

U.S. Living in Economic Past

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The U.S. election campaign is being billed as a battle of big ideas. That is a good thing. But it is a shame that the fight is not being waged in the 21st century.

In choosing Paul Ryan as his running mate, Mitt Romney swapped his Massachusetts pragmatism for a proudly ideological commitment to limited government. The Democrats, by contrast, believe in the essential role government plays, and are willing to raise taxes, at least on the rich, to pay for it. This a clear and important battle line in the United States. But the argument over the size of the state comes with little regard for the very particular economic realities of this era. Like generals fighting the last war, U.S. politicians are solving the economic challenges of the past century. That is a problem because we are living at a time of deep and fast economic change. The intuitive sense that the economy is becoming less predictable and less secure is right. Thanks to globalization and the technological revolution, the nature of work, the distribution of the rewards from that work and maybe even the economic cycle itself are being transformed.

But one would not know it from the U.S. political debate, whose familiar melodies of small

state versus large state, higher taxes versus lower taxes and the importance, or not, of balancing the budget could have been played in any decade since World War II. Most Americans are comfortable with these old songs — everyone knows the words — but they are an inadequate response to the new economic demands of the 21st century.

The economic reality is that, thanks to smart machines and global trade, the well-paying, middle-class jobs that were the backbone of Western democracies are vanishing. Neither Mitt Romney's smaller state nor Barack Obama's larger one will bring them back. That is because the paradoxical driver of this middle-class squeeze is not some villainous force. It is, rather, the success of the world's best companies, many of them American. A record profit at Caterpillar, for example, is a tribute to the firm's skill at operating in a global marketplace and adopting new technologies. But for some Caterpillar workers, that good news recently translated into a six-year wage freeze, which union employees accepted after an Illinois strike failed to secure a better deal.

This is the knottiest economic problem of our time: figuring out how to manage an economy whose engines of growth are enriching the few but squeezing the many. Instinctively, Americans understand this is happening. That is why the Democratic ticket, despite the complaints of some of its wealthy backers, has stuck with its critique of Romney's former company, Bain Capital, as an outsourcer of jobs. But what neither party likes to talk about much is that this socially malignant outcome is being driven at least in part by the forces of free-market capitalism that most people welcome. The attacks on outsourcing do not convince everyone, because they know that Obama won't outlaw it — and that if he did, the economic impact would be devastating.

The tempting answer, which I heard most recently in an interview with Glenn Hubbard, an economic adviser to Romney, is to optimistically assume that, just as the early traumas of the Industrial Revolution gave way to widespread prosperity in much of the world, the economic transformations of today will eventually work out. "If you were to go back to 1940 and have this debate, we might worry, 'Well, what if people are going to lose their farm jobs?'" Hubbard said. "Then the debate was over manufacturing, then over service. And if an economist is honest with you, the best he or she can say is, what we need to do is allow those opportunities to happen, and they will."

There are a few problems with this happy prediction. The first is that while the Industrial Revolution did indeed eventually make ordinary people richer than at any other time in human history it took two world wars and Communist revolutions in Russia and China for the world to iron out the kinks. The second is that to make industrialization work, the West created an elaborate set of new political, social and economic institutions, including universal public education, trade unions and the social safety net.

It took more than the spinning jenny or the steam engine to transform local, agrarian, family-based communities into national, urban, individualistic ones. New political and social institutions will be needed to midwife the latest shift into global and virtual communities. Inventing those institutions is hard, and talking about them can be frightening, but that is the political conversation the Western world should be having today.

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