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Why the rich must get richer;
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Do industrial countries care too much about growth? No, they ought to care more

DEBATES about economic growth usually turn on the tension between material benefits and moral drawbacks. Rising living standards are fine in themselves, but the endless quest for them tends to be morally compromising--or so goes a commonly expressed point of view.

Anti-globalists and other critics of capitalism press the point hardest, but even proponents of growth often cast the issue this way. Growth is worth having, especially in the developing countries, where poverty kills people, but in the rich world, the case is less clear. After a certain point, the pursuit of more wealth may be futile and morally enervating, especially if it burdens other people and future generations. There is more to life, liberty and the pursuit of happiness than a faster car and an iPod nano.

Benjamin Friedman, a professor of economics at Harvard University, would doubtless agree with much of this--but not with the recurring contrast that is drawn between material benefits and moral costs. "The Moral Consequences of Economic Growth" is a thorough, historically detailed, accessible exploration of an argument that was made (as Mr Friedman points out) by Adam Smith in the 18th century, and subsequently neglected. A society experiencing economic growth is likely to be happier and more successful than another that is not, even if the no-growth society has achieved a higher (but stagnant) standard of living. In Smith's words, it is "in the progressive state, while the society is advancing to the further acquisition, rather than when it has acquired its full complement of riches, that the condition of the great body of the people seems to be the happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state."

Mr Friedman argues that conventional thinking about economic growth is too narrow: it neglects its moral and political benefits. "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." Growing prosperity, history suggests, makes people more tolerant, more willing to settle disputes peacefully, more inclined to favour democracy. Stagnation and economic decline are associated with intolerance, ethnic strife and dictatorship.

It is not obvious that this should be true, so why has this tended in practice to happen? Mr Friedman's explanation is that people's sense of well-being is essentially relative. They become accustomed to any fixed standard of living, rich or poor. They are happiest if they feel their standard of living is rising (something that, in principle, all members of a society can experience at once), or if they feel that they are better off than their peers (which is divisive and not an aspiration that everyone can realise at once).

The key thing is the way these two standards of comparison--the potentially harmonious and the socially self-defeating--interact. If people are becoming better off relative to their own past standard of living, they will care less about where they stand in relation to others. If they are not growing better off relative to their own past standard of living, they will care more about their placing in relation to others--and the result is frustration, intolerance and social friction. Growth, in short, has moral as well as material benefits.

This, as the author notes, has an intriguing implication. Throughout the book, Mr Friedman gives due emphasis to the role of economic externalities, such as pollution. He also emphasises that economic policy needs to take account of these if growth is to provide the maximum social and economic benefit.

But if he is right about the moral benefits of economic growth, then growth itself involves an externality--not a negative one, like pollution, but a positive one. The material benefits of growth, chiefly in the form of extra goods and services, are priced in the market; the social and political spin-off is not. Left to their own devices, market forces will therefore provide too little growth. Adam Smith does not have it all his own way. In principle, the analysis favours a range of pro-growth interventions.

The book brings together an absorbing and unusual mixture of material. It ranges over economic principles; empirical material to support those arguments; the history of ideas (the notion that economic growth is morally tainted is far from new); historical accounts of growth and political change in America and Europe; and discussion of ethics and economic development, with particular reference to equality and the environment.

A concluding chapter looks at policies to promote growth in the United States. Much of what Mr Friedman has to say on this accords with mainstream thinking, but it no doubt bears repeating. He underlines the need to curb the fiscal deficit in order to encourage private capital formation, and discusses at length how to do this. He argues that limits on public spending and the reversal of some of the Bush administration's tax cuts will both be needed, together with changes to Social Security and Medicare. More controversially, he advocates competition among America's schools as a way to improve sagging educational standards.

These ideas for raising America's rate of growth, though mostly orthodox, are lent a strange new vitality by the rest of this unorthodox book. Rich as it is, America still needs to grow--not for faster cars and iPods, but to "find the energy, the wherewithal, and most importantly the human attitudes that together sustain an open, tolerant and democratic society."

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