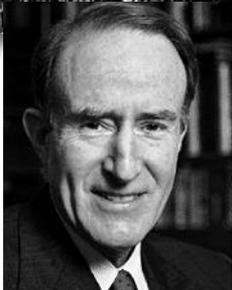
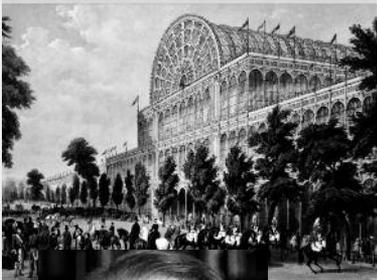




BENJAMIN M. FRIEDMAN

THE MORAL CONSEQUENCES
OF ECONOMIC GROWTH



Ben Friedman

Growth *and* Society's Moral Character

Six years ago, Professor Ben Friedman wrote the important book The Moral Consequences of Economic Growth. How have things changed since then? Journalist John Berry interviews the Harvard economist.

Berry: *In your book, you were concerned at that point that growth was not going well, prospects for improvement were not particularly good, and income distribution was becoming ever more unequal. Since then things have gotten far worse, with the bursting of the housing bubble and the financial crisis and severe recession that followed. Now we have a political stalemate over how to deal with these issues. What are the moral consequences of this situation? Why do you use the word "moral" in this context?*

Friedman: In that book I used the word "moral" in an explicitly eighteenth-century sense, drawing of course on Adam Smith, since I am after all an economist, but also appealing beyond Smith to people like Hume and Hutchinson and the entire range of Enlightenment thinkers from whom we in the United States particularly drew so much of our founding set of principles and continue to draw on in our thinking. What these people had in mind and what I had in mind in writing the book was the public character of our society. Many people use the word "moral" in a more private sense, of marital fidelity, of church attendance, of not cheating on one's taxes. There are many aspects of private behavior to which people legitimately attach the word "moral" or "immoral."

But I am an economist and my book was about the way in which economic growth, or the lack of it, affects the moral dimension of the public character of our society. The dimensions

of our society's existence that I wanted to trace out in their relationship either to economic growth or stagnation were things like tolerance, fairness, and generosity in the sense of the provisions society makes for people who often through no want of their own end up not being able to take advantage of the opportunities that are provided. And finally—again drawing on the same set of eighteenth-century thinkers and also the Americans Jefferson and Adams—I wanted to bring in the vitality of the nation's democratic institutions and the commitment of the citizenry to making the democratic process work.

These were the things I had in mind in using, again in this eighteenth-century sense, the word "moral." The argument I made in the book, and that I hope I adequately supported with evidence not only from our country's past but from histories of other countries too, is that when the broad cross-section of the population is enjoying an improvement in its material standard of living and when people have some confidence that that material progress will continue, and even optimism that their children after them will likewise experience this kind of forward progress—those are the circumstances under which society also moves forward and makes progress in its moral character.

Conversely, the argument was and is that when the bulk of the population loses its sense of forward progress in its material living conditions and loses too the sense of confidence or optimism that that forward progress will be restored any time soon, countries all too often not only make no forward progress but enter periods of rigidity and retrenchment, and all sorts of unfortunate things happen.

It's not just about whether the GDP is expanding. That's part of it. But what matters is whether the broad bulk of the population is moving forward or not. This makes the distribution issue very pertinent, because if the GDP is expanding but the fruits of that incremental production are accruing to a very narrow slice of the population, then that's not economic growth that delivers these moral benefits to the society.

Berry: *Given what's happened over the last several years, it seems to me that we have retrenched in almost every one of those elements that you mentioned as being part of what economic growth really encompasses. Income distribution has become more skewed, and an incredibly large number of people are not only unemployed but have been unemployed now for years or have dropped out of the labor force. The share of the total civilian population that is working has declined significantly and shows no sign of rising back to where it was before. Some groups have been especially hard hit. So what has happened as a result to the state of our society over this period?*

Friedman: I tried to be very careful not to focus on the plight of particular groups within the income distribution. My story is about what's happening to the economic condition and prospects of the broad bulk of the population. I have taken a great deal of criticism for that and I accept it. But I believe it is right for my purposes. That is to say, my story is what is going on between, say, the 15th and the 85th percentiles in the income distribution. It's not a story about the very poor, and some on the left read my book and said, "But Friedman didn't focus on the very poor." And conversely, some said, "But Friedman isn't factoring in what's going on in the most successful group." Both criticisms are fair as far as they go. I argued that the public character of the society, especially in a democracy, is driven by this central core of the population.

For my purposes, what matters is not whether we can identify any particular subgroup—blacks or Hispanics or whoever who are doing especially badly—but that the vast bulk of the population has stagnated.

This has been going on far longer than the financial crisis and the downturn that crisis triggered. Even though GDP was growing, income distribution was becoming very important. The fruits of the growth of GDP were accruing sufficiently narrowly within the income distribution that most of the population was not getting ahead.

This kind of situation in which people go for ten or fifteen years with no improvement at all in their incomes and their living standards is exactly the circumstance in the past that has delivered the retrogressive periods in the moral character of the society.

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The median income, the income of the family right at the middle of the distribution, had been stagnant from the beginning of the decade (\$64,200 in 2000 and \$64,500 in 2007, both in 2010 dollars). And then, of course, the median income went down quite dramatically in 2008 and 2009 (\$61,100 in 2009). The Census Bureau just released data for 2010 and it went down again (\$60,400). The point is this: even in the seven years of the decade that we look back on as the good years, when GDP was growing by nearly 2.5 percent annually, median family income was stagnating. Last year it was at its lowest level since 1997.

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Berry: *Given that level of stagnation and decline, what consequences do you see? The economic outlook for the next couple of years, according to most forecasters, is such that there is not likely to be much of an improvement in the income numbers. Are those consequences going to get steadily worse?*

Friedman: Let me take those questions one at a time. First, in almost every one of the elements I mentioned—opportunity, fairness, tolerance, and democratic institutions—we have seen some retrograde movement, and it seems to be accelerating.

As has often been the case in the American experience, the leading edge of this movement can be noticed first in changing attitudes toward immigrants. All you have to do is read the newspaper to discover that attitudes toward immigrants are perhaps our most contentious domestic non-economic issue these days. Look at the debate today not just at the federal level but at the state level, in Alabama, Arizona, Georgia, and other states.

Look at what is happening with opportunities. Cutbacks at both the state and the federal level have focused heavily on programs that help people who are born, through no fault of their own, in the less privileged socioeconomic groups in the society. An example is the cutting of Pell grants and other scholarship opportunities that enable these people to take advantage of the education system in ways that would help them play a productive role in the American meritocracy. We talked about generosity toward the disadvantaged. I think a person would have to be living in a closet in America not to realize that our sense of public generosity has been eroded as a consequence of our economic stagnation.

And I think there is a real concern today that the commitment to our democratic institutions is fraying. Anybody who thinks a bit about the structure of American democracy understands that the writers of our Constitution built in lots of opportunities for stalemate and paralysis. Presumably they did that intentionally. We have all sorts of ways in which people can block things. The president can't do anything without a vote of Congress. Congress can't do anything without the signature of the president, unless it musters a two-thirds majority in each house. The president can't appoint officials to positions without the approval of the Senate. When we like the way these things work we call them checks and balances. When we don't like the way they work, we call it stalemate and paralysis.

Historically, with only one exception—the slavery debate that gave us the Civil War—the American political system has been pretty good about working its way through these things. Here's just one example, from an area where we didn't have a problem. This summer the entire top rank of our defense establishment changed hands. We have a new secretary of defense. We have a new director of the Central Intelligence Agency, and we have a new chairman of the Joint Chiefs of Staff. You could imagine a world in which Senators say to the president, "We're terribly sorry, but until you change our Afghanistan policy, we're not going to approve any of your appointments." This didn't happen, but under our political system, it could.

On the other hand, we are seeing again and again, in the economic sphere and in other areas as well, a fraying of our democratic system. I wish I could say I was surprised. But as I'm not surprised by the state of our immigration debate, I'm not surprised that our political democratic functioning seems to be going awry.

Berry: *Tea Party groups have gained enormous influence in some parts of the country. In general, their philosophy seems to focus on reducing the role of the*

federal government, and actually cutting back the role of government at the state level as well. Does that fit with your notion that public generosity is waning?

Friedman: I would describe the Tea Party objectives differently. Abolishing Social Security payments to the current generation of recipients, many of whom are Tea Party supporters, isn't what they have in mind. Nor is dismantling the Medicare system for the people on Medicare, who again include many Tea Party supporters. In most cases, they are not in favor of getting rid of farm subsidies either. So the idea that the Tea Party is systematically against a role for government in society, as a philosophical position, I think is not correct.

Rather, their point is about distinguishing between government programs and payments that go to people who are deemed worthy and government programs and payments that go to people who, in their judgment, are unworthy. But that takes us not to the role of government generically but to questions of generosity and opportunity. Incidentally, the Tea Party is an example of the kind of movement we have seen in the past in America during periods of economic stagnation. The most direct example is the Populist Party during the period of stagnation in the 1880s and 1890s. The Populists had a different agenda than the Tea Party today, but economic circumstances and the structure of the country is different today.

Berry: *If the Tea Party can be regarded as essentially a very conservative movement, the protesters in New York City engaged in the Occupy Wall Street protests must be on the left. Do you think the dissatisfaction with the stagnation of median incomes has generated that protest?*

Friedman: While I don't want to associate myself with people who are demonstrating and pitching tents in public squares, I did write a paper for *Dædalus* last year in which I raised the question of how well our financial system is serving us and at what cost. Over time, our system has become more and more expensive to operate while the economy has performed less well, raising serious questions about whether those costs are excessive given the results of its key function, the allocation of capital.

Berry: *Let's go back to what's been happening to some of the people outside the 15th to 85th income percentiles. Household wealth went down enormously for Hispanic and black families. Generally, they had much less wealth to begin with anyway and most of it was in the form of equity in their homes. But housing wealth has declined for almost everyone up and down the*

income scale. The government has tried to mitigate some of that loss by helping families avoid foreclosures, but those programs have had very limited success. Where does that fit in your issue of generosity?

Friedman: I think that fits the general pattern. The broad bulk of the population was already experiencing a stagnation that was firmly in place by 2007, and so the body politic was much less willing to allocate resources to coming to the assistance of people who are idiosyncratically disadvantaged. It's evident not just in how society

I am not very optimistic.

has not done much to help people who are in trouble on their house payments, but also in the very fractious debates over extending unemployment benefits.

It is very unusual with a recession of this magnitude to have that much contention over extending unemployment benefits. Normally, most people see that when we have a recession, one of the ways not only of mitigating a family's distress but of boosting aggregate demand is to give transfer payments to people who are the most likely to spend the money rather than save it, namely people out of work. Usually that is a pretty straight forward thing to do. This time around it's been very contentious, an outcome that was quite predictable.

Berry: *Given where we are now, and your examples of retrogression, what has to happen for somebody to make things better?*

Friedman: I am not very optimistic. We really are looking at the makings of a very protracted stagnation. We're already a dozen years into it, and I can see it going on for several more years. I don't see the makings of a vigorous recovery, and the question remains of what could turn around the widening of income inequality.

It's not that income inequality in and of itself is destructive. Rather, if the aggregate growth rate is only modest, as ours is going to be for the foreseeable future, that combination with widening inequality means continued stagnation for the majority.

In the chapters of my book that discussed the American historical experience, I suggested that these social-political—to use my eighteenth-century choice of vocabulary—moral pathologies will only continue and become both more pervasive and, alas, more intense. ♦