THE MORAL CONSEQUENCES OF ECONOMIC GROWTH

Benjamin M. Friedman

Economic growth has become the secular religion of advancing industrial societies.
—Daniel Bell, *The Cultural Contradictions of Capitalism*

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 been 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.

Perhaps because we are never clear about just why we attach so much importance to economic growth in the first place, we are often at cross-purposes—at times we seem almost embarrassed—about what we want. Not only do we 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, like 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 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 retrogress. Many countries with highly developed economies, including the United States, 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, are 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. The same concern applies, albeit in a more subtle way, to mature democracies as well.

Even in the United States, 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 U.S. at the outset of the twentyfirst 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 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 concerns how these different economic paths would affect our democratic political institutions and the broader character of our society. As the economic historian Alexander Gerschenkron 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. 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.

Economic Growth or Stagnation?

Especially in a work focused on the positive link between economic growth and social and political progress, it may seem strange to think that the United States, 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 the United States 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 crosssection of a country's population in order 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 widespread prosperity sufficient to allow most American families to make up for the economic stagnation or outright decline they had 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 twoearner households, and more individuals holding two jobs, most *families*' incomes have more than held their ground. However, nearly all of the gain realized over these last three decades has occurred 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 sustain even their meager progress. This was not the kind of broadly based increase in living standards that we normally conceive as "economic growth."

Even for many families in the country's large middle-class majority, economic prospects have become increasingly precarious in recent decades. Young men entering the American job force in the 1970s started off their working careers earning two-thirds more, on average, than what their fathers' generation had made starting out in the 1950s. By the early 1990s, young workers were starting out at one-fourth *less* than what their parents' generation had earned. It is not surprising, therefore, that throughout this period even as they expressed confidence that the U.S. economy would continue to expand, Americans in record numbers also said they had no sense of getting ahead personally and that they feared for their children's financial future. Even in the late 1990s, with the surge in both the economy and the stock market in full bloom, more than half of all Americans surveyed said they agreed that "The American dream has become impossible for most people to achieve." More than two-thirds said they thought that goal would become still harder to attain over the next generation.

The disappointment so many Americans felt—and that many feel today—at failing to achieve greater advances is grounded in hard reality, as is the sense of many young Americans that their prospects are poor even at times when the economy is strong. American 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 the U.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, antigovernment private "militias" flourished as never before, and all the while many of our elected political leaders were reluctant to criticize such groups publicly even as church burnings, domestic terrorist attacks, and armed standoffs 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 the United States in the postwar era.

With the return of economic advance 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 antiimmigrant rhetoric nor resistance to affirmative action played anything like the role seen in the elections in 1996 and especially 1992. While hate groups and antigovernment militias have not disappeared, they have again retreated toward the periphery of the nation's consciousness. Nonetheless, much of the legacy of those two decades of stagnation remains. While it has become commonplace to speak of the importance of "civil society," many observers increasingly question the vitality of American thought on 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 recriminations.

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 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 (for example, France, even more so) at just the same time. Thus, political and social changes that have been under way in the United States 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 about these changes. 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—the United States, Great Britain, France, and Germany—is replete with instances of just this kind of turn away from openness and tolerance, and often the weakening of democratic political institutions that followed in the wake of economic stagnation and 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 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 the United States 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 middleclass 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 U.S. growth falters, however, or if it continues slowly to benefit only a minority of U.S. citizens, then the deterioration of American society will, I fear, worsen once more.

Economic Growth and Political Democracy

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 the United States 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 were formerly 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 are normally associated with freedom and democracy. However, 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.

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 competed. Or was it 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 prior growth was disappointing, are as much political and social as they are economic. The brutal violence that was 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), 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. These concerns still cause questions about whether to give Chinese firms advanced American technology, or allow them to buy an American oil company. Both sides in this debate 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 Xao-Ping's economic reforms began, the Chinese have seen a fivefold 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 oneeighth that in the United States), greater 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. The real dangers that accompany stagnating incomes notwithstanding, many of the predictions as well as the implications for public policy that follow from this connection encourage such optimism and are, in turn, sustained by it.

In arguing that rising living standards nurture positive changes in political institutions and social attitudes, it is important to be clear that practically nobody opposes economic growth per se. Rather, a seriously credible warning of the end of economic growth would prompt real consternation, as indeed occurred in the wake of the energy price increases of the 1970s and, far more so, during the Depression of the 1930s.

Resistance to Economic Growth

Greater affluence means, among many other things, better food, bigger houses, more travel, and improved medical care. It means that more people can afford a better education. It may also mean, as it did in most Western countries during the twentieth century, a shorter work-week that allows more time for family and friends. Moreover, these material benefits of rising incomes accrue not only to individuals and their families but to communities and even to entire countries. Greater affluence can also mean better schools, more parks and museums, and larger concert halls and sports arenas, not to mention more leisure to enjoy these public facilities. A rising average income allows a country to project its national interest abroad, or send a man to the moon.

All these advantages, however, lie chiefly in the material realm, and we have always been reluctant to advance material concerns to the highest plane in our value system. Praise for the ascetic life, and admiration for those who practice self-denial have been continual themes in the religions of both West and East. So, too, have warnings about the dangers to man's spiritual wellbeing that follow from devotion to money and luxury, or, in some views, merely from wealth itself. Even the aristocratic and romantic traditions, which rest on the clear presumption of having wealth, are nonetheless dismissive of efforts to pursue it.

Furthermore, even when people plainly acknowledge that more is more, less is less, and more is better, economic growth rarely means simply *more*. The dynamic process that allows living standards to rise brings other changes as well. More is more, but more is also different. The qualitative changes that accompany economic growth—including changes in work arrangements, in power structures, in our relationship to the natural environment—have nearly always generated resistance. The anti-globalization protests in the streets of Seattle, Genoa, and Washington, D.C., and even on the outskirts of Davos, reflect a long-standing line of thinking.

More than two centuries ago, as Europe was embarking on its industrial revolution and Adam Smith and his contemporaries were analyzing and celebrating the forces that create "the wealth of nations," Jean-Jacques Rousseau instead admired the "noble savage, arguing that mankind's golden age had occurred not only before industrialization but before the advent of settled agriculture. Seventy-five years later, as prominent Victorians were hailing the "age of improvement," Karl Marx observed the raw hardships that advancing industrialization had imposed on workers and their families, and devised an economic theory of how matters might (and in his mind, would) become better, together with a political program for bringing that supposedly better world into existence. Although Communism is now mostly a relic where it exists at all, romantic socialism, combining strains of Marx and Rousseau, continues to attract adherents, as do fundamentalist movements that celebrate the presumed purity of preindustrial society.

The Club of Rome's influential "Limits to Growth" report and the "Small is Beautiful" counterculture of the 1970s, the mounting concerns over the impact on the environment of economic expansion, especially since the 1980s, and most recently the antiglobalization movement mounted in opposition to the World Trade Organization and against foreign investment more generally are all echoes of the same theme, which is thoroughly familiar today. Environmental concerns in particular have expanded from their initial focus on the air and water to encompass noise pollution, urban congestion, and such fundamental issues as the depletion of nonrenewable resources and the extinction of species. In recent years, the force of competition in global markets and the turmoil of an unsettled world financial system have inflicted visible hardships on large numbers of people both in the developing world and in countries that are already industrialized, just as they have created opportunities and given advancement to many others. As in the past, the plight of those who are affected adversely—Indonesians who faced higher food prices when their currency plunged, Argentinians who found their savings blocked when the country's banking system collapsed, textile workers throughout the developing world who cannot compete with low-cost factory production in China—has led not only to calls for reform of the underpinnings of economic growth but to outright opposition.

What marks all these forms of resistance to the undesirable side effects of economic expansion or of the globalization of economic growth is that, just as with earlier strands of religious thinking, in each case they are accompanied by a distinctly moral overtone. Ever larger segments of our society accept that it is not just economically foolish but is morally wrong for one generation to use up a disproportionate share of the world's forests, or coal, or oil reserves, or to deplete the ozone or alter the earth's climate by filling the atmosphere with greenhouse gases. While pleas on behalf of biological diversity sometimes appeal to practical notions like the potential use of yet-to-be-discovered plants for medicinal purposes, we also increasingly question our moral right to extinguish other species. Opposition to the global spread of markets is often couched as much in terms of the moral emptiness of consumerism as in the tangible hardships sometimes imposed by world competition and unstable financial systems.

But if a rising standard of living makes a society more open and tolerant and democratic, and perhaps also more prudent on behalf of generations to come, then it is simply not true that moral considerations argue wholly against economic growth. Growth is valuable not only for our material improvement but for how it affects our social attitudes and our political institutions—in other words, our society's *moral* character, in the term favored by the Enlightenment thinkers from whom so many of our views on openness, tolerance, and democracy have sprung. The attitude of people toward themselves, toward their fellow citizens, and toward their society as a whole is different when their living standard is rising from when it is stagnant or falling. It is likewise different when they view their prospects and their children's prospects with confidence as opposed to looking ahead with anxiety or even fear. When the attitudes of the broad majority of citizens are shaped by a rising standard of living, over time that difference usually leads to the positive development of—to use again the language of the Enlightenment—a society's moral character.

Hence questions about economic growth are not a matter of material *versus* moral values. Yes, economic growth often does have undesirable effects, such as the disruption of traditional cultures and damage to the environment, and yes, some of these are a proper moral concerns that we are right to take into account. But economic growth bears social and political consequences that are morally beneficial as well. Especially for purposes of evaluating different courses for public policy, it is important that we take into account not only the familiar moral negatives but these moral positives as well.

It is no less essential to understand the proper relationship between public policies and private initiatives regarding economic growth. Here, too, positive *moral* consequences of rising living standards significantly change the story.

A commonly held view is that government policy should try, in so far as it can, to avoid interfering with private economic initiative: the expectation of greater profit is ample incentive for a firm to expand production, or build a new factory, while the prospect of higher wages is likewise sufficient to encourage workers to seek out training or invest in their own education. The same reasoning applies to private decisions on saving, starting a new business, or adopting a new technology. The best that government can do (so the story goes) is minimize the extent to which taxes, or safety regulations, or restrictions imposed for the sake of national security, blunt these market incentives. The "right" pace of economic growth is whatever the market—that is, the aggregate of all private decisions—would deliver on its own.

But this familiar view, too, is seriously incomplete. To the extent that economic growth brings not only higher private incomes but also greater openness, tolerance, and democracy—benefits we value but that the market does not price—and to the extent that these unpriced benefits outweigh any unpriced harm that might ensue, market forces alone will systematically provide too little growth. Calling for government to stand aside while the market determines our economic growth ignores the vital role of public policy: the right rate of economic growth is greater than the purely marketdetermined rate, and the role of government policy is to foster it.

In a country like the United States, there are many ways by which the government can foster economic growth, given the political will to carry out such policies. Except for a few years in the late 1990s, we have been systematically under-investing in our factories and productive equipment. Just as important, we under-invest in our nation's human resources and we misuse what we do invest. Removing these impediments to our growth would be highly desirable. But finding the will to do so depends, in part, on popular understanding of why growth is so important in the first place.

Economic Growth and Moral Consequences

It would be a mistake, however, to believe that only market incentives and government economic policies are important for achieving economic growth and with it the positive influence on social and political development that follows from rising living standards. While economic growth makes a society more open, tolerant, and democratic, such societies are, in turn, better able to encourage enterprise and creativity and hence to achieve ever greater economic prosperity. Alexis de Tocqueville, visiting the United States in the 1830s, remarked at length on how the openness of this new democratic society seemed to spur effort: economic advance was open to all (he was thinking only of white males), and in a classless society rising economically meant rising socially. The resulting *opportunity* to achieve and advance, Tocqueville observed, created, in turn, a sense of *obligation* to strive toward that end. As we look back nearly two centuries later, it is also selfevident that removing forms of discrimination that once blocked significant segments of the population from contributing their efforts has further enabled the American economy to harness its labor resources and its brain power. On both counts, the openness of our society has helped foster our economic advance.

The United States is perhaps the preeminent historical example of such reciprocity between social and political openness and economic growth. Taken as a whole, our nation's history has predominantly been a mutually reinforcing process of economic advance and expanding freedom. The less fortunate experience of some other countries, most notably those in Sub-Saharan Africa since the end of the colonial period, suggests the same reciprocity at work but in the opposite direction. Many governments of Sub-Saharan Africa were at least formally democracies when the colonial powers departed, but in time they became corrupt and oppressive dictatorships. In parallel, what had been reasonably functioning economies stagnated and then declined.

While the evidence suggests that economic growth usually fosters democracy and all that it entails, it is less clear that open societies necessarily experience superior economic growth by virtue of their democratic practice. A mobile society, with opportunity for all, obviously encourages economic enterprise and initiative. But democracy is often contentious, even chaotic, and not every aspect of the untidy process of self-government is conducive to economic expansion. Experience clearly suggests that the *absence* of democratic freedoms *impedes* economic growth, and that the resulting stagnation, in turn, makes a society even more intolerant and undemocratic. The evidence to date suggests that this kind of vicious circle, as has occurred in some African countries, for example, is more powerful than the analogous virtuous circle in which growth and democracy keep reinforcing each other.

A further potentially important influence on economic growth—and one that is especially pertinent to the argument advanced here about the broader consequences of rising living standards—is a society's moral ethic. When people decide how much to save, what size house to buy, whether to accept a new job, or whether to get more education, they normally respond not just to personal economic incentives narrowly construed but to established moral values and social presumptions. Businesses too are rarely the singleminded profit maximizers portrayed in economics textbooks.

Whether companies regularly launch new initiatives, whether they act with loyalty to their workers and respect toward their communities, even whether they obey the law, also reflects the broader culture of which they are a part. All societies develop moral norms—against violence, favoring family bonds, against theft, in favor of truthfulness—as a partial substitute for what would otherwise be hopelessly pervasive regulation aimed at getting people to behave in ways that may be of little or no direct benefit to themselves but nonetheless make everyone better off. Such norms are no less important in the economic sphere.

Indeed, they may be more so. Laws and regulations are typically less effective when the desired behavior requires *taking* initiative or action, as opposed to *refraining* from unwanted action. Even in highly developed, well-organized societies, it is far easier to devise laws that discourage murder and theft than laws that encourage helpfulness to one's neighbors. Especially when it comes to the creative impulse that results in enhanced economic productivity, laws and regulations are particularly useless. As we have learned from many countries' experiences, regulations limiting how much sulfurous smoke manufacturers can release into the air, or restricting the pollutants we can dump into the water, are often reasonably effective. By contrast, a law requiring businesses to innovate, or otherwise become more productive, would be pointless.

It is not surprising, therefore, that many cultures, especially Western societies in the modern era, have developed *moral* presumptions in favor of precisely those aspects of personal behavior that lead to greater productivity and economic growth. Hard work, diligence, patience, discipline, and a sense of obligation to fulfill our commitments clearly make us more productive economically. Thriftiness fosters saving, which enhances our productivity by making capital investment possible. Education likewise increases our individual capabilities as well as our stock of public knowledge. Such behavior brings benefits that accrue directly to those who conduct themselves in that way, and we value them partly on that ground. But, in each case, our society also regards these qualities, or actions, as *morally* worthwhile.

A hundred years ago, Max Weber argued that what he called "the Protestant ethic"—an ethic in the sense of an inner moral attitude—had importantly spurred the development of capitalist economic growth by fostering just these aspects of personal behavior. Weber overlooked other religious and ethnic groups (Jews and overseas Chinese, to cite just two) who share many of the attitudes toward personal behavior, and much of the economic success, that he associated with northern European Protestants. Moreover, even for the European Protestants whom Weber studied, there is reason to wonder what was influencing what in the rich interplay between religious and economic developments. Many other influences, of course, quite apart from ethical norms, affect economic growth. But the fundamental point remains: that certain characteristics of personal behavior are important for economic growth, and when these characteristics acquire moral status the resulting ethic encourages people to behave accordingly.

For our society's moral values to nurture the behavior that spurs its economic growth seems especially apt if, as I argue here, rising living standards, in turn, make our society more open, tolerant, and democratic. Because we value these qualities in moral terms rather than market terms, market forces on their own produce insufficient growth. Some further impetus is required. Weber argued that familiar moral principles foster economic growth. My argument here goes further: economic growth not only relies upon moral impetus, it also has positive moral *consequences*. That we may depend at least in part on moral means to satisfy our moral ends, even when the link that connects the two is economic, has a particularly satisfying resonance.

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