

# Wealth in America

## The Indispensable Rich

*Every man thinks God is on his side.  
The rich and powerful know He is.*

—Jean Anouilh

**F**ew Americans—including few wealthy Americans—have given much thought to the role that wealth plays in the American polity. We tend to take it for granted that America always has and always will consist of wealthy families, middle-income families, and poor families. And when we do think about it, most Americans—including most wealthy Americans—tend to imagine that wealth constitutes, at best, a necessary flaw in the way the American democracy should work. Perhaps, we concede, the lure of wealth is necessary to encourage people to work hard, to come up with and commercialize new ideas, to build the companies that provide employment. But still and all, in a society where we are all created equal, there is something incongruous about the fact that some people have so much more money than others.

If the wealthy constitute a flaw in the way American society should work, why should we tolerate it? If we really put our minds to the problem, couldn't we come up with a system that offered similar incentives but that didn't produce wealthy families in such profusion?

What is it, then, that accounts for the persistence of wealthy families in the American democratic republic? Why do we tolerate the rich, with their godlike influence over people and affairs, when it is abundantly clear that the wealthy, like everyone else, are not endowed with godlike wisdom in deciding how to wield that influence? Certainly it is apparent that the rich, whether they are dealing with their own companies, with politics

and the affairs of state, with social and cultural issues, with charitable organizations, or even with their own families, have far more impact than other citizens, for good or ill. The rich are a bit like the gods of the Greeks or Romans: not omnipotent or all-seeing sages, but powerful, fascinating, mischievous creatures we don't completely understand but which we find riveting, annoying, alarming and, like it or not, essential.

Indeed, the wealthy, *virtually alone in a democratic society*, constitute a natural, unelected aristocracy. I say "natural" not because there is anything fundamentally natural about wealthy aristocracies, but because the development of wealthy families is an organic by-product of the way we have chosen to organize our economic affairs in the United States. The American market economy is designed to pit individuals against each other in a free economic competition, the incentive to compete being the possibility of becoming rich. We believe that this sort of competition is most likely to lead to improved conditions for the broader society, including those who "lose" in the competition to create wealth (the poor), and including those who refuse to compete at all: individuals who select professions that rarely lead to wealth, such as academics, social workers, nurses, artists, and so on. (Even these people compete for power and recognition in their chosen fields.) We can easily imagine societies in which wealth-creation activities would not be valued so highly—communist, socialist and many primitive societies, for example—and in those societies different individuals would perhaps<sup>1</sup> constitute the "natural" aristocracy.

I say "unelected" because the wealthy are not selected by any representative body. They simply happen as the result of economic competition and opportunity, much the way great athletes simply happen when athletic competition and opportunities are made available. That's not to say that people who create wealth don't work enormously hard at it, just as great athletes work enormously hard at it. But no group of people sits down and conducts a vote to determine who the best athletes are going to be, and no one sits down to vote on who the wealthy are going to be. The same is true of great artists, musicians, writers, and so on. Rules that define excellence are established through complex cultural mechanisms, but thereafter individuals compete with each other and there will be winners, losers, and a great body of people in the middle who develop competence but not greatness—as well, of course, as people who chose not to compete at all.

Most individuals in American society who possess influence on a scale equivalent to that of the rich actually *have* been elected in one way or the other. Politicians are the most obvious example, but union chiefs, university presidents, heads of large nonprofit organizations, corporate bigwigs, and even capos of crime families have all been "elected" by some body that is considered reasonably representative in those worlds. The governor of

California, an elected official, is undoubtedly the most powerful individual in that state. But I could name eight or ten wealthy men (and two or three women) who would share top twenty billing for power-wielding in that biggest of American states, alongside a few elected officials and a few corporate CEOs. No one elected those men and women, but they made their fortunes and have used those fortunes in part to influence California affairs. Appalling as this might be to some, it is and always has been a fact of life in America.

I say “aristocracy” because, as noted in the California example, the wealthy have power and influence far beyond that of other unelected centers of excellence: They represent an aristocracy in the precise meaning of the term.<sup>2</sup> The difference between the wealthy and great athletes (or great artists, musicians, writers, etc.) is that the former end up, through the power of their wealth, with the ability to influence much of what we hold dear in our world, whereas the latter, except in rare instances, exercise little influence beyond their area of specialization. It is so natural to expect the rich to wield influence over important matters that we hardly stop to think about how unusual it is that one social subgroup should have been vouchsafed this influence. Why should wealth-creating skills be entitled to far greater influence than, say, the skills required to score consistently from the three-point line or the skills required to compose a piano concerto?

America didn’t decide to organize a society that would produce wealthy families—far from it. America organized a society that produces wealthy families as a by-product of an economic competition that is considered desirable. That by-product may have been anticipated, but it is not universally welcomed. Indeed, in a land where “all men are created equal” it may easily be considered an unhappy by-product. Because the wealthy have *unelected* power and influence, must it not be the case that the wealthy have *illegitimate* power and influence? Do not the rich constitute a serious flaw in the way a democratic society should operate? Is it not, indeed, an important task of the democratic process to eliminate or minimize the disproportionate influence of any one group? And because there are ways to operate democratic republics without producing so many wealthy families—the Scandinavian and most Western European societies are organized in this way—might not Americans be tempted to adopt those models as well? Certainly the persistence of the rich in a democratic society is at the very least incongruous.<sup>3</sup>

In this introductory chapter, I will argue that private wealth persists—indeed, grows luxuriantly—in the United States for reasons that are not only sound, but that go to the very heart of America’s success in its competition with other civilizations. Wealthy families are not simply a minor pothole on the grand highway leading to uniform middle-classness

in America. On the contrary, the production of private wealth is a crucial aspect of the singular success of the American experiment. Private wealth, as distinct from and as a counterweight to government wealth, is both central to and the principal symbol of America. Moreover, given America's special role among nations, America's wealthy families also play a central role in the evolution of other nations and of the prospects for billions of people worldwide.

### **DEMOCRACY AND CAPITALISM**

The apparent contradiction of private wealth in a democratic republic is best examined by viewing democracy in the only economic context in which it can flourish: a free market system. Largely capitalist economies can exist outside the context of democratic political systems (Singapore and, increasingly, China, are examples), but democratic political systems cannot exist outside the context of free market economies. We cannot be free politically but enslaved economically. The institutions of civil society that liberal democracies establish and protect—especially private property and the rule of law—enable extremely diverse populations to coexist and work together productively; they enable, in short, free civilizations to exist.<sup>4</sup> Because this is the case, there will be consequences flowing from the economic system that would not necessarily be welcomed if the political system could somehow exist independent of its economic context: the production of wealth that is not evenly distributed is a principal consequence.

American democracy is, far more than elsewhere, intertwined with a capitalist attitude. The opportunity to pursue one's economic aspirations—the opportunity to become rich—is inextricably a part of the American dream, a dream that captures the imaginations of the poor worldwide, as well as immigrants to America, our working poor, the lower middle classes, and aspiring middle-class families. Reinventing America to establish a society that prevented people from getting rich wouldn't hurt those who are already wealthy, but it would seriously damage the aspirations of the poor. An America that was no longer perceived as the land of opportunity would be an America essentially unrecognizable to most Americans, as well as to most non-Americans and most would-be Americans.

We are so used to the vigorous spirit animating America that it is difficult to keep firmly in mind how rare this spirit is, especially among our peer group—the largely Western<sup>5</sup> postindustrial liberal democracies. It is worth our time to examine in some detail the nature of these societies, if only as an example of what America would look like without private capital to fuel its competitive spirit and to irrigate its exotic garden of ideas.

## **CAPITALISM AND ITS CONTRADICTIONS**

Karl Marx famously maintained that capitalism contained the seeds of its own destruction, that the exploitation of labor would ultimately cause the emerging, alienated working classes to rise up and crush bourgeois society, replacing capitalist systems with socialist “dictatorships of the proletariat.” Although many of Marx’s criticisms of capitalism were alarmingly accurate, he was notoriously wrong in his prediction of its demise. Indeed, free market democracies have proven to be the most resilient of all forms of sociopolitical organization.

In terms of social peace and economic productivity, the determinative question turns out to be not so much whether labor is or is not “exploited”<sup>6</sup> or how big the gap may be between rich and poor.<sup>7</sup> Instead, what seems to matter is whether or not citizens—including the poor especially—have a real opportunity to improve their condition on an absolute basis. If so, the relative size and stability of the resulting middle classes (the hated bourgeoisie of Marxist theory) will increase rapidly. This is, of course, exactly what has happened in all advanced industrial and postindustrial free market democracies.

In America, as elsewhere among free market democracies, the native<sup>8</sup> poor have come to represent an ever-smaller percentage of the population, as poor families have tended to move into the middle classes—or even to become rich—in one or two generations. This phenomenon has occurred because the vigor of free market economic activity has been so great that massive opportunities were made available to virtually anyone who wished to seize them. As a result, poor families have cared less about whether they were being exploited and more about seizing opportunities to improve their circumstances. Certainly, of course, the poor (along with African Americans, women, the handicapped, gays, etc.) have historically faced more obstacles than others along the road to economic success, and it is an important part of the job of America, and of America’s rich, to demolish those obstacles. But the effort to pull down obstacles to economic success is powerfully assisted by the need of free market societies for the talents of the disenfranchised.

Marx may have been wrong in his prognosis for capitalism, but history suggests that internal contradictions, albeit of a very different sort, do seem to threaten capitalist societies. If those societies fail they will likely do so not because of the exploitation of labor, but because absolute living standards rather quickly reach such an elevated point that the very character of the societies begins to change, causing them to become almost unrecognizably different from the societies that created the wealth in the first place. That is to say, citizens in wealthy capitalist societies gradually become so affluent, so

comfortable, that they become more concerned about preserving their living standards than about improving them. When this happens, the vigor of the society quickly diminishes: Its citizens demand shorter work weeks, higher wages without corresponding productivity increases, longer vacations, easier jobs, more personal autonomy (“Who the hell is my boss to tell *me* what to do?”), and so on.

Much of this is, to be sure, simple human nature. Decades ago, psychologist Abraham Maslow postulated the existence of a “hierarchy of needs.”<sup>9</sup> According to Maslow, human beings are motivated mainly by unsatisfied needs. Moreover, certain lower needs (or, as Maslow called them, deficiency needs) must to be satisfied before the higher needs can be fulfilled, or even aspired to. Subsidiary needs are, in Maslow’s terms, prepotent: powerful and requiring that they be fulfilled before the next need in the hierarchy can be addressed.

Physiological needs are basic human needs such as air, water, food, sleep, sex, and so on. If these needs remain long unsatisfied, we experience pain. Once they are satisfied, however, we can begin to think about safety needs, which Maslow associates with maintaining stability and consistency in a world that otherwise appears to us as chaotic and uncontrollable. Only then can we aspire toward love, esteem, and, ultimately, self-actualization, the highest level in Maslow’s hierarchy of needs. Self-actualization has to do with the desire to become all that we are capable of becoming, to maximize our potential, whatever it may be. We may seek oneness with our God, personal peace, knowledge of various kinds, and so on.

Whether or not Maslow’s hierarchy holds water in every detail, it seems intuitively correct, and in any event accurately describes the behavior of people in societies that offer them the opportunity to satisfy increasingly complex needs. Many forms of social organization can satisfy most of the deficiency needs. Indeed, some societies that seem in many ways appalling to us came to exist precisely because they at least supplied these basic deficiency needs of their citizens better than whatever (often chaos) preceded them.

But love needs require a sense of belonging, the opportunity to associate with and communicate openly with other human beings. And they require a society open enough to permit such associations—in other words, a largely democratic society. Esteem needs require that we master increasingly complex tasks for which we are naturally suited (self-esteem) and that we be viewed positively by our peers for our accomplishments (esteem by others). These are needs best addressed by a society with an open, competitive economic system that provides an enormous range of employment, volunteer, and other options, ensuring that virtually everyone can find something to be competent at—in other words, a free market economic system.

But here is a critical point: Self-actualization—“the desire ... to become everything that one is capable of becoming,” in Maslow’s words—is fundamentally different from the other needs. Self-actualization does not occur naturally among individuals whose previous needs have been satisfied. Satisfaction of those needs may be a necessary condition for the achievement of self-actualization, but they are not a *sufficient* condition. Assuming that the society in which we live offers the possibility to do so, we progress naturally up the hierarchy from the deficiency needs through love and esteem; these seem to be true needs to which human beings naturally aspire. But to make the leap to full self-actualization requires intense individual effort and, therefore, intense desire. Free market democracies are forms of social organization that can provide the platform that makes the leap possible, but it will not occur automatically. Indeed, once the incentive to become rich is eliminated, the tendency to become complacent dominates.

Thus, to a very considerable extent, the comfort that advanced postindustrial civilizations offer us seems positively to interfere with the further development of our potential. With all our other needs satisfied we tend not to gather our courage for yet one more struggle—the extraordinary leap to self-actualization. Instead, the lure of becoming everything we are capable of being is lost amid the creature comforts of our lives. Worse, our desire for continued progress is overwhelmed by the fear of losing what we have already attained. Hence the odd result that societies that appear to be ideal platforms for the full expression of humanness tend at some point in their development to impede further achievement—by producing citizens who are no longer willing to strive for it, to take the risks upon which all significant achievement depends. Instead, these societies produce citizens who spend most of their time building walls around what they have. The fear of losing ground dominates all else.

Capitalist societies, then, begin as robust, competitive communities, rapidly moving their citizens up the socioeconomic ladder (and, if you will, the Maslovian hierarchy). But all too often they decay into what appears to be middle-class comfort that is actually a surface calm underlain by apprehension. As we decline to risk our current, admittedly high, level of comfort, we forfeit any possibility of achieving more. We build walls around our prosperity, and those walls ultimately stifle us.

Because they are so wealthy, it is not immediately apparent how weak many formerly robust capitalist societies have become. But as productivity declines, fewer and fewer of those societies’ products can compete internationally. Formerly free market governments must now impose high trade barriers or other forms of subsidy in order to continue to produce goods and services that were formerly competitive. Inefficient industries are thereby

walled off from more efficient competitors elsewhere, excused from the competition that would make them more efficient.

And if we decline to place our jobs or our social status at risk, how must we feel about placing our very lives at risk, as, for example, in the defense of our country? Societies that become risk intolerant in the economic sphere tend to become risk intolerant in many ways. The emphasis on keeping what we have, rather than incurring risk to achieve more, softens the society, allowing it to become cautious, effete. To paraphrase Louise Bogan, these formerly vigorous capitalist societies now “have no wilderness in them, they are provident instead.”<sup>10</sup>

### **PROVIDENTIAL SOCIETIES**

Providential societies, as we might call them (with apologies to Ms. Bogan)—societies that no longer have the stomach for economic, social, cultural, or military risk—are analogous to investors who have lost their tolerance for market risk. It is an iron law of modern portfolio theory that rewards are, at least within reason, positively associated with the risks incurred. Investors can avoid risk quite easily: by, for example, putting all their money in Treasury bills. But this is the investment equivalent of sticking one’s head in the sand and hoping to become invisible. Progress marches on, carrying along with it its handmaiden, inflation. Investors who own only Treasury bills become a little poorer every day in real terms. If those investors are unfortunate enough to have to pay taxes on their meager interest, their backward progress accelerates profoundly. Investors who cannot tolerate risk therefore die a little bit each day investment-wise, becoming slightly poorer than they were before, a process that leads inevitably to economic death; that is, to poverty.

Like risk-averse investors, societies that become unwilling to take risk also die a little bit each day, becoming a little poorer relative to societies that are more vigorous. It is essential, for example, that individuals be willing to take entrepreneurial risk—otherwise, new businesses will not be formed. But taking entrepreneurial risk means accepting the risk of personal failure and the risk that cushy jobs provided by existing firms will be eliminated. It is essential that businesses be exposed to competition, including competition from foreign firms and from hostile takeovers of poorly managed businesses. Otherwise, businesses become complacent and inefficient. Societies that find themselves so risk averse that they can no longer start new businesses or permit open competition for existing businesses are societies whose growth begins, imperceptibly at first, to slow and ultimately to stop. Opportunities for further advancement begin to disappear for already-affluent citizens, but



also for citizens and immigrants who have the bad luck not to be already affluent. The slowing growth of these societies also imposes severe burdens on the development of emerging economies that depend on exports for their own economic growth.

And, like it or not, it is essential that societies be vigilant in their own defense, notwithstanding the economic costs and, of course, the risk that citizens may die in battle. Indeed, this is probably the ultimate touchstone for societies that have entered a terminal stage of decline—remarkable as it may seem, societies caught in the throes of providentiality simply cannot bring themselves even to take on the costs and risks of their own defense.

This is precisely the condition in which most of the advanced postindustrial societies of Europe and Scandinavia have found themselves. Our first glimpse of European ineffectuality came in Kosovo and Bosnia in the 1990s, when, among other atrocities, a tin-pot dictator named Slobodan Milošević slaughtered thousands while (European) United Nations troops stood by and watched the carnage. Only when American troops entered the fray—very much against the wishes of the Europeans and the U.N.—was the murderous rule of Milošević brought to an end, peace imposed, and the dictator brought to trial for war crimes.

The Balkan conflict was, to some extent, a (messy) tempest in a teapot. But if the Europeans were incapable of mounting a credible military operation in their own backyard, where they faced an obvious threat to European peace and stability, what possible chance was there that they could mount credible military operations against more distant threats, such as those posed by Iraq or North Korea? The answer, of course, is none at all. In the 1991 invasion of Iraq, despite United Nations approval of the attack, the contribution from most of Europe was almost risible.<sup>11</sup>

In the run-up to the 2003 Iraq invasion, so-called “old Europe” was solidly opposed to the attack. Although there were certainly important reasons to examine the American case for an invasion, the Europeans were transparently opposed to the war for other reasons altogether. Some of those reasons had to do with a natural fear of massive American military and economic power and the desire to band together to limit it. Other, more selfish, reasons had to do with (legal and illegal) trade relations with Iraq. But the fundamental fact of the matter was that no European country (except Britain, which joined in the attack) had any military capacity to wage a war in Iraq, hence the notion of a “United Nations” coalition was a hollow joke from the beginning.<sup>12</sup>

A society that possesses an imposing military force can make the decision to use it or not, and, like America, it might make those decisions wisely or unwisely. But at least the choice is there. Europe had no choice. Despite their incredible wealth, despite being vastly more advanced socially,

economically, and technologically than Iraq, the European nations were no match, individually or collectively, for Iraqi power. Hence, the European rationale for opposing the war proceeded not from substance but from a kind of disease—the disease of providentiality.

### **RISK AND STRENGTH**

Ironically—just as in the investment world—the willingness to tolerate a reasonable amount of risk actually reduces overall systemic risk in a society, because the assets of the society become diversified, more robust. The existence of a powerful military force—and the will to employ it—means that the society is less likely to be attacked, not more likely. Exposing a society’s business enterprises to foreign competition means that, overall, those enterprises will be stronger, not weaker. The knowledge that we can be fired for incompetence or indolence makes for better, not worse, employees. Thus it is that risk-averse societies are more risky overall than non-risk-averse societies, in precisely the same sense that risk-averse investors end up holding portfolios that are more risky than those of non-risk-averse investors.

Of course, there is no gainsaying that costs are paid by societies that expose themselves to risk. In my own city of Pittsburgh, years of inefficient management, obsolete plants, and a legacy of powerful, militant, and unaccountable unions destroyed the Pittsburgh steel industry in one generation. A city that, during World War II, produced more steel than all of Germany and Japan combined produces, today, not one ton of steel. In barely more than a decade, nearly 100,000 steelworkers lost their jobs. These were men (almost all were, in fact, men) wholly unsuited by training or culture for any other remotely equal employment. Thousands of businesses that relied on the steel industry also collapsed. The pain caused by this dislocation can hardly be overestimated. But the consequences for American competitiveness of propping up the Pittsburgh steel industry—by, for example, imposing high tariffs on imported steel<sup>13</sup>—would have been far worse.

In a very important sense, risk-averse societies—providential societies—are opposed to the idea of progress itself. In effect, these societies are saying, “I am now rich and comfortable enough that further progress is unnecessary, because it brings risks, and to hell with the consequences for others of this attitude.” As noted above, we needn’t look far to observe this phenomenon in full flower in much of Western Europe and Scandinavia.

It is important to keep firmly in mind that it is not that Europe lacks the inherent capability to build a strong military force or to create a more vigorous economy. The European Union encompasses 27 nations and is the single richest and largest organized bloc of nations in the world. The

Union's population is, in the aggregate, nearly 200 million people larger than that of the United States.<sup>14</sup> What so many in Europe (and elsewhere) lack is the *will* to do those things.

One hundred and forty years ago, Abraham Lincoln understood this point quite precisely. Speaking at the great cemetery at Gettysburg, a place as haunting today as it was in 1864, Lincoln articulated the reason why the United States would not allow democracy to die. It was not because the United States had the military power to enforce its wishes against the Confederacy—in 1864 that was still very much unclear. Nor was it that the United States possessed the industrial might to dominate the Confederacy. Nor was it, even, that God was on the side of the North. The United States would not allow democracy to die simply because we *willed* it to remain alive. Democracy would prevail as the result of a collective act of American resolve: “We here *highly resolve* ... that government of the people, by the people, and for the people shall not perish from the Earth.”<sup>15</sup> Nearly a century and a half later, Lincoln would still recognize, in an America otherwise formidably changed, the collective American resolve to preserve democracy, a resolute will that is determined to prevail despite almost unanimous opposition from our friends and our foes alike.<sup>16</sup>

## **AMERICA AND DECLINE**

Why is it, we might ask ourselves, that America seems to have been largely (albeit certainly not completely) immune to providentiality? Virtually since the United States appeared on the world stage there have been confident predictions that the country would soon enter a period of inexorable decline. Some of these predictions were based on the view that all successful civilizations pass through various stages, with a robust, dominating stage certain to be succeeded by a self-indulgent, dissipated stage, followed by collapse in the face of challenges presented by more vigorous civilizations. Other predictions have been based on underestimations of American society, estimations based on the assumption that American society is just like European society, or on peculiar conditions in America that seemed to threaten its preeminence.

After World War I, for example, most Europeans—and, for that matter, most Americans—assumed that the old order would quickly reassert itself, with London as the capital of the Anglo-Saxon world and Paris and Berlin vying for control of the Continent. America was seen as too insular to succeed to world dominance. Indeed, the German high command in World War I had made the crucial, and fatal, assumptions that America would not enter the war until it was too late and that the admittedly imposing

American economy could not switch to war production quickly enough to affect the outcome.<sup>17</sup> But in fact America had become the dominant world economy long before the war began, and its preeminence afterward was due only in part to the devastation the war caused to Britain and the Continental powers.<sup>18</sup> By 1918, the dollar had replaced sterling as the world currency, a role the dollar continues to play today, more than eight decades later. World War I certainly accelerated the rise of American dominance, but it was already preordained.

If affluence alone were sufficient to convert America into a provident society, one would have expected to see signs of it long, long ago. It was, after all, way back in the mid-eighteenth century that America surpassed all other regions of the world in living standards. Surely 250 years as the world's richest country ought to be enough to corrupt us. And, as everyone knows, the United States is not merely the world's oldest democracy—it is the world's oldest continuing government of any kind, operating under the same Constitution since 1788. That, my friends, is a long time for any kind of government to persist, notwithstanding the confident prognostications of cyclical decline theorists.

And, though it is difficult to prove, it seems likely that, by the middle of the nineteenth century, America was already the world's foremost military power. During the American Civil War, for example, the two most powerful armies on earth were both American. One hundred and fifty years of such power ought, surely, to have been long enough for America's military to fall into overconfidence, complacency, corruption, lassitude. But in the early twenty-first century America is more dominant militarily than any civilization has ever been. Granted, America did not begin to project its economic, political, and military power globally until World War I, but even that is now nine long and action-packed decades ago.

But the pundits never give up. Every time America stumbles—and we certainly stumble at least our fair share of the time—we hear that this time the final decline has begun. From the late 1940s through the 1970s, the virulence of anticommunism in America was accounted for in part by the fear that the Soviet Union had invented a more powerful military-industrial engine; that America was too free and disorganized to compete against such a disciplined juggernaut. Yet it was primarily the imposing economic and military strength of America that ultimately caused the USSR to collapse.<sup>19</sup>

As recently as the 1980s it was fashionable to argue that a bloated America could not possibly compete with such vigorous economies as Japan and Germany. These powerhouse societies, it was said, possessed more efficient decision-making cultures, more homogeneous populations all pulling in the same direction, more civilized labor-management relations, and were unhampered by legacy industrial plants, having been completely rebuilt after

World War II primarily with American aid. But what a difference a decade or so can make! Today, Japan is mired in a 20-year economic malaise, while the German economy has fallen to fourth place in the world (behind the United States, China, and Japan), and given its dismal demographics, is likely to be passed soon by Brazil and India. The American economy, far from succumbing to the competition, is more dominant than ever: Total U.S. GDP today is nearly twice that of Germany and Japan combined.<sup>20</sup>

Today, we hear that the United States will soon be crushed by the remarkable economies of China and India, and perhaps even by those of Brazil and Russia. But there are lots of things wrong with these prognostications. The first is that we've heard it all before and it never seems to happen. But let's set that aside. The second problem is that those economies aren't exactly nipping at our heels, as the doomsayers seem to suggest. China's economy, the second-largest in the world, is barely one-third the size of the United States'. Brazil's economy is 14 percent of that of the United States, India's is 13 percent, and Russia's barely 10 percent. These societies have a long way to go and a lot of potholes to navigate before they can be spoken of in the same breath with the United States.

## ON CHINA

But let's focus on China for a moment, because that is the economy Americans seem to fear the most. And certainly it is true that China has been the wonder of the world for three decades, growing at an astonishing rate and lifting hundreds of millions of people out of grinding poverty into something approaching a middle-class existence. It's probably no exaggeration to say that this has been one of the most positive events in recent human history.

Indeed, we can say about China precisely what I say about the former Soviet Union in Chapter 2: "In barely a generation, [Chinese]-style communism transformed a backward, peasant, agrarian society into the second-largest economy in the world." But it's one thing to convert an agrarian society into an industrial society. A strong and determined (communist) central government can basically decree that it will happen and it will. (Note, on the other hand, that a determined but weak—democratic—central government, as in India, will have a much tougher road.)

But for the Chinese economy to continue to grow at anything like its former glory, that economy can't remain a simple industrial society in which capital<sup>21</sup> is allocated mainly to create jobs and keep the populace docile. China has to transform itself into a vastly more complex postindustrial economy, where capital is allocated moment by moment to where it is

needed most. And that is something that no society has ever achieved using a top-down, command economy approach. The Soviet Union collapsed when it tried to compete with the complex U.S. economy, and there is little reason to suppose that the Chinese will fare any better.

Following the catastrophic Leaps Forward orchestrated by Mao (who died in 1976), Deng Xiaoping reorganized the Chinese economy into a combination of socialism and free market principles (often called state capitalism). Since that time, domestic peace has been achieved in China via a kind of deal with the Devil, in which the citizenry gave up any hope of enjoying Western-style rights, democracy, or the rule of law in exchange for the promise of rapid economic progress that would be dispersed throughout the society.

For three decades that bargain held, with the Chinese economy growing at nearly 10 percent per year. But the bargain contains the seeds of its own destruction. As noted above, a complex postindustrial economy simply can't be managed by a small cadre of senior Party members in Beijing. Already the Chinese economy has slowed and, net of inflation, is now growing well below levels once thought to be incompatible with domestic peace. More slowing can be expected as the Chinese economy necessarily becomes ever more complicated.

In addition, corruption and nepotism are rampant, and though nearly a quarter of the population has benefited from economic growth, three-quarters (mainly the interior of the country) has not. Note, in addition, that the main beneficiaries of economic progress have been Han Chinese, while the main losers have been concentrated in other ethnic groups.

Finally, as discussed at some length in Chapter 2, the Chinese government lacks moral legitimacy. Although China is surely a freer society than was the Soviet Union, it remains the case that a government that withholds human rights but provides rapid economic growth had better keep providing rapid economic growth and it had better ensure that that growth is widely dispersed. Ultimately, the moral basis of a society matters. True, it matters less when people are starving and the central government is feeding them, but it matters more and more as citizens become more affluent and move up the Maslovian ladder. And it matters even more as the central government fails to uphold its part of the bargain.

And if the center begins to lose its hold in China, chaos can't be far away. Throughout history China has rarely been the unified country we observe today—and even in the modern era it has been unified (excluding Taiwan) only since the late 1940s. If “the center cannot hold,” China is likely to fragment into a variety of autonomous countries along the lines of the former USSR. At the very least, we can expect to see Tibet, Xinjiang, Inner Mongolia, and Manchuria reorganize themselves into separate states.

The same people who believe that China will soon dominate the world, and that its totalitarian form of government is either irrelevant or a positive virtue, are the same people who were blindsided by the collapse of the Soviet Union and, more recently, by the Arab Spring.

Speaking in shorthand, the internal contradiction of Chinese society can be expressed this way: If the Chinese Communist Party (CCP) maintains its iron grip on the country, the Chinese economy will continue to slow and the CCP will have to spend more and more of its time putting down insurrections and less and less of its time trying to grow the economy. If the CCP loosens its grip and democratizes, the country will come unglued.<sup>22</sup>

### **ADDRESSING THE DECLINISTS**

An example of the America-in-terminal-decline point of view is Kevin Phillips's *Wealth and Democracy*,<sup>23</sup> in which Phillips argues that, like Spain, Holland, and Britain before it, America exhibits all the classic symptoms of cyclical decline: a preoccupation with finance, technology, and services rather than basic manufacturing; capital markets prone to bubbles and speculation; the export of jobs and capital; the import of cheap foreign labor to do jobs Americans don't want; a growing inequality of income and wealth; and frequent and incipient wars.<sup>24</sup>

But Phillips has it exactly backwards: Whether or not these were symptoms of decline in societies hundreds of years ago, they are, today, symptoms of vigor, of continued dominance. Because Phillips's view of the world is widely held, let's examine each of his symptoms of decline. In brief:

- Contrary to Phillips's view, in the early twenty-first century it is important that simple (basic) manufacturing take place in societies where less expensive labor can produce goods more cheaply and efficiently. This not only contributes to economic progress in those countries, but the resulting less-expensive goods are then more affordable not merely to rich postindustrial populations, but also to people in developing societies.
- Bubbles will always be a part of capital markets and economies because they reflect not markets or economies or anything specifically American, but human nature. Nor is there anything especially modern about bubbles. Yes, America recently had its Tech Bubble and its Housing Bubble, but Holland had its Tulip Bubble (1634), England had its South Sea Bubble (1720), Japan had an entire Bubble Economy (beginning in 1984), Europe has its Debt Bubble, China has its Real Estate (and Inflation) Bubble, and so on.

- Yes, America exports capital, but that capital is used by less developed economies to build economic capacity, reducing global poverty and, ultimately, enlarging the markets for American goods and services—in addition to making the world a safer, more just, and more stable place.
- The “cheap foreign labor” that America imports (legally and quasi-illegally<sup>25</sup>) doesn’t stay cheap very long. Within a few generations, immigrants, like those who came before them, tend to become productive citizens even by Phillips’s narrow standards.
- I have already addressed the inequality of income and wealth in America—it is not the size of the disparity that matters, but the absolute level of affluence of the nonwealthy, as well as the ability of the nonwealthy to become rich.
- I have also briefly addressed the delicate issue of war. It is undoubtedly true that a warmongering America bent on world domination by military might would present a serious and undoubtedly effective means of engineering our ultimate decline. But that is a far different America from the one that stands vigilant over the free world, its vigor as the world’s wealthiest and most powerful country undiminished, very much as though it were still a youthful, struggling country, rather than the world’s oldest government.

Similarly, we hear virtually every day about other evidence of our decline.<sup>26</sup> Not long ago, for example, a friend pointed out to me that the average Japanese high school math student would rank in the top 1 percent of American high school math students. This is certainly an alarming statistic (if true), but there is a problem with such statistics—namely, that we have been hearing them year after year since at least Sputnik,<sup>27</sup> and, so far, at least, America has only become ever more dominant. (Indeed, the society whose educational prowess was so superior to ours in 1957 no longer exists.)

A superbly well-educated population is certainly a useful thing to have, but as in so much of life it isn’t what you’ve got, but what you do with what you’ve got that matters. A truly uneducated America would undoubtedly be a recipe for disaster. But a reasonably well-educated America motivated to deploy every ounce of its competitiveness is an unstoppable juggernaut.

There are, in other words, conditions that could cause America to begin an inexorable decline into mediocrity, and it would be interesting and instructive to consider what those conditions might be. But Phillips’s (and others’) focus on the specific conditions of the distant past, rather than on the effect of those conditions, has led the pundits far astray. Indeed, many of the conditions that were symptoms of decline in past civilizations are now, given the dramatic change in economic and political conditions, symptoms of continued vigor.



## **CONCLUSION: AMERICAN DISTINCTIVENESS AND PRIVATE WEALTH**

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This raises again the crucial point: How is it that America has avoided becoming a providential society? Surely we are affluent enough that, long ago, we ought to have begun building postindustrial walls around our prosperity, ought to have begun to fear progress, competition, to worry more about losing what we have than about producing ever more; we ought to have reduced our military spending and avoided confrontations that might endanger the lives of our citizens. America ought, in short, to have led the headlong rush into providentiality, but we haven't. Well past two centuries old, America acts more like a young economic stallion, posting economic productivity numbers that look suspiciously like those of emerging economies, demanding ever more, not less, competitiveness from our corporations, expecting ever smarter work, ever longer hours, from our workforce. And no one on earth has the slightest doubt that, when freedom is attacked, America will respond swiftly and massively, and that the cost in dollars—and, unfortunately, in lives—will be paid as necessary.

Far from succumbing to providentiality, America, even in the minds of its detractors, seems if anything to have evolved too much in the opposite direction: We are too aggressive, too independent-minded, too bold, “interventionist bullies with no regard for the sovereignty of [other] countries.”<sup>28</sup> America, it is argued, ought to grow up, to settle into a kind of sociopolitical middle age, to become softer, more malleable, more predictable. This is, after all, what has happened in every other advanced postindustrial free market democracy. Why hasn't it happened in the United States?

Continuing American vigor is accounted for principally by the ongoing competitive spirit that animates a society in which virtually anyone can become rich by doing something spectacularly useful for the broader society. If that spirit were to become constrained by political or cultural mechanisms, America would rather quickly come to resemble its European cousins. In order for the lure of wealth to be meaningful, America must be willing to tolerate the consequences of competition, including the possibility that some people will lose in that competition and *including the possibility that some people will become very wealthy*.

Most free market economies long ago placed serious constraints on the ability of citizens to prosper. In effect, these societies have said, “Up to this point we want you to work hard and work smart, to ensure that our society remains competitive. But beyond this point we want you to stop working hard and working smart, and if you don't we will confiscate the fruits of your labors.” However well motivated this approach might be, it simply can't work. One reason it can't work is because the truly spectacular ideas

that drive civilization and that lead to dominance are invariably snuffed out by economies that confiscate wealth above a certain point.

More fundamentally, no society can know at what point the trade-off between the desire to “eliminate the rich elite” begins to conflict with the desire to remain competitive. Sure, we could go ahead and place Bill Gates and the Wall Street titans into the category of “Evil Rich to be Liquidated.” But what about Dan and Eve Eckels, who used their (paltry) life savings to organize the Eckels Steel Fabricating Company in 1950 and sold it for \$45 million in 1998? Eckels Steel Fabricating Company didn’t have anything like the impact on national productivity and competitiveness that Microsoft had. But the Eckels Company did have an important impact on competitive conditions in its own industry (which is why it flourished), and, whereas there is only one Microsoft, there are thousands of Eckels.

The fact is that constraining the fruits of hard and smart work have the same effect on a society as trying to blow up a balloon that has a hole in the other end. Competitive societies recognize the contributions of the Bill Gateses of the world by showering them with billions of dollars, and competitive societies recognize the contributions of the Dan and Eve Eckleses of the world by showering them with millions of dollars. And so on in a seamless parade of extraordinary contributions to remarkable contributions to useful contributions to no contributions to negative contributions.

It is only a kind of shorthand, therefore, to say that America dominates other free market economies because of the contributions of wealthy families to its competitive spirit. The profuse creation of private capital through the intense pursuit of the best business ideas is what distinguishes America from other capitalist systems. The possibility of becoming wealthy motivates millions of Americans to take risks and to work harder than they would otherwise be inclined to do—and than they would do if they lived in other countries.

Moreover, the competitive spirit that animates the most successful Americans creates a culture that is internalized by almost all Americans, even those who have virtually no chance of becoming wealthy. In an open society, citizens will eventually internalize the values that they observe to be legitimate and valuable. If a society claims that it wishes its citizens to be competitive, but then discourages the pursuit of wealth (via taxation or cultural disapproval, for example), citizens in that society will internalize not the message to be competitive, but the message not to be too competitive. As the most successful people in America become rich, other citizens observe the legitimacy of that activity and its value to themselves, and they internalize the competitive spirit that led to those riches. At length, all of American society is permeated with the spirit of hard work, smart work, competition, and progress. Other societies can only watch in astonishment.

If the sheer economic vigor of a society were the sole measure of its success, that would be the end of the story. We could all see clearly that America's economic success is driven by the wealth creation process, and that the possessors of that wealth are the key to understanding American competitiveness. But the lure of wealth and its impact on economic vigor is only half the story. The other half is the creative use of private capital after it has been earned. Let's turn to that subject in Chapter 2.

## NOTES

1. I say "perhaps" because, whether the incentive is to create wealth, as in a market economy, or power, as in a nonmarket economy, the same kinds of people are likely to win the competition: the most competent, the hardest working and, perhaps, the most ruthless.
2. "Government by a privileged minority," *Webster's New World Dictionary* (New York: Simon & Schuster, 1996). The term "aristocracy" originally referred to a government by the best citizens in the state.
3. Many observers consider the persistence of the rich in America to be both unacceptable and a symptom of incipient decline. See, for example, Kevin Phillips, *Wealth and Democracy: A Political History of the American Rich* (New York: Broadway Books, 2002).
4. In John Gray's words, "[C]ivil society is the matrix of the market economy." John Gray, *Post-Liberalism: Studies in Political Thought* (Oxford: Routledge, 1993), 246.
5. Japan straddles this world, as an advanced postindustrial society with the trappings of liberal democracy but the soul of a civil society that is quite different from, and that developed largely independently of, Western-style democracy. Japan's distinctiveness would be far more apparent if it were not for the Western-style constitution and government imposed on Japan by the United States after World War II.
6. All labor is, in a literal sense, exploited if we accept John Roemer's Marxist definition: "[A] person is exploited if the labor that he expends in production is greater than the labor embodied in the goods he can purchase with the revenues from production." John E. Roemer, *Free to Lose: An Introduction to Marxist Economic Philosophy* (London: Century Hutchinson, 1989), 161. But such a society would be a static one, indeed. Given that labor is also exploited under any other conceivable economic system (especially socialism and communism), we ought to prefer the system that maximizes the economic well-being of the worker.

7. The wealth gap between Bill Gates and America's poorest families is very nearly as large as was the wealth gap between the Sun Kings of Egypt and their slaves. The difference is not in the size of the gap but in the fact that Egyptian slaves would always be slaves, as would their children, whereas poor citizens in America can, and do, aspire to be the next Bill Gates.
8. Poverty in America is more closely associated with immigration—no sooner does one immigrant group move up the socioeconomic ladder than they are replaced by other aspiring, but very poor, "Americans." In addition, poverty is also associated with America's semipermanent underclass associated mainly, but hardly exclusively, with our legacy of black slavery.
9. Abraham Maslow, *Motivation and Personality* (New York: Harper-Collins, 1987), originally published in 1854.
10. Louise Bogan, "Women," *Blue Estuaries: Poems 1923–1968* (New York: Farrar, Straus and Giroux, 1968). Bogan was actually speaking (ironically) of women.
11. As a random example, the French sent a few jet aircraft to Iraq, but these Mirages were so out of date that their antiquated radar left them dangerously vulnerable to Iraqi anti-aircraft fire. No doubt the French pilots of these planes were as brave as their American counterparts. But their service on behalf of such an enfeebled society meant that they had to be escorted through the battle zone like noncombatants. The French were simply no match for a third world power like Iraq.
12. See, generally, the hilarious and sad article by Philip Shishkin, "How the Armies of Europe Let Their Guard Down: Guaranteed Jobs for Soldiers Leave Little Room to Train," *Wall Street Journal* (February 13, 2003): 1, 7. The main point of Shishkin's article is that "Europe's military muscle has grown soft" mainly because "so much money is spent on pay and benefits that there is less left for the technology, weapons and other gear that modern forces need." This, of course, is my point exactly: A providential society doesn't maintain a military force as a serious deterrent against possible aggression or to maintain their own security and integrity, but rather as an instrument of social policy to reduce unemployment, provide a social safety net, and respond to citizen demands for less work and more pay.
13. Tariffs have, in fact, been imposed on imported steel from time to time, most recently in 2002 (they were removed in 2003). However, these tariffs have been more about warning other countries against subsidizing their own inefficient steel industries than about subsidizing our own. Even so, tariffs are generally counterproductive because, among other things, although they may temporarily maintain employment in the

- targeted industry (e.g., steelmaking), they reduce employment in all the industries that must now pay more for steel.
14. Eurostat, 2.2.7-r1821-2012-03-13, available at <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tps00001&tableSelection=1&footnotes=yes&labeling=labels&plugin=1>.
  15. See Paul Berman's discussion of the role of resolve in the preservation of democracy: "What Lincoln Knew About War," *The New Republic* (March 3, 2003).
  16. Our friends would prefer America to be as irresolute as they; our enemies would prefer us to be as irresolute as our friends.
  17. In fact, however, "By the war's end, the United States had an arms-making capacity that eclipsed that of England and France combined." Ron Chernow, *The House of Morgan* (New York: Simon & Schuster, 1990), 189.
  18. In 1914, Britain accounted for 8.3 percent of the world's GDP. It is interesting to compare Britain's pre-World War I "dominance" with America's dominance today: In 2011, America accounted for fully 23 percent of the world's GDP. International Monetary Fund, World Economic Outlook Database, January 24, 2012, <http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx>.
  19. Even Ilya Zaslavsky, the main Gorbachev advisor during Perestroika, admitted that it was Reagan's policy of "negotiating through strength that brought the Kremlin to its knees." David Remnick, *Lenin's Tomb: The Last Days of the Soviet Empire* (New York: Vintage Books, 1994), 323.
  20. International Monetary Fund, World Economic Outlook Database.
  21. China also faces a third challenge. Many economists have pointed out that when a rapidly industrializing society achieves a certain level of development—let's call it roughly \$5,000 in capital per capita—growth inevitably slows down. While the exact mechanisms of this deceleration are a matter of dispute, the phenomenon has been observed in societies as different as the United States, the Soviet Union, post-war Germany and Japan, Taiwan, Singapore, Hong Kong, etc.
  22. Somewhat similar arguments have recently been made, from very different political perspectives, by Zbigniew Brzezinski in *Strategic Vision: America and the Crisis of Global Power* (New York: Basic Books, 2012), and by Robert Kagan in *The World America Made* (New York: Alfred A. Knopf, 2012).
  23. Phillips, *Wealth and Democracy*.
  24. Phillips, *Wealth and Democracy*, 389 ff.
  25. Illegal immigrants have so often been granted legalized status that the phrase "illegal immigrant" has little meaning.

26. A characteristic example, this time from the political left, is Edward Luce's *Time to Start Thinking: America in the Age of Descent* (New York: Atlantic Monthly Press, 2012).
27. For those of my readers who are too young to remember, Sputnik 1 was a Soviet satellite that successfully achieved an Earth orbit in October of 1957. Sputnik launched the Space Age, beating America into space and inaugurating the first of the long succession of lamentations about the poor quality of American scientific and technical education.
28. William Safire, "Myth America 2002" *New York Times* (July 8, 2002): A21.