Opening Remarks at AEI World Forum

June 18, 1997

On behalf of everyone at the American Enterprise Institute, I wish to thank President and Mrs. Ford for hosting the sixteenth annual World Forum. We are delighted to be out of miasmic Washington for a few days and up in the clean air of the Rocky Mountains. And we are very gratified that so many distinguished men and women have come from near and far to this year's gathering.
Before proceeding further, I have a few announcements to make about last-minute additions to our schedule.

First, Lord Callaghan will be making a special presentation tomorrow on the subject, "Why the British elections have refuted everything said at the last ten World Forums about the inevitable triumph of conservative government and the end of the welfare state." Jim's presentation will begin at eight o'clock tomorrow morning and run through 12:00 noon. We have canceled all previously scheduled morning sessions to make room for it.

Second, Valéry Giscard d'Estaing will be making a special presentation on the subject, "Why the French elections have not confirmed anything said at the last ten World Forums about the inevitable political turmoil resulting from European monetary union." Valéry's presentation will begin at 12:00 noon and run through 5:00 p.m. We have canceled all the afternoon sessions to make room for it.

Third, we are all invited to gather outside Village Hall on Friday afternoon, immediately before the reception at the Fords' residence, to watch President Ford make a parachute jump form 5,000 feet overhead, aiming for the lawn next to the Centennial ski lift. We expect to attract extensive national media coverage of this event. Our press release quotes President Ford as saying that he is making the jump to "reach closure"—on a long-standing wager with George Bush over which of them would maintain his youthful athletic prowess longer.

It is customary at the World Forum to ask one brave soul to offer remarks at the opening dinner to help everyone limber up intellectually for the ensuing discussions. This is regarded as a tough assignment around AEI. One is speaking to a very discriminating audience, including many old friends who have just seen each other for the first time in a long while, who have just arrived at 10,000 feet and enjoyed a few glasses of wine and a good dinner, and who are planning to get up early the next morning. The occasion calls for pithiness and provocativeness. Having relaxed and enjoyed listening to others at the last ten opening dinners, I have accepted the challenge myself this year.

Consider the following paradox: The nations of North America, Western Europe, Australia, and Japanare today wealthier than they have ever been, wealthier than any on the planet, and indeed wealthier by far than any societies in human history. And yet their governments are impoverished—saddled with large accumulated debts and facing enormous annual deficits that will grow explosively over the coming decades. As a result, government spending programs, especially the big social insurance programs (social security and Medicare in the United States and similar ones in the other OECD nations), are facing drastic cuts to avert looming insolvency and also, in France and some other European nations, to meet the Maastricht criteria of fiscal rectitude for monetary union. U.S. politics has been dominated for several years now by excruciatingly painful and contentious negotiations between the Clinton administration and the Republican Congress over deficit reduction. At the beginning of this week, the European Community summit meeting in Amsterdam was devoted to talk of hardship and the need of governmental stringency and austerity; at the end of the week, more of the same will be heard at the Group of Eight meeting in Denver.

These rather abstract and bloodless problems of governmental accounting are said, moreover, to reflect a variety of real social ills—growing economic inequality in the United States; high unemployment in Europe; an aging, burdensome, and medically needy population everywhere; and the globalization of commerce, which is destroying jobs and national autonomy and forcing bitter policy medicine to keep up with the bruising demands of international competitiveness.

How can it be that societies so surpassingly wealthy can have governments whose core domestic welfare programs are on the verge of bankruptcy? The answer, I contend, is as paradoxical as the question: We have become not only the richest but also the freest and most egalitarian societies that have ever existed—and it is our very wealth, freedom, and equality that are causing the welfare state to come unraveled.

That we have become very rich in the aggregate is clear enough to most people; that we have become very equal in our enjoyment of those riches will be strongly resisted by many, in large part because of the recent profusion of media reports and political speeches about increasing income inequality—the rich getting richer, the poor getting poorer, the middle class and working class under pressure as manufacturing and middle-management jobs disappear, and so forth. The recent increase in income inequality in the United States, however, is a very small tick in the massive and unprecedented leveling of material circumstances that has been proceeding now for almost three centuries and has accelerated dramatically in this century. In fact, the increase in income inequality is in part a result of the increase in social equality. Here are a few pieces of this important but neglected story:

- Progress in agriculture, in construction and manufacturing, and in other key sectors of economic production has been such as to make the material necessities of life—food and shelter—available to essentially everyone. This does not mean that many people, such as the seriously handicapped and mentally incompetent, do not remain dependent on the public for these necessities. And I do not deny that many people continue to live in terrible squalor. But the poverty problem, defined as material scarcity, has been solved. As Charles Murray and others have pointed out, if current welfare expenditures in the United States were simply given in cash to those below the poverty line, all of them would be above the poverty line. Poverty today remains a serious problem, but it is a problem of individual behavior, social organization, and public policy; this was not so fifty years ago, or ever before that.

- Progress in public health, in nutrition, and in the biological sciences and medical arts has produced dramatic improvements in longevity, health status, and living standards, gains enjoyed widely across the income spectrum, producing an equalization of real personal welfare more powerful than any government redistribution of mere income. Nobel economist Robert Fogel identifies these gains in our mastery of our biological environment as the key to what he calls “the egalitarian revolution of the twentieth century” and considers them so profound as to constitute a distinct new level of human evolution. In the past 300 years, the average physical size of homo sapiens in Western societies has grown by 50 percent. Average life span has doubled. No remotely comparable improvements in human circumstance occurred in the previous 10,000 years, nor probably in the previous 10 million years. Gains in physical stature and health, and reductions in morbidity and mortality, are continuing today and on many important measures are accelerating.

- The critical source of social wealth has advanced from land at the end of the eighteenth century, to physical capital at the end of the nineteenth century, to human capital—individual knowledge, information, and cognitive skill—at the end of the twentieth century. Human capital is by nature widely distributed; for most people, for most purposes, it is simply a birthright, powerfully augmented in the past century by the introduction of universal education. It is true that the ability to acquire and deploy human capital is a function of intelligence, and that intelligence is unequally distributed and to a significant degree heritable. But for most people who inhabit the vast middle range of the bell curve, intelligence is far more equally distributed than land or physical capital ever was.

- One of the greatest historical source of inequality—the social and economic inequality of the sexes—has been dramatically reduced in recent decades. Today younger cohorts of working men and women with comparable education and training earn essentially the same incomes.

In the wealthy Western democracies, material needs and desires have been so thoroughly fulfilled in the lives of such large numbers of people that voluntary reduction in time spent at paid employment has become a major social and economic phenomenon for the first time in history. This development takes the form of more time spent on education and training by the young, earlier and longer retirement by the old, and, throughout the life span, much more time devoted to leisure, recreation, entertainment, family, community and religious activities, participation in charitable and other nonremunerative occupations, and other forms of self-fulfillment. The dramatic growth of the sports, entertainment, and travel industries reflects this development, but formal economic statistics capture only a small slice of it. Fogel estimates that the time devoted to nonwork activities by the average male household head has grown from 10.5 hours per week in 1880 to 40 hours per week today, while time at work has fallen from 61.6 hours per week to 33.6 hours per week. Among women—for whom "work" includes not only labor force employment but also household work, food preparation, childbearing and attendant health problems, and child rearing—the reduction in work and substitution of nonwork activities has been greater. There is a tendency to overlook these momentous developments because of the often frenetic pace of modern life, but our busyness actually demonstrates the point: time, and not material things, has become the scarce and valued commodity in modern society.

One implication of these trends is that, in very wealthy societies, money income becomes a less useful measure of individual welfare and hence of social equality or inequality. Many studies have shown that if one takes household consumption rather than income as the measure of material welfare, the distribution of welfare becomes much flatter and more equal; in the bottom ranges of the income distribution, annual consumption is often more than 100 percent of annual income. If we could measure leisure-time pursuits as a form of consumption, the distribution of welfare would be much flatter still. Indeed, the substitution of leisure activities for income-producing work has become significant enough that it is actually contributing to the inequality in measured income that has been the source of so many disheartening headlines about increasing inequality. In a recent AEI study, Robert Haveman of the University of Wisconsin finds that over half the increase in income inequality among U.S. males since the mid-1970s has been due not to changing labor market opportunities but to voluntary choice—to the freely chosen pursuit of nonwork activities at the expense of income-producing work.

Most of us—and I don't mean just the extraordinarily well-off people here tonight—can see this trend at work in our own families. A major factor in income inequality is simply age: in a knowledge economy, many people whose earnings put them at the top of the income distribution in their late fifties were well down the distribution in their twenties, when they were just getting out of school and beginning their working careers. That more young people today are spending more time in college or graduate school, taking time off for foreign travel, and pursuing interesting but low- or nonpaying jobs or apprenticeships before knuckling down to life-long careers (activities that may be pure consumption or may augment human capital and hence potential earnings later in life), is contributing significantly to “income inequality” measured in the aggregate. This form of economic inequality is in fact the social equality of the wealthy modern age; it is progress, not regress, to be cherished and celebrated, not feared and fretted over.Which brings me back to my original contention that it is our very wealth and equality that are the undoing of the modern welfare state.For Western government today largely consists of two things. First, income transfers from the wages of those who are working to those who are not working—mainly social security payments to older people who have chosen to retire rather than continue work, and education subsidies to younger people who have chosen to extend their schooling before beginning work. Second, direct and indirect expenditures on medical care, also financed by levies on the wages of those who are working. And it is precisely these aspects of life, nonwork and expenditures on medical care and physical well-being, that are the booming sectors of modern, wealthy, technologically advanced society. When the social security program was begun in the 1930s, retirement was still a novel idea: most men worked until they dropped, and they dropped much earlier than they do today. Even in the midst of our current demographic crunch, produced by the baby boom followed by the baby bust, we could solve the financial problems of the social security program in a flash by returning to the days when people died younger because of poorer nutrition and health care and most worked longer because of economic necessity. Similarly, a world without elaborate diagnostic techniques, replaceable body parts, and potent pharmaceutical and other means of curing some diseases and ameliorating many others—a world where medical care consisted largely of bed rest and hand-holding—would present scant challenge to the government fisc. What a relief the bad old days would be for Donna Shalala, Frank Raines, and June O’Neill—then even they would be able to cut back their workweeks somewhat and enjoy a little more quality personal time.

People like me who are inveterate skeptics of government programs often use the word obsolete to describe programs we suspect were terrible ideas to begin with, in the hope of winning over more liberal minded souls to our policy views. But the big government entitlement programs really are obsolete, because of the astounding growth in social wealth and equality and because of the technological and economic developments that have brought them into being. Not only was retirement a tiny part of most people’s lives when social security was introduced, but people of modest means had very little ability, compared with the well-to-do, to save and invest for the future. Today anyone can mail off a few hundred bucks to a good mutual fund and hire the best investment management American finance has to offer. In this world it is quite preposterous to argue that privatizing social security—that is, transforming it from a system of income transfers to one of individual retirement savings—would be good for Warren Buffet but bad for the little guy. Private savings, through pension plans, mutual funds, and personal investments in housing and other durables, are already a larger source of retirement income than social security transfers. Although there is much talk nowadays about the riskiness of tying retirement income to the performance of financial markets, the social developments I have just described mean that the real risk runs in the opposite direction. The social security program is just a transfer from current wage earners to current retirees; that means that retirement income is tied to the growth of payrolls, which is bound to be much less than the growth of the economy as a whole as reflected in financial markets.

Similarly, Medicare is today a backwater of old-fashioned fee-for-service medicine, augmented by a profusion of hopelessly inefficient and self-defeating price and service controls. Over the past dozen years we have seen a revolution in the private financing and organization of medical care. There have not been riots or strikes at the Dow Chemical Company or the American Enterprise Institute or the thousands of other private firms that have introduced major innovations in health insurance, and there will not be riots in the streets if similar innovations are instituted in Medicare in place of lunkheaded, and I regret to say largely Republican, proposals for “spending cuts” and additional ineffective price controls.

In summary, George Bush’s famous statement in his inaugural address that “we have the will but not the wallet” was exactly backward. Our wallets are bulging, and the problems we face are increasingly ones of will, both individual will and political will, rather than of necessity. The welfare state—dating in the United States to the Progressive Era and the New Deal, and including not only the big social insurance programs but also economic regulations and special subsidies and protections applied to particular activities such as farming, banking, and labor organization—will fall away or be radically transformed by the progress of technology and the growth of private markets and private wealth. And that transformation will be a bipartisan enterprise, with the parties of the Left competing vigorously and often successfully (as Prime Minister Blair is demonstrating) with the parties of the Right for the allegiance of the vast middle class.

That allegiance will increasingly turn on nonmaterial considerations. A few weeks ago I bumped into Jim Glassman at the coffee machine just after reading the morning papers, and I asked him if I was right in thinking that at least half the major political stories of the past few years had something to do with sex. He smiled and said, “Peace and prosperity.” What Jim may have had in mind is simply that grave crises make all other issues secondary: President Roosevelt’s private life received less scrutiny than President Clinton’s, and General Eisenhower’s private life received less scrutiny than General Ralston’s. There is, however, another, deeper truth in Jim’s observation. The stupendous wealth, technological mastery, and autonomy of modern life, free man not just for worthy, admirable, and self-improving pursuits but also for unworthy and self-destructive pursuits which are equally part of his nature. At the same time, the ability to read, think, and talk with one another about the meaning and purposes of our existence and the requirements of right conduct, and to devote ourselves in a deliberate way to self- improvement, self-fulfillment, and an active spiritual life—these activities, which were until very recently the rarest of luxuries, enjoyed by only the very rich and leisured, are rapidly becoming mass pursuits.

And so we live in an age of astounding rates of divorce and family breakup, of illegitimacy, of single teenage motherhood, of drug use and crime, and of violent and degrading popular entertainments; and also in an age of vibrant religiosity, of the Million Man March, and of the Promise Keepers—over a million men of all races who have packed sports stadiums around the United States in the past year, 75,000 just this past Sunday, 45,000 of them in RFK Stadium in Washington standing in shorts and T-shirts in the drenching rain, tears as well as rain streaming down their faces, declaring their determination to be better husbands, fathers, citizens, and Christians. Ours is an age where obesity has become a serious public health problem; and an age where dieting, fitness, environmentalism, and self-improvement have become major industries. It is true, of course, that the heartening developments are in part responses to the disheartening ones. But it is also true that both are the result of the developments I’ve described here. In a society as rich and therefore as free as ours has become, the big question, in our personal lives and also in our politics, is: What is our freedom for?