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The Moral Consequences of Economic Growth

Why are we so concerned about whether our economy is running full steam and about the prospect of a recession, which usually means only that the economy would operate at about 2 percent below full capacity for less than a year? Who would notice the missing 2 percent? And what difference does it make whether the economy grows at 1 or 2 or 3 percent over the next 10 years, or 25? Benjamin Friedman, William Joseph Maier Professor of Political Economy at Harvard University, explains that for about three-quarters of the world's population, the answers to these questions are immediate and obvious: increases in per capita living standards translate directly into improvements in the most basic necessities of life. But above some income level—and certainly for a country like the United States—these relationships no longer hold. Instead, Friedman suggests that broadly distributed economic growth also provides benefits far beyond the material by enhancing opportunity, fostering tolerance, increasing generosity, and creating and strengthening democratic institutions—all of which justify the aggressive pursuit of broad economic growth even when more direct benefits in the more basic form of reduced mortality and morbidity are no longer at stake.

NOTEBOOK

If, after a point, increases in living standards do not lead to improvements in basic aspects of human conditions such as longer life spans, why do we care so much about economic growth?

Auguste Comte, a French philosopher who carried the Enlightenment into the 19th century, succinctly summarized its core idea: "all human progress, political, moral, or intellectual, is inseparable from material progression" (1855).

Whenever a society undergoes a period of stagnation or, worse, a retreat in the material living standards of most of its population, forward progress in dimensions such as opportunity, generosity, tolerance, and democracy ends and a period of entrenchment ensues.

The American education system is not just the vehicle for bringing about changes that society desires as a result of economic growth; it is also a source of the economic growth itself.

Economic and Moral Progress

Across a large swath of the world's income distribution, increases in per capita living standards translate directly into improvements in the most basic human dimensions of life. People with higher per capita living standards suffer from fewer diseases and have longer life expectancies; fewer die in infancy, and fewer are malnourished. But by the time an economy achieves a standard of living at best half that of the United States, further increases in material living standards do not lead to further improvements in the basic necessities of life. Croatia, for example, has a per capita income roughly one-third that of the United States. Yet the Croatians live just as long as we do. They suffer from no more diseases than we do. It's embarrassing for an American to admit, but their infant mortality rate is lower than ours. The South Koreans, for another example, have a standard of living approximately half that of the United States. Yet they too live just as long as we do, and their infant mortality rate is also lower than ours.

If, after a point, increases in economic growth do not lead to improvements in basic measures of living standards, why do we care so much about economic growth? I believe that advancing material living standards—not just for the few, but for the broad cross-section of the population—constitute the condition under which a society is most likely to make progress along a variety of nonmaterial dimensions that Western thinking, ever since the Enlightenment, has recognized as not only positive, but positive in explicitly moral ways.

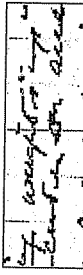
Belief that good flows from progress, and that different aspects of progress might somehow be related, has appeared and reappeared in Western civilization for many centuries. But the specific idea that rising living standards cause public attitudes and political institutions to evolve in ways that improve the moral character of society was primarily a product of the remarkable efflorescence of new thinking in the 18th century known as the Enlightenment. The dominant perspective of the Enlightenment thinkers was one of progress—observing it, explaining it, celebrating it. Instead of lamenting some long-lost simpler, golden age, they looked forward to greater advances to come. Their starting point was that the role of expanding knowledge accounts for nearly all dimensions of human progress, an idea that has remained central in Western thinking ever since. But their ultimate concern was the character of society in its broadest terms, and the fulcrum of their theory of

progress was economic arrangements. The causal mechanism these thinkers posited led from scientific change to economic change to moral change. Auguste Comte, a French philosopher who carried the Enlightenment into the 19th century, succinctly summarized its core idea: “all human progress, political, moral, or intellectual, is inseparable from material progression” (1855).

Nonmaterial Dimensions of Progress

History shows that several nonmaterial dimensions of progress typically advance as a consequence of broadly distributed economic growth.

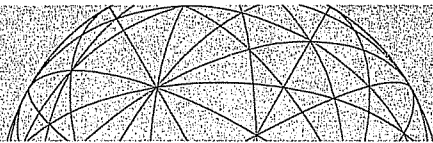
One key nonmaterial dimension of progress is the *provision of opportunity*. An important characteristic of any society is whether the opportunity for people to get ahead is limited to merely the sons and daughters or the relatives of those who already occupy the highest positions in the society, or whether opportunity is made available more broadly to anyone who has the energy and ability to take advantage of it. And one of the central dimensions of such opportunity is higher education, which represents a particularly important way in which a society opens up opportunities more broadly—and which is most often possible when the majority of citizens have the sense that they are getting ahead in their material standards of living.



Economic development and the structural changes that support it often foster the birth of new attitudes that can lead to dramatic social and political change.

There is also a relationship between economic growth—that is, material advancement for the broad cross-section of the population—and *tolerance*. Tolerance with respect to what? As an American, I immediately think of race relations, as well as attitudes toward immigrants. I also have in mind religious and ethnic tolerance versus discrimination. Here too, I would argue that society is more likely to make progress along these lines when the broad cross-section of the population is making economic progress.

Another moral dimension of progress is *generosity toward the disadvantaged*. Even under the best of circumstances, not everyone will be able to take advantage of the opportunities afforded them. Some will lack the ability, the energy, or the drive to move themselves to the



front ranks of the society. Some will labor under disadvantages that have nothing to do with their own abilities, but rather were inherited from circumstances over which they had no control. Other people, even with the best of opportunities, will simply suffer from misfortune in what economists, in a weak metaphor, typically refer to as “bad labor market luck.” For all of these reasons, not everyone will be able to take advantage of whatever opportunities exist, and therefore providing opportunity is not enough. The question then is what provision is a society—through either public policy or private initiatives—prepared to make for those who do not manage to move ahead on their own?

Yet another key moral priority is *creating and strengthening democratic institutions*, either in the sense of bolstering such institutions in countries such as the United States that are already well-established democracies, or by the creation of whole new sets of institutions in countries that at the moment are not democracies at all. In the latter case, economic development and the structural changes that support it often foster the birth of new attitudes that can lead to dramatic social and political change.

In all of these dimensions, and others as well, the sense of economic progress shared by the broad bulk of the population—that their material living standards are improving and are likely to continue to do so into the foreseeable future, and that their children will share in yet further economic progress—is one of the central conditions that makes progress possible and likely. Conversely, whenever a society undergoes a period of stagnation or, worse, a retreat in the material living standards of most of its population, forward progress in dimensions such as opportunity, generosity, tolerance, and democracy ends and a period of entrenchment ensues—often with disastrous consequences both to a country’s own population and to many others besides. This has happened over and over again throughout history, in many countries including the United States. ‘

One important implication of this idea is quite optimistic. If it is true that what matters for such goals as tolerance, opportunity, and democracy is not just how rich a society is, but also the sense of forward progress shared by the broad bulk of the population, then many countries throughout the developing world today will not have to wait until they achieve Western standards of living before they can begin to democratize with a small “d” and liberalize with a small “l.”

The developing country I know best is China. When I first traveled to China nearly 25 years ago, the Chinese were not free to decide whether they wanted to work,

where they wanted to work, or whether to start a new business. They also were not free to decide where they wanted to live. All that has changed, and today the Chinese enjoy broad economic freedom.

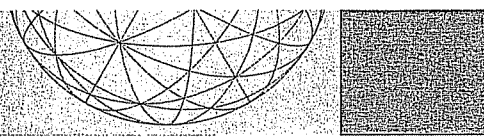
On the political front, China has also made substantial progress. China now has genuinely contested elections at the village level. In a country with more than 700,000 villages, that is not a small matter! At the national level, however, China is still a one-party military dictatorship. Yet in the last 25 years, the Chinese have mounted the greatest sustained increase in per capita income that the world has seen during this period—7 percent per annum growth in inflation-adjusted income per capita.

My prediction is that within our lifetimes the liberalization and democratization of Chinese society will move upward and eventually encompass the national level. This conclusion may sound overly optimistic, but I believe that the connection between rising living standards and improvements in the societal dimensions that we think of in moral terms inherently engenders a fundamental optimism about the human enterprise.

The second key implication of my hypothesis, however, is more sobering. If increases in per capita living standards, broadly distributed across the society, are one of the chief drivers of progress in areas such as democracy, generosity to the poor, expansion of opportunity, and tolerance, then it is sobering to an American to think about what has been happening in our economy in recent years.

In 2005, the median U.S. household income *finally* experienced some growth after declining for five years in a row. Even so, the increase in the median household income was nowhere near enough to offset the decline in the previous five successive years. Further, the growth that occurred was primarily due to the fact that people are working more hours, and that there are more two-worker families. It certainly was not due to any tendency for wages to rise—they did not. This is a sobering situation because it suggests that if America continues along the trajectory of the last half dozen years, we are likely to be putting at risk the kinds of values that we believe are central to our society. Current widespread anti-immigrant and anti-affirmative action sentiment serve as examples that make this concern concrete.

It would be foolish for anyone to pretend that every twist and turn in American attitudes toward such issues is narrowly or deterministically driven by the underlying ebb and flow of the economy. History and the data, however, indicate that underlying economic conditions have an enormous effect on American attitudes in just this way.



The Role of Higher Education

Education is a crucial part of the American story. In the middle of the 19th century, the United States led the way to universal free public education, but that generally ended after grammar school. It wasn't until the early decades of the 20th century that many states around the country began to offer free public education through the 12th grade. At that point, as vast numbers of immigrants were pouring into the United States, high schools were intentionally targeted as the vehicle to "Americanize" immigrants, in large part via the then-new "social studies" curriculum. Fifty years later, in the 1960s, public education was asked to carry the burden of breaking down racial discrimination in American society. Integration occurred in primary and secondary education and at the higher education level as well.

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In both of these examples, the education system served as the vehicle for realizing new societal objectives that, I would argue, were driven in large part by the underlying economics. Indeed, a historical review of the relationship between material living standards (either growth or stagnation) and the moral dimensions of our society (either progress or retreat) shows that society turns foremost to the education system as a mechanism to achieve its goals.

But the American education system is not just the vehicle for bringing about changes that society desires as a result of economic growth; it is also a source of the economic growth itself. Education serves both as a vehicle for and as a driver of change. Today, we must figure out how to allow American workers, and the population as a

whole, to continue to enjoy our current standard of living—and to achieve sustained increases and improvements in that standard. Much of that burden is going to fall on the American education system; surely the higher education community has a great deal to contribute to creating opportunities to raise living standards, and not just for the narrow educated elite, but across the wider society as a whole.

To the extent that what creates productivity growth, and therefore growth in wages and in the standard of living, is not just narrowly defined human inputs but also technology and the capital structure that supports it, we have to ask, where is that technology going to come from? Who is going to do the research that will provide the next wave of advances in American technology? Will it be only the private sector? Or will there be some role for higher education institutions? Might there be cooperative ventures between the private sector and higher education? All of these are not just possibilities but, increasingly, necessities.

Conclusion

The connection between rising material living standards and progress along moral dimensions holds important implications for society as a whole. It should affect how we approach the public policy issue of stimulating economic growth. This connection also has important implications for the burdens that will be placed on the education system. Today, higher education is facing not just an opportunity, but an obligation to contribute to the economic growth that serves as the beginning of the process that leads from improvement in material living standards to gains in the kinds of dimensions that Enlightenment thinking has always taken to be morally positive: enhancing opportunity, fostering tolerance, increasing generosity, and creating and strengthening democratic institutions.

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