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'Why Economies Grow': Rethinking the 1990's Boom

By JOHN McMILLAN

"The market is rational; the government is dumb." Representative Dick Armey says this is his favorite axiom. Jeff Madrick, the editor of *Challenge*, an economics magazine, would disagree. While markets are the primary source of our prosperity, he argues in "Why Economies Grow," we rely on the government as well. Creating the Internet wasn't dumb. Nor was building the Interstate System of highways. These and other government initiatives accelerated America's economic growth by improving communication and transportation and thus widening the reach of markets.

What does it take for the economy to grow? For many in the 1990's, the answer was easy. Just get the government out: cut taxes; privatize; deregulate. Now, corporate scandals, dot-com meltdowns and recession are leading many to question that simple prescription. In our hangover from the 90's binge, this book is timely, pointing the way to national sobriety. The 90's weren't all they were cracked up to be, Madrick says. The ballyhooed economic growth wasn't especially impressive: in the first half of the decade there wasn't much of it, and the fast growth of the second half was actually slower than in the humble 1950's.

Did the "new economy" bring revolutionary ways of doing business? The chief executive of Cisco Systems, John T. Chambers, declared, "This is truly the second industrial revolution, and it will change every aspect of people's lives." Madrick, by contrast, largely attributes the late 90's growth to a quite mundane cause: a fall in the price of computer chips.

Despite the 1990's boom, Madrick warns us that "the nation's problems are far from solved. Income inequality is high, male wages have grown little and have fallen for many, our child poverty is the worst in the developed world and the quality of the public school system is highly unequal." Returning to sustained growth is the only solution. We need, he says, to "undertake a broader approach to enhancing this growth" -- changing not just policies but fundamental attitudes to government.

Madrick begins by diagnosing and ranking the causes of growth. The main driver is expanding markets. Second is accessible information, for markets depend on it. Government also has a role to play in setting conditions conducive to growth; public investment is needed for education, transport, communications, research, child care and health care.

Madrick comes to these conclusions from his reading of the history of the Western world, but an alternative source of insights into growth, and one that he does not use, is statistical comparison across countries. Huge data sets, covering many countries over decades, have now yielded a deeper understanding of economic growth. The results support Madrick's arguments. Growth is faster, for example, in countries that have the rule of law, allocate mostly by markets and invest in public infrastructure.

More important, these studies show the multiplicity of the sources of growth. It isn't just