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The Economic Sky Will Not Fall

Deirdre Nansen McCloskey's latest book, *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World* was published in May, 2016.

For reason I don't understand, people simply *love* to be told that the sky is falling. Yet it seldom does.

For example, a gaggle of Tory/Liberal economists, such as Lawrence Summers, Erik Brynjolfsson, Andrew McFee, Edmund Phelps, Jeffrey Sachs, Laurence Kotlikoff, Tyler Cowen, and Robert Gordon have argued recently that Europe and the United States, on the frontier of betterment, are facing a slowdown of new ideas, with a skill shortage. Technological unemployment and "uncompetitiveness" and sadly slow growth, it is said, will be the result.

Maybe. Yet in the past couple of centuries numerous other learned economists have predicted similar slowdowns, none of which happened. The Keynesian economists in the late 1930s and the 1940s were confident in their prediction along the same lines as the current pessimists of world "stagnationism." The prediction was instantly falsified by the continuing Great Enrichment, which since 1800 has raised real incomes in countries like Britain and Italy and Japan by 3,000 percent. I said: three-*thousand* percent.

Similarly, in the first three-quarters of the nineteenth century the classical economists, Marx among them, expected landlords, or in Marx's case capitalists, to engorge the national product. On Malthusian grounds they expected workers to stay at the \$3 a day in 2016 prices typical of human life since the caves. It didn't happen. British real, inflation-corrected income per head per day is now thirty times higher, and if allowing for improvements in quality of goods and services, close to one hundred times higher.

Contrary to recent alarms, even in the rich countries the real income for the poor continues to grow, if correctly to allow for radically better goods and services. Thirty years ago hip-joint replacement was experimental. Now it's routine. Tyres and autos were unreliable. Now they never wear out. Once nothing could be done about clinical depression. Now something can. Further, in terms of real comforts—a roof, heating, ample clothing, decent food, adequate education, effective medicine, long life—the income is more and more *equally* spread. *Pace* Piketty. Worldwide the poorest among us are getting richer.

The Italian economists Patrizio Pagano and Massimo Sbraccia argue that failures of previous stagnationisms—proposed after every major recession, they note—failed not so much in the impossible task of anticipating wholly new technology as in not grasping the further rewards of existing technology, such as nowadays computers. Joel Mokyr, a deep student of the history of technology, recently offered some persuasive assurances on the matter of slowdown, directed specifically at the sky-is-falling convictions of his colleague at

Northwestern University, the gloomy Gordon. Mokyr argues that by now the sciences behind biology and computers and the study of materials promise gigantic enrichment.

As the historian, politician, and nineteenth-century liberal Thomas Babbington Macaulay asked in 1830, “On what principle is it that, when we see nothing but betterment behind us, we are to expect nothing but deterioration before us?” He continued:

If we were to prophesy that in the year 1930 a population of fifty million, better fed, clad, and lodged than the English of our time, will cover these islands, that Sussex and Huntingdonshire will be wealthier than the wealthiest parts of the West Riding of Yorkshire now are, that machines constructed on principles yet undiscovered will be in every house, many people would think us insane.

Whiggish and bourgeois and progress-minded and vulgarly pro-betterment though Macaulay was, he was in his prediction exactly right, even as to the U.K. population in 1930. If one includes in 1930 the recently separated Republic of Ireland, he was off by less than 2 percent.

And even the pessimistic, anti-Whiggish economists such as Gordon—“gloomsters,” the headline writers call them—would not deny that we have before us fifty or a hundred years in which now middling and poor countries such as South Africa and Brazil and Haiti and Bangladesh will catch up to what is already, in the rich countries, a stunningly successful level of average real income.

The Nobelist Edward Phelps, among the pessimists, believes that many rich countries lack dynamism. Some of Gordon’s proposed “headwinds” are of that character. It hasn’t happened yet, but let’s suppose the sky does fall on Europe and its offshoots. Still, China and India, making up about four in ten of world population, have since 1980 become radically more free-market than they once were, and therefore are quickly catching up. They are growing with notable dynamism at upward of 7 to 12 percent per person per year. Despite recent slowdowns in China (not in India) they will continue liberalizing and growing.

To appreciate what will happen over the next fifty or a hundred years if such growth continues, as there is every reason to think it will, it’s a good idea to learn the “Rule of 72.” The rule is that something (such as income) growing at 1 percent per year takes seventy-two years to double. (Rest assured, the fact is not obvious without calculation. It just happens to be true. You can confirm it by taking out your calculator and multiplying 1.01 by itself seventy-two times.) It follows that if the something grows twice as fast, at 2 percent instead of 1 percent, the something will double, of course, in *half* the time, thirty-six years. A runner going twice as fast will arrive at the kilometer marker in half the time. Similarly, something growing at 3 percent a year will double in a third of the time, or twenty-four years.

Apply then your newly-won brilliance in arithmetic to our economic prospects. Even at the modest 4 percent per year per person that the World Bank implausibly reckons China will experience out to 2030 the result will be a populace almost twice as rich. The specialists on China’s economy Dwight Perkins and Thomas Rawski reckoned in 2008 on a 6 to 8 percent annual growth out to 2025, by which time the average Chinese person will have a 1960s-U.S. standard of living. China and India during their socialist experiments of the 1950s through the 1970s were so badly managed that there was a great deal of ground to be made up merely by letting people open shops and factories where and when they wanted to, without approval from the authorities. As Perkins pointed out in 1995, “When China stopped suppressing such activity, . . . shops, restaurants and many other service units popped up everywhere . . .

[because] Chinese . . . had not forgotten how to trade or run a small business.” Or large businesses. No genetic argument can be put forward that implies that Chinese or Indians or Africans or Latin Americans should do worse than Europeans permanently.

We have in fact seen recently, right through the Great Recession, a sustained real growth rate *worldwide* of about 4 percent per year per person, near the highest in world history. It will result in a doubling of the material welfare of the world’s average person within a short generation ($72/4 = 18$ years), with economies of scale in world invention kicking up the rate. In two such generations, just thirty-six years, it would mean a quadrupling, which would raise the average real income in the world to the levels attained in 2012 in the United States, a country that for well over a century has sustained the world’s highest per-person income of any place larger than Norway. Pretty good. And it will be pretty good for solving many if not all of the problems in the soul and in the society and in the environment.

Know also a remarkable likelihood. Begin with the sober scientific fact that sub-Saharan Africa has great genetic diversity, at any rate by the standard of the narrow genetic endowment of the ancestors of the rest of us, the small part of the race of *Homo sapiens* that left Mother Africa in dribs and drabs after about 70,000 BCE. The lower diversity outside Africa comes from what geneticists call the founder effect, that is, the dying out of genetic lines in an isolated small group, such as the humans who ventured into west Asia and then beyond. Greater diversity in Africa, which is to say in technical terms, higher variance, means that unusual abilities at both ends of the distribution, high and low, are more common. Exactly how much more depends on technical measures of genetic difference and their expression. The effect could be small or large depending on such measures and on the social relevance of the particular gene expression. Note that sub-Saharan Africa already has the tallest and the shortest people in the world.

The high end is what matters for high culture. Sub-Saharan Africa--now at last leaning toward liberal democracy—has entered on the blade of the hockey stick, growing since 2001 in per-person real income by over 4 percent per year—doubling that is, every eighteen years. A prominent Nigerian investment manager working in London, Ayo Salami, expects a gradual ideological shift among African leaders in favor of private trading as the generation of the deeply socialist anti-colonialists born in the 1940s dies out. The 6- to 10-percent growth rate available to poor economies that wholeheartedly adopt liberalism will then do its work, and yield educational opportunities for Africans now denied them.

The upshot? Genetic diversity in a big and rich Africa will yield a crop of geniuses unprecedented in world history. In a century or so the leading scientists and artists in the world will be black, a splendid irony on the history of racism in Europe and Asia. Today a Mozart in Nigeria follows the plow; a Bashō in Mozambique was recruited as a boy soldier; a Tagore in East Africa tends his father’s cattle; a Jane Austen in Congo spends her illiterate days carrying water and washing clothes. As an English poet put such matters, “Full many a gem of purest ray serene / The dark unfathom’d caves of ocean bear.” But not in 2100.

All the economists who have looked into the evidence agree that the average real income per person in the world is rising faster than ever before—now, and with every prospect of continuing tomorrow, and for the coming century or more. The result will be a gigantic increase in the number of scientists, designers, writers, musicians, engineers, entrepreneurs, and ordinary businesspeople devising betterments which spill over to the now rich countries

allegedly lacking in dynamism, or facing headwinds. Unless one believes in mercantilist/business-school fashion that a country must “compete” to prosper from world betterment, even the leaky boats of the Phelpsian/Gordonesque “undynamic countries” will rise.

In short, no limit to fast world or U.S. or European growth of per-person income is close at hand, no threat to “jobs,” no cause for pessimism – not in your lifetime, or even that of your great-grandchildren. Then, in the year 2100, with everyone on the planet enormously rich by historical standards, and hundreds of times more scientists and entrepreneurs working on improvements in solar power and methane burning, we can reconsider the limits to growth, and the falling sky.