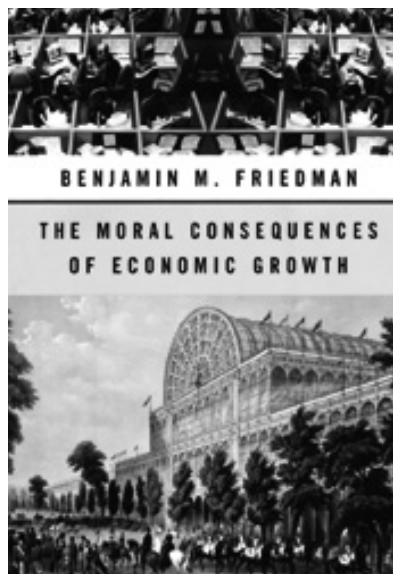


The Moral Case for Growth

Material progress and moral progress, which have always embodied an optimism about the human enterprise, go together. That's why growth is essential in any society.

BY BENJAMIN M. FRIEDMAN



Are we right to care so much about economic growth as we clearly do? For citizens of all too many of the world's countries, where poverty is still the norm, the answer is immediate and obvious. But the tangible improvements in the basics of life that make economic growth so important whenever living standards are low—greater life expectancy, fewer diseases, less infant mortality and malnutrition—have mostly played out long before a country's per capita income reaches the levels enjoyed in today's advanced industrialized economies. Americans are no healthier than Koreans or Portuguese, for example, and we live no longer, despite an average income more than twice what they have. Yet whether our standard of living will continue to improve, and how fast, remain matters of acute concern for us nonetheless.

At the same time, perhaps because we are never clear about just why we attach so much importance to economic growth in the first

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place, we are often at cross-purposes—at times we seem to be almost embarrassed—about what we want. We not only acknowledge other values; as a matter of principle we place them on a higher plane than our material well-being. Even in parts of the world where the need to improve nutrition and literacy and human life expectancy is urgent, there is often a grudging aspect to the recognition that achieving superior growth is a top priority. As a result, especially when faster growth would require sacrifice from entrenched constituencies with well-established interests, the political process often fails to muster the determination to press forward. The all-too-frequent outcome, in low- and high-income countries alike, is economic disappointment, and in some cases outright stagnation.

The root of the problem, I believe, is that our conventional thinking about economic growth fails to reflect the breadth of what growth, or its absence, means for a society. We recognize, of course, the advantages of a higher material standard of living, and we appreciate them. But moral thinking, in practically every known culture, enjoins us not to place undue emphasis on our material concerns. We are also increasingly aware that economic development—industrialization in particular, and more recently globalization—often brings undesirable side effects, such as damage to the environment or the homogenization of what used to be distinctive cultures, and we have come to regard these matters too in moral terms. On both counts, we therefore think of economic growth in terms of material considerations versus moral ones: Do we have the right to burden future generations, or even other species, for our own material advantage? Will the emphasis we place on growth, or the actions we take to achieve it, compromise our moral integrity? We weigh material positives against moral negatives.

I believe this thinking is seriously, in some circumstances dangerously, incomplete. The value of a rising standard of living lies not just in the concrete improvements it brings to how individuals live but in how it shapes the social, political, and ultimately the moral character of a people.

Economic growth—meaning a rising standard of living for the clear majority of citizens—more often than not fosters greater opportunity, tolerance of diversity, social mobility, commitment to fairness, and dedication to democracy. Ever since the Enlightenment, western thinking has regarded each of these tendencies positively, and in explicitly moral terms.

Even societies that have already made great advances in these very dimensions, for example most of today's western democracies, are more likely to

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make still further progress when their living standards rise. But when living standards stagnate or decline, most societies make little if any progress toward any of these goals, and in all too many instances they plainly regress. Many countries with highly developed economies, including America, have experienced alternating eras of economic growth and stagnation in which their democratic values have strengthened or weakened accordingly.

How the citizens of any country think about economic growth, and what actions they take in consequence, is therefore a matter of far broader importance than we conventionally assume. In many countries today, even the most basic qualities of any society—democracy or dictatorship, tolerance or ethnic hatred and violence, widespread opportunity or economic oligarchy—remain in flux. In some countries where there is now a democracy, it is still new and therefore fragile. Because of the link between rising or falling living standards and just these aspects of social and political development, the absence of growth in so many of what we usually call “developing economies,” even though many of them are not actually developing, threatens their prospects in ways that standard measures of national income do not even suggest. But the same concern applies, albeit in a more subtle way, to mature democracies as well.

Even in America, I believe, the quality of our democracy—more fundamentally, the moral character

of American society—is similarly at risk. The central economic question for the United States at the outset of the twenty-first century is whether the nation in the generation ahead will again achieve increasing prosperity, as in the decades immediately following World War II, or lapse back into the stagnation of living standards for the majority of our citizens that persisted from the early 1970s until the early 1990s. And the more important question that then follows is how these different economic paths would affect our democratic political institutions and the broader character of our society. As the economic historian Alexander Gershenkron once observed, “even a long democratic history does not necessarily immunize a country from becoming a ‘democracy without democrats.’” Our own experience as well as that of other countries demonstrates that merely being rich is no bar to a society’s retreat into rigidity and intolerance once enough of its citizens lose the sense that they are getting ahead.

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The familiar balancing of material positives against moral negatives when we discuss economic growth is therefore a false choice, and the parallel assumption that how we value material versus moral concerns neatly maps into whether we should eagerly embrace economic growth or temper our enthusiasm for it is wrong as well. Economic growth bears moral benefits as well, and when we debate the often hard decisions that inevitably arise—in choosing economic policies that either encourage growth or retard it, and even in our reactions to growth that takes place apart from the push or pull of public policy—it is important that we take these moral positives into account.

It may seem strange to think that America, now so preeminent across the world in economic terms, faces any significant threat in this regard. One country after another—including even China and Singapore, which thus far have hesitated to liberalize politically—has adopted American approaches to the management of its economy, based on free enterprise, private initiative, and mobile capital. Why would ongoing economic growth not therefore herald an era of further social and political progress that would reinforce the openness of American society and otherwise strengthen and broaden American democracy?

One concern is simply that the robust growth of the latter half of the 1990s may prove to have been only a temporary interlude, a “bubble” as many disappointed stock market investors now regard it, between the stagnation that dominated most of the final quarter of the twentieth century and further stagnation yet to come. But even the prosperity that America experienced in the late 1990s bypassed large parts, in some important dimensions a clear majority, of the country’s citizens. Jobs were plentiful, but too many provided poor wages, little if any training, and no opportunity for advancement.

Economic progress needs to be broadly based if it is to foster social and political progress. That progress requires the positive experience of a sufficiently broad cross-section of a country’s population to shape the national mood and direction. But except for a brief period in the late 1990s, most of the fruits of the last three decades of economic growth in the United States have accrued to only a small slice of the American population. Nor was that short period of more widespread prosperity sufficient to allow most American families to make up for the economic stagnation or outright decline they endured during previous years. After allowing for higher prices, the average worker in American business in 2004 made 16 percent less each week than thirty-

plus years earlier. For most Americans, the reward for work today is well below what it used to be.

With more and more two-earner households, and more individuals holding two jobs, most families' incomes have more than held their ground. But nearly all of the gain realized over these last three decades came only in the burst of strong growth in the late 1990s. Despite mostly low unemployment, and some modest growth in the U.S. gross domestic product—and despite the increased prevalence of two-earner families and two-job workers—the median family's income made little gain beyond inflation from the early 1970s to the early 1990s. For fully two decades most Americans were not getting ahead economically, and many of those who did were increasingly hard pressed to keep up even their meager progress.

And now the average family is falling behind once again. The Census Bureau recently reported that in 2004—for the fifth year in a row—the income of the median American household failed to keep pace with inflation. With most stock market indexes flat or down over this period, the assets in most people's 401(k) plans have not increased either. This is not the kind of broadly based increase in living standards that we normally conceive as “economic growth.”

The disappointment so many Americans feel at failing to achieve greater advances is grounded in hard reality. So is the sense of many young Americans that their prospects are poor even at times when the economy is strong. Our citizens applaud the American economy, especially in years when it prospers, yet even then they fear that the end of the American dream lies ahead. They do so because in the last generation so many have failed to experience that dream in their own lives.

The consequence of the stagnation that lasted from the mid-1970s until the mid-1990s was, in numerous dimensions, a fraying of America's social fabric. It was no coincidence that during this period popular antipathy to immigrants resurfaced to an extent not known in the United States since before World War II, and in some respects not since the 1880s when intense nativism spread in response to huge immigration at a time of protracted economic distress. It was not an accident that after three decades of progress toward bringing the country's African-American minority into the country's mainstream, public opposition forced a rolling retreat from affirmative action programs. It was not mere happenstance that, for a while, white supremacist groups were more active and visible than at any time since the 1930s, anti-government private “militias” flourished as never before, and all the

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while many of our elected political leaders were reluctant to criticize such groups publicly even as church burnings, domestic terrorist attacks, and armed stand-offs with law enforcement authorities regularly made headlines. Nor was it coincidental that the effort to “end welfare as we know it”—a widely shared goal, albeit for different reasons among different constituencies—often displayed a vindictive spirit that was highly uncharacteristic of America in the postwar era.

With the return of economic advancement for the majority of Americans in the mid-1990s, many of these deplorable tendencies began to abate. In the 2000 and 2004 presidential campaigns, for example, neither anti-immigrant rhetoric nor resistance to affirmative action played anything like the role seen in the elections in 1996 and especially 1992. While hate groups and anti-government militias have not disappeared, they have again retreated toward the periphery of the nation's consciousness. Even so, much of the legacy of those two decades of stagnation remains. It has become commonplace to talk of the importance of “civil society,” but thoughtful observers like Robert Putnam (author of the much-discussed *Bowling Alone*) increasingly question the vitality in today's America of the attitudes and institutions that comprise it. Even our public political discourse has lately lost much of its admittedly sparse civility, foundering on personal charges, investigations, and reverberating recrimination.

It would be foolish to pretend that all these disturbing developments were merely the product of economic forces. Social and political phenomena are complex, and most have many causes. In the 1960s, for example, conventional thinking in the United States interpreted the wave of student uprisings on college

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campuses across the country as a protest against the Vietnam War. No doubt it was, in part. That simple view failed, however, to explain why other countries not involved in Vietnam had much the same experience (in some cases, for example France, even more so) at just the same time. The political and social changes that have been under way in America in our era have multiple roots as well.

But it would be equally foolish to ignore the effects of two decades of economic stagnation for a majority of the nation's citizens in bringing these changes about. And it would be complacent not to be concerned now that the economy's prospects are in question once again. The history of each of the large western democracies—America, Britain, France, Germany—is replete with instances in which just this kind of turn away from openness and tolerance, and often the weakening of democratic political institutions, followed in the wake of economic stagnation that diminished people's confidence in a better future. In many parts of Europe, the social and political consequences of the transition from the postwar economic miracle to today's nagging "Eurosclerosis" are all too evident.

In some eras, both in our own history and in that of these other countries, episodes of rigidity and intolerance have been much more intense and have borne far more serious consequences than anything we have seen recently. But then some past eras of stagnation or retreat in living standards have been much more pronounced as well. At the same time, periods of economic expansion in America and elsewhere, during which most citizens

had reason to be optimistic, have also witnessed greater openness, tolerance, and democracy. To repeat: such advances occur for many reasons. But the effect of economic growth versus stagnation is an important and often central part of the story.

I believe that the rising intolerance and incivility and the eroding generosity and openness that have marked important aspects of American society in the recent past have been, in significant part, a consequence of the stagnation of American middle-class living standards during much of the last quarter of the twentieth century. If the United States can return to the rapid and more broadly based growth that the country experienced during the first few decades after World War II or, more recently, the latter half of the 1990s—over time these unfortunate political and social trends will continue to abate. If our growth falters, however, or if we merely continue with slower growth that benefits only a minority of our citizens, the deterioration of American society will, I fear, worsen once more.

The importance of the connection between economic growth and social and political progress, and the consequent concern for what will happen if living standards fail to improve, are not limited to America and other countries that already have high incomes and established democracies. The main story of the last two decades throughout the developing world, including many countries that used to be either member states of the Soviet Union or close Soviet dependencies, has been the parallel advance of economic growth and political democracy. As recently as the 1970s, fewer than fifty countries had the kind of civil liberties and political institutions that we normally associate with freedom and democracy. By the close of the twentieth century there were nearly ninety.

Not surprisingly, the countries where this movement toward freedom and democracy has been most successful have, more often than not, been countries where average incomes have risen during these years. The specific context of developing economies creates several reasons for this to be so. To be sure, there are highly visible exceptions—China, Singapore, and Saudi Arabia, to name just a few—and discrete transitions in countries' political systems usually exhibit other complexities as well. But taken as a whole, the experience of the developing world during the last two decades, indeed since World War II, is clearly more consistent with a positive connection between economic growth and democratization than with the opposite.

For just this reason, concern that the robust expansion many developing countries have enjoyed for some

years may abate is likewise not a matter of economics alone. We know that new democracies are fragile democracies. They have neither the appeal of historical tradition nor much record of concrete accomplishments to give them legitimacy in the eyes of what may still be a skeptical citizenry. Economic growth, or its absence, often plays a significant role in spawning not only progress from dictatorship to democracy but also the overthrow of democracies by new dictatorships.

It is too soon to judge whether the financial crisis that beset some of the most successful developing economies in Asia and Latin America at the end of the 1990s marked the beginning of a new era of slower growth—due, for example, to global excess capacity in many of the industries in which these economies compete—or merely a warning to avoid risky financing structures and eliminate wasteful corruption. Either way, what should be clear is that the risks these countries face, if their growth in the early decades of this century is disappointing, are as much political and social as they are economic. The brutal violence suddenly inflicted on Indonesia's Chinese minority when that country's economy stumbled was only one demonstration of the dangers inherent in falling incomes. For the same reason, the frequently expressed fears of what an economic collapse would mean for the still tenuous and highly imperfect democracy in Russia also deserve to be taken seriously.

Concerns of a graver nature surround those "developing countries" where there is little actual economic development. In much of Africa, but elsewhere as well, living standards are stagnant or declining. In many such countries the familiar claim is that proper institutions—rule of law, transparency, stable government that is not corrupt—must be in place before economic advance is feasible. But if it takes economic growth to make these institutions viable (they go along with a democratic society although they are not identical to it), then seeking to implant them artificially in a stagnant economy is likely to prove fruitless.

The link between economic growth and social and political progress in the developing world has yet other practical implications as well. For example, the continuing absence of political democracy and basic personal freedoms in China has deeply troubled many observers in the west. Until China gained admission to the World Trade Organization, in 2002, these concerns regularly gave rise in the United States to debate on whether to trade with China on a "most favored nation" basis. They still cause questions about whether to give Chinese firms advanced American technology, or let them buy an American oil company. Both sides in this debate

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share the same objective: to foster China's political liberalization. How to do so, however, remains the focus of intense disagreement.

But if a rising standard of living leads a society's political and social institutions to gravitate toward openness and democracy—as the evidence mostly shows—then as long as China continues its recent economic expansion, Chinese citizens will eventually enjoy greater political democracy together with the personal freedoms that democracy brings. Since 1978, when Deng Xiao-Ping's economic reforms began, the Chinese have seen a five-fold increase in their material standard of living. The improvement in nutrition, housing, sanitation, and transportation has been dramatic, while the freedom of Chinese citizens to make economic choices—where to work, what to buy, whether to start a business—is already far broader than it was. With continued economic advance (the average Chinese standard of living is still only one-eighth that in the United States), broader freedom to make political choices too will probably follow. Indeed, an important implication of the idea that it is in significant part the growth rather than just the level of people's living standards that matters for this purpose is that the countries in the developing world whose economies are actually developing, like China, will not have to wait until they achieve Western-level incomes before they experience significant political and social liberalization.

If this conclusion seems optimistic, that is because it is. Traditional lines of western thinking that have emphasized a connection between material progress and moral progress (as the philosophers of the Enlightenment conceived it) have always embodied a powerful optimism about the human enterprise. It is that optimism that warrants our commitment to economic growth. And it is that commitment that should guide our economic policies. ◆