The Moral Consequences of Economic Growth (2005)

by Benjamin M. Friedman

Benjamin Friedman's The Moral Consequences of Economic Growth is magnificent and flawed. It is a work of astounding scholarship and exhilarating intellectual imagination as well as disappointing partisanship and theoretical fragility.

Moral Consequences is primarily an extended defense of the hypothesis that steady economic growth "fosters greater opportunity, tolerance of diversity, social mobility, commitment to fairness and dedication to democracy" (p. 4). The hypothesis is defended with a spectacular range of evidence from disciplines including economic and political history as well as popular culture and literature. However, as the book proceeds, it becomes increasingly difficult to say what exactly Friedman means by "moral consequences." And that in a nutshell is the big problem for this big book. As Friedman shifts without comment or justification from a broad Enlightenment conception of moral progress to a rather parochial American welfare-statist conception of political morality, the nature and importance of the dependent variable in Friedman's equation becomes ever more elusive. Without a rather more rigorous normative framework, the reader is left arguing with the author about whether the examples he has chosen to prove his point really count for or against it.

Moral Consequences has five parts. Part One sets out the idea of growth, traces the historical connection between the idea and reality of growth to the Enlightenment ideology of moral progress, and lays the micro-level psychological foundations for his macro-level argument. Part Two defends the hypothesis in the context of American economic and political history, attempting to show that economic expansion has been associated with openness, tolerance, and democracy, while contraction has been associated with xenophobia, protectionism, and political exclusion.

Part Three tests the hypothesis in the context of the histories of Britain, France, and Germany. Part Four tackles issues of economic development and globalization. Part Five contains a litany of policy recommendations for promoting growth in America.

The psychological mechanisms discussed in Part One that create the basis of Friedman's larger argument deserve special attention. Zero-sum games bring out the worst in us. If I believe your gain is my loss, I may become aggressive in ensuring that you do not gain. The principal moral consequence of economic growth is that it transforms society into a "cooperative venture for mutual advantage," to use John Rawls's phrase. Indeed, it may appear that positive-sum growth is a precondition for much of morality, insofar as morality concerns social cooperation. Friedman advances our understanding of the relationship between economic growth and our willingness to cooperate by drawing on literature in behavioral economics to point out the crucial importance of increases versus decreases in the rate of economic growth.

In a number of experiments it has been shown that people place extra value on things they have simply because they have them, are more pained by losses than buoyed by gains, quickly become accustomed to new levels of comfort and recalibrate their expectations accordingly. All this creates a powerful one-way ratchet effect in which a decrease in the rate of growth can seem like a loss, eliciting our propensity to jealously guard our own holdings and advantages, as if in a zero-sum game. An economic slowdown can cause us to close the gates and bolt them, even if the economy, and each individual share, continues to grow.

In addition, Friedman argues that we track our progress through two kinds of social comparison. On the one hand, we compare our economic condition with that of our family and our past, gauging how well we are doing relative to our parents at the same age, or relative to ourselves some years ago. On the other hand, we compare ourselves with our neighbors and fellow citizens. Friedman suggests that these two forms of comparison are partial substitutes. As long as we take ourselves to be doing well relative to our parents and our younger selves, we are less inclined to check how we are doing relative to the Joneses, and will not feel threatened by the upward mobility of those below us. But if we feel that we're stalled relative to where we were in our past, we become envious of our relative position in the broader distribution of wealth, and may become disposed to consolidate our own advantages and cut off opportunities for others.

Friedman's micro-foundations are a profound contribution to our understanding of the relationship between economic growth and the psychological mechanisms that open us to a broader sphere of cooperation and mutual benefit. It is too bad, then, that he applies these insights unevenly throughout Moral Consequences. Friedman provides numerous examples of questionable moral judgment that may or may not be consistent with his stated micro-foundations.

In "Great Depression, Great Exception" (Chapter 7), Friedman dwells on what appears to be a serious historical counterexample to his thesis: the emergence of Roosevelt's New Deal from the depths of the Great Depression. For Friedman, a welfare-liberal, the New Deal represents an enormous moral advance in American politics. Yet demand for New Deal policies appears to be rooted in the experience of America's most severe economic downturn. Friedman is persuasive in arguing that the Great Depression was a global phenomenon and had deeply negative moral and political effects internationally. He then avers that a single counterexample from American history—even a very large one—cannot overthrow a hypothesis about a complex historical process. Friedman could have saved himself some trouble by denying that the emergence of the New Deal from the Great Depression is an exception to his hypothesis. But Friedman doesn't even consider that the conventional wisdom about the moral blessings of New Deal might be mistaken, and so is left trying to shrug off the importance of an apparently giant anomaly.

Here is another example. Friedman is in favor of racial quota programs. So opposition to affirmative action in the 1980s and 1990s is described as an erosion of "society's inclusiveness with respect to nonwhite citizens" (p. 201) coincident with the slow growth that began in the early 1970s. However, a fair inspection of the cultural climate might have found Americans increasingly nonchalant about interracial marriage and a large and growing presence of celebrated minorities in popular culture.

Unless we have some independent standard for judging whether the moral climate of a society did in fact improve in any period of history, we can only guess whether events support or undermine Friedman's thesis. Too often, Friedman simply asserts a moral gloss on events and then links them anecdotally to his thesis about growth rather than providing evidence that economic trends have affected citizens' psychology in a manner that his micro-foundation would predict—say, a reduction in their sense of inclusion. Instead he often seems to infer the workings of the psychological mechanisms that link growth to moral consequence from the fact that he has judged something morally suspect. But that won't do. Even if Friedman's moral sense is unerring, praiseworthy sentiments and noble motives do not necessarily entail morally good consequences.

In general, Friedman characterizes any push for limited, constitutional government as embodying a "diminished sense of public responsibility for the nation's affairs." (p. 205) In the epigraph to his chapter on "Democracy in America" (Chapter 8), Friedman uses Ronald Reagan's claim in his first Inaugural Address that "government is not the solution to our problem; government is the problem" as an example of regrettable retreat from the hopeful moral ambition of Johnson's Great Society. But those who believe Reagan was right are unlikely to concur with Friedman's increasingly subjective and flexible definition of morality.

The Moral Consequences of Economic Growth is an enormously ambitious book that suffers from a lack of ambition, like the Sistine ceiling in black and white. The overarching logic—Adam Smith's logic—is impeccable. Friedman deserves credit for marshaling a huge quantity of historical evidence to flesh out the case for growth. But his rigorous economic and historical scholarship is in the end undermined by theoretical laxity on the normative side of the equation. Someday someone will write the book on the moral dimensions of economic growth. Unfortunately, this book isn't it.

Review by Will Wilkinson, Cato Institute, as printed in the Cato Journal.