

The Moral Consequences of Economic Growth

Benjamin M. Friedman. 2005. New York: Knopf. ISBN: 0-6799-44891-8, \$35.00 (c).

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The *Moral Consequences of Economic Growth* is an easy and engaging read. There are no econometrics and very few graphs (well, two). It is a strong dose of political economy with the hypothesis testing based upon historical incidence and reference to the empirical research literature. The history conveyed goes beyond macroeconomic aggregates to include many fascinating vignettes representative of the trends of the times. For example, did you know that President Warren G. Harding was inducted into the Klu Klux Klan in a ceremony in the Green Room of the White House?!

The author's major hypothesis is that economic growth (or stagnation) affects the moral character of a society. Morality is gauged by such elements as openness of opportunity, tolerance, economic and social mobility, fairness and democracy. Part one of the book gives definition to economic growth and plumbs the origins of the elements of morality. Part two uses the economic history of America to demonstrate the link between the elements of morality and economic growth and stagnation. Part three does the same only focusing on the major European democracies. Part four examines the hypothesis against the background of the developing world. And the book finishes with prescriptions for saving America from a future loss of morality.

One must recognize up front that although Friedman is an outstanding (and prolific) economist, he is, after all, at Harvard (and was even chair of the economics department). Thus, a few things are given. First, in his view morality has nothing to do with killing unborn babies, sex outside of marriage, grace, two parent families, MTV, rampant AIDS, child pornography on the Internet, crack cocaine murders, the culture of poverty, or the Protestant work ethic (e.g., the impact of honesty on transactions costs). Second, values such as interpersonal trust and compromise are a direct function of higher average incomes. Morality is an income-elastic good and has nothing to do with the image of God in all of us or with personal salvation. People will act nice when they can afford to. Third, the redistribution of money by government from the rich to the poor is perhaps the highest form of morality (fairness, democracy). Fourth, the teaching of creation theory represents intolerance, narrow-mindedness, and intellectual

Ludditism. Finally, it is obligatory for Friedman to devote a chapter to the environment, even when that chapter doesn't fit the flow of the story.

But Friedman's focus is commendable. As Christians we are called by Scripture to encourage openness of opportunity, tolerance, and fairness. We certainly would not want to deny individuals economic and social mobility, although beyond a tenable standard of living we would not see such mobility as central to life's purpose (and would worry that the striving for the economic and social heights as fraught with personal spiritual danger). And we aren't opposed to democracy—choice was God's approach from the beginning—but don't believe there is any particular God-ordained political structure.

I would reject Friedman's belief that social harmony requires "a vigorous trend of increasing productivity and a consequent improvement in (the) standards of living." This strikes me as a warmed over Galbraith/Thurow assumption that hedonistic fervor is endemic to societies. Greater life expectancy, fewer diseases, and less infant mortality and malnutrition are not sufficient. Enough is never enough. From this point of view, Veblen was right about conspicuous consumption and the importance of social comparison.

But perhaps I am wrong and what Friedman really has in mind is that MRIs, cell phones for stranded motorists, microwave ovens, air bags, artificial hearts, and fat free ice cream (are these last two substitutes?) represent the demand of rational (not voracious) consumers. I was certainly grateful for the CAT scan that identified my kidney stone, but I do not want jet skis, a wide screen TV or a second pair of slippers. And I think I am one of many satisficers who have a very acceptable standard of living and really can't think of anything they need for their birthday (well, except books...).

Nevertheless, irrespective of my sample of one, Friedman posits that when enough citizens lose the sense that they are getting ahead, society retreats into rigidity and intolerance. Without economic growth the elements of morality cited by Friedman are threatened. An ever-rising standard of living that lifts most all ships is necessary to keep the wolves from the door and the social contract from unraveling. Interpersonal trust is greater when everyone has more toys. Persecution and even genocide arise from the zero-sum quagmire of deprivation. Friedman's is a sad commentary on human nature—not altogether wrong, but sad.

Friedman recognizes the importance of the law and stable and (relatively) honest government as conditions for economic growth. A rising standard of living, in turn, leads to greater political democracy and personal freedoms.

Does economic growth or personal freedom come first? Friedman does not claim to solve the direction of causation. He does observe that even the most despotic governments have a greater chance of survival in the short-run when average incomes are rising, while they risk radical change from economic stagnation. So politicians are warned. The “right” rate of growth exceeds the market rate and the role of government is to make the “right” rate happen.

Friedman’s claim that rising living standards improve the moral character of society has roots. The Enlightenment tradition is succinctly stated by Comte, “all human progress, political, moral, or intellectual, is inseparable from material progression” (cited by Friedman, p.31). And the advancement of knowledge and human progress was given a stamp of approval by the Reformation, the Puritans and leading Christians of the 18th century. The law of comparative advantage and the mutual gains from self-interested, voluntary exchange demonstrated that commerce could benefit society while not disadvantaging anyone. The acquisition of wealth did not require exploitation, and in fact, as Friedman interprets Calvin’s thought, prosperity may be a sign of God’s presence. A rising standard of living will allow increased concern for others. You can love your neighbor once your needs are satisfied.

Poverty is relative, notes Friedman (Veblen again). And people’s satisfaction is less a function of their level of income than it is the rate of change of their income. People get particularly testy when they find their relative income retreating. With rising living standards people are far more likely to be willing to address deficiencies in the distribution of income. Faster economic growth facilitates actions against unfair discrimination, increases charity and generates compensation for past wrongs. Folks do not feel threatened by the increased economic mobility of others. Life is a positive sum game.

Friedman turns to history to prove his case. He begins with four wonderful chapters on America. He finds that during decades (generations) of economic growth (e.g., obvious material progress, falling unemployment, limited recessions) there is movement toward openness, tolerance, mobility, fairness, and democracy. During decades of economic prosperity race relations improved, civil rights bills were enacted, immigration was welcomed, social mobility was affirmed, labor reform occurred (fostered in part by the Social Gospel movement), women’s suffrage was introduced, the tax structure was more progressive, globalization was encouraged, and there was widespread support for public education. Decades of economic stagnation witnessed such events as the resurgence of the Klu Klux Klan

(remember President Harding?), the rise of the Aryan nation, serious labor unrest, populism (looking backward), advocacy of eugenics, curtailment of immigration, a more regressive tax structure, increased racial and religious discrimination (including lynchings), isolationism, less protection of labor (e.g., the erosion of the minimum wage), and retrenchment of social programs. Putting aside the anomaly of the Great Depression decade, it is an impressive list and a well-made case.

Friedman proceeds to make the same case using the histories of Britain, France and Germany. The results are largely the same, with again a few anomalies (e.g., the repeal of the Corn Law occurred during a period of economic stagnation as did Bismarck's social reforms). However, such events as the four Reform Acts bringing modern democracy to Britain, the Dreyfus affair in France, and the rise of the Nazis to power all stand as powerful evidence of Friedman's hypothesis.

For developing countries Friedman sees the evolution of democratic institutions and individual rights as paramount to economic progress. As stated previously, Friedman does not try to sort out which comes first: democracy or economic growth. Falling standards of living frequently precede radical regime changes. The best change from the perspective of economic growth is no change, and the worst is the "coup trap" where investment flees following illegitimate changes in government. Unfortunately, the economic stagnation generated by a coup may often foster widespread discontent that leads eventually to another coup. Friedman expands this into a discussion of Easterly's virtuous and vicious circles. He touts Sens' view of development as freedom, and demonstrates how the spread of access to education and redistribution of property and income and increased global trade have significantly reduced the incidence of poverty and human distress (e.g., infant mortality) over recent decades.

What lies ahead for America is the focus of Friedman's final chapter. He finds us to be in the doldrums, with real income barely creeping forward, savings and investment at rock bottom, the government deficit at record highs, and America a net debtor to the rest of the world. With stagnation has come a rise in the Gini coefficient for household income and government's response has been an increase in the regressivity of taxes and a curtailment of social service spending (e.g., welfare reform). If that wasn't bad enough, the baby boomers are on the verge of making Medicare and Social Security go bust (no mention of the fact that Medicaid spending now almost equals Medicare spending). We can't economize on domestic government spending because we are at the bare bone already. Savings

is inelastic to after-tax rates of return. Social security and Medicare are essential to the well-being of the elderly.

What to do? Big surprise: raise taxes on the rich and tax estates. Nuclear fusion, more immigration and innovations in medical technology wouldn't hurt either (go figure). But the main thrust should be to increase the supply of skilled workers (increase human capital). The returns on education range from 7 to 20 percent per annum. More human capital will stimulate productivity and kick-start the economy.

Friedman recognizes that most students are educated in public systems where lack of competition is generating an inferior product. His answer, of course, is not vouchers as this could mean using government funds to support religious activities (“a controversial matter to say the least”). What we need is to foster competition *within* the public school system (hooray says the NEA!) with more “magnet” and “charter” schools. More Head Start, more Job Corp, more Pell grants make sense as well. (The research literature certainly supports these last three investments.)

Staying on our current course implies a stall in America's standard of living. Such a stall will lead to moral decline as evidenced by a lack of openness, tolerance, fairness, economic and social mobility, and a possible retreat of democracy. It's scary stuff, but these are scary times (has anyone seen my ipod?).

The downward spiral of personal morality—one third of births out of wedlock, rampant substance abuse, the absence of honesty everywhere from resumes to board rooms, the abortion of one million babies a year—is apparently no serious threat to the economy. We can only pray that each individual will realize his or her wretchedness and accept the grace of Jesus Christ, and not expect ever-rising standards of living to address the economic consequences of personal moral decline. ■