

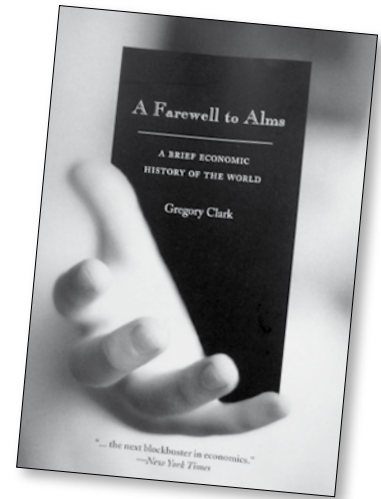
THE CULTURE OF PROSPERITY

Gregory Clark's book shows how important attitudes are to economic growth, writes **Wolfgang Kasper**

A Farewell to Alms: A Brief Economic History of the World

by Gregory Clark

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This book asks big questions: Why are some societies rich and others poor? Why did the Industrial Revolution occur in the seventeenth century, in England? Why do some societies—in Africa, for example—find sustained growth so elusive?

A provocative hypothesis

Gregory Clark develops his answers with entertaining panache and attention-grabbing hype. Often, he goes straight against accepted wisdom. I approached his new book with prejudices of my own, namely that sustained economic development is, in the ultimate analysis, not 'caused' by the accumulation of physical and skill capital, the tapping of natural resources, or entrepreneurship—as older growth theories had asserted—but by appropriate institutions (enforced rules). Institutions help us to coordinate our individual pursuits, saving transaction costs in production and innovation. Liberals have long held that the most important institutions are *internal*: ethical norms, customs, work habits, and professional standards, which are anchored in

basic preferences and values. They evolve within society in the light of experience and are enforced spontaneously. The internal institutions are supplemented by *external* institutions (collectively designed and enforced laws and regulations). Together, they should ensure property rights and their free and equal use.¹

In this quantitative, long-term economic history, Clark seemingly rejects the 'institutional development theory.' 'Despite the dominant role that institutions and institutional analysis have played in economics and economic history since the time of Adam Smith,' he writes, 'institutions

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play at best a minor role in the story of the Industrial Revolution told here, and in the account of economic performance since then' (10). He tells us that 'economists, and the institutions they inhabit, such as the World Bank and the International Monetary Fund, have adopted a false picture of preindustrial societies, and of the eventual causes of modern growth' (ix).²

Clark writes that institutions alone are not sufficient to trigger a takeoff into economic growth. Indeed, do-gooders such as the Melinda and Bill Gates Foundation, the World Bank, and UN peacekeepers all too easily cause only misery. Under certain social conditions, peace, cleanliness, hard work, public granaries, and income equality are 'vices,' while bad sanitation, violence, infanticide, indolence, and rapacious elites are 'virtues' (37). This was sufficient to make me sit up and prick up my ears!

Slow, long-term sociocultural change paved the way for sustained productivity growth.

My initial difficulty with Clark's attack on the 'institutional development theory' was that he gives no precise definition of *institution*. As one goes through the book, however, it becomes gradually clear that his definition is narrower than the standard one I gave above. The reader has to wait until page 164 before he learns that Clark is thinking only of *formal* (external) institutions, which protect private property, free markets, and the like. He then tells us it is traditional cultural norms and other internal institutions and values that have locked humanity in economic stasis for so long. So late into the book, this unsurprising revelation struck me as an anticlimax.

The Malthusian world and the cultural attitudes of modern man

The first two fifths of the book deal with a world of no or slow technical progress. From the Stone Age to 1800, Clark tells us, mankind was caught in a 'Malthusian trap,' a condition where though better technology or a better organisation of

production might produce more food, it is soon matched by more hungry mouths so that living standards fall again. In other words, the total amount of cake is given: more people only make for less cake on everyone's plate.

Clark paints a detailed picture of this Malthusian world, combining simple comparative-static graphs and non-technical language with many detailed data, most from England but also from as far back as the Stone Age, present-day hunter-gatherer societies, ancient Rome, and the Far East. He spices his account with many insightful details (and decorates it with some greyscale photos that add nothing). We learn that Malthusian living standards were not necessarily at the absolute survival minimum, because custom often controlled births. There was some technical progress, and incomes were often distributed very unevenly.

Asserting that average living standards stagnated from 130,000 BC, when 100,000 people lived on earth, to Adam Smith's time, when there were 770 million humans, simplifies Clark's model. But this is somewhat at variance with Angus Maddison's well-known, widely respected databank (which Clark dismisses in passing), as well as the writings of such recognised greats as Walt Rostow and Lloyd Reynolds, who documented a slow early takeoff into modern economic growth and who Clark ignores altogether.³ It is only much later in the book that he contradicts his earlier assertion that the Industrial Revolution was a sudden event, telling us that it was only *seemingly* sudden. In reality, slow, long-term sociocultural change paved the way for sustained productivity growth. I am not expert enough in extrapolating from data in an English parish or observations of a band of Bushmen to decide whether Clark comes closer to the truth than the other economic historians.

In any event, only after 1800 has there been a sudden Great Divergence: some countries have managed an unprecedented explosion of per capita incomes. Others not only continued the low-level Malthusian seesaw (see figure 1), but have been pushed deeper into poverty because of the material ascendancy of the West and more recently the Far East. The reader baulks at the alleged causation until Clark makes it clear that, in the Malthusian condition, humanitarian aid to

the poor (the *alms* in the title of the book) only increases human numbers so that more poverty follows. Everything, of course, hinges on the assumption that poor parts of the world are mired in that condition. Large parts of Africa and the Middle East may well be, but huge populations in East Asia and elsewhere have in our lifetime crossed from Malthusian misery to cumulative prosperity. The core question of global development is therefore: how can we free more people from the Malthusian trap?

It is possible, despite the odds! One of my favourite history books is a collection of contemporary letters and reports written during the first half of the nineteenth century about industrial work in German lands.⁵ Observers decried how unreliable, slovenly, and undisciplined workers were. Germans had no hope of ever becoming developed! We also know what became of Max Weber's once-popular thesis that deep religious, cultural, and other institutional traits in Confucian society would prevent the Chinese from ever becoming prosperous. The shocks that the awful twentieth century inflicted on the Chinese transformed Confucian culture into a supposed driver of economic growth. It took marginal shifts in emphasis and outlook to adjust the country's internal institutions and values.⁶ Now, 1.5 billion East Asians are fast leaving the Malthusian condition behind to join the growth league.

Clark tells us that up to 1800, people in England and many other parts enjoyed fairly decent, often even better, formal economic freedoms than

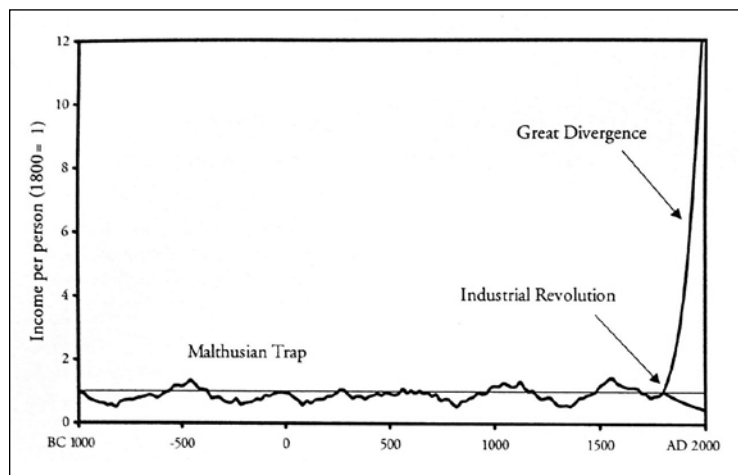
many of us have now, yet were held back by laziness, irrational impetuosity, poor quantitative comprehension, low literacy, pervasive violence, and shortsightedness.⁷ Canadian iconoclast Jane Jacobs once assembled the decisive cultural attributes in an informative table, distinguishing between the 'guardian moral syndrome' and the 'commercial moral syndrome' (table 1 on next page), which correspond closely with Clark's Malthusian and modern cultural dispositions:

To my mind, Jacobs' list fully circumscribes the decisive cultural qualities that Clark keeps mentioning in his book. Anyone who has spent only a few days working in different cultures will realise how influential and pervasive these differing attitudes are. During three days' work, say, in Shanghai, you will have had several discussions about moral principles and been asked numerous times for advice. During three days in Nairobi or Lima, you will have been informed repeatedly by the privileged that they expect donors to provide aid and that the condition of the country is the consequence of colonialism; you can also expect to come across some dishonest double-dealing. And everywhere you will probably observe some hair-raising maltreatment of machinery.

To shed harmful cultural attitudes, Clark says, people have to live for a long time in a stable and secure institutional environment. We know, for example, that open markets are schools that teach people civility. Traders have to control violent feelings and learn compromise in order to benefit from exchanges. Clark stresses one

mechanism, by which constructive cultural attitudes spread before the Industrial Revolution in England, that was new to me: economically successful English fathers had more surviving children, who were imbued with bourgeois virtues. Many of them descended into economically lower social strata, spreading these virtues. Once the prevalent cultural tenor was more patience, less violence, harder work, more literacy and numeracy, and more thoughtfulness, the Industrial Revolution materialised. Chapter 9, 'The Emergence of

Figure 1: Clark's world economic history in one bold graph



Source: Gregory Clark⁴

Table 1: Moral syndromes: guardian and commercial

Guardian moral syndrome	Commercial syndrome
Shun trading	Shun force
Exert prowess	Come to voluntary agreements
Be obedient and disciplined	Be honest
Adhere to tradition	Collaborate easily with strangers and aliens
Respect hierarchy	Respect contracts
Be loyal	Compete
Take vengeance	Use initiative and enterprise
Deceive for the sake of the task	Be open to incentives and novelty
Make rich use of leisure	Be efficient
Be ostentatious	Promote comfort and convenience
Dispense largesse	Dissent for the sake of the task
Be exclusive	Be industrious
Be fatalistic	Be thrifty
Treasure honor	Be optimistic

Source: Jane Jacobs⁸

Modern Man,’ which describes this mechanism, seems to me the core of the entire book.

Institutions, including social mores, do matter

Clark attacks the authors of various widely accepted theories about the Industrial Revolution, and indirectly confronts many economic development theories, including institutional ones. He dismisses theories as varied as Gary Becker’s (that fewer children were being endowed with better human capital), Douglas North’s (that property rights and free markets after the Glorious Revolution got modern capitalism going), and Kenneth Pomeranz’s (that scale economies in a big, compact population facilitated modernisation).⁹ My view

democracy,’ cleaning up corruption in defence and finance ministries, or stopping the printing presses, they will of course not be able to shunt previously stagnant Malthusian societies onto a growth path. Naturally, reforms of the more visible external institutions are attracting much attention from commentators and development officials. But is it really news in 2008 that what really matters is people’s responsiveness to democratic empowerment, clean fiscal policy, stable money, and the opportunities offered by free markets? When Max Weber wrote about these matters in the 1920s, he had already said amen to Clark’s ‘major new discovery,’ and so has Jane Jacobs.¹⁰

This is not to say that Clark’s message is superfluous. On the contrary, it is timely at an age when development optimism is rampant and many naive observers predict that the Congolese, Iraqis, and Ethiopians will soon enjoy the comforts of Toorak or at least Sydney’s western suburbs. The preconditions for such comforts are hard-to-learn constructive attitudes. Much inertia rules through a traditional community’s inherent attitudes and values, which often even define those communities’ very identity. Clark shows that many of the preconditions for a modern economy had long been evolving in Japan and core regions of China, but that most people in other parts of the world still harbour hidebound cultural

Economic development is incredibly complex; numerous social mechanisms interact and cause side effects.

is more catholic and pragmatic: economic development is incredibly complex; numerous social mechanisms interact and cause side effects. Consequently, no one mechanism causes it all. If simple-minded policymakers try to press a single magic development button, such as ‘exporting

attitudes and therefore are not receptive to the stimuli of market forces and the opportunities of globalisation. I suspect that Clark would caution Australians against any optimism that the hopeless mess in Papua New Guinea, East Timor, and the South Pacific countries can be readily remedied by more finance and more educators, judges, soldiers, policemen, and social workers dispatched there.

We must acknowledge that not all people are the same when it comes to fulfilling the requirements of modern economic prowess. Many societies around the world today are far behind where western Europeans were in their basic cultural attitudes in the sixteenth century (or the Chinese and Japanese in the early nineteenth). The slapdash work ethic of Indian textile workers is still a hindrance to competitiveness, and complex modern production processes require a more disciplined workforce and social climate than can be found in many parts of the third world. Recently, we were again reminded of the importance of fundamental internal institutions when the Kenyan flower export industry, once extolled as an outstanding African success, collapsed and quickly shifted elsewhere after the outbreak of tribal strife. We must therefore guard against the illusions that all third-world societies will now find it easy to transit from the Malthusian fraternity into the world's expanding growth league, and that outside aid can do much to produce the all-important cultural changes.

Clark's bold book peters out somewhat disappointingly by glossing over the present, unprecedented wave of globalisation and the explosive modernisation in Asia, saying that it is all a bit of a mystery, and asserting, based on spurious observations, that prosperity does not make people happier.

When Clark cautions us about the difficulty in modernising fundamental attitudes towards work, self-reliance, and the rational preparation for future eventualities, he must also be taken seriously in an immigration country like Australia. All-important shared cultural values can erode or be lost if too many immigrants with persistent Malthusian mindsets join in only to exploit the comforts of a wealthy host country. The result may be the same if kindhearted multiculturalists remove the pressures on newcomers to adapt to the

needs of productive life in Australia. The necessary integration does not require that immigrants give up their cuisine or festivals, but they must adopt fundamental values such as the commitments to self-reliance and to save and invest, as well as a respect for the fundamental rule of law, which also implies shunning violence.

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The naive suggestion of some World Bank officials, for example, and of Clark on pages 372–373, that world living standards could and should be raised by mass migration from the third world to the first, simply overlooks what a valuable but vulnerable asset a shared culture is. Our forebears created valuable cultural capital by inculcating in us the value of responsibility, effort, and honesty towards all, not just our own tribe. Such cultural capital is a highly productive possession, which every new generation must cultivate and conserve by not distributing its rewards to all and sundry. The do-gooders who want us to share this possession with all comers remind me of young children who invite the whole street to share the contents of their parents' fridge.

All those Australians engaged in devising policies to better the material lot of Aborigines and part-Aborigines should study Clark's book. Moving from Paleolithic bands of foragers into a modern world within a few generations is unimaginably difficult. It requires that they jettison internal institutions and life attitudes that have been successful for survival over a thousand generations. This goes beyond shunning violence, learning basic numeracy and literacy, becoming self-responsible, and acquiring new work and saving practices—all of which are nevertheless a useful start. It also requires that affluent Australia abstains from subsidising counterproductive and untenable cultural attitudes or condoning practices which are patently unacceptable, even illegal, in other segments of our nation.

To sum up

I derived enormous stimulation from this book. At a superficial level, Clark offers a richly documented picture of England's economic history, put into perspective by comparisons with other parts of Europe and with the Far East, and sometimes even by references to amazing facts about ancient forager societies. If you read the book, you will be able to spice dinner-party conversations with insightful facts on matters ranging from the birth-control habits of the ancient Romans and the Chinese to the sexual mores of Samuel Pepys and the social attitudes of primitive hunter-gatherers in Africa, Australia, and the Amazon.

More fundamentally, the layman gets a good understanding here of what made for the Industrial Revolution and how its preconditions evolved in England over a period of centuries. Clark accuses economists of being undereducated about history. This will be somewhat remedied if they read his provocative book.

Most importantly, Clark has taken the magnifying glass to contemporary 'institutional development theories,' which have proven fruitful and influential. He shows to my satisfaction that it is naive merely to 'export' formal institutions such as property rights legislation, transparency compacts, and democracy to underdeveloped societies. To do so now is almost as unsophisticated as it was fifty years ago to simply send capital goods to ports in less developed countries. What really matters is the populace's receptiveness to freedom, which is based on deep-seated cultural institutions

and attitudes, and which does not grow overnight. By overlooking the cultural foundations of prosperity, development optimists and freedom apostles in Washington and Canberra are wasting resources. Do-gooders who simply offer alms may indeed cause harm if they entrench dependency and a claimant mentality among people trapped in the 'Malthusian mindset.' Clark hints often at a suspicion that the shortsighted, lazy Malthusian psychology may even be genetically anchored. Of that, I am not (yet?) convinced, but we should keep our minds open that even this may be an obstacle to development.

Is this a counsel of despair? I think not. I have worked and watched in enough backward societies to know that even fundamental attitudes can be adapted. People often learn them best through association with others (openness) and when the material incentives are stark and clear. If we stick to this insight, the people of developing countries will become more responsive to the maxims of modern commercial culture. It sometimes happens faster than despairing observers think. Even the Germans managed the necessary cultural change.

My advice to development activists in governments and NGOs is to insist on the need for cultural change—no cultural relativism, please! Whatever the immediate consequences, they should not cause harm by protecting people from the consequences of their shortsightedness and irresponsibility. Taking such a Hippocratic oath seems a tough but necessary moral imperative.

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