in a $15,000 GDP per capita country that is growing at 8% or a $52,000 GDP per capita country that is growing at 2%?[3] We'd choose the latter, simply because we don't want to struggle. We can find emotional satisfaction in ways other than anticipating prosperity that may or may not come. Levels matter.

3 No economic period is ordinary

In the long sweep of human achievement across all peoples before 1948 and after 1973, the competing epochs of progress are also quite extraordinary. Levinson mostly pooh-poohs them, writing:

> The effects of innovation on the economy were slight in the early twentieth century, very strong from the 1920s to 1973, quite weak between 1973 and 1995, fairly strong between 1995 and 2003, and considerably weaker in the years thereafter. … [I]n the late 1990s…the commercialization of the Internet [led] to a burst of productivity growth…that exhausted itself in just half a dozen years. [p. 263]

This observation brings us to our most basic objection to Levinson's theme: *no economic period is ordinary*. Was any time more special than the end of the 18th and the beginning of the 19th century, when substitutes for human muscle power, stored in carbon, were harnessed to begin the release of all mankind from a Malthusian existence? Was any time more extraordinary than the opening of China and the end of the Cold War, enabling two or three billion people to apply their skills in a world economy that had previously been the province of the Europeans, Americans, and Japanese?

What the Nobel Prize-winning economist Angus Deaton calls "the great escape," from dangerous and backbreaking work in fields, mines, and primitive factories, came largely before 1948 in the industrialized West and is still proceeding today in emerging markets.[4] The drive to bring sanitation and clean water to the masses began early in modern history but continues to be a challenge in developing countries today.

Medical innovation has produced a decrease in suffering and gains in the quality and length of life that can hardly be comprehended; in 1840 surgery had to be performed without anesthetics. (Let that sink in.) The first cure of an infectious disease using antibiotics was in 1935—and we have barely seen the beginning of these advances, which continue today with gene sequencing. Gains in human rights and political freedom, along with occasional losses, have also proceeded without reference to any particular quarter-century.

4 In the postwar world, a new leaf: Government by experts

In making his case, Levinson does provide us with a valuable and richly detailed view into two powerful postwar trends. The first consists of the emerging availability of government data on the economy and the rise of operations research as a discipline that could be used by government experts for macroeconomic planning. The second is that governments made the leap to being accountable for economic outcomes, combining the need to please voters with the capacities newly acquired through macroeconomic data and theory.

This trend toward management of non-centrally planned economies by government experts is apparent from the

[2] We should not forget that most African Americans did *not* go to the same schools as the majority. Even after schools became legally integrated, most remained segregated due to living patterns.

[3] U.S. per capita GDP in 2017 dollars ranged between $15,000 and $16,000 in 1951-1954, and is $52,000 today. Source: Federal Reserve Bank of Saint Louis, https://fred.stlouisfed.org/series/A939RX0Q048SBEA.

[4] Deaton, Angus. 2013. *The Great Escape*. Princeton, NJ: Princeton University Press.

wording of the U.S. Employment Act of 1946, which "promote[s] maximum employment, production, and purchasing power."[5] It lives on in the July 2012 statement by European Central Bank president Mario Draghi that the bank would do "whatever it takes to preserve the euro."[6]

5 Experts and the magic square

Levinson recounts the effort by experts to manage four macro variables to desirable and stable levels to achieve growth and stability, a strategy called the "magic square." The variables were unemployment, inflation, real GDP growth, and trade balances.[7]

In the U.S., the reigning expert was Walter W. Heller, a Kennedy confidant and strong Keynesian.[8] In the developing world, it was Raúl Prebisch, an Argentine economist who tried to steer a middle course between capitalist orthodoxy and the radicalism then in vogue in Latin America and other emerging economies.

And in West Germany the rock-star expert was Kurt Schiller, *Stern*'s Man of the Year in 1969, described by Levinson as "work[ing] late into the night [with] his 'team of eggheads.' After crunching the numbers, they specified the most desirable rate of economic growth," which turned out to be 4%, with 0.8% unemployment and 1% inflation. The cadre of experts used linear programming, input–output analysis, and other new items in the economist's toolkit to balance the unpredictable behavior of markets and capitalists against the legal obligation to foster growth.

In the end, however, such incredibly rosy macro goals were unachievable. As Levinson indicates, 1973, when the first large OPEC oil price increase occurred, was the year when the macroeconomic indicators all seemed to agree that things had started to go badly. Yet the failure in 1971 of the Bretton Woods fixed exchange-rate system proved that the magic square had been deteriorating for some time; OPEC was merely the catalyst.

By the time of the second oil shock, in 1979, any pretense of maintaining the magic square had been abandoned. U.S. inflation was running at 9%, unemployment was around 6%, and real GDP growth was a paltry 1.3%. President Carter may not have uttered the word *malaise* in a speech but he should have. In the end, Levinson states, "The idea that government planning could assure prosperity and rising living standard for all proved to be a cruel hoax." [p. 46]

We don't think any economist today would propose that you can hold all of the magic square variables constant at the same time, when each is affected by millions of independent decisions and several of the variables are pushing against each other. (For example, some factors that cause high GDP growth tend to also cause high inflation.) "Only belatedly," Levinson writes, "would [Kurt Schiller] accept that the magic square was a technocrat's fantasy" [p. 34]. Governments have learned their modesty lesson, although it could also be argued that the outcomes are also modest: in what seems like the main challenge we now face, First World economies are hardly growing faster than their populations.

The problem is not that the experts don't know anything; they do. With a few exceptions, they are diligent and well-meaning students of the economy and of human behavior. The difficulty is that the rational expectations hypothesis is roughly right: people do what they want, and react poorly to policies that push them to do things they think are unprofitable. As a result, there are severe limits to what proactive economic policy can accomplish. Mostly, we need to establish good laws and institutions and hope for the best, figuring that people acting in their own interest will produce the "right" amount of economic growth.

6 The return of the ordinary economy?

Levinson's insights into the role of economic planning, in both developed and emerging economies, make *An Extraordinary Time* worth reading even if its conclusions are suspect. We'll close by noting that the last half of the book's subtitle, "The Return of the Ordinary Economy," posits that there is such a thing as an ordinary economy. What is it, and what will it look like when it returns?

Perhaps, for many people, it is a steady-state economy where one day, year, or decade is much like another, lacking in abrupt surprises and limited in the amount of change. Unfortunately, the only steady-state economy in the historical record is one that, according to Angus Maddison, produced output equal to $3 per person per day—just enough that many people could survive long enough to reproduce; a lucky few survived longer, and the tiniest minority did so at some degree of affluence. This was the reality faced by most of the world's people for most of its history.

This Hobbesian way of life, "solitary, poor, nasty, brutish, and short," is, of course, not what Levinson thinks is in store for us. His ordinary economy looks more like today's economy: affluent yet sluggish, unequal,

[5] http://www.federalreservehistory.org/essays/employment_act_of_1946.

[6] https://www.nytimes.com/2016/01/22/business/international/ecb-stimulus-mario-draghi.html.

[7] In addition, they were committed to maintaining fixed exchange rates, a system that failed by 1971; it's a matter of interpretation whether the foreign exchange value of one's home currency is a fifth variable or just a manifestation of trade balances.

[8] Not Walter E. Heller, the Chicago financier and philanthropist.

unfamiliar, and continually disruptive. Like other forecasters of our economic future, Levinson has projected the present forward indefinitely, making the familiar behavioral mistake of overemphasizing the most recent observation.

We have more faith in humanity than that. The evidence is on our side.

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