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The Great Stagnation: How America Ate All the Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better

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Tyler Cowen's thesis is that economic growth is leveling off and rates of return decreasing because we've already picked the "low-hanging fruit" (meaning innovations and investments that have high returns). The stagnation in GDP and median income in recent decades means "the pace of technological development has slowed down," and the general population is benefiting less from new ideas.

I would argue, rather, that measured economic growth and income have slowed down precisely because of the increased pace of technological development.

The important trend behind the disappearance of "low-hanging fruit" is the decoupling of improved material quality of life from monetized measures of economic growth and income. Improvements in quality of life — although very real — don't show up in conventional econometric terms.

Intensive development — increased efficiency in the use of inputs — isn't necessarily reflected in increased money returns. Unless they're turned into a source of rents by restrictions on competition, innovations that reduce production costs will benefit consumers in lower prices and better products.

Such rents are central to the business model of "cognitive capitalism" — the "progressive" model of capitalism pushed by Bill Gates and Warren Buffett. The most profitable industries in recent years have been those that depend on returns from "intellectual property." But such artificial scarcities are fast becoming unenforceable, and technologies of abundance are growing so rapidly that they can't be enclosed as a source of rents.

If anything, we can expect an implosion in metrics like GDP in the coming years, even as quality of life improves enormously.

Cowen almost gets it at one point. "[I]f our food supply chain harvests, retails and sells an apple for $1, that adds a dollar to measured national income." Exactly: GDP measures value produced in terms of the total cost of inputs consumed — not the use-value we consume, but how much stuff was used up producing it. So anything that reduces the input costs of our standard of living seems to show up as negative growth.

Actually, Cowen contradicts his own thesis. He argues that official GDP figures exaggerate growth because so much of it is simply waste. But that undermines his treatment of reduced money incomes as a proxy for reduced growth in standard of living. If the additional portion of the GDP we spend on waste — and the hours we worked to pay for it — simply disappeared, we'd be better off by that much. He can't argue both that economic growth is the best measure of technical progress and that the levels of growth that have occurred have too little to do with real productivity.

To be sure, Cowen does address the supposed diminishing returns of technological progress in terms of personal use-value. The blockbuster innovations with the biggest effect on our daily lives, he says, have already been adopted: antibiotics, automobiles, refrigerators, television, air conditioning. There's been far less change in the character of daily life since 1960 than before. Aside from the Internet, recent innovations have been mostly incremental.

The Internet itself, Cowen argues, may be important in terms of personal happiness, but not of generating either revenue or employment. But to treat revenue generation and employment as ends in themselves — rather than a way to pay for stuff — is perverse. If the price of what we need falls because the amount of labor and capital needed to produce it falls, then we need less revenue — and less labor — for the same standard of living. The real significance of what Cowen mistakenly calls "stagnation" is that a growing share of our needs is being decoupled from revenue by technologies of abundance.

The reduced wage employment needed to produce our standard of living, as such, is a good thing. What's bad is when artificial property rights enable rentier classes to appropriate the benefits of increased productivity for themselves. Our goal should not be to increase the number of "full-time jobs," but to make sure that the productivity of the hours we do work is fully internalized.

Cowen focuses mainly on the Internet as part of the furniture of daily life — the fun of web surfing — to the neglect of a far more important benefit: the basic way society itself is organized, the relative power of the individual and networks versus large institutions, and the declining ability of hierarchies to enforce their will on us.

His focus on the objects of daily life ignores revolutionary changes in the way they're made and on the structure of the economy. There's not such a revolutionary change in going from picture tubes to gel panels, or from carburetors to fuel injectors. But there's an enormous difference between John Kenneth Galbraith's mass-production oligopoly economy and one of networked garage shops using cheap machine tools.