

# Progressives for Growth

Peter Berkowitz on ***The Moral Consequences of Growth*** by Benjamin M. Friedman and ***The Pro-Growth Progressive: An Economic Strategy for Shared Prosperity*** by Gene Sperling

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Benjamin M. Friedman.

*The Moral Consequences of Growth.*

Harvard University Press. 570 pages. \$29.50

Gene Sperling.

*The Pro-Growth Progressive: An Economic Strategy for Shared Prosperity.*

Simon and Schuster. 368 pages. \$26.95

Is there a political matter concerning which partisans divide more predictably or which even informed citizens understand less adequately than economics? Consider the challenge of explaining a few elementary aspects of economic life — say, recession and depression; inflation, stagflation, and hyperinflation; central banks, the cost of money, and floating currencies; stock markets and bond markets; gdp and gnp; leveraged buyouts and ipos; stock options and derivatives; the oecd and the g7/g8; trade deficits and consumer price indexes. Faced with a welter of basic but technical topics, it is easy for specialists to wrap themselves in the intricate detail while even informed citizens will be tempted to flee to the bliss of ignorance. One unfortunate consequence, particularly in our angry times, is the loss of an appreciation of the larger principles that ought to provide the common ground on which conservatives and progressives in America debate public policy.

Back in the day, when Ronald Reagan was president and Democratic challenger Walter Mondale lost 49 states in his bid to wrest control of the White House, economic battle lines were sharply drawn. On behalf of freer markets, conservatives, represented by the Republican Party, sought lower taxes, smaller government, fiscal discipline, and less regulation. Their aim was to emancipate the nation's productive power from what they regarded as ham-fisted and inevitably damaging efforts to control the economy from Washington. In contrast, and on behalf of a more vigorous welfare state, progressives, represented by the Democrats, favored high taxes, big government, expansive federal programs, and tight regulation. Their purpose was to cushion the blow to the poor, the sick, the elderly, minorities, and the environment from what they saw as capitalism's inevitable disruptions and dislocations. Few Republicans went out of their way to examine the variety of capitalism's social costs. And few Democrats gave much time to considering the variety of capitalism's social benefits.

Matters should no longer be so simple. Whatever the strengths and weaknesses of his economic policy, one striking feature of George W. Bush's outlook is the peace he has made with the idea of the welfare state. Similarly, despite his administration's tacking this way and that, Bill Clinton's New Democrat rhetoric and policies were notable for the comfort they displayed with the market. And these rapprochements were supported by the hard won knowledge — available much earlier but put beyond reasonable doubt after the collapse of communism in Eastern Europe and the peaceful dissolution of the Soviet Union — about the economic inefficiencies of command economies and the political brutalities of states that maintain them.

And yet, with partisan rage exploding all around, too few conservatives and too few progressives today appreciate that the economic policy of both should be informed by two broad principles which provide a common ground for debating their differences. First, the free market must be firmly supported, both by upholding the rule of law — enforcement of contracts and of liability for accidents, the protection of private property, the maintenance of freedom of communication and movement — and through the restraint of zealous regulators. Second, an affluent, postindustrial, liberal democracy must provide a minimum level of care for those who, owing to poverty, age, illness, or misfortune, are unable to provide for themselves.

It is to be expected that in a free society these two principles will be in more or less constant tension. And it is to be expected that Republicans will tend to be more solicitous of the claims of the market — the individual virtues that it elicits and the benefits that it confers upon society as a whole — and Democrats will tend to be more solicitous of the claims of government's obligation to provide relief from the market's excesses, blind spots, and breakdowns. But it's no longer enough to have a party of capitalism representing the one principle and a party of the welfare state representing the other and to hope that the political process will yield a viable compromise. What Republicans and Democrats need to quarrel about is not the validity of one or the other economic principle, but their proper mix.

Accordingly, it is a pleasure to discover that Gene Sperling, who helped formulate economic policy in the Clinton administration for eight years and from 1997 to 2001 served as the president's national economic adviser and director of the National Economic Council, understands that the challenge involves balancing competing principles. He writes as a Democrat who seeks to build a "new pro-growth progressive consensus." The first step, he counsels, is to recognize that we live in an age in which the transportation and telecommunications revolutions have accelerated change to a "breakneck speed." This has created a "dynamic global economy" that no individual or team of government ministers and bureaucrats could hope fully to master. Good progressive policy must take seriously the increasing complexity and efficiency of global markets: "Being a pro-growth progressive means respecting the power of the markets and being humble about the unintended consequences that conservatives and libertarians fear while still firmly believing that we have a collective responsibility to design public policies that lift all boats."

Combining respect for the claims of economic efficiency with those of government's responsibility to foster equality and social justice requires overcoming persistent partisan inclinations:



*start with the presumption that restricting competition to protect jobs or ensure wages and benefits can be counted on to help working families in the long term. We are left with a deficit of serious discussion on policies that both respect and even embrace the power of markets while ensuring that growth does not come at the expense of our progressive values.*

Those progressive values — really hybrid combinations of opinions about justice, and faith in the efficacy of government action to accomplish it — include the belief that government has a responsibility to ensure that all who “work hard and play by the rules,” to borrow the Clinton-era phrase, can live in economic dignity; that government should make it possible for all who put in their hours and pay their dues to rise socially and economically; and that government should provide sufficient educational opportunities to guarantee that where one is born, and to whom, does not close doors and shut down opportunities.

The first half or so of Sperling’s book is loaded with interesting pro-growth positions and proposals in the service of progressive ends. For example, he supports open markets and free trade, both because they shift production and services so that they can be carried out most efficiently and because they open societies and promote understanding among nations. At the same time, to assist workers and communities in the event of the inevitable job losses as industries shift overseas, Sperling would adopt a “‘preemptive’ policy framework” to prepare workers for new kinds of employment, provide social insurance during the transition, and encourage employers to eliminate jobs only when absolutely necessary. Recognizing the harm caused by welfare policies generally favored by progressives that encourage dependence on the state, he would increase rewards for low-income workers by expanding the federal earned income tax credit and reducing the financial burden of transportation and child care. He would help middle-class and low-income parents balance work and family by offering a \$3,000 newborn-leave tax credit for families earning less than \$100,000 and by providing universal after-school and pre-school programs. Although he supports race-based affirmative action in university admissions, he would prefer to concentrate on government funding provided to colleges to develop outreach programs that would

Naturally, conservatives will find much to take issue with. Sperling cruises along propounding one proposal after another, largely untroubled by questions about how much his many plans and programs will cost, separately or together. Nor does he pause often to explain where the money to pay for them will come from. Nor, for that matter, does he give much attention to the inherent inefficiencies of government programs, including those designed to prepare individuals to take advantage of the market. To be sure, these are not minor shortcomings in a book that aims to be practical. And yet, while so many members of his party have succumbed to relentless negativism, he keeps at least one eye on market-based solutions, repeatedly reminds that economic matters are rarely black and white and inevitably involve tradeoffs, and accordingly affirms that sound economic policy requires balancing competing principles and goods.

Alas, particularly toward the end of his book, Sperling the innovative pro-growth progressive policy wonk gives way to Sperling the predictable partisan warrior. He manages to give the Clinton administration's economic policies the lion's share of the credit (which means a generous portion for himself) for the surging economy of the 90s while scanting the private sector that gave rise to the extraordinary boom in high-tech innovations. Nor does he take notice of Clinton's great good fortune in arriving in office a few months after one recession had ended and leaving office a few months after another began. At the same time, Sperling directs angry criticism at the Bush administration's handling of the economy, particularly the growth of large deficits, while barely mentioning the costs of the massive stock market bubble that developed and burst under Clinton's watch but which Bush was left to deal with. Nor does he factor in an appreciation of the costs of the September 11 attacks. Yet according to Robert Looney, professor in the Department of National Security Affairs at the Naval Postgraduate School, the costs of the 9/11 attacks — including the destruction of physical assets, cleanup, the losses to national income through ripple effects throughout the insurance, airline, tourism, and shipping industries, and security and military spending — ran into the hundreds of billions of dollars.

Like sperling a pro-growth progressive, Benjamin Friedman has produced much more than a book about contemporary economic policy. A professor of economics at

institutions, on economic theory, and on wide-ranging empirical studies — Friedman makes a compelling case in his new book for a thesis that has been defended for some time now by neoconservative and libertarian thinkers but is bold coming from a moderate progressive: Economic growth is not only good for the economy but good for moral and political life as well.

That he is not the first to defend the thesis should not detract from Friedman's achievement, which is to lend it scholarly heft and mainstream respectability. His book begins by tracing the origins of ideas about growth and its benefits in the European Enlightenment, as well as examining the Romantic criticism of the consequences of economic growth. It provides a brief history of democracy in America from an economic angle. It surveys the experiences of the major European democracies with economic growth. It assesses the impact of growth on the developing world and the environment. And it concludes with thoughts on policy and economic growth in America today. While it packs vastly more information between its covers than is necessary, Friedman's book leaves little doubt that where individual incomes and personal standards of living are rising, openness, toleration, and democracy have a very good chance of expanding.

Progress — or the idea that history moves in the direction of the moral and political improvement of mankind — was a central tenet of the Enlightenment. It derived support from a variety of sources, including the Protestant Reformation, which redirected the religious imagination to worldly success, and the birth and stunning growth of modern natural science, which produced instruments and machines that made possible the steadily increasing manipulation of, and control over, the natural world. But it was Adam Smith, lecturing in Edinburgh and Glasgow in the middle of the eighteenth century, and less famously, Jacques Turgot, lecturing at the same time at the Sorbonne in Paris, who crystalized the idea that moral and political progress depended on economic progress.

According to the discipline of political economy, which Smith and Turgot more or less invented to explain the emergent market system, as societies moved from hunting and gathering to shepherding, farming, and then finally commerce, producing at each stage greater wealth and knowledge, they also developed at each stage social and political

forms of cooperation arose along with more elaborate legal institutions and more extensive forms of government. And each stage generated a certain spirit. The highest spirit, “the spirit of commerce,” according to famous words of Montesquieu cited by Friedman, “brings with it the spirit of frugality, economy, moderation, work, wisdom, tranquility, order, and rule. . . . [E]verywhere there is commerce, there are gentle mores.”

Even as Smith, Turgot, and Montesquieu were putting the finishing touches on their ideas, and well before market capitalism reached maturity, Rousseau pioneered the Romantic revolt against the idea that economic progress brought moral progress. From the vanity, hypocrisy, and decadence that he saw among the intellectuals in Paris salons, Rousseau concluded that in reality modern society and its vaunted progress caused moral decay. Early nineteenth century romantic thinkers added that commercial life, and in particular industrialization, crushed workers’ souls while dissolving the bonds of those institutions — family, society, nation, and church — that provided individuals stability, security, and higher purposes. In the middle of the nineteenth century, Marx combined the Romantic critique of commercial life with the Enlightenment belief in progress. The laws of economic motion, contended Marx, demonstrated that capitalism contained the seeds of its own destruction, which were also the seeds of communism, the final form of economic life, which would at long last provide an existence fully adequate to man’s nature as a free conscious producer.

Although he is not complacent about the costs of economic progress, Friedman believes that the historical record favors Smith, Turgot, and Montesquieu over Rousseau, the Romantics, and Marx. Indeed, his book provides an impressive vindication of the central point of Smith’s *Wealth of Nations*, that in market societies pursuit of individual self-interest advances the public interest, and the more expansive Enlightenment view, that the traits which the commercial life rewards — reliability, order, discipline, cooperativeness, and friendliness — support tolerant, pluralistic, and democratic political orders. But to leave it at this, as Friedman notes, is to suggest that moral progress ends with the advent of the commercial life. And Friedman wants to argue something more than that commercial life favors liberty and democracy. He wants to show that economic growth, or rising individual incomes and personal standards of living, also do so.

So he moves, in the spirit of the classic Enlightenment theory about economics and progress, beyond it. To appreciate the special role that economic growth plays within a commercial society, he says, it is necessary to understand “how rising incomes shape the perspective and attitudes of those who earn them, and their families, and how the resulting impact on enough individuals’ attitudes in turn brings about change in a country’s political institutions and social dynamics.” To see the vital importance of growth, fundamental human passions and interests must be given their due:

*The key is that while everybody of course wants to have more income so as to enjoy a higher standard of living, better health, and a greater sense of security, our sense of what constitutes “more” for any of these purposes is mostly relative. Whenever people are asked how well off they think they are, they almost always respond by comparing their lives to some kind of reference point. Further, whether most people think what they have or how they live constitutes “more” or “less” depends on how their circumstances compare to two separate benchmarks: their own or their family’s past experience, and how they see people around them living.*

It is reasonable enough, of course, to argue that getting ahead makes people happy and generous, while standing in place or, worse, falling behind causes people to become surly, stingy, and eventually vicious. But how well does improvement in personal well-being translate into increased openness, tolerance, and democracy?

According to Friedman, the experience of America, Europe, and even the developing world shows a strong connection. He argues, for example, that the decade and a half following the Civil War in America was marked by “extravagant economic growth” and witnessed optimistic efforts to promote freedom and equality, including the Thirteenth, Fourteenth, and Fifteenth Amendments as well as the 1875 Civil Rights Act. It was during the two decades of stagnating incomes that followed that the U.S. gave sanction



enshrined the principle of separate but equal in American Constitutional law. The renewal of economic growth in the country at the turn of the century coincided with the rise of progressivism, which focused on finding concrete solutions to poverty, ignorance, and exploitation. As strains on the economy intensified during the 1920s, resistance to immigration grew.

One would expect, at least on Friedman's theory, that the Great Depression ought to have triggered an eruption of mass xenophobia and intolerance. In fact, a dramatically broadened commitment to the creation of an open society and inclusive society took hold. This departure from the dominant pattern, according to Friedman, occurred both because of Roosevelt's outstanding leadership and, paradoxically, because of the severity of the crisis: The pervasiveness of the suffering in the 1930s, rather than inclining the public to find a scapegoat, instead produced a we're-all-in-it-together spirit. After World War II, the pattern, Friedman contends, reasserts itself. From the post-War boom to the 1973 Arab oil embargo, the U.S. made great strides in extending the protection of civil rights to all. As incomes stagnated in the 80s and 90s — here the scholar in Friedman gives way to the partisan — not only did membership in white militias surge, but so too did criticism of the welfare state, objection to affirmative action, and opposition to gerrymandering districts to produce black majorities. It does not seem to occur to Friedman that friends of liberty and democracy could believe that elimination of welfare dependency, of racial preferences in university admissions, and of racial districting would make society more open and tolerant.

In the connection between democratic progress and economic growth, Friedman argues, America is not unique. He rehearses in considerable detail how the economies of the major European democracies — Britain, France, and Germany — notwithstanding periodic setbacks, have steadily grown over the past century and how their political societies have become "relatively open, mobile, and tolerant." Because he sees a close relation between growth and democracy, he worries that high unemployment problems in all three countries create serious concerns for the future.

In the developing world, economic growth raises complicated questions about the transition to democracy. But concerning "the enhancement of the most basic

*... more than three-fourths of the world's countries, encompassing roughly 5 billion of the world's 6 billion inhabitants, if per capita incomes are higher, people can expect to live longer. Fewer of their children die in infancy. Both children and adults suffer less from malnutrition and disease. They are more likely to have clean water and basic sanitation, and they have better access to medical care. They are more likely to be able to read and write, and they enjoy greater access to education in general.*

To be sure, economic growth brings modernization, which paves the way to globalization, and both have the familiar costs associated with capitalism. But Friedman urges subtlety in making judgments and remains optimistic. For example, he reports that as countries switch from agriculture-based economies to manufacturing-based economies, pollution increases; but with continued growth, as service economies develop, improvement in the environment usually follows. Some, including Friedman, worry that globalization means exploiting cheap labor in developing countries. So he insists on the need for action to prevent physical abuse of vulnerable laborers. At the same time, he stresses that many individuals in poor countries experience a substantial improvement in their income and standard of living working for sums that American critics dismiss as trivial and exploitative.

What follows for public policy in America today from the link between economic growth and democratic progress? Its leading aim, Friedman argues, should be to make productive resources — physical and human — more productive while preserving a social safety net and respecting market forces.

Fair enough, and yet the policy analysis that caps his intellectual labors turns out largely to follow the party line. He would, for example, deal with looming Social Security and Medicare shortfalls by repealing the Bush tax cuts, adopting various reforms in the administration of the programs — for example, he would advance from 2027 to 2011 the

Most revealing, given his emphasis on policies that “produce an educated and skilled workforce,” are his proposals for school reform. He supports early-intervention programs like Head Start and, like Sperling, targeted programs for at-risk high school and college students designed to keep them in school. Noting that increased spending per pupil and reduction of class size have not improved students’ test scores, he favors greater use of incentives to reward excellent teachers and administrators. But Friedman scants the role of the family in education, and says nothing at all about the studies showing that increased parental involvement in children’s education is the factor that correlates most strongly with improved student performance. And while he advocates greater choice within the public school system, he does so in the context of a series of critical remarks about voucher plans, which have recently withstood constitutional challenge and continue to prove popular with inner-city, low-income minority parents faced with dysfunctional public schools and concerned to obtain the best available education for their children.

The scholar Friedman’s failure to think much outside the policy box, like the policy wonk Sperling’s lapse into Bush-bashing invective and Clinton-touting flattery, provides a reminder that partisanship in democratic politics can’t be avoided. But there is bad partisanship and good partisanship. Bad partisanship denies the competition in democratic politics between valid moral and political principles. The good partisanship of Friedman as well as that of Sperling in his better moments allows men and women from different parties to work together on behalf of the public interest. Good partisanship recognizes the need to strike a balance between competing principles — say economic growth and equality — partisan though the balance that the partisans strike may be.

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