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July 26, 2011

# Lessons From the Malaise

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WASHINGTON

When I began covering the American economy 11 years ago, it was the envy of the world.

The last 11 years have not been kind to it. First came the dot-com bust. Then there was the weakest economic expansion in decades, followed by the worst financial crisis and deepest [recession](#) in decades. Now we're suffering through a painfully slow recovery, which Washington may soon make worse.

The malaise obviously has several causes, some of which are beyond our control. One major cause, however, is entirely our doing. We do not spend enough time focusing on our actual economic problems.

We are too often occupied with distractions, rather than trying to answer a simple question: What works? What economic policies have succeeded before and are most likely to lead to the best life for the largest number of people? Instead, we've effectively decided that because the United States is the richest, most successful country in the world, it is guaranteed to remain so.

Today's column is my last in this space. I will continue to write in my next job, as Washington bureau

chief, but not every week and not this column. So I want to take a step back today and look at what we know about the American economy and, almost as important, what we do not.

One of the tricky things about the subject is that almost nothing is certain in the way that, say, two plus two equals four. Economics — which is at root a study of human behavior — tends to be messier. Because it's messier, it can be tempting to think that all uncertainty is equal and that we don't really know anything.

But we do. It's just that the knowledge tends to come with caveats and nuances. Economic truths may not rise to the level of two plus two equals four, but they are not so different from the knowledge that the earth is round or that smoking causes cancer.

The earth is not perfectly round, of course. Some smokers will never get cancer, while **most cancer** is not caused by smoking. Yet in the ways that matter most, the earth is still round, and smoking does cause cancer. Both of these facts are illustrative in another way, too: seemingly smart people spent decades denying them.

When it comes to economics, we know that a market economy with a significant government role is the only proven model of success. The United States has outgrown Europe partly because of our greater comfort with market forces. China and India boomed after allowing more of a market economy. On the other hand, unencumbered market forces often lead to disaster, as 1929 and 2008 made clear.

We also know that ever-rising levels of education **are crucial** to a country's success. Not only is the evidence all around us — the college wage premium has been higher than ever lately — but **careful studies** have found that, on the margin, education itself tends to make people wealthier, healthier and happier. The next time you hear naysayers poormouth college, ask them if they plan to send their own children.

We know that the federal government has promised more benefits than it can currently afford. The only way out of this problem involves some combination of tax increases and cuts to **Medicare, Social**

**Security** and the military. Anyone who won't **get specific** about which ones they favor is not a fiscal conservative.

We know this country **spends vastly more** on health care than any other country — about 75 percent more per person than other rich countries — without getting vastly better results. The waste in our medical system offers the best chance to reduce the deficit without harming our living standards.

We know the planet is **getting hotter**. Last year tied for the warmest on record, and the 10 hottest have all occurred since 1998. The resulting risks, economic and otherwise, may be **even more serious** than the risks from the deficit, but receive far less attention in Washington. (And climate worriers do not need to be so skittish about making the connection between heat waves and the larger trend. The thing about **global warming** is that it warms the globe.)

We know that Wall Street, having bounced back from the crisis, remains a historically large part of the economy. Not coincidentally, we know that **income inequality** remains sharply higher than it used to be.

The most common income statistics **can exaggerate** the stagnation of middle-class pay, partly because they exclude health benefits. The American middle class is not disappearing. But it's not doing well, and has not been for some time.

The bottom 50 percent of households, based on pretax income, make less combined than the top 1 percent. Only three decades ago, the bottom half made more than twice as much. The middle class has also received a much smaller tax cut in recent decades than the affluent.

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This list is obviously a partial one. You could add the fact that the United States has benefited enormously from **immigration**, especially high-skill immigration, or the fact that discrimination, while hardly vanquished, is greatly reduced. But I think the issues here cover most of the high points.

The place where economic knowledge gets murkier is how to best deal with many of our biggest problems.

We cannot know, for example, what would happen if the government raised taxes to cut the deficit. A moderate increase seems unlikely to do much damage to economic growth, given that the increases by George H. W. Bush and Bill Clinton did not prevent the 1990s boom — and that George W. Bush's tax cuts were followed by **mediocre growth**. All things equal, though, tax increases do not lift growth.

Likewise, we do not know precisely how to regulate Wall Street so that it will remain the global financial capital without also being a drain on our national resources. We do not know whether the most promising attack on climate change involves a carbon tax or more money for clean energy research. We don't know how much medical costs would fall if people had to pay more out of pocket, as conservatives advocate, or how much costs would fall if Medicare tried to crack down on dubious care, as the Obama administration prefers.

The real problem with so many of these issues is that the political system is not even trying to find solutions.

Instead of a spirited, even partisan, debate over how health reform could be do a better job of controlling costs, lawyers are skirmishing over whether all Americans should have **health insurance**. Some of the world's most talented people — students and would-be entrepreneurs who would like nothing more than to remain in this country — are told they are not welcome. Amazingly, Congress may be about to create a whole new economic problem by voluntarily defaulting on the **national debt**.

Democracy, not unlike economics, is often messy. And there are certainly some reasons for optimism, whether it's the bipartisan push to improve schools or the simple fact that American society in 2011 is quite different from what many people could have imagined only a few decades ago. Much of that change has been for the good.

Perhaps the last refuge for optimists is Churchill's reputed line: "In the long run, Americans will always

do the right thing — after exploring all other alternatives.” The sentiment is nice. It would be comforting to have a little more reason to believe that history was going to repeat itself.

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