

# IS PROGRESS HISTORY?

Will the last three centuries of economic progress prove unsustainable, asks **Winton Bates**

**M**uch has been written about the measurement of progress, but the *Report by the Commission on Measurement of Economic Performance and Social Progress* stands out as a particularly influential document.<sup>1</sup> The Stiglitz-Sen-Fitoussi report, as it has become known (after the chief members of the commission, Joseph Stiglitz, Amartya Sen, and Jean-Paul Fitoussi), has been referred to with some reverence by organisations such as the OECD.<sup>2</sup>

In view of the membership of the commission, it is not surprising that its report would be influential. In addition to being led by two Nobel Prize winners and a prominent French economist, the commission included 22 other members, many of whom have made major contributions to research relating to economic performance, human well-being, and environmental sustainability.

In some respects, the report deserves to be influential. It highlights the significant potential for improving national income accounting, and for measuring quality of life and environmental sustainability. Some worthwhile outcomes may come from the impetus the report is providing governments and international agencies to develop better measures of human well-being.

Even so, in my view the commission's report is deeply flawed. Despite the reference to social progress in the title of the commission, the report does not really come to grips with measuring social progress. Without defining the meaning of social progress or considering what drives it, the report implies that social progress can be adequately assessed by considering evidence on the sustainability of well-being.

I see no problem with the authors' view that sustainability is important to determine 'whether we can hope to see the current level of wellbeing at least maintained for future periods or future

generations, or whether the most likely scenario is that it will decline.' However, the authors' attempt to view social progress within a sustainability framework gives the impression that they see little prospect of further increases in well-being. The message they seem to convey is that progress is history.

A sustainability framework can accommodate some important aspects of assessing social progress. For example, the report includes a sensible suggestion that the focus of the assessment of sustainability should be on the change in 'stocks' that underpin well-being, including human, social and physical capital, as well as natural resources.

Nevertheless, a focus on sustainability is inherently biased. While drawing attention towards negative factors such as climate change that could threaten the quality of life, it also draws attention away from the institutional drivers of social progress. Changes in these institutional drivers may well have larger impacts on future quality of life than the factors that a sustainability framework brings to attention.

## The meaning of social progress

In my book, *Free to Flourish*, I suggest that in order to come to grips with the meaning of social progress, it is helpful to consider



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what it means for a society to improve. Value judgments are obviously involved, but it seems likely there would be widespread acceptance that the most important criteria include peacefulness, opportunities for individual flourishing, and economic security. Using a range of indicators to rank 110 countries (covering about 90% of the world's population) according to these criteria, I found that countries highly ranked in one of these criteria also tend to be highly ranked in the other criteria. The highly ranked countries tend to have relatively high per capita GDP levels and to score highly in various well-being indexes such as the OECD's Better Life Index, the Legatum Prosperity Index, the United Nation's Human Development Index, and the World Happiness Report.<sup>3</sup>

The analysis is consistent with the view that there are differences in emphasis on individual opportunity and economic security in different countries. As might be expected, some countries (such as the United States, Canada and Australia) rank more highly in individual opportunity than in economic security, while others (particularly the Scandinavian countries) rank more highly in economic security than individual opportunity. From a global perspective, however, the dominant relationship between opportunity and security is a positive one.

The broad complementarity between peacefulness, individual opportunity, and economic security can be explained partly by the tendency for some aspects of progress to drive others. Peacefulness reduces the transactions cost of economic activity and expands the opportunities available for individual flourishing. Economic security depends to a large extent on wealth creating opportunities that provide the wherewithal for precautionary savings, assistance from family members, charitable giving, and the safety nets provided by governments. In addition, a consideration of the drivers of peacefulness, opportunities and security suggests that common forces are involved.

### Peacefulness

Steven Pinker has documented the decline in violence in Western societies and discussed the

reasons in his book, *The Better Angels of Our Nature*.<sup>4</sup> He argues that our 'better angels' are winning because violence has declined over the centuries.

Although some of the vast amount of evidence that Pinker advances in support of that proposition has been questioned, there is no doubt that social norms in most parts of the world now provide greater protection to ordinary people and reflect sympathy for the feelings of a widening circle of humans and other living things. Pinker notes that social norms now rarely support practices that were once common such as the raiding of neighbouring communities; inter-generational feuding; vicious interpersonal violence such as cutting off noses; human sacrifice; cruel punishments involving torture and flogging; slavery and debt-bondage; blood sports and duelling; political murder and despotism; pogroms and genocides; violence against women; persecution of homosexuals; violent chastisement of children; and cruelty towards animals.

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What then are the main factors that have driven societies in the direction of increased peacefulness during the last few centuries? Long before that the major world religions all subscribed to ethic codes akin to the golden rule of treating others as one would like to be treated. The outbreak of peacefulness seems to have required a combination of additional factors, including the emergence of governments that showed greater respect for the rights of citizens and the emergence of mechanisms for contract enforcement, which promoted trustworthy behaviour and encouraged greater trust of strangers. This, in turn, enabled mutually beneficial exchange involving larger groups of people. The greater success of peaceful societies has also provided incentives for other societies to adopt similar institutions.

### Individual opportunity

Individual opportunity depends to a large extent on technological progress and productivity growth. Technological progress involves expanding possibilities, which enables greater output to be obtained from limited resources.

Anyone who wants a better understanding of the drivers of technological progress and productivity growth should contemplate the Industrial Revolution. The Industrial Revolution led to massive, unprecedented and ongoing improvements in living standards, beginning in Britain in the nineteenth century and then spreading to other parts of the world.

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When you think about the Industrial Revolution, probably the first thing that comes to mind is the growth of the manufacturing industry. However, the Industrial Revolution was an economy-wide technological revolution. Joel Mokyr's term, the 'industrial enlightenment,' aptly describes the broader processes through which a social climate favourable to innovation was made possible by a growing recognition that material progress could be achieved through advances in science and technology. In his book, *The Enlightened Economy*, Mokyr puts the various phases of the Industrial Revolution in context:

The Industrial Revolution was above all a beginning. It cannot be judged on its own grounds without considering what it led to. What is truly significant is not the wave of great inventions made in the years between 1765 and 1800, but the fact that this process did not subsequently fizzle out. Some societies, in Europe and Asia, had witnessed previous clusters of macroinventions, leading to substantial economic changes ... The 'classical'

Industrial Revolution in the eighteenth century was not an altogether novel phenomenon. In contrast, the second and third waves in the nineteenth century, which made continuous technological progress the centrepiece of sustainable economic growth, were something never before witnessed and that constituted a sea change in economic history like few other phenomena ever had.<sup>5</sup>

So, why didn't the process fizzle out? Several inter-related streams of beliefs, ideologies and institutions, all stemming from the Enlightenment, seem to be particularly relevant. Mokyr makes a strong case that the legitimisation of scientific experimentation carried over to the realm of technology, including through the proliferation of provincial 'philosophical' societies discussing practical and technical issues. Greater freedom of speech enabled the growth of social networks and civil society. A change in attitudes towards the middle classes, markets and innovation influenced both informal institutions (conventions and norms of behaviour) and formal institutions (regulations and laws). The development of norms relating to politeness and gentlemanly behaviour led to an improvement in social trust, which reduced transaction costs.

Furthermore, the success of the Scottish Enlightenment, stemming particularly from the publication of *Wealth of Nations* by Adam Smith, led to ideological and institutional changes. These helped clear away obstacles to economic growth associated with the accumulation of mercantilist policies and other regulations aimed at helping politically connected groups and protecting the interests of the sovereign.

This account of the historical drivers of opportunity underlines the importance of economic freedom in determining the advance of technology and innovation. Yet, the ongoing expansion of opportunities depends on much more than just formal rules and economic incentives. It also depends on beliefs, ideologies and social norms. One implication is that interpersonal trust and supportive public attitudes towards commerce need to be recognised as important factors influencing

the growth of opportunities. Another implication is that the economic freedom necessary for ongoing growth of opportunities cannot be sustained without supportive beliefs, ideologies and norms.

### **Economic security**

It would be difficult to overemphasise the extent that economic security against potential threats to individual flourishing—including misfortunes such as accidents, ill-health and unemployment—depends on the economic opportunities widely available to the general population in any society. Income levels determine the ability of individuals to build up savings for a rainy day; they determine the extent to which family members and friends are able to assist; and they also determine the extent of support provided more generally through community organisations.

In many countries, the economic security of individuals is also supported by social insurance provided by governments. The provision of social safety nets by governments displaced some of the voluntary cooperative and charitable activities of civil society. There is little doubt, however, that such safety nets have provided additional security in a context where increased geographical mobility of populations weakened traditional bonds and obligations.

In a major historical study of the growth of social spending by governments, the economist Peter Lindert has linked the provision of extensive social insurance in Western democracies over the last century to the spread of voting rights to a larger proportion of the population.<sup>6</sup> Lindert pointed out that in the latter part of the nineteenth century, social insurance transfers in the elite democracies, those with voting restricted to men with property, were lower on average than in non-democracies. While they remained elite democracies, Britain, the Netherlands, Norway and Sweden were relatively slow to adopt tax-financed pension programs. After the spread of the vote, first to males in lower income groups and then to women, social insurance increased enormously in those countries.

However, the growth of social insurance has brought with it the risk that political systems might not be able to moderate the influence of politically powerful interest groups. Political leadership is

required to convince members of some large and powerful groups—the elderly, for example—that their interests are broadly aligned with those of the community-at-large and that they stand to gain more from policies that promote wealth creation than by seeking additional benefits for their members.

In the absence of a political culture favourable to restraint, the growth of welfare spending outstrips income growth and poses a risk to economic security. At some point, the higher tax rates required to fund increases in welfare spending have adverse consequences for economic growth and the growth of government revenue, and hence, the ability of governments to fund further welfare spending. Alternatively, as we have recently seen in southern Europe, if public debt is allowed to grow too high, governments eventually will be unable to meet interest and repayment obligations, or to pay other bills, including those to support welfare beneficiaries. In the end, social insurance can provide economic security only while citizens are able and willing to pay the premiums required to support it.

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### **Freedom drives progress**

This brief review of the drivers of social progress points to the underlying importance of individual freedom. The peacefulness of societies rests to a large extent on respect for the rights of individuals to live their lives as they choose, provided they do not interfere with the rights of others. Individual opportunity also depends on the extent of freedom, including the freedom to engage in mutually beneficial activities with other people. Economic security has been reinforced in many countries by the spread of political rights to a larger proportion of the population, but economic security also depends on the freedoms that underpin peaceful societies that provide opportunities for individuals to flourish.

The world has seen massive human progress over the last three centuries. Human societies have generally become much more peaceful; the opportunities for individuals to live lives they value have expanded greatly in much of the world; and people in many countries now enjoy a great deal of economic security. From what we know about the drivers of this social progress, it would be reasonable to expect this process to continue as long as conditions remain broadly favourable.

### Implications for measurement

As already noted, when we ask which societies have been most successful, the answers provided by the view of social progress presented here do not differ greatly from those obtained by using various 'quality of life' and well-being indexes put forward

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by international agencies, or even by using per capita GDP levels as a crude measure of material well-being.

However, in considering whether conditions are likely to remain favourable to social progress, it is important to consider the drivers of progress, particularly those that have enabled the emergence of peaceful societies, and expanded individual opportunities and relatively high levels of economic security.

Any assessment of future prospects for social progress should take account of the implications of forms and changes in individual freedom, including economic freedom (personal choice, voluntary exchange, and open markets), civil liberties, and the right to participate in political processes.

An assessment of future prospects for social progress should take into account change in stocks of environmental, human, social and physical capital—as suggested by the Stiglitz-Sen-Fitoussi report—but not overlook the important role of technological progress and productivity growth in determining economic and social outcomes.

The quality of political systems will also have

a fundamental impact on future prospects for social progress such as the ability of democratic governments to cope with the expanded responsibilities they have acquired. As implied above, people's expectations of what democratic governments can achieve in promoting economic security are exceeding what governments are capable of delivering. Inflated expectations have also promoted the expansion of government in other ways.

It is well known that big government can have adverse economic impacts. The economic cost of taxation rises disproportionately with tax revenue because taxpayers substitute non-taxed goods (e.g. leisure) for taxed goods. There are also economic costs associated with government spending that inadvertently discourage participation in productive activity.

However, assessment of the effects of big government is complicated by differences in the ability of different societies to cope with big government. The quality of political institutions, political leadership, and public administration vary greatly from country to country. This has important implications for the ability of governments to raise revenue and manage provision of services, and to implement tax reforms and spending cuts when that becomes necessary. For example, Sweden seems able to cope with current levels of government spending, reduced to around 50% of GDP, without huge problems, whereas Greece was on the way to becoming a basket case before its government spending reached that level.

Efforts to compile governance indicators, by the World Bank, for example, are relevant to assessing the ability of governments to cope with the expanding responsibilities placed upon them. The aftermath of the global financial crisis suggests, however, that more work is required to take into account the tendency of governments to acquire enormous contingent liabilities such as those associated with rescuing banks and other financial institutions considered to be 'too big to fail.' Before the financial crisis, governance indicators provided no inkling of the extent to which the well-being of the people of Ireland, for example, was being placed at risk by such contingent liabilities.

Finally, it is important for assessments of future prospects for social progress to consider changes in political culture and public attitudes. In historical terms, democracy was an outcome of a process whose participants intended to protect citizens from abuse of the powers of government. This is increasingly being overlooked as people are focusing more on what governments can do directly to make their lives more secure and relieve them of burdensome responsibilities. In some societies, public attitudes are much more favourable than in others towards protecting freedoms that have made progress possible.

### Conclusion

It is possible that when our great grandchildren become old, they will look back and view the last three centuries of human progress as a historical episode that turned out to be unsustainable. If they do decide that progress has become history, what will it be that leads them to that conclusion? Will it be because progress has reached limits imposed by environmental constraints? Will it be because inventors and innovators have used up the total stock of new ideas? Or will it be because our political leaders were unable to defend the freedoms that made progress possible?

My guess is that the third possibility is more likely. However, there are grounds to hope that when our great grandchildren become old, they will still be enjoying the fruits of ongoing social progress.

### Endnotes

- 1 The *Report by the Commission on Measurement of Economic Performance and Social Progress* was prepared at the instigation of the former president of France, Nicholas Sarkozy, and published in 2009.
- 2 Soon after publication of the Stiglitz-Sen-Fitoussi report, the OECD Secretary-General announced that the OECD would establish an institutional process for priority setting to produce some of the measures and instruments advocated by the commission, and use these measures in policy formulation. See 'Stiglitz-Sen Commission: Report on the Measurement of Economic Performance and Social Progress,' *The Statistics Newsletter* 46 (October 2009).
- 3 Information about the indexes mentioned is available at the following websites: OECD, 'Better Life Index'; 'The 2012 Legatum Prosperity Index'; the United Nations, 'Human Development Index'; the Earth Institute, 'World Happiness Report' (Columbia University, 2 April 2012).
- 4 Steven Pinker, *The Better Angels of Our Nature: Why Violence Has Declined* (New York: Viking, 2011).
- 5 Joel Mokyr, *The Enlightened Economy: An Economic History of Britain 1700–1850* (Yale University Press, 2009), 83–84.
- 6 Peter Lindert, *Growing Public: Social Spending and Economic Growth Since the Eighteenth Century* (Cambridge University Press, 2004).