

The Wealth of Generations

Capitalism and the Belief in the Future

By Johan Norberg

This publication is of the 22nd Annual John Bonython Lecture delivered on 11 October 2005 at the Sofitel Wentworth, Sydney.

The lecture was also delivered on 13 October 2005 at the Langham Hotel, Auckland.

CIS Occasional Paper 98



2005

Published November 2005
by The Centre for Independent Studies Limited
PO Box 92, St Leonards, NSW, 1590
Email: cis@cis.org.au
Website: www.cis.org.au

Views expressed in the publications of The Centre for Independent Studies are those of the authors and do not necessarily reflect the views of the Centre's staff, Advisers, Directors or officers.

National Library of Australia
Cataloguing-in-Publication Data:

Norberg, Johan, 1973- .
The wealth of generations : capitalism and the belief in the future.

ISBN 1 86432 103 2.

1. Quality of life. 2. Capitalism. 3. Globalization - Social aspects.
4. Globalization - Economic aspects. I. Centre for Independent
Studies (Australia). II. Title. (Series : CIS occasional papers ; 98).

306.342

©2005 The Centre for Independent Studies
Typeset by Carollynn Chen
Typeset in AGaramond 11pt
Back cover photo of Johan Norberg courtesy of David Darling

The 22nd John Bonython Lecture was sponsored by



Introduction

by Greg Lindsay

Ladies and gentlemen, it gives me great pleasure to introduce to you this year's John Bonython Lecturer, Johan Norberg. Since 1984, the John Bonython Lecture has brought to Australia some of the world's leading intellectual and opinion leaders and tonight is no exception. The Bonython Lecture is already established as one of the foremost public lectures in Australia and this year we are pleased to be repeating it in New Zealand in two days time. It aims to bring to you new ideas or reinforce older ones, but all supportive of a free society.

The first in the series was given by Professor Israel Kirzner of New York University and he dealt with the role of the entrepreneur in the economic system. The second in 1985 was given by the great Australian economic historian Max Hartwell, who spent almost all of his working life at Oxford. His topic was the 'The Anti-Capitalist Mentality: Post-Mortem for an Ideology'. In a way the first two, and tonight's lecture, are a guide to the way ideas can move through societies. Twenty years ago, the ideas put forward in those first two lectures were not popular to say the least. Much of what Johan will say tonight builds on those sorts of ideas and today, while hardly receiving universal endorsement, they resonate around the world.

Let me illustrate by talking briefly about the reception that his book *In Defence of Global Capitalism* has received. You all have a copy. It was first published in 2001 by the Swedish think tank Timbro where he currently works. Soon after it was translated into English and published in the UK. Another translation saw it published in the United States in 2003. Its English editions now include one in India and of course the one you have. There are also now two French (France and Canada)

editions and others in German, Dutch, Turkish, Estonian and Finnish, and of course Swedish. I believe there is to be a further edition soon in Arabic, another in Chinese, another in Albanian, and the list goes on. All up, within the near future, there will be 22 editions. It has been a great success and has won many awards. Not bad for a book essentially on economics and economic policy written when Johan was 27. But the book is more than just about economics and this is what is so critical in the message that Johan will bring to you tonight. He talks about fundamental values of liberty and responsibility in a globalised world of free and prospering individuals.

Johan Norberg is head of political ideas at Timbro where he has worked since 1999. He has just announced that he will be leaving Timbro at the end of the year to become a 'freelance liberal'. We certainly wish him well in this venture.

His principal interests are the history of ideas and how ideas can help to make people freer. His MA at Stockholm University was just a step in building the firm foundations for his thinking. He is a classical liberal in the European tradition of Adam Smith, John Locke and Frederic Bastiat and this is very much the set of ideas that underpins the work of The Centre for Independent Studies. His liberalism takes freedom seriously, and it is our liberalism too.

There is an intense moral dimension to his thinking and this is present in so much of what he says and writes. His argument for globalisation has its philosophical and economic dimensions for sure, but it's the sense of moral outrage he feels when, for instance, he looks at the cost to poor people in developing countries. In a recent interview he said 'People are dying because we in the West are unwilling to change and actually live by the free market rhetoric we often spout. We also have to explain to the public' he says 'that it's not merely developing countries that lose out by these policies. We do'. To him unequal distribution of wealth is not the cause of poverty, but unequal distribution of capitalism. It's this optimistic and forward looking view of the world that is becoming the new paradigm. He has dedicated himself to explain this to the world and there are few that do it so well.

It is my pleasure now to call on Johan Norberg to present the 22nd John Bonython Lecture.

The Wealth of Generations

Capitalism and the Belief in the Future

Ladies and gentlemen. First of all, I would like to thank the CIS for getting me here to Australia and New Zealand for the first time in my life. I am deeply honoured to be giving the annual John Bonython lecture, following in the footsteps of many of my favourite thinkers, and I would especially like to mention Israel Kirzner, Thomas Sowell and Mario Vargas Llosa. I appreciate the opportunity to talk to such a distinguished audience about one of my favourite subjects: why almost everything is getting better, but why no one believes me when I say so.

Belief in the future is perhaps the most important value for a free society. It is what makes people interested in getting an education, or investing in a project, or even being nice to their neighbours. If we think that nothing can improve or if we think that the world is coming to an end, we don't work hard for a better and more civilised future. And we will all be miserable.

Enlightenment philosophers created the belief in the future in the 17th and 18th centuries by letting us know that our rational faculties can understand the world, and that with freedom we can improve it. Economic liberalism proved them right. When Adam Smith explained that it's not from the butcher's benevolence that we expect our meat, but from his self-interest, it was much more than an economic statement, it was a world view. It was a way of saying that the butcher is not my enemy. By cooperating and exchanging voluntarily, we both gain, and make the world a better place, step by step.

Since those days, mankind has made unprecedented progress, but, astonishingly, most of us don't see that because of ancient mental mechanisms that were developed in much more dangerous days, when one man's gain was often another man's loss. Tonight I will discuss what they are and how to deal with them, and I think that a good place to start is with an ideology that has made the most of those mental mechanisms: socialism.

Karl Marx explained that capitalism would make the rich richer and the poor poorer. If someone was to gain, someone else had to lose in the free market. The middle class would become proletarians, and the proletarians would starve. What an unlucky time to make such a prediction. The industrial revolution gave people freedom to innovate, produce and trade, and created wealth on an enormous scale. It reached the working class, with technology making them more productive and, therefore, more valuable to employers. Their incomes shot through the roof.

What happened was the proletarians became middle class, and the middle class began to live like the upper class. And the most liberal country, England, led the way. According to the trends of mankind until then, it would take 2,000 years to double the average income. In the mid-19th century, the British did it in 30 years. When Marx died in 1883, the average Englishman was three times richer than he was when Marx was born, in 1818.

The poor in Western societies today live longer, with better access to goods and technologies, and with bigger opportunities than the kings in Marx's days.

Ok, said Marx's evil apprentice Lenin. We might have been wrong about that. But the working class in the West could only become richer because they are bribed by the capitalists. Someone else would have to pay the price for that bribe—the poor countries. Lenin meant that imperialism was the next natural step of capitalism, whereby poor countries had to give up their work and resources to feed the West.

The problem with this argument is that all continents became wealthier, albeit at different speeds. Sure, the average Western European or American is 19 times richer than in 1820, but a Latin

American is 9 times richer, an Asian 6 times richer, and an African about 3 times richer. So from whom was the wealth stolen? The only way to save this zero-sum theory would be to find the wreckage of some incredibly advanced spacecraft that we emptied 200 years ago. But not even that would save the theory. We would still have to explain from whom the aliens had stolen their resources.

It is correct that colonialism often was a crime, and in some instances led to horrible acts. But globalisation in the last decades shows that the existence of wealthy, capitalist countries facilitates development for poor countries if they participate in a free and voluntary exchange of ideas and goods. Globalisation means that technologies that it took wealthy nations billions of dollars and generations to develop can be used straight away in poorer countries. They can sell to wealthier markets and borrow capital for investments. If you work for an American company in a low-income country, you receive about eight times the average income in that country. Not because multinational companies are more generous, but because they are globalised and bring machines and management that raise the productivity of the workers and consequently, also their wages.

Therefore, opportunities for a poor country with open, market-friendly institutions increase as the rest of the world becomes more developed. It took England 60 years to double its income from 1780. A hundred years later, Sweden did the same in just 40 years. Another 100 years later, countries like Taiwan, South Korea, China and Vietnam did it in no more than 10 years.

During the 1990s, poor countries with about 3 billion inhabitants have integrated into the global economy, and they have also seen their annual growth rates increase to almost 5% per capita. It means that average incomes double in less than 15 years. Compare this to the much slower growth in rich countries, and the negative growth in developing countries where one billion people live. These countries, especially in sub-Saharan Africa, are the least liberal, the least capitalist and the least globalised. It seems Lenin had it upside down—poor countries that are connected to capitalist countries with trade and investment grow faster than those countries that aren't.

This means that the problem is not that we are supposedly trying to trick poor countries into liberalisation and globalisation. The problem is that the US, the EU and Japan are far too often still trying to shut poor countries out of it, with tariffs, quotas and enormous subsidies to their own farmers.

Let's have a short look at the statistics to see the greatest untold story ever. The proportion in absolute poverty in developing countries has been reduced from 40 to 21% since 1981. Almost 400 million people have left poverty—the biggest poverty reduction in mankind's history. In the last 30 years chronic hunger has been halved, and so has the extent of child labour. Since 1950 illiteracy has been reduced from 70 to 23% and infant mortality has been reduced by two-thirds.

So the rich get richer, and the poor get richer even faster than the rich. Both Marx and Lenin were wrong. Enter a modern socialist such as economist Robert Heilbroner. In 1989 he famously admitted:

Less than 75 years after the contest between capitalism and socialism officially began, it is over: capitalism has won. The tumultuous changes taking place in the Soviet Union, China, and Eastern Europe have given us the clearest possible proof that capitalism organizes the material affairs of humankind more satisfactorily than socialism. (*New Perspectives Quarterly*, Fall 1989)

But Heilbroner did not make peace with capitalism. Zero-sum mentalities don't die easily. Someone else would have to pay for this success, right? Right. Heilbroner said that he was still opposed to capitalism, but now because it would result in a heavy cost to the environment. After being opposed to capitalism because it would create waste, inefficiency and poverty, socialists could now be opposed to capitalism because it was *too* efficient, created *too* much wealth and would destroy nature.

This argument is as popular as it is false. First of all, the worst environmental problems in the world are not smokestacks. It is much worse that so many people burn wood, coal, crop waste and dung

indoors for heating and cooking. Respiratory diseases kill about 1.6 million people every year. Certainly, the modern production of energy creates environmental problems, but it doesn't kill someone every 20 seconds, as this killer in the kitchen does. Not only this, but diseases transmitted by water kill another 5 million people every year. The number of people who die from these two traditional environmental problems is 300 times the number who die in war every year. Both diseases have already been eliminated in every industrialised nation on earth.

Furthermore, when we get richer we can also deal with the new environmental problems that new industries create. When we have the resources to both save our children *and* our forests, we begin to care about saving nature, and economic and technological progress gives us the means to do that. The environmental movement is a result of this shift in preferences.

In the last 25 years, air pollution in Europe has declined by 40% and in the US by 30%. Since the 16th century, we have detailed studies of the air quality in London, which deteriorated until 1890, then improved consistently, and is today as clean as it was in the Middle Ages. Forests in the US and the EU have been growing every decade since the 1970s. Lakes and rivers are becoming less polluted. The amount of oil that is spilled in the world oceans has been reduced by more than 90% since 1980.

Sure, we have big environmental problems ahead of us. But we have even bigger problems behind us, and we dealt with them thanks to more wealth, knowledge and technology. I see no reason why we can't continue doing this.

So, have we finally seen the benefits of liberalism and capitalism? Well, almost. One of the socialists who has had to see many of his visions failing is the Marxist historian Eric Hobsbawm. He has reluctantly said that capitalism has proven its value when it comes to almost everything. But he has one final objection: Does it make us happy? What about the quality of life? This is the latest stand against free markets.

The argument has been popularised by the British economist Richard Layard and goes something like this:

Economic growth will not contribute to more happiness, because we are most interested in our relative position. The fact that someone else earns a higher income—which makes them happy—makes others less happy, which forces them to work harder to retain their relative position. In the end we are all richer, but we are no more happy than before, since we cannot all be richer than other people. In other words, a better future will not result in a better future.

We know that there is a dramatic jump in citizens' reported wellbeing when countries move from a national per capita income of about US\$5,000 to \$15,000 a year. After this, satisfaction levels off, from which Layard concludes that we shouldn't care as much about growth in rich countries. In fact he wants less restructuring and mobility and to discourage hard work with high taxes, giving us more time to the things that really make us happier—family and friends.

But is that the right conclusion? Imagine that you are happy because you have a nice party to look forward to next week. After the party, Layard would interview you and see that you are no happier after the party than you were before. He would probably encourage you to stop devoting a lot of time and energy to parties, because apparently this doesn't increase your happiness.

That is a bizarre conclusion. You wouldn't have that sense of joy and happiness in the first place if you didn't have good things to look forward to, interesting dinners and nice parties, for example. Isn't it possible that the same goes for wealth? The fact that growth does not increase happiness much does not mean that it is useless—it might be the fact that growth continues that makes it possible for us to continue to believe in a better future, and to continue experiencing such high levels of happiness.

From surveys, we know that hope correlates strongly with happiness. If you want to meet a happy European, try someone who thinks that his personal situation will be better five years from now. We see the same when we compare Americans to Europeans. According to a Harris Poll, 65% in the US but only 44% in the EU think that their situation will improve in the next five years. Accordingly, 58% of Americans are very satisfied with their lives, but only 31% of Europeans.

In poor and badly governed countries, entire societies suffer from hopelessness. They have few opportunities and no hope that tomorrow will be a better day. Belief in the future grows when poor countries begin to experience growth, when markets open up and incomes increase. That could help explain why happiness reached high levels in the West after the Second World War. With economies growing rapidly, people began to think that their children would enjoy a better life than they had.

Raising taxes to discourage work and reducing economic growth would be a way of cutting off that progress. Almost all studies show that loss of income and opportunity reduces happiness.

In fact, happiness hasn't stopped increasing. According to the World Database of Happiness, directed by the leading Dutch researcher Ruut Veenhoven, satisfaction has increased in most surveyed Western countries since 1975. There are diminishing returns, but even at our standard of living, people do get happier when societies grow richer. And the happiest places are the most individualistic—North America, Northern Europe and Australasia.

Another reason for this happiness is that liberal and market-oriented societies allow people freedom to choose. If we get used to it, we will get better at choosing to live and work in ways we like. And if you don't think you get happier by hard work and mobility, just skip it. A survey showed that 48% of Americans had, in the last five years, reduced their working hours, declined promotion, lowered their material expectations or moved to a quieter place. Fast-food or slow-food, no logo or pro-logo? In a liberal society, you decide.

That is, as long as we are free to make the decisions ourselves. Those who use happiness studies to put forth an anti-market agenda would deny us that freedom. They would tell us how to live our lives and reduce our ability to make such decisions in the future.

Despite Layard's criticism against individualism and materialism, even he admits that 'we in the West are probably happier than any previous society'. Well, in that case, please, please, don't undermine that society.

We are wealthier, healthier and happier than we have ever been. We live longer, we live safer and we live freer than ever. For every successive

generation, we have been able to build upon the knowledge, technology and wealth of the earlier generations and add our own. We have reduced poverty, created more wealth and increased life expectancy more in the last 50 years than we did in the last 5,000 years.

I am not just saying that the glass is half-full rather than half-empty. I am saying that it used to be empty. Just 200 years ago, slavery, feudalism and tyranny ruled the world. By our standards, even the richest countries were extremely poor. The average chance of surviving your first year was less than the chance of surviving to retirement today.

The glass is now at least half-full, and it is being filled as we speak. If I had it here before me, I would propose a toast to the creativity and persistence of mankind.

In other words: Don't worry—be happy!

However, despite the fact that we are happy, we don't seem to notice, and instead we worry.

When people are asked about what is happening in the world, the majority say that things get worse, poverty is on the increase and nature is being destroyed. Last week I published a survey showing that Swedes mistakenly think that all the indicators of living standards and the environment are deteriorating when they are, in fact, improving rapidly. When we read the papers we see problems, poverty and disasters. Powerful, international movements oppose globalisation and capitalism because they think they increase misery and hunger. Scholars write books saying that we are all sad and depressed.

If there is something that does not get better in the world, it is our world view. Why? If the adventure of mankind is such a triumph, why don't we know that? Why do we have a tendency to think, like Marx, Lenin, Heilbroner and Hobsbawm, that the progress we witness must result in some other form of problem? I will attempt to give you a few explanations for this amazing and disturbing fact.

The problem of bias

The first and most obvious villain in this story is evolution. Natural selection has turned mankind's focus towards problems. It's easy to

understand that early human beings who sat down after a good meal and relaxed and enjoyed life might not find enough food to make it through the next day, and that they ran the risk of being eaten by a lion. Whereas those who were always stressed and looked for problems, who always hunted and gathered a bit more food just in case and who kept looking suspiciously at the horizon, were the people who found shelter before the storm or before the lion struck. So they survived, and passed on genes full of anxiety and stress to us.

It's important to be aware of problems, because problems mean that we have to act. If my house is on fire, I need to know *now*. That my house is attractive is not as important. If I hear information that there is something in the food that could kill my children, I need that information *now*. That there are some nice, new dishes on the market is not as important.

Mankind is a problem-solving species. Those who solved problems survived. The moment we solve an old problem we don't stop and enjoy the fact that we triumphed, we look for the next worse problem, and begin to work to solve it. We don't lie awake at night and contemplate the fact that we have been able to deal with polio and tuberculosis, we lie awake at night and think about how to deal with HIV/AIDS, and worry about what bird flu might mean in the future. We don't think about how great it is that we have eradicated malaria from the developed countries, we think about how horrible it is that so many people die from malaria in developing countries every day.

The American writer Gregg Easterbrook has pointed out that old problems, horrible as they were at the time, seem less threatening in retrospect because we know that we have solved them. But the problems of today—uncertain and unsolved—stay in our mind.

A few weeks ago in Europe, the first story in the leading television news was the 'growing environmental threat' of shipping, which is rapidly becoming the biggest emitter of sulphur dioxide in Europe.

However, if you listened closely to the report, you would understand that this was not because of growth of emissions from shipping—it did grow, but very modestly—but because of a rapid *reduction* in emission from other sources. Total sulphur dioxide

emissions in Europe (including shipping) have been reduced by about 60% in 15 years. The real story was about the dramatic improvement in environmental conditions—but now that shipping was the problem to deal with, it became the news.

I am an optimist. I happen to believe that this perceptual bias is a good thing. That's what keeps us alert, so that we solve problems and improve the world. But we have to understand that this also means that our minds are constantly occupied by problems and we perceive the world to be worse than it is.

Progress also always creates some new challenge, and problem-solvers think more about the challenges than the progress. We live longer than ever. Isn't that fantastic? No, because it results in higher costs for pensions and health care. At last poor countries make economic progress. Isn't that wonderful? No, because we are now afraid that Polish plumbers and Indian programmers will take our jobs. There is always something to be scared about. In the 1970s, when temperatures were declining, we worried about a new ice age. Now they are increasing and we worry about global warming. We used to worry about everybody who was depressed, now new anti-depressant drugs have reduced suicide in rich countries by a fifth. Now we worry about so many people taking pills.

The media bias

The media exploits this interest in problems and disasters. We want to hear the latest, most horrible stories, because our stone-age brains think that this is important information upon which we must act. At the turn of the millennium, a survey from New York University made a list of 'Journalism's Greatest Hits'. If you expected news stories about new vaccines, fantastic inventions, the rise in living standards, or the spread of democracy from 0% of the countries 100 years ago to 60 % today, you would be disappointed. The stories were all about war, natural disasters, dangerous chemicals and unsafe cars.

Risks, horrible acts and disasters are easily dramatised and cheap to produce. That is why crime is such a popular theme on the news. Studies from the US show that the more time people spend watching

the TV news, the more they exaggerate the extent of crime in their cities. A fascinating study about Baltimore, Maryland showed that 84% feared that criminals will harm them or their loved ones, but at the same time almost everybody, 92%, said that they felt safe in their own neighbourhoods, of which they have first-hand knowledge. They all think that there is a lot of crime in Baltimore, but that it takes place somewhere else in the city, in the places they only hear about in the media.

These results appear repeatedly in surveys. People think that the environment is being destroyed, but they think that their local environment is good. They think that the economy is going to bits, but their personal finances are improving. Germans believe that the reunification of Germany was bad for most people, but good for their own personal situation. Problems and disasters are always somewhere else. And if we all think so, we must all be wrong.

The problem with a globalised world is that there is always a flood, a serial murderer or starvation somewhere, providing us with a constant supply of horrors to fill our television screens. If you don't know the background or study the statistics, it's tempting to conclude that the world is getting worse.

In a way, I think that the anti-globalisation movement is a result of this globalisation of information. Even though extreme poverty has been cut in half in developing countries, many people still think that poverty is on the increase because they see poverty for the first time on television. We care about it now partly because poor Vietnamese and Chinese make the shirts we wear. If you don't understand the context, you start to believe that it is the fact that they make our shirts that made them poor. The reality is, as I mentioned, employees of an American multinational in a low-income country earn eight times more than average employees in their country.

Exceptions more interesting than the rules

Another perceptual bias strengthens the focus on problems, both in our minds and in the media: whatever is new is news. We are interested in exceptions, not what surrounds us every day. We see the new things, the strange, the unexpected. It's natural. We don't have

to explain and understand normal, everyday things, but we need to understand the exceptions. We don't tell our families about how we got home from work—unless something really strange happened on the way.

This creates a cognitive bias that distorts our world view. In a world that is getting better, we tend to emphasise even more the problems that remain. We don't read in the papers that a plane landed safely. That was news in 1903, when the Wright Brothers' succeeded for the first time. Today we only hear news about plane crashes, which tends to exaggerate the frequency of crashes. Of course, that's a good thing. A world in which it would be considered news that a plane landed safely and no one was injured would be a horrible world. Since the Second World War, we have never seen as few plane crashes as we did in 2004, despite a dramatic increase in the number of flights. The number of crashes in the 1970s was four times the number today, despite the fact that we have four times more flights today. But don't expect to learn this in the media. Dog bites man is not news, rather it is man bites dog.

The French liberal thinker Tocqueville observed this mental mechanism in the early 19th century when he noticed that people began to discuss the problem of poverty during the industrial revolution. At first he thought that this was strange, since the growth of the manufacturing system meant higher wages and cheaper goods. Poverty was decreasing, but at the same time it was seen as a worse problem than before.

His conclusion was that this happened not *despite* but *because* poverty was being reduced. In earlier times, poverty was seen as a given. Poverty was everywhere, and people learnt to endure it. Religions evolved that explained the virtues of poverty. But in the 18th and 19th centuries, industrialisation created unprecedented wealth and millions were lifted out of poverty. The poverty that remained was perceived as so much worse. Now that people could see that the poor aren't always with us, they began to wonder why we should put up with it. It wasn't necessary, it could—and should—be changed. Poverty was not a given any more, it was now a social problem.

This created the impression for a long time that the industrial revolution created bigger social problems. In a way it did—by making poverty an exception it created poverty as a problem in the minds of people.

Now, apply Tocqueville's discovery that poverty is being reduced rapidly in the developing countries, and that people suddenly devote so much attention to the problem of poverty in developing countries.

Qui bono?

Of course, several groups, institutions and special interests from both the left and the right use our mental bias to further their agendas. If they can show that there is a problem or a possible disaster somewhere, they can catch our interest and get us to act, now.

Would schools be a little bit better with extra money? Who cares? Will they fail miserably and our children become criminals without the extra money to schools? Ok, let's act now! Do the new taxes to finance this cause marginally lower investment and margins for tax-payers? Who cares? Do they destroy the economy and force people from their homes? Abolish them now!

All sides have an interest in exaggerating problems in our world. The same goes for scientists, scholars and public authorities. If they want more money for their research, they have to show that there are great risks in the field that they study and that it would be very dangerous not to study their specific subject more closely.

The same goes for global institutions. In September 2005 the United Nations Development Program (UNDP) released its annual report on human development. The press statement spoke of places with growing problems and 18 countries that have lagged behind. The report summarises the worldwide situation with statements like 'the overall report card on progress makes for depressing reading' and 'the world is heading for a heavily sign-posted human development disaster'.

But how have poor countries developed as a whole? Hidden away in another place of the report, with much less dramatic wording, the UNDP concludes:

Looking back over the past decade the long-run trend towards progress in human development has continued. On average, people born in a developing country today can anticipate being wealthier, healthier and better educated than their parent's generation.

It goes on to say that in the last 15 years, poor countries have less poverty, lower infant mortality rates, better access to clean water, less illiteracy, fewer conflicts and more democracies. This is what they summarise as a 'human development disaster'!

They can say this because it is a disaster compared to hopes for even faster progress in even more places. However, if you are not a very attentive reader, you get the impression that everything is getting worse, which is of course what the UNDP wants you to think. It believes that the prospect of worldwide disaster will force us to act.

I happen to believe that the opposite is true. If we constantly spend more time and resources to deal with world problems and the UNDP tells us that it hasn't had the slightest effect, then why should we continue?

This aside, the point here is to understand the kind of threats and warnings that special interests engage in and how this distorts our worldview. Some reveal this openly. In an interview in *Discover* magazine in October 1989, an often quoted environmentalist scientist and an expert on climate change, Professor Stephen Schneider, explained that:

To [save the planet] we need to get some broadbased support, to capture the public's imagination. That, of course, entails getting loads of media coverage. So we have to offer up scary scenarios, make simplified, dramatic statements, and make little mention of any doubts we might have... Each of us has to decide what the right balance is between being effective and being honest.

Here is a thought-experiment to highlight the process: Imagine that my conclusion to this lecture is that this mental bias is a bit problematic, but we can probably live with it. Do you think my

lecture would get more or less attention than if my conclusion was that this is horrible, and it will lead us all to disaster?

Creative destruction looks destructive

As if this wasn't enough, there is another problem: We focus on the short-term and the personal, rather than the long-term and universal. There are things that we see, and there are things that we don't see, to use the formulation of the 19th century French economist Frédéric Bastiat.

Let me give you an example that I discussed recently on a television debate. The Public Broadcasting Service produced 'Is Wal-Mart Good for America?', a documentary about Wal-Mart buying most of its goods from China. For almost an hour it interviewed workers and factory owners who lost their jobs and businesses because of cheap Chinese imports, portraying it as a disaster for America. One-til to the anti-globalists.

Though it is true that an American manufacturing worker might lose his job as a result of this, there are other effects that the film didn't show. Chinese workers get jobs, and as they spend their new income, they create more jobs for export companies and/or Chinese companies. American consumers get cheaper prices and can spend their extra purchasing power on new goods and services, and so unemployed Americans can get new jobs in a new sector. Chinese worker—export company—consumers—new sectors develop: Four good results, in other words 4-1 to the globalists and free-traders.

We tend not to see those effects, because they aren't as immediate and personal. We see a factory closure and a worker losing his job because that's real, visible, flesh-and-blood, and we can relate to it. When other workers get new jobs, when purchasing power improves, and when new sectors are created, it is more more abstract. It happens down the track and its effects are widespread. It is not as easy to portray as news or to relate back to the fact that we have more free trade.

Capitalism works by creative destruction. We constantly create new and better goods and services and new methods of producing and trading. But to be able to do new things in new ways, we have to stop doing old things in old ways. The problem is that we tend to

notice and report the destructive part of this, not the creative part. Americans have talked more about the one million jobs that they have lost in manufacturing since 1970 than about the 60 million better-paid jobs that they gained in other sectors in the same time.

This mentality is another reason why the world looks worse than it is, and why capitalism will always find its opponents. The more it creates and improves, the more we will see that it also undermines and destroys.

A few years ago, a Swedish anti-globalist explained that he had been in a debate where the pro-capitalists had ‘constantly referred back to facts’, but the anti-capitalists had been more successful because they ‘used examples from reality’. Facts versus examples, apparently. Aggregated statistics and broad abstractions versus flesh and blood. I am not sure who wins such a debate. We human beings like narratives and examples that we can relate to. If an audience hears that there are almost 400 million fewer people in absolute poverty today than in 1981, but then also hears a dramatic story about a specific individual who has fallen into poverty during this time—it’s not certain that they think that poverty has been reduced.

The cure

Considering this mental and perceptual bias, I find it amazing that liberalism and free markets have been able to survive to the extent they have. To overcome all this unconscious opposition, liberalism must produce even greater benefits than we think. What can we do about these obstacles to liberalism? How can we learn to live in a world, and with a mind, that constantly exaggerates problems, disasters and risks? I think that our greatest ally is knowledge. Knowledge about our mental bias can teach us to bypass it. For example, every time we hear that a problem is getting worse, we should try to look at long-term trends to see if this is really true, or if this is just an exaggeration of a natural short-term variation. Every time we hear about risks and possible disasters it is just as bad to believe it completely as it is to ignore it completely.

Yet we also need knowledge about the things that improve our world. This is where even good thinkers fail. Gregg Easterbrook

has written a great book called *The Progress Paradox* which is about the strange phenomenon that people feel worse even though things are getting better. I've learnt a lot from it, even though I have my reservations. One of his explanations for this mystery is a widespread sense of 'collapse anxiety'. It is a sort of bad consciousness we get from leading a good life, a fear that our wealth is unsustainable, and that some sort of economic crash, environmental collapse or other disaster might end it any time. Perhaps Marx, Lenin, Heilbroner and Hobsbawm suffered from collapse anxiety?

However, I don't agree that this is some sort of psychological problem. It is a logical conclusion if you don't understand where this wealth comes from. Unfortunately, I don't think that Easterbrook's book helps the reader understand this at all. It is as though we have just been lucky and struck gold, or that we have stolen wealth from someone else. If so, it's not unreasonable to think that it might disappear any day.

To regain the belief in progress and the future, we have to understand what creates it. It is not a coincidence, it is capitalism. It is the fact that people who are free create, that they are problem-solvers, and as more people are free to think and innovate, the greater the chance that some of them will develop useful knowledge, technology and wealth. If the incentives are correct, if people reap the rewards of their labour, they will use and implement it to change our world for the better. In a world where billions are free to create, the chances of a better world are greater than ever. We should believe in the future. Not naively, like determinists thinking that nothing can go wrong, for we know that conflicts, terrorism, disease and natural disasters can and will cause enormous damage. But recognising that mankind is smart, and that free flow of information and markets makes us even smarter. We deal with problems better if we are free and wealthy. Each generation builds on the achievements of the past, and so we have constantly more to build upon. The greatest progress is yet to be made.

The long-run prospects are amazing. Today, more than ever, we have more people living longer lives in freer societies. More scientists are alive today than lived in all previous periods combined, and they

all receive an education that is almost as long as a lifetime in earlier periods. Biotechnology, nanotechnology and robotics will create massive improvements. We will be richer, we will live longer and we will be healthier. Continents that we thought were doomed to misery will soon have the living standards we have today.

We know that our world will improve in ways and with technologies that are just as unpredictable to us as a computer or an airplane would have been to our ancestors. But at the same time, these perceptual and mental mechanisms mean that a lot of people will constantly complain, and say that things are getting worse. And every time we solve a problem, they will look for a new one.

But we don't have to be like this. We can safely presume that when a plane crash or a disaster has made it into the news, that despite the horrors of that particular story, it is an exception in an otherwise fairly safe world. When others complain and focus on difficulties, we can be sure that their focus and efforts mean that some problems are about to be solved.

Since I am an optimist, I would like to conclude with that comforting thought. That perhaps some sort of discontent is a precondition of progress.

It is worth giving the last word to one of the most insightful thinkers of all time, the 19th century liberal historian and politician Lord Macaulay, whose Whig interpretation of history has been condemned as a naïve, Panglossian idea that things constantly improve, but which was actually a recognition of what individuals can create when free. When Macaulay wrote his history of England, he couldn't believe why the English thought that the past was the good old days, and he warned later generations—us—not to romanticise his own time, which, despite being better than the past, was no utopia. He wrote:

The general effect of the evidence which has been submitted to the reader seems hardly to admit of doubt [that living standards are improving]. Yet, in spite of evidence, many will still image to themselves the England of the Stuarts as a more pleasant country than the England in which we live. It may at first sight seem strange that society, while constantly moving

forward with eager speed, should be constantly looking backward with tender regret. But these two propensities, inconsistent as they may appear, can easily be resolved into the same principle. Both spring from our impatience of the state in which we actually are. That impatience, while it stimulates us to surpass preceding generations, disposes us to overrate their happiness. It is, in some sense, unreasonable and ungrateful in us to be constantly discontented with a condition which is constantly improving. But, in truth, there is constant improvement precisely because there is constant discontent. If we were perfectly satisfied with the present, we should cease to contrive, to labour, and to save with a view to the future.

Questions

Q: How is your philosophy working out in Scandanavia, and particularly Sweden which has a very low unemployment rate?

A: Here is the crash course in Swedish history. In 1870, Sweden was poorer than Mozambique is today. My ancestors were starving in northern Sweden until a group of liberal politicians opened Sweden up, deregulated it and introduced free trade, free business and freedom of religion. From 1870, Sweden had one of the fastest growth rates in the world and we became one of the richest countries in the world. Until 1950, Sweden had lower taxes and lower public spending than the United States. The growth rates and wealth were created during the period of economic liberalism. When you have a lot of wealth in a country you start to think, 'Wow, let's do something good with all those resources'. They began to redistribute it to a large extent until 1970 when they began to reregulate the labour market (at the time Sweden had no unemployment) and increase public spending and taxation.

In 1970, Sweden was the fourth richest country in the world and then fell to 17th place, 30 years later. That was a period of slow growth and increased unemployment in Sweden. Because of the deep economic crisis in the early 1990s, Sweden began to deregulate a few things such as Telecom to make way for companies like Ericsson. However the labour market is still very regulated. The de facto minimum wage is very low and if you aren't productive you are priced out of the market and are unemployed. The official figure is about 7% unemployment, including labour market projects

people are involved with, but we haven't created a single job in the private sector since 1970. So that means about 20% of the working population are in unemployment, long-term sick leave or disability benefits. We happen to be one of the healthiest countries in the world with the highest rate of sick leave.

Q: You said that if you wanted to find a happy European, find one that would say that their life would be better in five years than it is now. On that analysis do you think that there are many happy Europeans around?

A: Yes [*laughs*] we are much less optimistic about the future in Europe than in other places in the world. For example, 60% of Americans would say they would see an improvement in five years, as opposed to 40% of Europeans. The same statistics apply to Americans and Europeans when asked if they are happy with their life circumstances. This is the biggest problem in Europe today. It's not taxes, regulation, protectionism, but it is the self reinforcing, pessimistic mentality. When you are scared you are not open to markets and deregulating.

Q: Do you believe that on an ethical level, the large amount of anti-capitalist sentiment is generated by a belief that self-interested action is somehow wrong and that empirical evidence is not always the deciding factor?

A: I have been thinking about this a lot as I have been involved with many anti-globalisation groups, discussing and debating with them constantly. I think there are two groups. The elite group are those who create theories and arguments and basically hate capitalism. They don't like a system that is driven by self interest and profit. But the biggest group is those who are deeply, intellectually and honestly concerned with the problems of world poverty and world hunger. As I have seen many times, this group can be convinced and changed. When I tell them about the world and what has really happened they become really interested because they do want to make poverty history. The message does get across, but our side of the story doesn't get as much air-time. Some will still be opposed on ethical grounds, and many of those are the most verbal.

Q: Where in your framework do you fit politics and institutional structures? Perhaps the effectiveness of your economic model is limited by structures based on national grounds. For example, Chinese workers can't vote in the US elections. Institutional structures such as in international law, international sovereignty and so on, might weigh in against the idea that economics will prevail. I hope it does but I'm not so sure.

A: First of all I think the biggest problem is that Chinese workers don't have a say in the Chinese government. This aside, the policies of some countries affect the policies of others. For example, the European Union's protectionist agricultural policies destroy the opportunity of other countries to compete in the market. That is something that we are trying to deal with as well as possible with the World Trade Organization. It's not perfect, but it's a way to try to reach agreements on a global level.

Q: You described the three main arguments of disappointed anti-capitalists over the last 30 years. What do you think is the next argument of the anti-capitalists?

A: We can see tendencies that the next big fight might be over the values of technology. There are major breakthroughs in nanotechnology and biotechnology which will really change our perspective on the world, what we are able to do and how we are able to improve ourselves. Many people would be hostile to that on ethical grounds and say that life is sacred and that we shouldn't change things such as sugar or corn into something different. Issues like stem cell research are becoming bigger and soon there will be an anti-technology movement of some kind where people will argue that we should be more natural. Perhaps a pro-technology book would be a bestseller in two years time.

Q: Do you see Corporate Social Responsibility (CSR) as solving many problems in the future?

A: There are still problems with CSR today. I was involved with anti-globalisation groups for many years, but now that movement has been

crushed in Sweden. When I look at where my opponents have gone, many of them are actively promoting CSR, being paid by corporations to sit in board rooms to tell executives they are making too much profit and should share their wealth. A lot of things promoted as CSR are good for the planet and good for companies. They can have a better profile, consumers are more interested in what they are doing and it is easier to attract good staff. But this is old stuff. Companies have, in most cases, always been thinking about the goodwill of the company already. But CSR is now saying the corporations have another responsibility other than making a profit and churning out goods and services. It reinforces a worldview that there is a problem with the profit motive and with businesses being businesses. Then comes regulation and many corporations have tried to force others to take on CSR. I am both critical and in favour of many things promoted as CSR.

Q: Say if we were to put money on two horses. If one were the ability of liberalism to solve the problems of the world, and the other were fast moving environmental degradation in places such as Brazil and China and even in Australia where we are exporting large quantities of fossil fuels. Which one would you gamble on?

A: In large developing countries there is increasing environmental degradation from industry, but then large environmental problems are also being solved. The biggest environmental problems are when people die from the air they are breathing or the water they are drinking, and they solve this by creating other environmental industrial problems. Developing countries deal with this at a later stage, but faster than we used to in the 1970s. It's partly because of the rapid spread of information across borders that they can deal with it straight away and adapt more environmentally friendly technology that our countries have already developed. I bet that we will solve the environmental problems of today and then solve some more tomorrow. The whole point of my lecture is that there is enormous world progress but no one sees it. So bet on this because no one else on that market.

Vote of Thanks

by Janet Albrechtsen

It is a great pleasure to pass a vote of thanks on behalf of us all—to you—Johan, for your brilliant address tonight. But before I do that, I want to do something that I was not invited to do. It might make Mr Lindsay a bit cranky that I am deviating from the running sheet. But as he is down there and I am up here, I'll risk it.

I think it is in order that we say a quick thank you to Greg. I am sure I speak on behalf of every one here in saying that I shudder to think what the ideas market in Australia would be like without the CIS. Greg has this amazing ability to search out, from right around the globe, the most startling speakers on topics very dear to our hearts. Keeping people energized about those ideas is a noble task. So thank you, Greg.

And have we been energised tonight by this young Swede! As I come from good Danish stock, I should perhaps disclose that there is intense rivalry between Denmark and Sweden. That rivalry is drummed into every young Dane from an early age, even one born in Australia like me. So it is beholden on me to adopt a rather grumpy, perhaps even surly, tone when talking about Swedes.

And yet try as I might, I just can't. Johan, Johan, thank you very much for travelling from one end of the globe to the other to speaking to us tonight. You have given us a very special address. Former John Bonython lectures have been dedicated to some big questions. But you have raised the biggest of them all—the profound potential of man to progress mankind.

You may not realise this but even before you addressed us this evening, you did us a great service. Your appearance in our newspapers over the last few weeks has given us the courage to endure the scorn of the so-called sophisticated world. You see, here in Australia, we are constantly being told we are not as sophisticated as this country or that country. And invariably this country or that country is a Scandinavian country, like Sweden. Many on the Left like to point to your homeland as the height of sophistication as to how governments should prop up individuals. That is why it is so refreshing to have you—a young Swede no less—tell us that there is nothing so very sophisticated about going backwards economically by dropping the free market ball, as Sweden has done over the last three decades.

One of the most astounding comments you made—I saw it in the Australian press so it must be true—is that in net terms, Sweden’s private sector has not created one new job since 1970. That alone should sell the free market story to the sceptics.

Tonight, importantly, you have armed us with the tools to confront the sceptics. And indeed to confront our own scepticism whenever it may arise. Your address has delivered a powerful reality check about our own biases. Like a free market life coach, you have set us a challenge not to be weighed down by our own natural selection. We have a propensity for always seeing the problems, not the progress, for forgetting that the bad news is the exception, not the rule. And how refreshing it has been to be reminded of our remarkable progress—stemming from the simple idea of free markets.

Johan, you arrived in Australia for the first time early Sunday morning after travelling for 26 hours from Stockholm. By late Sunday night I can attest to the fact that you were still bubbling with ideas on the importance of free markets. You will leave us bubbling with those same ideas and, so on behalf of everyone here tonight, I sincerely thank you for that.



The Centre for Independent Studies is a non-profit, public policy research institute. Its major concern is with the principles and conditions underlying a free and open society. The Centre's activities cover a wide variety of areas dealing broadly with social, economic and foreign policy.

The Centre meets the need for informed debate on issues of importance to a free and democratic society in which individuals and business flourish, unhindered by government intervention. In encouraging competition in ideas, The Centre for Independent Studies carries out an activities programme which includes:

- research
- holding lectures, seminars and policy forums
- publishing books and papers
- issuing a quarterly journal, POLICY

For more information about CIS or to become a member, please contact:

Australia

PO Box 92, St Leonards,
NSW 1590 Australia
Ph: +61 2 9438 4377
Fax: +61 2 9439 7310
Email: cis@cis.org.au

New Zealand

PO Box 5529,
Lambton Quay, 3785, New Zealand
Ph: +64 4 499 5861
Fax: +64 4 499 5940
Email: cis@cis.org.nz

www.cis.org.au

www.cis.org.nz

Council of Academic Advisers

Professor Ray Ball
Professor Jeff Bennett
Professor Geoffrey Brennan
Professor Lauchlan Chipman
Professor Kenneth Clements
Professor David Emanuel
Professor Ian Harper
Professor Max Hartwell
Professor Warren Hogan
Professor Helen Hughes

Professor Wolfgang Kasper
Professor Chandran Kukathas
Professor Kenneth Minogue
Professor R.R. Officer
Professor Suri Ratnapala
Professor Steven Schwartz
Professor Judith Sloan
Professor Peter Swan
Professor Geoffrey de Q. Walker