

Remarks at the Opening Dinner
The Centre for Independent Studies, May 18, 2000

The populations of the advanced economies are today the richest and freest people the world has ever known. We enjoy unprecedented levels of personal health, longevity, mobility, safety, education, and amenity. We can say with confidence that the problems of obtaining and securing prosperity and freedom—humankind's central problems from the dawn through the twentieth century—have now essentially been solved. They have been solved by science and technology, and improvements in social, legal, and economic institutions, which is to say by intellectual endeavor, trial and error, and the passage of time. We could lose the solutions through war or catastrophe, but they are now existent knowledge, part of the evolved genome of human practice. That is the real millennium story.

Some of the economic and technological causes of our prosperity now go under the rubric of 'the New Economy'. For most of history, the critical factor of production was land and, for the past century or two, physical capital. Now it has become human capital—intelligence, skill, and information possessed by individuals and groups—which is more dynamic and presents fewer barriers to social mobility than the possession of land and physical capital. Advances in communications and data processing are dramatically enhancing the scope and efficiency of markets, by reducing production and distribution costs in virtually all economic sectors, and yielding huge benefits in consumption as well, with no end in sight. Due in part to market and technological developments such as these, and in part to improvements in public policy (especially monetary policy), the business cycle has greatly moderated in amplitude and frequency over a period now exceeding 50 years.

But another cause, and probably a more significant one, is the new acceptance of an old set of political ideas and institutions, those of classical liberalism. A century of heated political contention and practical experience has yielded a remarkable consensus on the social benefits of private property and free markets, as dramatised by the collapse of Soviet communism and third-world socialist ideologies. This consensus is now embodied in the embrace of market economics by most of the left-of-centre governments currently in office in the West, the recent moves towards re-regulation in New Zealand being a conspicuous exception. It is not that the impulse to gain and exercise power has gone away, but rather that socialism has been shorn of its fancy idealistic dress and lost the moral high ground. And that is because capitalism has proven to be superior to socialism at precisely the thing that socialism claimed to do best: improving the lot of the common man and woman. If we are all capitalists now, it is because we moderns—right, left and centre—are all deep-dyed egalitarians, and capitalism is revealing itself to be the most egalitarian of regimes.

To be sure, the distribution of income within the advanced economies has become somewhat less equal in recent decades, and this trend is decried by editorialists and politicians eager to keep the old-time redistributionist religion alive. But annual income is an incomplete and increasingly misleading measure of real life circumstances in societies. Today, average income is so high that the

necessities have become practically universal. Many one-time luxuries-good food, clothing, cars, and homes; advanced communications; art and entertainment; foreign travel-have become mass-market commodities.

Down-to-earth measures of material welfare, such as consumption, health status and longevity, tell the real story. As Nobel economist Robert Fogel demonstrates in his new book, *The Fourth Great Awakening and the Future of Egalitarianism*, the differences in physical stature and life span between richer and poorer Europeans and Americans were still dramatically large at the beginning of the twentieth century. Today, however, they have been largely eliminated, due to society-wide advances in nutrition, public sanitation and medical care.

As University of Texas economist Daniel Slesnick shows in a new American Enterprise Institute study, *Living Standards in the United States: A Consumption-Based Approach*, increased income inequality in the United States since 1960 has had no discernable effect on the distribution of consumption, which has remained unchanged.

Even these measures leave out one of the most valuable commodities of modern life, which is time itself. And time is being redistributed down the income spectrum. Popular culture has come to acknowledge, and to a striking degree celebrate, the social contributions of the entrepreneur and the economic risk-taker. But we should also acknowledge the claims of those of modest economic aspiration. An old libertarian saw holds that true freedom must include the freedom to be one's potty little self. To which many an overweight corporate lawyer would also add the freedom to be one's hard-bodied self! In the economically advanced societies, people of modest income are now well enough off to be able to forego added earnings for personal time, and they are doing so at a rate that exceeds those of higher income. According to figures from recent research by MIT economist Dora Costa, in 1950 Americans in the top 10 per cent of wage income worked 46 hours per week, while those in the bottom 10 per cent worked 53 hours per week. By 1998, the two groups had changed places. The top 10 per cent is now laboring 53 hours per week while the bottom 10 per cent is down to 45 hours per week. That is a redistribution from the top to the bottom of the wage scale of one day of free time every week!

Equally dramatic substitutions of time for earnings are taking place outside the workforce, in the form of more years of schooling and other youthful pursuits before starting working careers, and more years of retirement afterwards. This is producing, in any given year, legions of 'low income' individuals in the official statistics whose circumstances are not distressed, but who are freely choosing to invest in their own human capital or to pursue a variety of non-earning activities. The many new uses of time that our social wealth makes possible-the spread of higher education and earlier retirement, part-time telecommuting, second careers in the nonprofit sector, Doctors Without Borders, working-class sabbaticals and four-day work weeks-make the income distribution statistics worse but real life better. The statisticians and editorialists will catch up. Meanwhile, that so many ordinary citizens of Australia, America, and Austria can even contemplate life as a style, and calibrate time according to its quality, is one of the greatest blessings of living in such a free and abundant era.

Our growing wealth and equality is transforming our politics. Many of the central

issues of public finance, social welfare, and class contention that dominated twentieth century politics are evaporating before our eyes. In the United States, today's frontburner economic policy problems are those of abundance not scarcity-what to do with our huge government surpluses, and how monetary policy should adjust for the staggering increases in household wealth; in the fourth quarter of 1999, US net household wealth grew by US\$3 trillion, the same as in the entire decade of the 1960s. The only echo of old-time redistributionism is decidedly upscale: the insistence of President Clinton and Mr. Gore that we face a grave 'digital divide' that must be met by subsidies and tax credits for laptops and Internet connections. Today's most talked about problems of public resource allocation-such as reducing pollution, relieving traffic congestion, conserving more open space, and properly equipping our police and military forces-are hardly resource problems at all. We possess the means to improve them to about any degree we want. We would need to give up a share of other good things to get them, but the trade-offs would not involve serious sacrifice. The constraints on their solution are not material but political-the capacity of our political institutions to mediate our inevitable differences of interest and opinion. In today's highly affluent and mass-middle-class societies, the truly serious, overarching policy problems have become cultural and ethical. These are, in important respects, the result of our great prosperity. They may be characterised as the problems of employing our wealth and freedom properly and of extending our wealth and freedom to those who have yet to master their secrets. The problem of proper employment consists of maintaining the knowledge, habits and institutions of productive freedom in a world where freedom has progressed so far. It encompasses a variety of phenomena: the profusion of obscene and violent entertainment, family breakdown, the spread of drugs and drug culture, pornography on the Internet, incidents of mass violence and terrorism, and popular anxiety over the social consequences of new biological and information technologies. All derive from the tremendous power and freedom of action that wealth and technology have placed at the disposal of every individual. The challenge they present is learning to live in a world where wealth and freedom have amplified man's capacities for vice along with his capacities for virtue. When reading the newspapers, one sometimes gets the impression that modern technology is leading humankind to the bow-wows at an even faster pace than ever before-until one recalls that those same technologies are also producing immense social improvements such as those I have mentioned. From time immemorial the good, the bad, and the ugly have coexisted and competed for human allegiance, but now the tasks of containment and rollback of vice and ugliness have become more daunting. The culture wars are, in these respects, like the Cold War.

The problem of extension consists of extending the knowledge, habits and institutions of productive freedom to those who continue to live in circumstances of genuine poverty and hardship. Within each of the economically advanced nations, there remains sizeable impoverished sub-populations that, although receiving free medical care, schooling and other government services, have entirely missed out on the growing prosperity of the societies around them. It is now generally acknowledged that income-transfer programs have failed to

address the problem of domestic poverty and have, in many respects, made them worse by encouraging illegitimacy and long-term welfare. Parties of both left and right are now heavily focused on what may be called cultural anti-poverty strategies aimed at revitalising the family, strengthening church and community institutions, socialising fatherless young men, protecting young women and single mothers, and improving schools.

The problems of absolute and relative poverty have an important global dimension as well. These, too, are increasingly understood in cultural terms. Since the beginning of the scientific and industrial revolution in the early 19th century and continuing to the present, economic welfare in the nations of Western civilisation-Western Europe, Great Britain, the United States, Canada, Australia, and New Zealand-has improved at fantastically greater rates than in any other nations, with the exception of Japan and the small Asian tigers since the 1960s.

In 1820, gross domestic product per person in the wealthy Western nations was about 50 per cent higher than in Eastern Europe and Russia, 70 per cent higher than in Latin America, twice that in Asia, and 2.5 times that in Africa. The ratio of incomes in the richest and poorest nations was 3:1 or 4:1. But in 1992, per capita GDP in the same Western nations had grown to nearly 4 times that in Eastern Europe and the USSR nations, 3 times that in Latin America, 3.5 times that in Asia (despite Japan having reached income parity with the West and Korea and Taiwan having achieved half of Western income), and 13 times that in Africa. Meanwhile the ratio of incomes in the richest and poorest nations had grown to more than 70:1.

At the time of the communist collapse, it seemed natural to believe that the global spread of free markets and democratic government, combined with the spread of modern medical, public health, information, and other technologies, would at last produce convergence in productivity, economic output and individual welfare between the West and the rest. But so far it is not happening. We are seeing not convergence but continuing divergence.

One decade of post-Communist economic reform is only a blip, of course. Yet it is unnerving for advocates of free markets and the rule of law to observe the state of nations with tolerably honest governments and sensible economic policies, such as the former East Germany. Although it has had the advantage of importing Western economic policies and legal institutions wholesale, there is little domestic entrepreneurship and economic growth and cities teem with unemployed men. Something must be at work that goes beyond technology, which is universal. Whatever it is must also go beyond economic policies and political institutions, which vary but not nearly so much as levels of economic welfare-and which have changed over time not nearly so much as the changes in relative welfare I have summarised.

These developments are inspiring a 'new development literature', epitomised by David S. Landes's historical tour de force, *The Wealth and Poverty of Nations: Why Some Nations are So Rich and Some So Poor*, which suggests that that something is culture. Sound economic policies such as stable money, discipline in government taxing and spending, and free trade, are necessary but not sufficient. Effective political and constitutional institutions, such as representative

democracy, checks and balances on government power, civil liberties, and an independent judiciary, are also necessary but also insufficient. A culture conducive to economic growth is not only necessary but also antecedent. The unique prosperity of Western civilisation is due not so much to its economic policies and political institutions as to the culture that fashioned and sustained them-along with complementary private institutions of education and science, religion and philanthropy, commerce and industry, and art and literature. My late colleague Herbert Stein anticipated this view in 1990, in an address to a group of Russian economists who had come to an American Enterprise Institute conference in the early days of glasnost to learn about the workings of the American economy and, perhaps, a few secrets of our success. In the course of a detailed account of the structure and performance of the US economy and the various factors affecting its performance-economic policies, taxation, regulation and antitrust, business investment, foreign trade-Stein observed that "[t]he basic reason for our prosperity is that 120 million Americans get up in the morning and go to work to do the best they can for themselves and their families and previous millions did the same thing for two centuries."

Our Russian visitors, if they fastened on this passage at all, probably thought it was very bland and opaque and certainly unhelpful. But it was the deepest moment of the lecture. Its force consists in capturing so many different aspects of culture in a single thought. People prosper because they work hard over a long period of time. They work hard out of personal self-interest and also out of attachment to their families. Yet their attachment to their families leads them to spend a considerable part of their lives away from their families working with outsiders.

The culture of a people or nation is, of course, an extraordinarily subtle and intricate thing. It is rather like a molecule of DNA, with innumerable different attributes acting sometimes in isolation and sometimes in concert with other attributes to produce a certain result. Is it possible to identify with any particularity the cultural genes that determine, or at least strongly influence, something so general and profound as propensity for economic progress? The habits of individualism and competition on the one hand, and of social association and cooperation on the other, seem to be fundamental. There is a strong tendency in the new growth literature to emphasize the remarkable Western knack for spontaneous voluntary association-for grasping the potential for fruitful social cooperation beyond the family unit and for forming churches, community organisations, schools and universities, giant corporations, and complex market arrangements, all of which require intricate collaboration and trust among strangers.

At least equally important to material progress are the equally remarkable Western cultural attributes of individualism, self-reliance and competitiveness. I am speaking here not only of business culture but also of attitudes and habits that pervade Western society. They are the inheritance of two thousand years of history in which, in the West and only in the West, no one institution of church or state and no private power has ever been able to maintain a monopoly over the lives and allegiances of citizens for any extended period of time. A history in which every institution had to fight it out constantly, often violently but

increasingly over time in peaceful civil competition, with equally strong and durable rivals. Limited government, private enterprise, the independent judiciary, and freedom of the press, religion, association, and inquiry are important parts of this inheritance-but only parts. Ours is also a culture where the sheer pleasures of striving and self-realisation, and the hope of winning and fear of losing, keep many of us at the office long after our material needs have been abundantly provided for. It is a culture where scientific research and intellectual life are as ferociously competitive as business and finance. It is a culture where government misconduct is pitilessly exposed and punished rather than left to fester and grow. These tough and often lamented cultural attributes are not easily emulated, much less prescribed by the International Monetary Fund. More generally, as growing prosperity, freedom and equality within the mainstream of Western society increasingly reveals the cultural roots of material success, and strips away the old ideological explanations for lack of success, we may discover that our political institutions-which evolved to mediate conflicts over material resources-are poorly equipped to handle the more delicate and 'private' issues of culture and human capital.

One hopeful augury is that market oriented think tanks such as The Centre for Independent Studies and the American Enterprise Institute, which have long been preoccupied with questions of taxing and spending, business regulation, and trade and monetary policy, are now turning with uninterrupted vigour to questions of culture, religion, education, and social norms. Another is that debates over domestic poverty, global economic development, and mainstream culture have taken a decidedly practical and nonpartisan turn, with talented intellectuals and politicians of both left and right addressing them in a practical spirit, and populist and neo-Marxist groups (such as those who took to the streets to demonstrate against the World Trade Organization last fall) increasingly confined to the fringes. We will, I predict, discover that the principles of open competition and avoidance of government regimentation, which served us so well in the economic sphere, will prove equally fertile in the realm of culture.