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'The Moral Consequences of Economic Growth,' by Benjamin M. Friedman

The Capitalist Manifesto

Review by GREGG EASTERBROOK

ECONOMIC growth has gotten a bad name in recent decades - seen in many quarters as a cause of resource depletion, stress and sprawl, and as an excuse for pro-business policies that mainly benefit plutocrats. Some have described growth as a false god: after all, the spending caused by car crashes and lawsuits increases the gross domestic product. One nonprofit organization, Redefining Progress, proposes tossing out growth as the first economic yardstick and substituting a "Genuine Progress Indicator" that, among other things, weighs volunteer work as well as the output of goods and services. By this group's measure, American society peaked in 1976 and has been declining ever since. Others think ending the fascination with economic growth would make Western life less materialistic and more fulfilling. Modern families "work themselves to exhaustion to pay for stuff that sits around not being used," Thomas Naylor, a professor emeritus of economics at Duke University, has written. If economic growth were no longer the goal, there would be less anxiety and more leisurely meals.

But would there be more social justice? No, says Benjamin Friedman, a professor of economics at Harvard University, in "The Moral Consequences of Economic Growth." Friedman argues that economic growth is essential to "greater opportunity, tolerance of diversity, social mobility, commitment to fairness and dedication to democracy." During times of expansion, he writes, nations tend to liberalize - increasing rights, reducing restrictions, expanding benefits for the needy. During times of stagnation, they veer toward authoritarianism. Economic growth not only raises living standards and makes liberal social policies possible, it causes people to be optimistic about the future, which improves human happiness. "It is simply not true that moral considerations argue wholly against economic growth," Friedman contends. Instead, moral considerations argue that large-scale growth must continue at least for several generations, both in the West and the developing world.

Each American, the World Wildlife Federation calculates, demands more than four times as much of the earth as the global average for all men and women, most of this demand being resource consumption. Some think such figures mean American resource consumption must go down; to Friedman's thinking, any reduction would only harm the rest of the world by slowing global growth. What the statistic actually tells you, he would say, is that overall global resource consumption must go up, up, up - to bring reasonable equality of living standards to the developing world and to encourage the liberalization and increased human rights that accompany economic expansion. If by the middle of the 21st century everyone on earth were to realize the living standard of present-day Portugal (taking into account expected population expansion), Friedman calculates, global economic output must quadruple. That's a lot of growth.

"The Moral Consequences of Economic Growth" is an impressive work: commanding, insistent and meticulously researched. Much of it is devoted to showing that in the last two centuries, periods of growth have in most nations coincided with progress toward fairness, social mobility, openness and other desirable goals, while periods of stagnation have coincided with retreat from progressive goals. These sections sometimes have a history-lesson quality, discoursing on period novels, music and other tangential matters. And sometimes the history lesson gets out of hand, as when the author pauses to inform readers that the Federal Republic of Germany was commonly known as West Germany. More important, Friedman's attempt to argue that there is something close to an inevitable link between economic growth and social advancement is not entirely successful, a troublesome point since such a link is essential to his thesis.

For example, Friedman contends that economic growth aided American, French and English social reforms of the second half of the 19th century. Probably, but there was also a recession in the United States beginning in 1893, yet pressure for liberal reforms continued: the suffrage, good-government and social-gospel movements strengthened during that time. It was in the midst of a depression, in 1935, that Social Security, a huge progressive leap, was enacted. Economic growth has sometimes been weak in the United States for much of the last three decades, yet in this period American society has become significantly more open and tolerant - discrimination appears at an all-time low. On the flip side, the 20's were the heyday of the Klan in the United States, though the "roaring" economy of the decade was growing briskly.

None of this disproves Friedman's hypothesis, only clouds its horizon. Surely liberalization works better where there is growth, while growth works better where there is liberalization - as China is learning. But the relationship between the two forces may always be fuzzy; the modern era might have seen movement toward greater personal freedom and social fairness regardless of whether high-output industrial economies replaced low-growth agrarian systems. Repressive forces, from skinheads to Nazis and Maoists, may spring more from evil in

the human psyche than from any economic indicator. Friedman's thesis is now being tested in China, home of the world's most impressive economic growth. If he's right, China will rapidly become more open, gentle and democratic. Let's hope he's right.

Though "The Moral Consequences of Economic Growth" may not quite succeed in showing an iron law of growth and liberalization, Friedman is surely correct when he contends that economic expansion must remain the world's goal, at least for the next few generations. Growth, he notes, has already placed mankind on a course toward the elimination of destitution. Despite the popular misconception of worsening developing-world misery, the fraction of people in poverty is in steady decline. Thirty years ago 20 percent of the planet lived on \$1 or less a day; today, even adjusting for inflation, only 5 percent does, despite a much larger global population. Probably one reason democracy is taking hold is that living standards are rising, putting men and women in a position to demand liberty. And with democracy spreading and rising wages giving ever more people a stake in the global economic system, it could be expected that war would decline. It has. Even taking Iraq into account, a study by the Center for International Development and Conflict Management, at the University of Maryland, found that the extent and intensity of combat in the world is only about half what it was 15 years ago.

Friedman concludes his book by turning to psychology, which shows that people's assumptions about whether their lives will improve are at least as important as whether their lives are good in the present. Right now, American living standards and household income are the highest they have ever been; but because middle-class income has been stagnant for more than two decades, while the wealthy hoard society's gains, many Americans have negative expectations. "America's greatest need today is to restore the reality. . . that our people are moving ahead," Friedman writes. How? He recommends lower government spending (freeing money for private investment), repealing upper-income tax cuts (to shrink the federal deficit), higher Social Security retirement ages, choice-based Medicare and big improvements in the educational system (educated workers are more productive, which accelerates growth). Friedman doesn't worry that we will run out of petroleum, trees or living space. What he does worry about is that we will run out of growth.

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