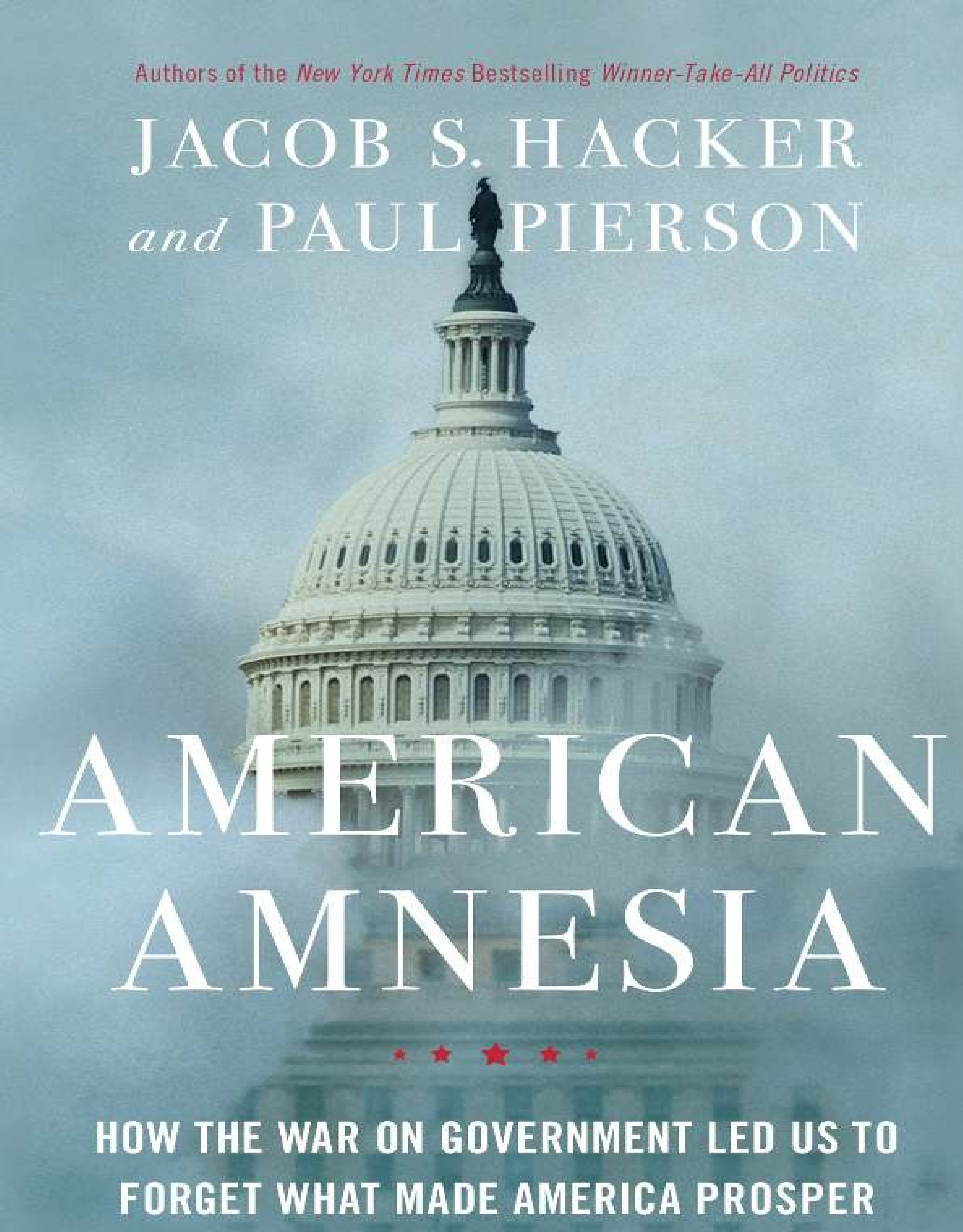

Authors of the *New York Times* Bestselling *Winner-Take-All Politics*

JACOB S. HACKER *and* PAUL PIERSON

AMERICAN AMNESIA

HOW THE WAR ON GOVERNMENT LED US TO FORGET WHAT MADE AMERICA PROSPER

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CONTENTS

To Our Teachers

Prosperity Lost

THIS BOOK is about an uncomfortable truth: It takes government—a lot of government—fo advanced societies to flourish.

This truth is uncomfortable because Americans cherish freedom. Government is effective in pa because it limits freedom—because, in the language of political philosophy, it exercises legitimat coercion. Government can tell people they must send their children to school rather than the field that they can't dump toxins into the water or air, and that they must contribute to meet expense that benefit the entire community. To be sure, government also secures our freedom. Without it ability to compel behavior, it would not just be powerless to protect our liberties; it would cease t be a vehicle for achieving many of our most important shared ends. But there's no getting around i Government works because it can force people to do things.

The authors of the US Constitution were keenly aware of this fact. Eleven years after th Declaration of Independence—with its ringing declaration of "certain unalienable rights" and i clear-eyed recognition that "to secure these rights, governments are instituted among men"—fifty five American notables gathered in Philadelphia because they had become convinced that th absence of effective public authority was a mortal threat to the fledgling nation. [1] Perhaps the mo influential of them all, James Madison, put the point bluntly in arguing against those at the Virgin ratifying convention who worried that the Constitution would create too strong a nation government: "There never was a Government without force. What is the meaning of government An institution to make people do their duty. A Government leaving it to a man to do his duty, or not as he pleases, would be a new species of Government, or rather no Government at all." [2] In calling o Americans to discard the loose Articles of Confederation that had brought so much instability an vulnerability, the Virginian known as the "Father of the Constitution" declared, "A sanction i essential to the idea of law, as coercion is to that of Government. The [current] system being destitut of both, wants the great vital principles of a Political Constitution."[3]

But Americans have never been good at acknowledging government's necessary role i supporting both freedom and prosperity.[4] And we have become much less so over the las generation. We live in an era of profound skepticism about government. Contemporary politica discourse portrays liberty and coercion as locked in ceaseless conflict. We are told that governmen is about "redistribution" and the private sector about "production," as if government only reshuffl the economic deck rather than holding many of the highest cards. We are told "free enterprise" an "big government" are engaged in a fierce zero-sum battle (one side's gain is the other's loss), when in fact, the modern partnership between markets and government may well be humanity's mos impressive positive-sum bargain (making both sides better off). We are told that the United States go rich in spite of government, when the truth is closer to the opposite: The United States got ric because it got government more or less right.

~~We suffer, in short, from a kind of mass historical forgetting, a distinctively "American Amnesia."~~ At a time when we face serious challenges that can be addressed only through a stronger, mor effective government—a strained middle class, a weakened system for generating life-improvin innovation, a dangerously warming planet—we ignore what both our history and basic econom theory suggest: We need a *constructive and mutually beneficial tension* between markets ar government rather than the jealous rivalry that so many misperceive—and, in that misperception help foster. Above all, we need a government strong and capable enough to rise above narrov private interests and carry out long-term courses of action on behalf of broader concerns. At th Constitutional Convention in 1787, one of the delegates noted: "It has never been a complaint of [th Confederate Congress] that they governed overmuch. The complaint has been that they governed to little."[5] Today there are complaints only about our leaders governing "overmuch." But the truth i that although areas of government overreach certainly do exist, we have "too little" effectiv government, not too much.

We recognize that these words are likely to provoke doubt, if not disbelief. We ask only tha these reactions be suspended long enough to consider the evidence. Fortunately, it is close at hanc in our nation's history and in the history of every nation that has transited from poverty, sickness and mass illiteracy to wealth, health, and enlightenment. Still, the forgotten roots of our prosperit are well buried. We have to dig deeply into the debris left behind by nearly a half century c ideological warfare to unearth the economic model that—in remarkably short order, beginning littl more than a hundred years ago—made us the richest nation the world has ever seen.

Why Markets Need Government

Like other advanced democratic nations, the United States has what economic analysts call a "mixe economy." In this public-private arrangement, markets play the dominant role in producing anc allocating goods and innovating to meet consumer demand. Apple brings us iPhones, and it earr sizable profits by doing so. Visionaries such as Steve Jobs see untapped opportunities to mak money by satisfying human wants, and then draw on the knowledge and technology around them t produce goods and services for which people are willing to pay. Markets are the most powerfu institutions yet developed to encourage and coordinate decentralized action in response to individu desires.

Alongside companies like Apple, however, government plays a dominant or vital role in the many places where markets fall short. Look inside that iPhone, and you'll find that nearly all its majc components (GPS, lithium-ion batteries, cellular technology, touch-screen and LCD displays, interne connectivity) rest on research that was publicly funded—and, in some cases, carried out directly b government agencies.[6] Jobs and his creative team transformed all this into something unique, ar uniquely valuable. But they couldn't have done it without the US government's huge investments in technical knowledge—knowledge that all companies can use and thus none has strong incentives t produce. That knowledge is embodied not just in science and technology but also in a skille workforce that government fosters directly and indirectly: through K–12 schools, support for highe education, and the provision of social supports that encourage beneficial risk taking. And even government had played no role in seeding or enabling Apple's products, it would be responsible fo much of the economic and physical infrastructure—from national monetary policy to local roads— on which the California tech giant relies.

Of course, affluent democracies differ in the exact form that this public-private mix takes, and no all ~~mixes are equally effective. Public policies don’t always foster prosperity. Those withi~~n government can hurt rather than harness the market, directing special favors to narrow interes groups or constraining economic dynamism in ways that stifle growth. No less important (thoug much more neglected), they can fail to respond to problems in the market that could and should b addressed by effective public action, hindering growth through omission rather than commissio For all this, however, no country has risen to richness without complementing private markets wit an extensive array of core functions that rest on public authority—without, that is, a mixe economy.

That markets fall short under certain conditions has been known for at least two centuries. Th eighteenth-century Scottish economist Adam Smith wrote enthusiastically about the “invisible hand of market allocation. Yet he also identified many cases where rational actors pursuing their own sel interest produced bad outcomes: underinvestment in education, financial instability, insufficien infrastructure, unchecked monopolies.[7] Economists have been building on these insights ever sinc to explain when and why markets stumble and how the *visible* hand of government can make th invisible hand more effective.

The visible hand is needed, for example, to

- provide key collective goods that markets won’t (education, infrastructure, courts, basic scientific research);
- reduce negative spillover costs that parties to market exchanges don’t bear fully, such as pollution;
- encourage positive spillover *benefits* that such parties don’t take fully into account, such as valuable shared knowledge;
- regulate the market to protect consumers and investors—both from corporate predation (collusion, fraud, harm) and from individuals’ own myopic behavior (smoking, failing to save, underestimating economic risks);
- provide or require certain insurance protections, notably, against the costs of health care and inadequate retirement income; and
- soften the business cycle and reduce the risk of financial crises.

The political economist Charles Lindblom once described markets as being like fingers: nimb and dexterous. Governments, with their capacity to exercise authority, are like thumbs: powerfu but lacking subtlety and flexibility.[8] The invisible hand is all fingers. The visible hand is all thumb Of course, one wouldn’t want to be all thumbs. But one wouldn’t want to be all fingers, eithe Thumbs provide countervailing power, constraint, and adjustment to get the best out of tho nimble fingers.

To achieve this potential requires not just an appropriate division of labor but also a health balance of power. Markets give rise to highly resourceful economic actors who want government t favor them. Absent measures to blunt or offset their political edge, their demands will drown out th voice of broader groups: consumers, workers, concerned citizens. Today the message mos commentators take from Adam Smith is that government should get out of the way. But that was no Smith’s message. He was enthusiastic about government regulation so long as it wasn’t simply a rus to advantage one set of commercial interests over another. When “regulation . . . is in favor of th workmen,” he wrote in *The Wealth of Nations*, “it is always just and equitable.” He was equall enthusiastic about the taxes needed to fund effective governance. "Every tax," he wrote, "is to th ~~person who pays it a badge, not of slavery but of liberty." [9] Contemporary libertarians who invok~~ Smith before decrying labor laws or comparing taxation to theft seem to have skipped thes passages.

Far from a tribune of unregulated markets, Smith was a celebrant of effective governance. Hi biggest concern about the state wasn't that it would be overbearing but that it would be overl beholden to narrow private interests. His greatest ire was reserved not for public officials but fo powerful merchants who combined to rig public policies and repress private wages. These "tribes o monopoly" he compared with an "overgrown standing army" that had "become formidable to th government, and upon many occasions intimidate the legislature." Too often, Smith maintaine concentrated economic power skewed the crafting of government policy. "Whenever the legislatur attempts to regulate the differences between masters and their workmen," he complained, "i counsellors are always the masters. . . . They are silent with regard to the pernicious effects of the own gains. They complain only of those of other people."[10]

In the more than two centuries since Smith wrote, the world's advanced economies have grow vastly more complex and interdependent, creating many new sources of market failure. Moreove the extraordinary scale of modern capitalism has repeatedly fostered the sharp concentrations o economic power that so worried Smith. What Smith saw in the protodemocracies of his day— concentrated interests converting power into profits—has become only more sophisticated an common in the advanced democracies of our day. Smith's intellectual heirs even have a term fo such politically generated rewards. They call them "rents," and efforts to secure them "ren seeking."

Contemporary economists sometimes write of rent seeking as if it's only a problem whe government is active. Conservative commentators often argue as if all it takes to "reduce the scope o rent extraction" (in the words of one *Wall Street Journal* columnist) is "shrinking the ambitions ar power of government."[11] But as Smith clearly recognized, the intermingling of markets and politics inevitable: A private sector completely free of government influence is just as mythical (an undesirable) as a government completely free of private-sector influence. And a government tha doesn't act in the face of distorted markets is imposing costs just as real as those imposed when government acts in favor of narrow claimants. Crippling active government to reduce rent seeking i a cure far worse than the disease.

The mixed economy, in short, tackles a double bind. The private markets that foster prosperity s powerfully nonetheless fail routinely, sometimes spectacularly so. At the same time, the governmen policies that are needed to respond to these failures are perpetually under siege from the ver market players who help fuel growth. That is the double bind: Democracy and the market—thumb and fingers—have to work together, but they also need to be partly independent from each other, o the thumb will cease to provide effective counterpressure to the fingers. Smith recognized th dilemma, but it was never resolved adequately during his lifetime, in part because neither market nor democracies had achieved the scale and sophistication necessary to make broad prosperit possible. When that changed, the world did, too.

The (Forgotten) Triumph of the Mixed Economy

The mixed economy is a social institution, a human solution to human problems. Private capitalis and public coercion each predated modern prosperity. Governments were involved in the marke long before the mixed economy. What made the difference was the marriage of large-scale profit-see~~king activity, active democratic governance, and a deepened understanding of how market~~ work (and where they work poorly). As in any marriage, the exact terms of the relationship change over time. In an evolving world, social institutions need to adapt if they are to continue to serve the basic functions. Money, for example, is still doing what it has always done: provide a commo metric, store value, facilitate exchange. But it's now paper or plastic rather than metal, and mor likely to pass from computer to computer than hand to hand. Similarly, the mixed economy i defined not by the specific forms it has taken but by the specific functions it has served: to overcom failures of the market and to translate economic growth into broad advances in human well-being—from better health and education to greater knowledge and opportunity.

The combination of energetic markets and effective governance, deft fingers and strong thumbs has delivered truly miraculous breakthroughs. Indeed, the mixed economy may well be the greates invention in history. It is also a strikingly recent invention. Plot the growth of Western economies o an axis marking the passage of time, and the line would be mostly flat for thousands of years.[12] Eve the emergence of capitalism, momentous as it was, was not synonymous with the birth of mas prosperity. Trapped in a Malthusian race between population and sustenance, societies remained o the brink of destitution until well into the nineteenth century. (Thomas Malthus, born when Ada Smith was completing *The Wealth of Nations*, was an English cleric who predicted that populatio growth would continually outstrip the food supply.) Life expectancy rose only modestly between th Neolithic era of 8500 to 3500 BC and the Victorian era of 1850 to 1900.[13] An American born in t late nineteenth century had an average life expectancy of around forty-five years, with a large shar never making it past their first birthdays.[14]

Then something remarkable happened. In countries on the frontier of economic developmen human health began to improve rapidly, education levels shot up, and standards of living began t grow and grow. Within a century, life expectancies had increased by two-thirds, average years o schooling had gone from single to double digits, and the productivity of workers and the pay the took home had doubled and doubled and then doubled again. With the United States leading th way, the rich world crossed a Great Divide—a divide separating centuries of slow growth, poo health, and anemic technical progress from one of hitherto undreamed-of material comfort an seemingly limitless economic potential. For the first time, rich countries experienced econom development that was both broad and deep, reaching all major segments of society and producin not just greater material comfort but also fundamental transformations in the health and life horizo of those it touched. As the French economist Thomas Piketty points out in his magisterial study o inequality, "It was not until the twentieth century that economic growth became a tangibl unmistakable reality for everyone."[15]

The mixed economy was at the heart of this success—in the United States no less than in othe Western nations. Capitalism played an essential role. But capitalism was not the new entrant on th economic stage. Effective governance was. Public health measures made cities engines of innovatio rather than incubators of illness.[16] The meteoric expansion of public education increased not on individual opportunity but also the economic potential of entire societies. Investments in scienc higher education, and defense spearheaded breakthroughs in medicine, transportatio infrastructure, and technology. Overarching rules and institutions tamed and transformed unstab financial markets and turned boom-bust cycles into more manageable ups and downs. Protection against excessive insecurity and abject destitution encouraged the forward-looking investments an social integration that sustained growth required. At every level of society, the gains in health education, income, and capacity were breathtaking. The mixed economy was a spectacularl pos~~itive-sum bargain: It redistributed power and resources, but as its impacts broadened~~ an diffused, virtually everyone was made massively better off.

It's an impressive record. If advanced democratic capitalism won the twentieth century, th mixed economy deserves to stand atop the podium. If foundations are giving out X Prizes fo technological innovation, ribbons should be pinned onto the modern machinery of econom statecraft. In a sense, they are: Nearly every one of the gee-whiz innovations that we shower wit prizes and profits—indeed, virtually the entire range of computing technologies that so define ou present era—owe their origins to the "military-industrial-academic complex" (Senator Willia Fulbright's reworking of President Dwight Eisenhower's famous phrase) that America's political an economic leaders built in the twentieth century.[17]

There's just one problem: We're trashing the mixed economy.

The Man Who "Ruined the Twentieth Century"

With increasing vigor and volume, some of the most powerful actors in American politics a sabotaging government's essential role in the economy. The assailants include antigovernmen politicians and conservative media celebrities, ultrawealthy activists and influential corpora leaders, idea warriors bankrolled by the rich and the right and business associations dominated b the extreme and the acquisitive. Some mount the vanguards. Others cheer on the assault. And st others—the silent majority of the American political class—remain quiet amid the carnag indifferent to or untroubled by the titanic stakes.

The most active combatants are not simply taking issue with recent departures from the preferred policies. They are taking issue with the entire edifice of modern public authority. The don't think things went wrong in the 1970s. They think things went wrong in the 1930s. Actually many of them think things went wrong even earlier than that. They conjure up a mythical vision o the Constitution's authors as free-market fundamentalists and of the country's early economic rise a a triumph of laissez-faire. They downplay the depredations of the industrial economy that fir prompted social reform and celebrate as geniuses and giants the men whom previous generation called "robber barons."[18] When they tell their stories of declension, they pin the blame on Democratic president who sought to harness government to address emerging economic and socia challenges. But that president is not always FDR. To a surprisingly large number of their intellectua leaders, it is Woodrow Wilson, the southern-born governor of New Jersey who in 1912 becam president of the United States.

Wilson has recently attracted criticism from the left, mainly because of the intensely racist view he brought to the White House. Yet since the late 2000s, it has been the right—especially the voc and vehement "Tea Party" wing that emerged in 2009 to become a major activist force within th Republican Party—that has cast its critical gaze on Wilson. Or, to be more accurate, directed a Wilson a "virulent, obsessive hatred" (in the words of the historian David Greenberg) that border on hysteria.[19] The *National Review* columnist Jonah Goldberg dubs Wilson "the 20th Century's firs fascist dictator."[20] The conservative talk-show host Glenn Beck manages to go one better. Accordin to a recent article in *American History* magazine, "Wilson is No. 1 on his 'Top Ten Bastards of A Time' lists—ahead of not only both Theodore and Franklin Roosevelt, but also Pontius Pilate, Hitle and Pol Pot."[21] "This is the architect that destroyed our faith," Beck said in 2010. "He destroyed ou Constitution, and he destroyed our founders, okay?" Even the establishment conservative Georg

Will has gotten into the hate fest. At a banquet held at the libertarian Cato Institute the same year, h declared that Wilson had "ruined the 20th century."

"Ruined the twentieth century"? That's a big accusation. What did he do to deserve it? Thoug the bill of particulars varies from critic to critic, the right's objections have nothing to do wit Wilson's reactionary views on race. Instead, the charges seem to boil down to one great crim Wilson directed his domestic policy agenda toward building the mixed economy. With the Unite States becoming for the first time a truly national industrial economy, with huge financial an manufacturing "trusts" wielding enormous power over markets and public officials alike, th nation's twenty-eighth president argued that a capable federal government was necessary to addres the festering problems of his time.[22]

Even worse, apparently, Wilson delivered. Working with a supportive Congress, he created th Federal Reserve System, which rescued the United States from almost a century of recurrent ban panics caused by the proliferation of private bank–issued scrip, a hodgepodge of state currencie and the lack of any agency charged with regulating banking or credit.[23] He backed the nation's firs graduated federal income tax, which allowed the United States to move away from its excessiv dependence on tariffs while ensuring that the growing ranks of the superrich helped finance bas government operations.[24] He championed the Clayton Antitrust Act of 1914 to try to break up th uncompetitive monopolies fueling many of those great fortunes. His administration established th Federal Trade Commission (FTC)—"the world's first independent 'competition' agency," in th words of two of its former leaders—whose appointed commissioners oversaw antitrust action without fear of congressional or presidential removal.[25]

More heretical still, Wilson claimed that common understandings of what the Constitution dictate were misaligned with the nation's expanding industrial society. "The Constitution was not meant t hold the government back to the time of horses and wagons," Wilson complained as a Princeto University professor of government in 1908. (We are professionally obligated to note that Wilso was the first and last political scientist to occupy the Oval Office.)[26] To catch up, Wilson supported stronger executive branch with greater power to regulate the national economy. He saw th strengthening of central authority as the natural evolution of American government in response t the profound transformations taking place around it.

Ultimately, Wilson's insistence that government and the economy should grow and adapt togeth is what most enrages today's conservatives. To the outraged George Will, "The very virtue of constitution is that it's not changeable. It exists to prevent change, to embed certain rights so tha they cannot easily be taken away. . . . Gridlock is not an American problem, it is an America achievement!"[27] Will wants us to look to another Princetonian for the true nature of Americ government: James Madison. "When James Madison and fifty-four other geniuses went Philadelphia in the sweltering summer of 1787, they did not go there to design an efficie government. That idea would have horrified them. They wanted a safe government, to which en they filled it with blocking mechanisms: three branches of government, two branches of th legislative branch, veto, veto override, supermajorities, and judicial review."[28]

What the "geniuses [who] went to Philadelphia" wanted remains the subject of endless debate— debate fueled by the real differences among them and the very real ambiguities of the compromis they forged. But James Madison did not go to Philadelphia seeking gridlock. Quite the opposite: Th Virginian who played such a critical role in the nation's founding led the charge for a powerfu national government. He pushed for a new constitution specifically because its predecessor, th Articles of Confederation, adopted in 1777, had been a catastrophe—a decentralized arrangeme too weak to hold the country together or confront pressing problems that needed collecti solu~~tions. Madison arrived at the convention with one firm conviction: Government neede~~d th authority to govern.[29]

In the deliberations that followed, Madison stayed true to that cause. He argued tirelessly for th power of the federal government to be understood broadly and for it to be decisively superior to th states. He even supported an absolute federal veto over all state laws, likening it to "gravity" in th Newtonian framework of the new federal government.[30] Most of the concessions to sta governments in the final document were ones that Madison had opposed. He was a practic politician, and he ultimately defended these compromises in the public arena—the famed *Federali Papers* Madison penned with his colleagues Alexander Hamilton and John Jay are an advertisemen not a blueprint—but he did so because he saw them as necessary, not because he saw them a ideal.[31] Throughout, Madison kept his eyes on the prize: enactment of the more vital and resilie government he regarded as a national imperative.

As for minority vetoes, Madison fought a losing battle to eliminate some (most crucially th disproportionate power of small states in the Senate). He accepted others as necessary safeguard But in "The Federalist No. 58," he made clear why supermajority requirements should be avoide whenever practicable: "In all cases where justice or the general good might require new laws to b passed, or active measures to be pursued, the fundamental principle of free government would b reversed. It would be no longer the majority that would rule: The power would be transferred to th minority."[32]

So much for the virtues of gridlock.

Like the demonization of Woodrow Wilson, the morphing of Madison into some sort o protolibertarian is a manifestation of American Amnesia. The position embraced by George Will an other self-proclaimed "constitutional conservatives" isn't the position of James Madison. It's th position of those who opposed creating the Constitution in the first place. Transport today's Te Party movement, with its hostility to the national government and celebration of states' rights, bac to 1787, and it wouldn't be leading the Federalist campaign for the constitution. It would be leadin the anti-Federalist charge against it.

But there is something even more confusing in Will's attack. What's this about Wilson *ruining* th twentieth century? All centuries have their ups and downs, but the twentieth, despite some terrib downs, was an extraordinary one for the United States and the larger community of emergin affluent democracies. The century that Will thinks Wilson ruined brought greater increases i human prosperity—measured not just by income but also by life expectancy and education an much else—than the entirety of prior human history.

So Will's Cato Institute speech delivers a powerful message. Only it's not a message abou Madison or Wilson. It's a message about American Amnesia and the damage it inflicts on ou democracy and our democratic society.

Falling from Grace

At least since Alexis de Tocqueville visited the United States in the early nineteenth centur American democracy has been seen as a beacon of popular rule and material opportunity. Yet tha beacon is dimming. Beset by polarization and intransigence, flooded with the lobbying dollars narrow interests and the campaign dollars of a tiny slice of the nation's wealthiest citizens, ou political institutions look increasingly incapable of handling even routine matters, much less ou biggest challenges. Public trust in government is at record lows; Congress is so unpopular th ~~Americans say they prefer head lice and root canals to their elected legislature. The twin pill~~ars of successful mixed economy—well-functioning private markets and an effective democrat government—are crumbling.

Saying that the United States is coming up short is never easy or popular. Tocqueville himse worried that the deep patriotism of Americans sometimes prevented a "reflective" assessment their nation's strengths and weaknesses. "A foreigner would indeed consent to praise much in thei country," Tocqueville complained, "but he would want to be permitted to blame something, and thi he is absolutely refused."[33]

Almost two centuries later, Tocqueville's words still ring true. To question any aspect o American greatness, according to many commentators, is to deny "American exceptionalism": th notion that the United States is not just singular but singularly awesome. In recent years, the tw word phrase has become a rhetorical battering ram, used more and more to quell a long-overdu conversation about America's faltering performance. (Between 1980 and 2008, according to Google' catalog of English-language books, the number of references to "American exceptionalism increased almost eightfold.)[34] But celebrating America's enormous achievements does not requi ignoring the many ways in which we are coming up short. We should cheer the great America experiment—the "shining city upon a hill" (Reagan), "the New World in all tongues, to all peoples (FDR).[35] But we should also embrace the reflective patriotism that Tocqueville advocated, patriotism that acknowledges the challenges we face—and recognizes that many of them cannot b addressed without effective governance.

For those challenges are mounting. Over the last decade or so, a growing body of evidence ha shown that the United States is indeed exceptional, just not always in a good way. In a range of area —human health, high-quality education, economic opportunity, broad-based income gains—we ar losing the significant lead over other democracies that our successful mixed economy produced.[36] I some areas, such as health and education, we are moving from the top part of the internation rankings to the bottom.[37] In others, we are failing to address emerging challenges, such as glob warming and rising obesity.

Worse, even our relatively poor performance often *understates* how far we have fallen. In som cases, the best aspects of our performance reflect the lingering impact of past investments no longe being made—in basic scientific research, for example, or modern infrastructure. In others, measure of "average" performance provide a false reassurance because they reflect extremely stron outcomes among older Americans, based on the efforts of a generation or two ago. When we focu on the young, however, we see a bleaker picture of a nation failing to ensure what was onc assumed: that each generation would do better than the last.[38]

What makes these trends especially troubling is that they constitute such a stark departure fro the successful mixed economic model that marked America's long and extraordinary ascent. Fro the end of the nineteenth century, the United States led a revolutionary transformation experience by a small club of rich nations. We were the first middle-class nation, the runaway leader in hig school and then college graduation rates, the unrivaled champion in medical innovation and bas scientific research. Our infrastructure was world class and included some of the greatest engineerin achievements in human history. Our economy was a model of productivity-driven growth. Ou conservation and environmental programs set the standard for other rich nations. Our public heal efforts, from sanitation, to smoking control, to auto safety, inspired those seeking to improve healt worldwide. Now, on the most critical measures of social success, we are sliding slowly from the fro to the back of the pack. What happened?

The Great Forgetting

The signs read Republicans for Romney. A prominent Republican businessman and former governo is seeking to unseat a Democrat in the White House. The candidate typifies business thinking– perhaps a bit more moderate than the norm but well within the mainstream of corporate opinio And he is a man who says he can get things done, given his practical experience governing a highl unionized "blue" state with a progovernment electorate.

But this is not the Romney you know—not Mitt, the unsuccessful candidate in 2012, but h father, George, the unsuccessful candidate in 1968.[39] They shared a name; they shared a busine background; they even shared a stint in a statehouse (Michigan in George's case; Massachusetts i Mitt's). Yet in all the ways that mattered for how they led companies and citizens, they occupie radically different economic and political worlds.[40] The transit between these worlds traces th erosion of the mixed economy and, with it, the foundations of our shared prosperity. Betwee Romney and Romney, American Amnesia took hold.

George Romney's private-sector experience typified the business world of his time. His executiv career took place within a single company, American Motors Corporation, where his success reste on the dogged (and prescient) pursuit of more fuel-efficient cars.[41] Rooted in a particular locale, th industrial Midwest, AMC was built on a philosophy of civic engagement. Romney dismissed th "rugged individualism" touted by conservatives as "nothing but a political banner to cover u greed."[42] Nor was this dismissal just cheap talk: He once returned a substantial bonus that h regarded as excessive.[43] Prosperity was not an individual product, in Romney's view; it wa generated through bargaining and compromises among stakeholders (managers, workers, publ officials, and the local community) as well as through individual initiative.

When George Romney turned to politics, he carried this understanding with him. Romne exemplified the moderate perspective characteristic of many high-profile Republicans of his day. H stressed the importance of private initiative and decentralized governance, and worried about th power of unions. Yet he also believed that government had a vital role to play in securing prosperi for all. He once famously called UAW head Walter Reuther "the most dangerous man in Detroit," bu then, characteristically, developed a good working relationship with him.[44] Elected governor in 196 after working to update Michigan's constitution, he broke with conservatives in his own party an worked across party lines to raise the minimum wage, enact an income tax, double state educatio expenditures during his first five years in office, and introduce more generous programs for th poor and unemployed.[45] He signed into law a bill giving teachers collective bargaining rights.[46] At time when conservatives were turning to the antigovernment individualism of Barry Goldwate Romney called on the GOP to make the insurance of equal opportunity a top priority. As Richar Nixon's secretary of the US Department of Housing and Urban Development from 1969 to 1973, h courageously tried to tackle the de facto racial segregation that plagued America's urban centers.[47]

George Romney sought a party that reached toward the broad middle. His allies were figures suc as New York governor Nelson Rockefeller, who argued for an effective partnership betwee government and the private sector. In contrast to Goldwater's famous dictum that "extremism i defense of liberty is no vice," Romney maintained that "dogmatic ideological parties tend to splint the political and social fabric of a nation, lead to governmental crises and deadlocks, and stymie th compromises so often necessary to preserve freedom and achieve progress."[48]

Fast-forward a generation. Like his father, Mitt Romney reflects key economic and politica fea~~tures of his time. Along with other firms in the burgeoning world of "private equity," Bain C~~apita —the business Romney cofounded and led—helped pioneer a new corporate model in whic individual companies were not socially embedded communities of stakeholders but commodities rip for financial restructuring.[49] Partly by exploiting legal opportunities tied to the tax code, Bain coul extract enormous resources, even if the "reengineered" companies failed to thrive. Corpora rearrangers are the masters of this new economic universe. According to Mitt Romney and all othe contemporary GOP candidates, they are the vital entrepreneurs ("the job creators") who should b unhindered—and virtually untaxed—by governments.[50]

The corporate world of Mitt Romney's day is far more globalized than that of George Romney's But even more fundamentally, it is far more financialized.[51] Compared with George Romney durin his career at American Motors, CEOs today are far less closely bound to a particular community o even a particular company.[52] Their rewards come increasingly from the short-term movement o share prices, which dominate the huge pay packages they demand.[53] And the financial rewards the top, both on Wall Street and in executive suites, generate enormous fortunes. Just as i Woodrow Wilson's day, these concentrated resources threaten to swamp democratic government, as economic power transmutes into political power, and that power further enriches the privileged.

The incentive for CEOs to consider other stakeholders is also far weaker than in George Romney' world. Government and organized labor, the two major sources of "countervailing power" (to us economist John Kenneth Galbraith's famous phrase), once encouraged business leaders to negotiat and seek mutually beneficial compromises.[54] Now unions are almost gone from the private secto and government leaders are much less willing to use public authority to create benefici constraint.[55] The business associations that sometimes supported that government role an encouraged a long view and a broader perspective are mostly gone too. In their place are new o reoriented lobbies that cater mostly to the narrow demands of particular sectors.[56] Beneath the hig tech exteriors, much of America's economy has taken on a feudalistic structure, where the barons o Wall Street or health care or the energy sector decide the "corporate" position on the issues the care about most. These structures of corporate power leave little room for George Romney's view that government is an essential partner for generating broad-based prosperity.

If the private sector and the definition of personal success have changed, so too has the charact of the Republican Party. It turned out that Goldwater, not George Romney, pointed to the future o the GOP, and George Romney's son would inherit the kind of party that the elder Romney ha warned about. The issue that had split George Romney and Barry Goldwater—civil rights—soo split the Democratic Party and reinvigorated Republicans in the South. Even more fateful for Georg Romney's economic agenda, Goldwater's libertarianism became the lodestar for an economi philosophy centered on tax cuts, deregulation, and hostility toward both government and organize labor. Reagan, who had sided with the Arizona senator over Romney and his allies in 1964 an accused GOP moderates of "betrayal," rejected the latter's model of industrial partnership an political compromise, marking out a rightward path along which his party continues to march.[57]

George Romney's son joined that rightward march. He abandoned his blue-state positions upo entering national politics as his father had not. Yet Mitt Romney's effort to cast himself as "a severel conservative governor" (as he put it in a speech to the Conservative Political Action Conference i early 2012) quickly proved insufficient. Having moved toward the conservative pole to run fo president in 2008, he moved further still to capture the Republican presidential nomination in 201 As his running mate, he chose the extremely conservative Paul Ryan (an admirer of the radicall antigovernment writings of Ayn Rand). But as fast as Romney moved right, his party moved faster.

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American Motors is just a memory now, swallowed up long ago by much larger and more globall oriented firms. So, too, is the GOP of George Romney. And so, too, is the faith in the mixed econom they endorsed and nurtured. This book explains why.

Part 1 tells the story of George Romney's America: the achievements of America's mixe economic model and the political balance that made it possible. This is an American story, but it not just an American story. The United States was not alone in crossing the Great Divide, and so w should resist explanations of American achievements that rest too heavily on singular features America's postwar model, effective as it was. America's mixed economy was distinctive, but al nations that catapulted into affluence had mixed economies of their own—based on some importa but forgotten truths about how markets, and governments, really operate.

Part 2 tells the story of Mitt Romney's America: how and why a once successful model fell apa and the costs of this disintegration for American society. This is not just an American story either. A rich nations have had to grapple with the changing contours of advanced capitalism. Yet it is th United States that has experienced the most concerted attack on the public foundations of the mixe economy and the most sweeping denial of prior understandings of what fosters prosperity. And, a we shall see in the next chapter, it has paid a very high price for this forced forgetting.

The economic challenges that face affluent democracies are well known: the increase in glob competition, the shift from manufacturing to services, the ascent of high-rolling finance as both powerful shaper of corporate strategies and a dominant sector of the economy in its own right. B the social institution of the mixed economy could have been updated to respond to these change The balance between effective public authority and dynamic private markets could have bee recalibrated rather than rejected. Instead, the political coalition in favor of such a constructiv balance shattered under the pressure of an increasingly conservative Republican Party and a increasingly insular, parochial, and extreme business leadership. The moderate perspective tha government and the market needed to complement each other gave way. It was replaced by a destructive insistence that these two centers of power were locked in mortal combat—destructiv because so many of those in power rejected adaption in favor of upending, destructive because thi insistence so often magnified rather than mitigated the economic challenges faced, and destructiv because so few Americans now trust their democracy to do what democracies must do to ensu broad prosperity.

In the book's closing, we make the case that we can and must restore a well-functioning politic that promotes shared prosperity. Yes, the specific arrangements that enabled the American economi model of the last century are dead and buried. But we are convinced it is possible to build a ne model for economic success, on new political foundations, to deepen prosperity in the twenty-fir century. More than that, we are convinced—and we hope to convince you—that the complex an interdependent knowledge economy of our day offers tremendous opportunities for positive-su bargains that will strengthen both American capitalism and the health of American society. If we a to grasp these opportunities, however, we need a mixed economy as much as, if not more than, w ever have. For all the changes that have occurred during the fifty-year transition from Georg Romney's world to Mitt Romney's, that strong thumb of government still needs to assist an constrain those nimble fingers of the market.

Demonstrating government’s centrality to our shared prosperity is the main task of part 1. Firs how~~ever, we must look with clear eyes at the failings of our society that are the predictabl~~e an alarming result of forgetting this essential truth.

PART I

THE RISE OF THE MIXED ECONOMY

ONE

Coming Up Short

AMERICANS PRIDE themselves on standing tall: rising to the challenge, achieving the onc unattainable, raising the bar of social success. Yet as we have faltered in harnessing the enormou positive potential of public authority, we have also fallen behind the pace of social improvement i other rich nations, as well as the pace we set in our own past. In area after area where we onc dominated, we are falling down the rankings of social success. In area after area where new threa loom, we are failing to rise up to the challenge. We are not standing tall—literally, we shall see—an our malign neglect of the mixed economy bears a great deal of the blame.

Losing Ground

For much of US history, Americans were the tallest people in the world by a large margin. When th thirteen colonies that occupied the Atlantic seaboard broke from the British Empire, adult America men were on average three inches taller than their counterparts in England, and they were almo that much taller than men in the Netherlands, the great economic power before Britain Revolutionary soldiers looked up to General George Washington, but not, as often assumed, becaus he was a giant among Lilliputians. David McCullough, in his popular biography of John Adam describes Washington as "nearly a head taller than Adams—six feet four in his boots, taller tha almost anyone of the day." [2] Those must have been some boots, for Washington was six feet two. [3] A five foot seven, Adams was just an inch below the average for American soldiers and significantl taller than a typical European soldier.[4]

Americans were tall because Americans were healthy. "Poor as they were," notes the colonia historian William Polk, "Americans ate and were housed better than Englishmen." [5] Sickness an premature death were common, of course, especially outside the privileged circle of white men. Sti European visitors like Tocqueville marveled at the fertility of the land and the robustness of i settlers, the relative equality of male citizens and the strong civic bonds among them.[6] J. Hector S John de Crèvecoeur wrote in 1782 of the American settler in *Letters from an American Farme* "Instead of starving he will be fed, instead of being idle he will have employment, and there ar riches enough for such men as come over here."[7]

The cause of the American height advantage could not have been income alone. According t most sources, the average resident of the Netherlands or England was richer than colonial America but also substantially shorter.[8] Indeed, as the United States matched and then surpassed Europ economically in the nineteenth century, the average height of American men actually fell, recoverin back to colonial levels only around the dawn of the twentieth century. [9] These ebbs and flows, whic played out in other industrializing nations as well, are a reminder that economic growth an population health are not one and the same.[10] (We shall unravel the mystery of the inter~~dependence in the next chapter.) Nonetheless, Americans remained far and away the~~ talles people in the world throughout the nineteenth century, and average American heights rose quickl in the early decades of the twentieth.[11] When the United States entered World War II, youn American men averaged five feet nine inches—almost two inches taller, on average, than the youn Germans they were fighting.[12]

While people know that height is a strong predictor of individual achievement (test score occupational prestige, pay), it is also a revealing marker of population health. [13] Height has a lot to d with genes, but height differences across nations seem to be caused mostly by social conditions, suc as income, nutrition, health coverage, and social cohesion.[14] Indeed, one reason for the correlatio between height and achievement is that kids whose mothers are healthy during pregnancy and wh grow up with sufficient food, medical care, and family support tend to be taller adults. An averag US white girl born in the early 1910s could expect to reach around five foot three; an average U white girl born in the late 1950s could expect to exceed five foot five.[15] Evolution just doesn happen that fast.

So it's striking that Americans are no longer the tallest people in the world. Not even close: Onc three inches taller than residents of the Old World, on average, Americans are now about thre inches shorter. The average Dutch height for men is six foot one, and for women, five foot eight— versus five foot nine for American men and five foot five for American women. [16] The gap is not, a might be supposed, a result of immigration: White, native-born Americans who speak English a home are significantly smaller, too, and immigration isn't substantial enough to explain th discrepancy in any case.[17] Nor can the growing gap be explained by differences in how height measured. Though some countries rely on self-reported heights for their statistics—and, yes, me tend to "round up"—Americans look shorter even when the only countries in the rankings are tho that, like the United States, measure heights directly.[18]

Americans are not shrinking. (Overall, that is—there is some evidence that both white and blac women born after 1960 are shorter than their parents.)[19] But the increase in Americans' averag stature has been glacial, even as heights continue to rise steadily abroad. To really see our lost heigh advantage, you have to break the population into age groups, or what demographers call birt cohorts. People in their twenties, after all, are as tall as they will ever be. Changes in average heigh come from changes in the height of the young (and deaths among older cohorts). And, indeed, th adult heights of those born during a given period provide a powerful image of the living conditio experienced by infants and adolescents at the time. The fall in average heights among those born i the mid-1800s, for example, signaled the costs as well as benefits of the country's industrial an urban shift, which brought increased infectious disease as well as higher incomes, harsher lives fo the masses as well as better lives for the elite.[20] (The privileged American men who applied fo passports in 1890 were, on average, more than an inch and a half taller than army recruits at th time.)[21]

In general, heights are converging among affluent nations, and the biggest gains have occurred i countries admitted most recently to the rich-nation club.[22] Within countries, younger age groups ar generally much taller than older age groups—which makes sense: Older people spent their growin years (including their growth within the womb) in poorer societies with more limited healt technology and knowledge.[23] But the United States is a conspicuous exception to these pattern Average heights have barely budged in recent decades, so young Americans—again, even whe leaving out recent immigrants—are barely taller than their parents.[24] Older Americans are rough on par with their counterparts abroad; younger Americans are substantially shorter. The Unite States ~~is the richest populous nation in the world. Nevertheless, its young are roughly as tall~~ as th young in Portugal, which has a per capita gross domestic product (GDP) less than half ours.[25]

On Rankings and Ratings

Because height is a powerful indicator of social and individual health, America's relative declin should ring alarms. Our young are coming up short—relative not just to gains in stature of the pa but also to gains in stature in other rich nations.

Still, if shorter kids were the only sign of trouble, we might safely ignore the alarms. For all bu aspiring basketball players, tallness is not an end in itself. It can even create problems: The Dutc have had to rewrite their building codes so men don't routinely smash their heads into doo frames.[26] Unfortunately, America's journey from tallest to smallish has played out in area after area When it comes to health, education, and even income—still our strongest suit, though we're holdin fewer high cards than in the past—we are falling down the rankings of social success.

We often miss this, and not just because triumphant cries of American exceptionalism drown o the alarms. Comparing countries on indicators of social health is tricky, and the temptation to stac the deck is strong. Moreover, our standard statistics frequently *understate* how poorly the Unite States is doing at harnessing the combined energies of government and the market. To get a accurate picture, we have to spend a little time sifting through the best available data, separating th meaningful from the misleading. We also have to focus on the experiences most relevant fo understanding not how we've done in the past but how we are doing now—and unless we chang course, how we are likely to do in the future.

Put another way, not all performance assessments are equally valid or instructive. Each yea brings scores of scores purporting to rank almost every conceivable object of interest—school businesses, cities, states, regions, countries—across almost every conceivable category, from colleg completion, to wine consumption, to online porn viewing. (For the record, Washington, DC, tops U state rankings in all three.) But sensibly comparing states, countries, or anything else require following a few simple ground rules. The first is to compare apples to apples. Washington, DC, isn actually that comparable to the fifty states because it's essentially a big city (hence the porn-wine college trifecta). For cross-national analysis, comparing apples to apples means comparing countri at similar levels of economic development. It also means using indicators that are as close to the sam as possible across nations. And it requires transparency: Proprietary data and secret formulas a anathema to serious comparison (but endemic to many special-interest rankings).

So we should compare apples to apples. But which apples should we be comparing? A good plac to begin is the three core components of the UN's Human Development Index: health, education, an income. The index captures the idea that development is about "advancing the richness of huma life"—to quote its intellectual father, the Nobel laureate Amartya Sen—and not just "the richness o the economy in which human beings live." [27] The index itself isn't all that useful for ranking ric nations. It often sets the bar low (can people read and write?), and it's limited to a few bas indicators available for all countries. Nonetheless, the UN's pioneering investigations provide a soli jumping-off point for asking how well the contemporary United States is doing relative to other ric nations in fostering citizens' well-being.

When asking that question, the issue isn't merely how well we are doing today. It's also whethe we are pulling ahead or falling behind. One data point gives us a level; two or more give us a trenc And, in general, it's trends that reveal the most about our relative performance. To be sure, w should be careful not to read too much into short-term fluctuations. Nor should we forget that o ~~many metrics, there is a natural process of “reversion to the mean”: Relative to other countries~~, th highest-performing nations are more likely to fall toward other nations’ performances, and th lowest performing to rise toward other nations’ performances.

Still, trends matter most. And that means we should be at least as interested in the direction soci indicators are heading (and at what pace) as in their level. It also means we should pay speci attention to one particular group: the young. Most cross-national analyses look at countries as whole, comparing several generations of people in one nation with several generations in anothe Sometimes that’s appropriate. If we want to know which countries are good at getting all citizens fl shots, we are interested in national averages. Usually, however, the experience of the young is mos revealing, and not just because the young are most affected by current conditions. The young tell u about trends. If, for example, we’re falling behind in getting young adults through college (and w are), looking at the average educational level of the entire population will provide false reassuranc Typically, then, the critical comparisons across nations concern the young. Unhappily, these are also the comparisons where the most troubling image of American performance emerges.

A final issue to keep in mind: Investment (or lack of investment) does not bear its (bitter) fru immediately. Supporting science, technology, and education, for example, reaps big returns.[28] But takes time—sometimes a long time—to see the payoffs. As we will see in chapters 2 and 4, the high tech expansion of the last few decades rested on scientific and technical advances seeded more tha a generation earlier.[29] The opposite problem arises in cases of deferred maintenance: failing t upgrade critical infrastructure, for example, or to seed technological advances that will blossom i the future. The costs, though real, won’t be fully apparent for some time.

The same can be said about failing to tackle emerging challenges—an area where, we shall se the United States is doing especially poorly. A generation ago, few worried about how well nation were addressing obesity or global warming. Now we know that the health of our society and th future of our planet depend on effective responses. The low bar for social performance is continuin to meet challenges we’ve met before. The high bar is doing well where we face new challenge Unfortunately, not only is the United States having trouble clearing the low bar; it is barely even trying to clear the higher one.

The United States is still a remarkably successful nation. Over the last century, we have achieved unprecedented levels of prosperity, witnessed quantum increases in health and life expectancy, an sought to address problems that once mocked our finest traditions of democracy and opportunity from vicious racial exclusion to grim elderly poverty to dangerously unclean air and water. And w have continued to gain ground in many of these areas over the last generation. Yet these gains hav been halting and slow. Even more worrisome, they lag behind gains in other rich democracies.

Health

Among the big three of health, education, and income, none is more important than health. Thos who study the economics of health and longevity find consistently that the value of physical wel being within a society vastly exceeds a nation’s total income.[30] But even without such calculation we all know that health is a precondition for everything else we seek to achieve. When th Declaration of Independence celebrated “life, liberty, and the pursuit of happiness,” there was reason “life” led the list.

When it comes to health—in fact, when it comes to any measure of the well-being of individu members of a society—small differences matter when summed up across large populations. Conside a se~~emingly trivial example: that dreaded spinning wheel that tells you your computer is spinn~~ing i wheels. In his biography of Apple founder Steve Jobs, Walter Isaacson recounts an exchang between Jobs and Larry Kenyon, an engineer whom Jobs had cornered to complain that the ne Macintosh took too long to start up:

> Kenyon started to explain, but Jobs cut him off. "If it could save a person's life, would you find a way to shave ten seconds off the boot time?" he asked. Kenyon allowed that he probably could. Jobs went to a whiteboard and showed him that if there were five million people using the Mac, and it took ten seconds extra to turn it on every day, that added up to three hundred million or so hours per year that people would save, which was the equivalent of at least one hundred lifetimes saved per year. "Larry was suitably impressed, and a few weeks later he came back, and it booted up twenty-eight seconds faster," [Apple programmer Bill] Atkinson recalled.[31]

Jobs's point holds more generally: Even small differences in how long we live add up. An extra fou months of life expectancy in a country with 321 million residents is 107 million additional years o life. Economists who are comfortable converting lives into dollars generally value a "quality-adjuste life year"—QALY, in economics jargon—in the neighborhood of $100,000 (though estimates rang from less than $50,000 per QALY to more than $250,000).[32] That would mean those four months a worth somewhere north of $10 trillion.

Shorter Lives, Poorer Health

So it is more than a little disconcerting that health is also where the United States does most poor compared with other rich nations. In 2013 the prestigious National Academy of Sciences released mammoth report with a self-explanatory title: *U.S. Health in International Perspective: Shorter Live Poorer Health*. "The United States is among the wealthiest nations in the world," the report bega "but it is far from the healthiest. . . . Americans live shorter lives and experience more injuries an illnesses than people in other high-income countries."[33]

On virtually all measures, according to the report, the United States is losing ground rapidly other rich nations. At midcentury, American were generally healthier than citizens of other ric nations, and as late as 1980, they were still not far from the middle of the pack.[34] Since the however, other rich countries have seen rapid health gains. The United States has not.[35]

Take life expectancy at birth—the easiest statistic to track, since death records are general reliable and consistent across nations. The National Academies study looked at seventeen ric nations. Among these, the United States ranked seventeenth for men in 2011 (life expectancy: 76 years, a full 4.2 years shorter than the top-ranking nation). It ranked an equally dismal seventeent for women (81.1 years, 4.8 years shorter than the top-ranking nation).[36] The United States is home about 163 million women and 158 million men, so ranking in the middle teens rather than at the to translates into 1.45 *billion* fewer years of life.[37]

Midlife Crisis

The relative decline has been particularly steep for an unlikely group: middle-aged white adults. In groundbreaking 2015 study, the Prince-ton University economists Anne Case and Angus Deaton (th latter the recipient of the Nobel Prize in Economics that same year) dug into the mortality statistics