

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

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The background of the cover is a photograph of the United States Capitol building dome, centered and slightly faded. The dome is white with a dark top and a statue on top. The sky is a pale blue.

AMERICAN  
AMNESIA



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

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# AMERICAN AMNESIA



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

**JACOB S. HACKER** *and*  
**PAUL PIERSON**

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## Prosperity Lost

**T**HIS BOOK is about an uncomfortable truth: It takes government—a lot of government—for advanced societies to flourish.

This truth is uncomfortable because Americans cherish freedom. Government is effective in part because it limits freedom—because, in the language of political philosophy, it exercises legitimate coercion. Government can tell people they must send their children to school rather than the fields, that they can't dump toxins into the water or air, and that they must contribute to meet expenses that benefit the entire community. To be sure, government also secures our freedom. Without its ability to compel behavior, it would not just be powerless to protect our liberties; it would cease to be a vehicle for achieving many of our most important shared ends. But there's no getting around it: 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 the Declaration of Independence—with its ringing declaration of “certain unalienable rights” and its 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 the absence of effective public authority was a mortal threat to the fledgling nation.<sup>1</sup> Perhaps the most influential of them all, James Madison, put the point bluntly in arguing against those at the Virginia ratifying convention who worried that the Constitution would create too strong a national 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.”<sup>2</sup> In calling on Americans to discard the loose Articles of Confederation that had brought so much instability and vulnerability, the Virginian known as the “Father of the Constitution” declared, “A sanction is essential to the idea of law, as coercion is to that of Government. The [current] system being destitute of both, wants the great vital principles of a Political Constitution.”<sup>3</sup>

But Americans have never been good at acknowledging government's necessary role in supporting both freedom and prosperity.<sup>4</sup> And we have become much less so over the last generation. We live in an era of profound skepticism about government. Contemporary political discourse portrays liberty and coercion as locked in ceaseless conflict. We are told that government is about “redistribution” and the private sector about “production,” as if government only reshuffles the economic deck rather than holding many of the highest cards. We are told “free enterprise” and “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 most impressive positive-sum bargain (making both sides better off). We are told that the United States got rich in spite of government, when the truth is closer to the opposite: The United States got rich

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, more effective government—a strained middle class, a weakened system for generating life-improving innovation, a dangerously warming planet—we ignore what both our history and basic economic theory suggest: We need a *constructive and mutually beneficial tension* between markets and 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 narrow private interests and carry out long-term courses of action on behalf of broader concerns. At the Constitutional Convention in 1787, one of the delegates noted: “It has never been a complaint of [the Confederate Congress] that they governed overmuch. The complaint has been that they governed too little.”<sup>5</sup> Today there are complaints only about our leaders governing “overmuch.” But the truth is that although areas of government overreach certainly do exist, we have “too little” effective government, not too much.

We recognize that these words are likely to provoke doubt, if not disbelief. We ask only that these reactions be suspended long enough to consider the evidence. Fortunately, it is close at hand 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 prosperity are well buried. We have to dig deeply into the debris left behind by nearly a half century of ideological warfare to unearth the economic model that—in remarkably short order, beginning little 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 “mixed economy.” In this public-private arrangement, markets play the dominant role in producing and allocating goods and innovating to meet consumer demand. Apple brings us iPhones, and it earns sizable profits by doing so. Visionaries such as Steve Jobs see untapped opportunities to make money by satisfying human wants, and then draw on the knowledge and technology around them to produce goods and services for which people are willing to pay. Markets are the most powerful institutions yet developed to encourage and coordinate decentralized action in response to individual 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 major components (GPS, lithium-ion batteries, cellular technology, touch-screen and LCD displays, internet connectivity) rest on research that was publicly funded—and, in some cases, carried out directly by government agencies.<sup>6</sup> Jobs and his creative team transformed all this into something unique, and 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 to produce. That knowledge is embodied not just in science and technology but also in a skilled workforce that government fosters directly and indirectly: through K–12 schools, support for higher education, and the provision of social supports that encourage beneficial risk taking. And even if government had played no role in seeding or enabling Apple’s products, it would be responsible for 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 not all mixes are equally effective. Public policies don't always foster prosperity. Those within government can hurt rather than harness the market, directing special favors to narrow interest groups or constraining economic dynamism in ways that stifle growth. No less important (though much more neglected), they can fail to respond to problems in the market that could and should be addressed by effective public action, hindering growth through omission rather than commission. For all this, however, no country has risen to richness without complementing private markets with an extensive array of core functions that rest on public authority—without, that is, a mixed economy.

That markets fall short under certain conditions has been known for at least two centuries. The 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 self-interest produced bad outcomes: underinvestment in education, financial instability, insufficient infrastructure, unchecked monopolies.<sup>7</sup> Economists have been building on these insights ever since to explain when and why markets stumble and how the *visible* hand of government can make the 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: nimble and dexterous. Governments, with their capacity to exercise authority, are like thumbs: powerful but lacking subtlety and flexibility.<sup>8</sup> The invisible hand is all fingers. The visible hand is all thumbs. Of course, one wouldn't want to be all thumbs. But one wouldn't want to be all fingers, either. Thumbs provide countervailing power, constraint, and adjustment to get the best out of those nimble fingers.

To achieve this potential requires not just an appropriate division of labor but also a healthy balance of power. Markets give rise to highly resourceful economic actors who want government to favor them. Absent measures to blunt or offset their political edge, their demands will drown out the voice of broader groups: consumers, workers, concerned citizens. Today the message most commentators take from Adam Smith is that government should get out of the way. But that was not Smith's message. He was enthusiastic about government regulation so long as it wasn't simply a ruse to advantage one set of commercial interests over another. When “regulation . . . is in favor of the workmen,” he wrote in *The Wealth of Nations*, “it is always just and equitable.” He was equally



enthusiastic about the taxes needed to fund effective governance. “Every tax,” he wrote, “is to the person who pays it a badge, not of slavery but of liberty.”<sup>9</sup> Contemporary libertarians who invoke Smith before decrying labor laws or comparing taxation to theft seem to have skipped these passages.

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

In the more than two centuries since Smith wrote, the world's advanced economies have grown vastly more complex and interdependent, creating many new sources of market failure. Moreover, the extraordinary scale of modern capitalism has repeatedly fostered the sharp concentrations of 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 and common in the advanced democracies of our day. Smith's intellectual heirs even have a term for such politically generated rewards. They call them “rents,” and efforts to secure them “rent seeking.”

Contemporary economists sometimes write of rent seeking as if it's only a problem when government is active. Conservative commentators often argue as if all it takes to “reduce the scope of rent extraction” (in the words of one *Wall Street Journal* columnist) is “shrinking the ambitions and power of government.”<sup>11</sup> But as Smith clearly recognized, the intermingling of markets and politics is inevitable: A private sector completely free of government influence is just as mythical (and as undesirable) as a government completely free of private-sector influence. And a government that 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 is a cure far worse than the disease.

The mixed economy, in short, tackles a double bind. The private markets that foster prosperity so powerfully nonetheless fail routinely, sometimes spectacularly so. At the same time, the government policies that are needed to respond to these failures are perpetually under siege from the very 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, or the thumb will cease to provide effective counterpressure to the fingers. Smith recognized the dilemma, but it was never resolved adequately during his lifetime, in part because neither markets nor democracies had achieved the scale and sophistication necessary to make broad prosperity 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 capitalism and public coercion each predated modern prosperity. Governments were involved in the market

long before the mixed economy. What made the difference was the marriage of large-scale profit seeking activity, active democratic governance, and a deepened understanding of how markets 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 their basic functions. Money, for example, is still doing what it has always done: provide a common metric, store value, facilitate exchange. But it's now paper or plastic rather than metal, and more likely to pass from computer to computer than hand to hand. Similarly, the mixed economy is defined not by the specific forms it has taken but by the specific functions it has served: to overcome 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 greatest invention in history. It is also a strikingly recent invention. Plot the growth of Western economies on an axis marking the passage of time, and the line would be mostly flat for thousands of years.<sup>12</sup> Even the emergence of capitalism, momentous as it was, was not synonymous with the birth of mass prosperity. Trapped in a Malthusian race between population and sustenance, societies remained on the brink of destitution until well into the nineteenth century. (Thomas Malthus, born when Adam Smith was completing *The Wealth of Nations*, was an English cleric who predicted that population growth would continually outstrip the food supply.) Life expectancy rose only modestly between the Neolithic era of 8500 to 3500 BC and the Victorian era of 1850 to 1900.<sup>13</sup> An American born in the late nineteenth century had an average life expectancy of around forty-five years, with a large share never making it past their first birthdays.<sup>14</sup>

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

The mixed economy was at the heart of this success—in the United States no less than in other Western nations. Capitalism played an essential role. But capitalism was not the new entrant on the economic stage. Effective governance was. Public health measures made cities engines of innovation rather than incubators of illness.<sup>16</sup> The meteoric expansion of public education increased not only individual opportunity but also the economic potential of entire societies. Investments in science, higher education, and defense spearheaded breakthroughs in medicine, transportation, infrastructure, and technology. Overarching rules and institutions tamed and transformed unstable 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 and 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 spectacularly positive-sum bargain: It redistributed power and resources, but as its impacts broadened and diffused, virtually everyone was made massively better off.

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

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 are sabotaging government’s essential role in the economy. The assailants include antigovernment politicians and conservative media celebrities, ultrawealthy activists and influential corporate leaders, idea warriors bankrolled by the rich and the right and business associations dominated by the extreme and the acquisitive. Some mount the vanguards. Others cheer on the assault. And still others—the silent majority of the American political class—remain quiet amid the carnage, indifferent to or untroubled by the titanic stakes.

The most active combatants are not simply taking issue with recent departures from their preferred policies. They are taking issue with the entire edifice of modern public authority. They 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 of the Constitution’s authors as free-market fundamentalists and of the country’s early economic rise as a triumph of laissez-faire. They downplay the depredations of the industrial economy that first prompted social reform and celebrate as geniuses and giants the men whom previous generations called “robber barons.”<sup>18</sup> When they tell their stories of declension, they pin the blame on a Democratic president who sought to harness government to address emerging economic and social challenges. But that president is not always FDR. To a surprisingly large number of their intellectual leaders, it is Woodrow Wilson, the southern-born governor of New Jersey who in 1912 became president of the United States.

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

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

“Ruined the twentieth century”? That’s a big accusation. What did he do to deserve it? Though the bill of particulars varies from critic to critic, the right’s objections have nothing to do with Wilson’s reactionary views on race. Instead, the charges seem to boil down to one great crime: Wilson directed his domestic policy agenda toward building the mixed economy. With the United States becoming for the first time a truly national industrial economy, with huge financial and manufacturing “trusts” wielding enormous power over markets and public officials alike, the nation’s twenty-eighth president argued that a capable federal government was necessary to address the festering problems of his time.<sup>22</sup>

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

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

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

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 compromise they forged. But James Madison did not go to Philadelphia seeking gridlock. Quite the opposite: The Virginian who played such a critical role in the nation’s founding led the charge for a powerful national government. He pushed for a new constitution specifically because its predecessor, the Articles of Confederation, adopted in 1777, had been a catastrophe—a decentralized arrangement

too weak to hold the country together or confront pressing problems that needed collective solutions. Madison arrived at the convention with one firm conviction: Government needed the authority to govern.<sup>29</sup>

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

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

So much for the virtues of gridlock.

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

But there is something even more confusing in Will’s attack. What’s this about Wilson *ruining* the twentieth century? All centuries have their ups and downs, but the twentieth, despite some terrible downs, was an extraordinary one for the United States and the larger community of emerging affluent democracies. The century that Will thinks Wilson ruined brought greater increases in human prosperity—measured not just by income but also by life expectancy and education and 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 about Madison or Wilson. It’s a message about American Amnesia and the damage it inflicts on our democracy and our democratic society.

## Falling from Grace

At least since Alexis de Tocqueville visited the United States in the early nineteenth century, American democracy has been seen as a beacon of popular rule and material opportunity. Yet that beacon is dimming. Beset by polarization and intransigence, flooded with the lobbying dollars of narrow interests and the campaign dollars of a tiny slice of the nation’s wealthiest citizens, our political institutions look increasingly incapable of handling even routine matters, much less our

biggest challenges. Public trust in government is at record lows; Congress is so unpopular that Americans say they prefer head lice and root canals to their elected legislature. The twin pillars of a successful mixed economy—well-functioning private markets and an effective democratic government—are crumbling.

Saying that the United States is coming up short is never easy or popular. Tocqueville himself worried that the deep patriotism of Americans sometimes prevented a “reflective” assessment of their nation’s strengths and weaknesses. “A foreigner would indeed consent to praise much in their country,” Tocqueville complained, “but he would want to be permitted to blame something, and this he is absolutely refused.”<sup>33</sup>

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

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

Worse, even our relatively poor performance often *understates* how far we have fallen. In some cases, the best aspects of our performance reflect the lingering impact of past investments no longer being made—in basic scientific research, for example, or modern infrastructure. In others, measures of “average” performance provide a false reassurance because they reflect extremely strong outcomes among older Americans, based on the efforts of a generation or two ago. When we focus on the young, however, we see a bleaker picture of a nation failing to ensure what was once assumed: that each generation would do better than the last.<sup>38</sup>

What makes these trends especially troubling is that they constitute such a stark departure from the successful mixed economic model that marked America’s long and extraordinary ascent. From 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 high school and then college graduation rates, the unrivaled champion in medical innovation and basic scientific research. Our infrastructure was world class and included some of the greatest engineering achievements in human history. Our economy was a model of productivity-driven growth. Our conservation and environmental programs set the standard for other rich nations. Our public health efforts, from sanitation, to smoking control, to auto safety, inspired those seeking to improve health worldwide. Now, on the most critical measures of social success, we are sliding slowly from the front

to the back of the pack. What happened?

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## The Great Forgetting

The signs read Republicans for Romney. A prominent Republican businessman and former governor 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 opinion. And he is a man who says he can get things done, given his practical experience governing a highly unionized “blue” state with a progovernment electorate.

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

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

When George Romney turned to politics, he carried this understanding with him. Romney exemplified the moderate perspective characteristic of many high-profile Republicans of his day. He stressed the importance of private initiative and decentralized governance, and worried about the power of unions. Yet he also believed that government had a vital role to play in securing prosperity for all. He once famously called UAW head Walter Reuther “the most dangerous man in Detroit,” but then, characteristically, developed a good working relationship with him.<sup>44</sup> Elected governor in 1962 after working to update Michigan’s constitution, he broke with conservatives in his own party and worked across party lines to raise the minimum wage, enact an income tax, double state education expenditures during his first five years in office, and introduce more generous programs for the poor and unemployed.<sup>45</sup> He signed into law a bill giving teachers collective bargaining rights.<sup>46</sup> At a time when conservatives were turning to the antigovernment individualism of Barry Goldwater, Romney called on the GOP to make the insurance of equal opportunity a top priority. As Richard Nixon’s secretary of the US Department of Housing and Urban Development from 1969 to 1973, he courageously tried to tackle the de facto racial segregation that plagued America’s urban centers.<sup>47</sup>

George Romney sought a party that reached toward the broad middle. His allies were figures such as New York governor Nelson Rockefeller, who argued for an effective partnership between government and the private sector. In contrast to Goldwater’s famous dictum that “extremism in the defense of liberty is no vice,” Romney maintained that “dogmatic ideological parties tend to splinter the political and social fabric of a nation, lead to governmental crises and deadlocks, and stymie the compromises so often necessary to preserve freedom and achieve progress.”<sup>48</sup>

Fast-forward a generation. Like his father, Mitt Romney reflects key economic and political features of his time. Along with other firms in the burgeoning world of “private equity,” Bain Capital—the business Romney cofounded and led—helped pioneer a new corporate model in which individual companies were not socially embedded communities of stakeholders but commodities ripe for financial restructuring.<sup>49</sup> Partly by exploiting legal opportunities tied to the tax code, Bain could extract enormous resources, even if the “reengineered” companies failed to thrive. Corporate rearrangers are the masters of this new economic universe. According to Mitt Romney and all other contemporary GOP candidates, they are the vital entrepreneurs (“the job creators”) who should be unhindered—and virtually untaxed—by governments.<sup>50</sup>

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.<sup>51</sup> Compared with George Romney during his career at American Motors, CEOs today are far less closely bound to a particular community or even a particular company.<sup>52</sup> Their rewards come increasingly from the short-term movement of share prices, which dominate the huge pay packages they demand.<sup>53</sup> And the financial rewards at the top, both on Wall Street and in executive suites, generate enormous fortunes. Just as in 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’s world. Government and organized labor, the two major sources of “countervailing power” (to use economist John Kenneth Galbraith’s famous phrase), once encouraged business leaders to negotiate and seek mutually beneficial compromises.<sup>54</sup> Now unions are almost gone from the private sector and government leaders are much less willing to use public authority to create beneficial constraint.<sup>55</sup> The business associations that sometimes supported that government role and encouraged a long view and a broader perspective are mostly gone too. In their place are new or reoriented lobbies that cater mostly to the narrow demands of particular sectors.<sup>56</sup> Beneath the high-tech exteriors, much of America’s economy has taken on a feudalistic structure, where the barons of Wall Street or health care or the energy sector decide the “corporate” position on the issues they 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 character of the Republican Party. It turned out that Goldwater, not George Romney, pointed to the future of the GOP, and George Romney’s son would inherit the kind of party that the elder Romney had warned about. The issue that had split George Romney and Barry Goldwater—civil rights—soon split the Democratic Party and reinvigorated Republicans in the South. Even more fateful for George Romney’s economic agenda, Goldwater’s libertarianism became the lodestar for an economic philosophy centered on tax cuts, deregulation, and hostility toward both government and organized labor. Reagan, who had sided with the Arizona senator over Romney and his allies in 1964 and accused GOP moderates of “betrayal,” rejected the latter’s model of industrial partnership and political compromise, marking out a rightward path along which his party continues to march.<sup>57</sup>

George Romney’s son joined that rightward march. He abandoned his blue-state positions upon entering national politics as his father had not. Yet Mitt Romney’s effort to cast himself as “a severely conservative governor” (as he put it in a speech to the Conservative Political Action Conference in early 2012) quickly proved insufficient. Having moved toward the conservative pole to run for president in 2008, he moved further still to capture the Republican presidential nomination in 2012. As his running mate, he chose the extremely conservative Paul Ryan (an admirer of the radical



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 globally oriented firms. So, too, is the GOP of George Romney. And so, too, is the faith in the mixed economy they endorsed and nurtured. This book explains why.

Part 1 tells the story of George Romney's America: the achievements of America's mixed economic model and the political balance that made it possible. This is an American story, but it is not just an American story. The United States was not alone in crossing the Great Divide, and so we should resist explanations of American achievements that rest too heavily on singular features of America's postwar model, effective as it was. America's mixed economy was distinctive, but all nations that catapulted into affluence had mixed economies of their own—based on some important 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 apart 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 the United States that has experienced the most concerted attack on the public foundations of the mixed economy and the most sweeping denial of prior understandings of what fosters prosperity. And, as 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 global competition, the shift from manufacturing to services, the ascent of high-rolling finance as both a powerful shaper of corporate strategies and a dominant sector of the economy in its own right. But the social institution of the mixed economy could have been updated to respond to these changes. The balance between effective public authority and dynamic private markets could have been recalibrated rather than rejected. Instead, the political coalition in favor of such a constructive balance shattered under the pressure of an increasingly conservative Republican Party and an increasingly insular, parochial, and extreme business leadership. The moderate perspective that 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—destructive because so many of those in power rejected adaptation in favor of upending, destructive because the insistence so often magnified rather than mitigated the economic challenges faced, and destructive because so few Americans now trust their democracy to do what democracies must do to ensure broad prosperity.

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

Demonstrating government's centrality to our shared prosperity is the main task of part 1. First, ~~however, we must look with clear eyes at the failings of our society that are the predictable and~~ alarming result of forgetting this essential truth.

# PART I

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## **THE RISE OF THE MIXED ECONOMY**



## Coming Up Short

AMERICANS PRIDE themselves on standing tall: rising to the challenge, achieving the once unattainable, raising the bar of social success. Yet as we have faltered in harnessing the enormous positive potential of public authority, we have also fallen behind the pace of social improvement in other rich nations, as well as the pace we set in our own past. In area after area where we once dominated, we are falling down the rankings of social success. In area after area where new threats loom, we are failing to rise up to the challenge. We are not standing tall—literally, we shall see—and 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 the thirteen colonies that occupied the Atlantic seaboard broke from the British Empire, adult American men were on average three inches taller than their counterparts in England, and they were almost 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, because he was a giant among Lilliputians. David McCullough, in his popular biography of John Adams, describes Washington as “nearly a head taller than Adams—six feet four in his boots, taller than almost anyone of the day.”<sup>2</sup> Those must have been some boots, for Washington was six feet two.<sup>3</sup> At five foot seven, Adams was just an inch below the average for American soldiers and significantly taller than a typical European soldier.<sup>4</sup>

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

The cause of the American height advantage could not have been income alone. According to most sources, the average resident of the Netherlands or England was richer than colonial Americans but also substantially shorter.<sup>8</sup> Indeed, as the United States matched and then surpassed Europe economically in the nineteenth century, the average height of American men actually fell, recovering back to colonial levels only around the dawn of the twentieth century.<sup>9</sup> These ebbs and flows, which played out in other industrializing nations as well, are a reminder that economic growth and

population health are not one and the same.<sup>10</sup> (We shall unravel the mystery of the interdependence in the next chapter.) Nonetheless, Americans remained far and away the tallest people in the world throughout the nineteenth century, and average American heights rose quickly in the early decades of the twentieth.<sup>11</sup> When the United States entered World War II, young American men averaged five feet nine inches—almost two inches taller, on average, than the young Germans they were fighting.<sup>12</sup>

While people know that height is a strong predictor of individual achievement (test scores, occupational prestige, pay), it is also a revealing marker of population health.<sup>13</sup> Height has a lot to do with genes, but height differences across nations seem to be caused mostly by social conditions, such as income, nutrition, health coverage, and social cohesion.<sup>14</sup> Indeed, one reason for the correlation between height and achievement is that kids whose mothers are healthy during pregnancy and who grow up with sufficient food, medical care, and family support tend to be taller adults. An average US white girl born in the early 1910s could expect to reach around five foot three; an average US white girl born in the late 1950s could expect to exceed five foot five.<sup>15</sup> Evolution just doesn't happen that fast.

So it's striking that Americans are no longer the tallest people in the world. Not even close: Once three inches taller than residents of the Old World, on average, Americans are now about three 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.<sup>16</sup> The gap is not, as might be supposed, a result of immigration: White, native-born Americans who speak English at home are significantly smaller, too, and immigration isn't substantial enough to explain the discrepancy in any case.<sup>17</sup> Nor can the growing gap be explained by differences in how height is measured. Though some countries rely on self-reported heights for their statistics—and, yes, men tend to “round up”—Americans look shorter even when the only countries in the rankings are those that, like the United States, measure heights directly.<sup>18</sup>

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

In general, heights are converging among affluent nations, and the biggest gains have occurred in countries admitted most recently to the rich-nation club.<sup>22</sup> Within countries, younger age groups are generally much taller than older age groups—which makes sense: Older people spent their growing years (including their growth within the womb) in poorer societies with more limited health technology and knowledge.<sup>23</sup> But the United States is a conspicuous exception to these patterns. Average heights have barely budged in recent decades, so young Americans—again, even when leaving out recent immigrants—are barely taller than their parents.<sup>24</sup> Older Americans are rough

on par with their counterparts abroad; younger Americans are substantially shorter. The United States is the richest populous nation in the world. Nevertheless, its young are roughly as tall as the young in Portugal, which has a per capita gross domestic product (GDP) less than half ours.<sup>25</sup>

### *On Rankings and Ratings*

Because height is a powerful indicator of social and individual health, America's relative decline should ring alarms. Our young are coming up short—relative not just to gains in stature of the past 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 but aspiring basketball players, tallness is not an end in itself. It can even create problems: The Dutch have had to rewrite their building codes so men don't routinely smash their heads into door frames.<sup>26</sup> 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 holding 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 out the alarms. Comparing countries on indicators of social health is tricky, and the temptation to stack the deck is strong. Moreover, our standard statistics frequently *understate* how poorly the United States is doing at harnessing the combined energies of government and the market. To get an accurate picture, we have to spend a little time sifting through the best available data, separating the meaningful from the misleading. We also have to focus on the experiences most relevant for understanding not how we've done in the past but how we are doing now—and unless we change course, how we are likely to do in the future.

Put another way, not all performance assessments are equally valid or instructive. Each year brings scores of scores purporting to rank almost every conceivable object of interest—schools, businesses, cities, states, regions, countries—across almost every conceivable category, from college completion, to wine consumption, to online porn viewing. (For the record, Washington, DC, tops U.S. state rankings in all three.) But sensibly comparing states, countries, or anything else requires following a few simple ground rules. The first is to compare apples to apples. Washington, DC, isn't 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 countries at similar levels of economic development. It also means using indicators that are as close to the same as possible across nations. And it requires transparency: Proprietary data and secret formulas are 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 place to begin is the three core components of the UN's Human Development Index: health, education, and income. The index captures the idea that development is about "advancing the richness of human life"—to quote its intellectual father, the Nobel laureate Amartya Sen—and not just "the richness of the economy in which human beings live."<sup>27</sup> The index itself isn't all that useful for ranking rich nations. It often sets the bar low (can people read and write?), and it's limited to a few basic indicators available for all countries. Nonetheless, the UN's pioneering investigations provide a solid jumping-off point for asking how well the contemporary United States is doing relative to other rich nations in fostering citizens' well-being.

When asking that question, the issue isn't merely how well we are doing today. It's also whether we are pulling ahead or falling behind. One data point gives us a level; two or more give us a trend. 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 on many metrics, there is a natural process of “reversion to the mean”: Relative to other countries, the highest-performing nations are more likely to fall toward other nations’ performances, and the 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 social indicators are heading (and at what pace) as in their level. It also means we should pay special attention to one particular group: the young. Most cross-national analyses look at countries as a whole, comparing several generations of people in one nation with several generations in another. Sometimes that’s appropriate. If we want to know which countries are good at getting all citizens flu shots, we are interested in national averages. Usually, however, the experience of the young is most revealing, and not just because the young are most affected by current conditions. The young tell us about trends. If, for example, we’re falling behind in getting young adults through college (and we are), looking at the average educational level of the entire population will provide false reassurance. 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) fruit immediately. Supporting science, technology, and education, for example, reaps big returns.<sup>28</sup> But it 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 than a generation earlier.<sup>29</sup> The opposite problem arises in cases of deferred maintenance: failing to upgrade critical infrastructure, for example, or to seed technological advances that will blossom in 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 see, the United States is doing especially poorly. A generation ago, few worried about how well nations were addressing obesity or global warming. Now we know that the health of our society and the future of our planet depend on effective responses. The low bar for social performance is continuing to meet challenges we’ve met before. The high bar is doing well where we face new challenges. 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, and 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 we have continued to gain ground in many of these areas over the last generation. Yet these gains have 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. Those who study the economics of health and longevity find consistently that the value of physical well-being within a society vastly exceeds a nation’s total income.<sup>30</sup> But even without such calculations, we all know that health is a precondition for everything else we seek to achieve. When the Declaration of Independence celebrated “life, liberty, and the pursuit of happiness,” there was no reason “life” led the list.

When it comes to health—in fact, when it comes to any measure of the well-being of individuals

members of a society—small differences matter when summed up across large populations. Consider a seemingly trivial example: that dreaded spinning wheel that tells you your computer is spinning its wheels. In his biography of Apple founder Steve Jobs, Walter Isaacson recounts an exchange between Jobs and Larry Kenyon, an engineer whom Jobs had cornered to complain that the new 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.<sup>31</sup>

Jobs’s point holds more generally: Even small differences in how long we live add up. An extra four months of life expectancy in a country with 321 million residents is 107 million additional years of life. Economists who are comfortable converting lives into dollars generally value a “quality-adjusted life year”—QALY, in economics jargon—in the neighborhood of \$100,000 (though estimates range from less than \$50,000 per QALY to more than \$250,000).<sup>32</sup> That would mean those four months are 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 poorly compared with other rich nations. In 2013 the prestigious National Academy of Sciences released a mammoth report with a self-explanatory title: *U.S. Health in International Perspective: Shorter Lives, Poorer Health*. “The United States is among the wealthiest nations in the world,” the report began, “but it is far from the healthiest. . . . Americans live shorter lives and experience more injuries and illnesses than people in other high-income countries.”<sup>33</sup>

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

Take life expectancy at birth—the easiest statistic to track, since death records are generally reliable and consistent across nations. The National Academies study looked at seventeen rich nations. Among these, the United States ranked seventeenth for men in 2011 (life expectancy: 76.4 years, a full 4.2 years shorter than the top-ranking nation). It ranked an equally dismal seventeenth for women (81.1 years, 4.8 years shorter than the top-ranking nation).<sup>36</sup> The United States is home to about 163 million women and 158 million men, so ranking in the middle teens rather than at the top translates into 1.45 billion fewer years of life.<sup>37</sup>

### *Midlife Crisis*

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



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