If Government Were Angels, Only Humans Would Be Necessary

A Look at the Economic Prospects of 2065

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To ask the historian what the economy will be like fifty years from now is to invite comparisons to fifty years ago. As I write in the summer of 2015, weeks before the half-century anniversary of the Watts riots in Los Angeles, fifty years ago was 1965—the very acme of American economic history. A friend of mine, Louis Woodhill, is an entrepreneur and a blogger. Holman Jenkins of the *Wall Street Journal* once wrote that the reaction to one of Woodhill's blogs questioning the General Motors bailout was "one of those kerfuffles that render the Web a net plus" (2012). Woodhill has told me that he realized that 1965 was the acme of American prosperity when he acquired a superlative Pontiac Bonneville convertible from that year. "Note the exuberant styling," Woodhill wrote to me recently, verbally pointing to a picture of the car, a broad, black beauty. "No other country ever produced anything like the American cars of 1965, and especially not for ordinary people. In 1965, a man with a decent blue-collar job could support a family at a middle-class level. He also had reason to be optimistic about the future."

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The American with a job had reason to be optimistic about the future in 1965 because of the trend perceptible at that point. The thing about trends, however, is that you can never quite tell which one you are riding. Are you on an exponential curve or a wave? In small sections, but only in small sections, the two paths are identical. The slope of an exponential curve is exactly that of a wave as the wave climbs out of its trough, reaching toward its peak, but a peak (as well as the inflection toward the peak) is something that an exponential curve does not have. As it turned out, the year 1965—before the Watts riots began in August—was the last moment that the wavelike nature of the trend of American prosperity was consistent with an exponential curve. After that, the trend of economic growth and its dissemination slowed and then reversed course, with variation since then, such that 2015 does not extrapolate from 1965 on the basis of what one saw burgeoning all around the nation in 1965 and in the years immediately preceding it.

The raw, blunderbuss numbers give a rosy picture of 1965. Gross domestic product (GDP) was growing by 6 percent, expanding on the 5 percent growth of the previous three years. The unemployment rate (a lagging economic indicator) was a little less than 5 percent and set to dip to less than 4 percent the next year. The number of employed Americans (also a lagging indicator) was halfway through an increase of 13 million from 1961 to 1969. The inflation rate was 1.6 percent. The Dow industrials crossed 1,000 for the first time in January 1966, a level not exceeded in real terms until the 1990s. And federal government spending went down, not only in real but in nominal terms, from 1964 to 1965—the last time that would happen for forty-five years.

The year 1965 was the locus classicus of "postwar prosperity"—the most cherished and beloved era of all U.S. economic history, those "glorious years" (as the French call them) still talked about today nostalgically by many, even those born after 1965. Nonetheless, there were things about the prosperity of 1965 that were fully perceptible at the time and that did not suggest an exponential curve, but rather a wave. Prior to 1961, the economy had been nothing special. From 1949 to 1960, there were four recessions, one of them, in 1957–58, containing a six-month drop in economic output of 7 percent per annum. Over the years of Dwight D. Eisenhower's presidency (1953–61), the nation added all of 4 million jobs even as the working-age population surged by 7 million. The biggest nonfiction paperback best seller to date, Michael Harrington's *The Other America* (1962), argued that the serial recessions of the 1950s and early 1960s had created a structural class of poor that possibly numbered 50 million.

Our nostalgia for postwar prosperity has often led to the assumption that the 1950s were economically stupendous. Progressive intellectuals and politicians perpetuate this assumption, speaking—as President Barack Obama's top economist Jason Furman (2013) does—of the "golden age from 1948 to 1973," probably because that characterization enables the argument that the 91 percent marginal income-tax rate, which held till 1963, was consistent with a legendary general prosperity. This argument is misleading. The 1950s and the early 1960s were mediocre at best with respect to the standards of U.S. economic performance. The economic growth that came after 1961 and held even until 1969 was a stellar run touched off with a tax cut, a recommitment to the gold dollar, and shrunken government spending—the policy choices of the three years from 1962 to 1964—that made possible the concept of postwar prosperity in the first place (see Kudlow and Domitrovic forthcoming).

So the year 1965 pointed to nothing but progress along a wave, part of one period in a cycle: the Roaring Twenties, the Great Depression of the 1930s, the postwar boom of the 1940s, the serial recessions of the 1950s, the boom of the 1960s. Of course, the 1970s were going to be the stagflation decade. Odds would have it that there would be an economic resurgence in the 1980s. If that resurgence stayed through the 1990s, there would come fifteen years of "secular stagnation" after 2000. The frequency of the wave of economic performance stretched out a little after 1980.

And yet the trajectory of economic performance in 1965 *was* that of an exponential curve—because a wave's first ascent is consistent with an exponential curve. If the performance of the years immediately before 1965 had maintained itself after 1965, sustained economic growth (not a wave) would have been the legacy. Something must have enforced the wavelike quality of unsustained growth, something structural or the workings of an outside agency. Otherwise, the exponential function would have taken over.

That year also happened to be the year that Mancur Olson, perhaps the greatest political scientist of the century, published *The Logic of Collective Action*. This pillar of public-choice economics came to represent the general thesis of that field—namely, that government strives to take what it can from the real sector of the economy and develops talents and skills in that direction. In 1965, the U.S. economy was presenting the government with the prospect of crisis, specifically an existential crisis. If the economy continued to grow at the stunning rate of 6 percent, as federal spending went down in real terms, the government would begin to lose its grip on existence. A decade or two of 60 to 70 percent private-sector growth in the face of shrinking government would make the government irrelevant, powerless. The nation would be its own, unformed by the government.

What perhaps happened after 1965 is that government, like any canny evolutionary entity, unconsciously realized that circumstances were endangering it, which compelled it to take steps to solidify its existence. These steps took both positive and negative forms, including policies that would slow the rate of private-sector growth and policies (often coextensive) that would enhance the size and impress of government. Clear examples are the tax increases of 1968 and thereafter, the buildup of welfare and regulation, and the move toward a purely fiat money system. Other examples may well include the government's encouragement of the "great crime wave" from 1965 to around 1980 (by means of overcriminalization along with excessive leniency on the part of progressive judges), whose major effect since 1980 has been the rise of the American police state.

In 2015, private-sector economic growth is perhaps 2 percent; total government displacement of the economy is a third greater than it was in 1965; major industries such as banking and auto manufacture are wards of the state; and the stagnation experience is so persistent that the dropouts from the labor force in the past decade number almost 10 million. Government, however, has had little problem collecting taxes, funding its debts, taking on workers, and expanding its operations over the period of "secular stagnation."

What the economy will look like in fifty years is very much a question of the government's proclivities. Will the government choose to step aside and let the private sector roar? Or will the inherently more capable private sector gain the courage of its convictions and quash government? The former scenario is preferable to the latter and will result in more prosperity and well-being. It implies honesty and good character on all counts, whereas the latter does not. If government takes to heart that it is fundamentally irrelevant and envious, it will seek an "altruistic suicide," as French sociologist Émile Durkheim would put it, if not its members' "collective euthanasia–suicide," as German philosopher Karl von Hartmann would put it. This is to speak metaphorically and ontologically. Those participating in the euphemistic "public service" of government will die to their old selves, only to discover their real selves in the burgeoning world-that-is-not-government.

If such an outcome is far-fetched, the wish of dreamers such as Max Stirner and Henry David Thoreau, the other possibility that might result in considerable prosperity would be for the private sector to vanquish the state. It is unlikely, however, that the characterological improvement, process of self-discovery, and recommitment to honesty that are required of all parties for there to be a good society can emerge from the practice of something harsher than the sweet arts of persuasion. Victory typically makes the victors smug and the defeated embittered, both of which are forms of narrow egocentrism and confusion, which cannot be the basis of long-term goods. As Deirdre McCloskey (2006) has reminded us, persuasion was a "bourgeois virtue" that replaced the overreliance on the force of arms in the feudal world and was just as effective if not more effective at procuring happy results.

The third option, of course, is for government to continue its petty course and for the private sector to be alternatively complacent about the problem and given to the temptations of regulatory capture. This outcome would be sad, unworthy of the nation perhaps but consistent with Alexis de Tocqueville's concerns about democracy in the America of 175 years ago. It would doom still more millions to careers in government or to the ministration of government mandates in the corporate world—an ocean of wasted lives and human capital. And it would guarantee that prosperity would not come comprehensively because only the private sector can generate prosperity in a mode of self-possession.

Will not technology save us? Peter Thiel perhaps understated the case in his famous remark that at this point in the arc of technological progress, our signature achievement should be something like flying cars, not the ability to type a message in less than 140 characters (Packer 2011). Intel, the firm that enabled the personal computer revolution and the Internet, was founded in 1968. Since that year, technological advance has been ungodly, yet the pace of economic growth has been suboptimal, and the American dream has become more elusive, whatever the strivings of the 1980s and 1990s. During the great tech revolution from the 1970s to the 2000s, the government reasserted its ability to get bloated and nosy, overwhelming the gains. Technology cannot save us, just as the tradition of economic growth in this country cannot be reestablished unless government gets ever smaller.

The economist Arthur B. Laffer (Domitrovic 2014) has summarized the short list of things that can be done to limit government. He refers to the five "pillars of Reaganomics": sound money, low taxes, spare regulation, minimal spending, and free trade. According to the principles of his famous "Laffer curve," the economy will grow so much in a context built on these pillars that government will see expanded receipts and thus have the opportunity to become a fat parasite upon it again. Therefore, the five pillars have to be tried again and again lest the government get large at the expense of the private sector's surpassing wealth. This nation's economy will be a broadly prosperous one in 2065 if the five pillars become the dominant structures of our political economy over the decades up to and including that time. If this happens, our economy will be a historically prosperous one, the most prosperous of all time anywhere, because it was the government's own enlightened decision to become modest.

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