

Tyler Cowen Average Is Over  
Powering America Beyond the Age  
of the Great Stagnation Dutton  
2013

Real wages of high school graduates  
are ~~the~~ 11% lower than in 2000

Workers more and more will be fun  
into two categories. Are they complements  
or substitutes for computers. That is  
why average is over

In today's global economy what is  
scarce are

- 1 Quality land and resources
- 2 Intellectual property, broadly defined
- 3 Quality labor with unique skills

What is abundant

- 1 Unskilled labor
- 2 Non equity financial capital

"The ~~ability~~ ability to mix technical  
knowledge with solving real-world  
problems is the key" p 21



He sees "marketing as the seminal sector for our future economy" p 22  
He means this in a very broad sense of getting favorable attention

The tech revolution is making the workplace more team oriented and this puts a premium on good managers  
This also puts a premium on conscientiousness which favors <sup>women</sup> ~~women~~  
'labor market polarization'

60% of the jobs lost during the recession were mid range.

Of those added since 73% have been low wage (\$13.52 an hour or less) p38

On BLS data the labor share of income has fallen from the 62 to 66% range from 1947 to 2000 to  $\approx$  58% by 2010

The hollowing out trend has occurred in most of the advanced economies



## Ch 3 Why Are So Many People Out of Work?

Labor force participation rates  
1950s & 60s 58-60%

fairly steady climb to  $\approx 67\%$  in 1990s

from 2000 sharp drop to below 64%

Intelligent machines will slowly revolutionize our economy

Men 25-64 in 50s & 60s only 9%

not working, now 18%

severe recession of early 80s 15%

Federal disability early 2000s 5m,

now 8.2 cost \$ 115bn/yr > \$1500 per month

2m in fact

1969 to 2009 Male wages have fallen substantially, by 9 to 28%

Most economists focus on lack of AD

The financial crash revealed longer term structural problems

"When the economy is booming labor

labor force is very much in demand" 5%

It's now harder to find low wage work

1 globalization 2 psychological resistance

3 government mandated minimum in cost of hiring

A Krueger & A Mueller survey

Many workers wouldn't accept jobs

with pay less than  $\frac{1}{2}$  their previous

jobs and this was persistent and persistent



Healthcare cost is a major discouragement  
for hiring

2010 median wage in US = \$26,363

There has been a free lance  
explosion

He discusses human-computer teams  
Wikipedia has a list that is now  
up to 48 cognitive biases

"When economists investigate human  
rationality, they are often too dependent  
on arbitrary stipulations about  
what is rational..." p 100

"There is a sense of rationality and  
order to human error" pp 102-3.

He argues that humans use intuition  
too much and don't tend to go  
deeply enough in their analysis

He's critical of a lot of behavioral economics  
and argues that "They are looking  
for behavioral theories that are  
too elegant, too simple, or too  
intuitive..." 110

He takes a 'gains from trade'  
perspective on man-machine  
interactions



He comes down hard on the side that new information and communications technologies that substitute for labor have had a much bigger effect on US wages than international trade and outsourcing.

It's also hard to find "serious evidence" that immigration has had a substantial effect on US wages. George Borjas finds an effect of  $-4.8\%$  on high school dropouts but only  $0.5\%$  on college graduates.

Giovanni Peri and others find positive effects.

He believes outsourcing has had much bigger effects. pp 163-67

Michael Mandel finds outsourcing provides a productivity gain for owners of firms but not for workers.

Imports from China now make up  $2.7\%$  of US consumer spending and the US value added of these imports is  $55\%$ , so the net expenditure is  $1.3\%$ . p 167



"outsourcing just isn't big enough  
to be driving the problem of  
stagnate wages" p167

The we've now competing  
with 2.5 billion Chinese and  
Indians can be pushed  
too far

1880-1929 was also a  
period of intense globalization  
and foreign competition, but  
the American economy did fine-

Today machines are getting  
a better education than their  
human partners

"If you're worried about outsourcing,  
you should probably have a more  
liberal ... attitude toward immigration"

"[It] is vital to the future  
economic vitality of the United States"

p170

He sees trends toward dominant  
economic clusters and increasing  
geographic segregation



Economic integration in Europe is  
leading to a hollowing out of regions  
"public opinion isn't usually rational"  
immigration helps p175  
give protection from outsourcing  
He doesn't see a big surge  
in protectionism. There's less  
hate of free trade in the US today  
than in the 1980s. The jobs hurt  
by free trade are already gone  
The longer term trends tend  
to favor the US in the global  
economy