

The headwinds of pessimism

Stephen M. Millett

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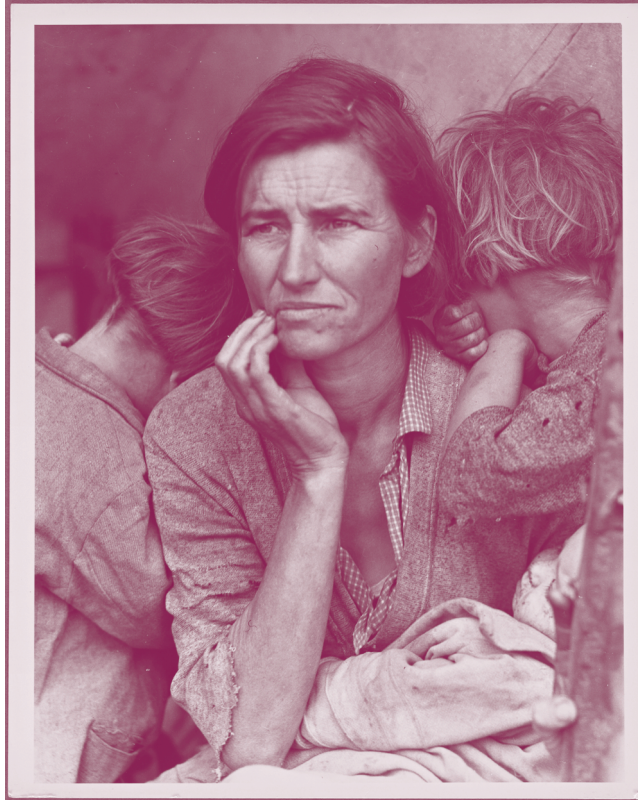
Robert J. Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living Since the Civil War*. Princeton University Press, 2016. 762 pp. \$39.95.

Psychologists have shown that our thinking about the future is often colored by our feelings about the past and present. [1] As this generalization seems to apply to the eminent economist from Northwestern University, Professor Robert Gordon, his expectations for the future, as reflected in his landmark book, *The Rise and Fall of American Growth: The U.S. Standard of Living Since the Civil War*, may implicitly reflect a deep anxiety caused by the Great Recession of 2008. He has produced an impressive history of how the American people progressed in their standards of living and productivity in the "golden century" of 1870-1970. He asserts, however, that things have not been so great over the last five decades, with the exception of the digital bubble of the 1990s. As he measures it, Prof. Gordon finds that the standard of living for most Americans has stagnated, and he suggests that it may even decline in the future. Surprisingly, given this pessimistic view, he says very little about the Great Recession as a national seismic event, one which has definitely expanded the audience for his book. Instead his book emphasizes long-term demographic and technological trends since 1970 that he believes pale in comparison with the dynamics of the previous 100 years ([Exhibit 1](#)).

No historian familiar with the trends can argue much with Prof. Gordon about the enormous changes in this country from 1870 to 1970. The U.S. emerged from being an 19th century developing nation to becoming the greatest economic power in the world by World War I. Breaking free of the recession of the 1930s, it emerged as both the greatest economic and military power following World War II. The U.S. did not slide back into the Depression after 1945, but boomed through the 1960's by marketing the many innovative products developed from the great technological advances made decades before. Prof. Gordon covers well the applications of electricity for all kinds of consumer products and manufacturing processes; he praises the engine of the automotive industry that drove much economic growth in the 20th century. He is not so kind, however, to the advent of the digital computer and Internet era. He objects to—and I think justly—the hype of the cyber champions who claim enormous 0-1 changes in our lives. It's worth noting that innovation can take many forms, not just technological advances, but clever changes in business models, cost structures and retailing as well.

And yes, we all have access to laptops, the Internet and data-searching mobile phones, but many Americans cannot find jobs that pay well enough to afford a middle-class lifestyle.

Much of Prof. Gordon's pessimism about the future is due to what he calls social and economic "headwinds." That is, those trends that seem to blow against improvements in our standard of living. One such headwind is the growing gap in social-economic classes, whereby the upper 1 percent gains more and more wealth. This is certainly a very timely concern – an example of how our fears of today can impact our expectations for tomorrow. Oddly, he does not explain exactly why the gap impedes further improvement in the standard of living. I assume that he



fears that income and wealth disparity will retard economic growth as more people have less money to spend, given that consumer spending accounts for as much as 70 percent of the U.S. GDP. Another headwind is the growing cost of education and the social gap in its attainment. He even raises the issue of the deterioration of family life, which is a highly personal point of view. He only passingly mentions global climate change and the boom in technology associated with solar and other energy sources.

I would argue that the politics of pessimism are a strong headwind that Prof. Gordon might have considered. The current crop of pessimist pundits and legislators has ignored the lesson of the Great Depression and refused to invest in infrastructure and research as a way to mitigate the Great Recession and spur future growth. And corporate chieftains have elected to hoard cash or repurchase stock rather than invest more heavily in research that might foster transformative innovation. Such decisions have consequences that play out in multiple scenarios.

Which is why I urge strategists who read this book to think in terms of a set of possible scenarios, not just two outcomes, one optimistic and one (Prof. Gordon's) pessimistic. For example, I offered four scenarios for the future of individual opportunities in a recent issue of *Strategy & Leadership*:

- The American Dream: Many opportunities with many individual participants.
- The End of the Shoe-string Startup: Numerous promising large investment opportunities require the resources that just the few largest private and public communities can afford.
- Elites Divide a Smaller Pie: Only fabulously wealthy individuals and their powerful private communities have the resources to reap the limited number of available opportunities.

“As he measures it, Prof. Gordon finds that the standard of living for most Americans has stagnated, and he suggests that it may even decline in the future.”

- The American Dream Re-imagined: When opportunities fade, public community ideals and interests flourish.[2]

While I respect Prof. Gordon's long-term trend analysis, I think the Great Recession, like the Great Depression of the 1930s, has had a profound and pervasive impact on consumers' emotions, expectations and behavior. We are still working our way through the major paradigm shift that began in 2008—a shift that has resulted in great anger and fear among so many Americans as demonstrated in the political campaign rhetoric of 2016. There is no question that American businesses and many other walks of life are going to demand higher skill levels, including the “soft” skills of problem-solving, team work and communication. The devastating effect on the workers who are unprepared and can't compete for jobs must not be overlooked or minimized. The point is not to measure that present in terms of the disruptive social and technological trends of the past or the blowing headwinds of the present but rather to make choices in this era with the courage, hard work and intelligence that we all can bring to making the future better for ourselves and others. After all, isn't that the essence of the American Dream? Pessimists may think it moribund, but I see the American Dream – perhaps reinvented and rekindled—as being very much alive and well in the U.S. despite current challenges. And despite Prof. Gordon's pessimism.

Notes

1. Daniel Gilbert, *Stumbling on Happiness*. New York: Vintage Books, 2007, pp. 123-139; Philip Zimbardo and John Boyd, *The Time Paradox. The New Psychology of Time That Will Change Your Life*, New York, NY: Free Press, 2008, pp. 95, 98 and 137.
2. Stephen M. Millett, “What will happen to the ‘American Dream’? Four scenarios for opportunity in the United States to 2035,” *Strategy & Leadership*, Vol. 44 No. 2 (2016), pp. 17-24. Also see Stephen M. Millett, *American Ways. A Behavioral History of the United States with Expectations for the Future*. (Seattle, WA: CreateSpace, 2016), pp. 348-354.

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