

# A Word from London

## Herbert London

*Herbert London is our correspondent from New York. He is John M. Olin Professor of Humanities at NYU, and president of the Hudson Institute.*

### **Be Careful What You Wish For**

If there is a plague in rich, low birth rate nations it is what I would call wish fulfillment or the erroneous idea that what one wishes for should come true. The Nietzschean ironic notion that what one wishes for in his youth, he will have in spades in old age has been turned on its head by impatient modernists who want their wishes fulfilled now. Who wants to wait?

Moreover, the chestnut that you should be careful of your wishes for they may come true has been transformed into “every wish can be a reality.”

There was a time when wishes were related to an after-life, to the hope that salvation awaited. But this too has largely changed as contemporary wish fulfillment is directly related to secular goals.

This is an impatient era in which the wish is not a dream, but a blueprint. In some respects it is like the period of Communist ascendancy. If you pointed to flaws in the Communist system, the true believer would say the wish is not yet a reality. Presumably it was only a question of time before that happened. Communists, whatever their foibles, were at least patient believers in wish fulfillment as opposed to their modern counterparts.

For Americans utopia is here in the form of consumer culture. If you wish for it—whatever “it” is—and have the resources, your wish can be granted. The genie once granted three wishes, now the number is unlimited.

You can be reconstructed, if you so wish, from head to toe with a different nose, larger breasts or smaller breasts, buttock enhancement, silicone lips and even variable eye colors.

If you wish to travel, the world is your oyster. There are tours to the most remote places on the globe from Antarctica to Irian Jaya. No place is off-limits.

If you want mood changes, that too can be arranged. Anti-depressants for melancholy, activist drugs for lethargy.

There is virtually no limit to the wishes and almost no limit to the manner of wish fulfillment. While this is one of the wonders of modernity, it is a Faustian deal.

The business of improving the human condition involves the soul and spirit as much as the body and mind. Wishing isn't bad in itself—most people hope for better conditions than they presently have—but believing it is your due is another matter often entangled with hubris and destructive behavior.

Wishing is built into our culture. We make a wish when blowing out birthday candles or throwing a coin in a fountain. But secretly we hope for the best, realizing

the “best” is constrained by reality. No matter how I may wish for it, the likelihood is I will not play basketball like Michael Jordan.

In the era of almost unlimited possibility in which pills can change mood and the surgeon’s scalpel can change appearance, the wish constrained by reality has become unfettered. Anything is possible.

As I see it those who can manage their wishes, to wit, restrain them, have a better chance of avoiding their abuse. Our wishes should be harnessed by humility, by providential grace.

Teleologically the wish is constrained by natural circumstances. We may wish to live long lives—and that wish is now often granted—but we cannot defy Father Time.

We may wish to lead healthy lives—and that too is granted as never before—but ultimately cells die.

It is best to realize that with all the freedom contemporary life offers we are still pawns of a universal plan we cannot offset. It is best to have modest wishes and it is best to realize that the gap between wish and result can be a great divide where much suffering and anguish can be found.

#### **What Economic Growth Does for the Poor**

It is virtually axiomatic for the cognoscenti to argue as a refrain that the rich grow richer and the poor grow poorer. Moreover, it is widely believed that economic growth serves to promote only the interests of the rich or disproportionately affects the rich. As people become more prosperous conventional wisdom suggests inequalities widen and the poor are left behind.

For demonstrators opposed to the World Trade Organization it is believed that growth takes place at the expense of the world’s poor people. But a study by David Dollar and Aart Kraay of the World Bank presents a very different reality.

According to the authors, who sampled growth and income in eighty countries over four decades, growth raises income for the poor about as much as it raises the incomes of everybody else. On average, incomes of the poor rise one for one with incomes overall. The rich, the poor, and the nation as a whole generally see incomes rise at about the same rate.

Notwithstanding anti-globalist claims to the contrary, openness, to wit, free trade spurs growth to a significant degree with incomes of the poor participating fully.

As far as growth itself is concerned, the authors echo what recent national examples confirm. Property rights promote growth and the wealth promoted by these rights has an indistinguishable influence on rich and poor.

Second, reducing inflation and public spending not only promotes growth, it has a salutary influence on the condition of the poor. On a superficial level this is surprising since so much of public spending is designed to assist the poor. However, as the U.S. war on poverty reveals, programs designed to assist the poor invariably end up assisting middle-class bureaucrats.

Surely this thoughtful study should challenge the suppositions of the growing throng of protectionists worldwide. Yet somehow I doubt this will happen.

For one thing an income improvement of one for one between rich and poor doesn't alter their relative economic standing. In fact, even when growth disproportionately affects the poor one can still claim the rich grow richer and poor, poorer.

For example, suppose a person earning \$10,000 somewhere in the Third World improves his income by 10 percent and someone earning \$1,000 improves his income by 50 percent. In this instance, despite a faster rate of growth for the poor person, the income spread between the two parties will widen from \$9,000 to \$9,500.

This is the argument that invariably insinuates itself into UN statistical profiles to justify additional Western aid, even though it is an ostensibly false claim that ignores the benefits of growth for rich and poor alike.

A stratified society of any kind will by definition have rich and poor. Arguments about the presence of poor people are usually quasi-Marxist contentions that ignore the condition of the poor. It can even be argued that increasing equality only fosters the exaggeration of marginal income differences.

In places like the former Soviet Union relative differences became the *sine qua non* of public policy even when those differences were inconsequential. The so-called Marxist utopia that claimed to have eradicated greed substituted in its place the corrosive influence of envy that to this very day still impedes Russian economic development.

The Dollar-Kraay study supports the thesis that a nation that introduces and enforces a rule of law, that protects private property and encourages openness and free trade can in the end generate wealth which alleviates the condition of poverty as much as it benefits those at the top of the income scale.

There is nothing surprising about this conclusion for those who believe in the power of free markets; but for the Marxists and radicals who contend only the redistribution of wealth can assist the poor, this World Bank study is indeed revelatory.

### **Stages of Economic Development**

With the extraordinary change now observable in the economies of many nations, it is worth asking why some nations are capable of innovation and resourcefulness and others are not. Although there are many explanations, with an emphasis on those nations with capital advantage, it seems to me the overlooked characteristic is a flourishing civil society.

For any nation-state to enter the ranks of the high octane world economies, it must first recognize and protect private property, individual rights and the rule of law. These are the prerequisites from which other considerations evolve.

At a second, somewhat more sophisticated, stage there must be macro-economic reform including a stable currency, the privatization of publicly run companies, free trade and the free flow of capital and goods.

Finally nation-states, in order to achieve the third stage should encourage entrepreneurialism through openness, trust, cooperation, limited state interference

in commercial activity and a belief that human beings have a right to the fruits of their own entrepreneurial creativity. In this most advanced stage of economic development each person is assured that creativity can be appropriated without being forcefully expropriated.

In his *Centesimus Annus* encyclical Pope John Paul II called creative human action the decisive factor in society or, in his own words, “*man, himself*, that is, his knowledge” (emphasis in the original) without institutional aggression of the state against this free human action.

Most nation-states outside of the English-speaking world have not gone beyond stage one or two. For example, even in a sophisticated economy like Germany’s the declaration of bankruptcy precludes board membership in a public company. By contrast, in the United States bankruptcy is a sign of trial and error, risk-taking and presumably learning appropriate lessons. Almost every successful entrepreneur in Silicon Valley has at one point in his professional life filed for bankruptcy.

The French economy is also unable to catapult itself into stage three because of a national obsession with the redistribution of wealth. As a consequence, entrepreneurship is stifled.

In the so-called Third World there is an unwillingness to recognize the need for private property and individual rights as the building blocks for wealth generation. The result is that the power of the state is decisive in society and individual citizens are prevented from developing what is most natural and essential for an economy—the innate capacity to innovate unfettered by state coercion.

In his book on *Trust* Francis Fukuyama makes the point that societies which embrace trust in business encounters are most likely to be successful. He notes that implicit Japanese distrust, for example, often militates against entrepreneurial activity.

Free markets driven by entrepreneurship are not only more efficient than states emphasizing distributive justice, but they are also more just. However, the free market works most effectively with the building blocks of essential constitutionalism and macro-economic reforms.

Several world leaders assumed that they could leapfrog to stage two or three, but the conditions of economic development are inexorable. Russia, to cite one obvious case, assumed that privatization would in itself be sufficient to generate a prosperous nation. It has learned to its regret that without a rule of law and protection for private property, genuine economic development in this era is not possible.

For decades there were academic pundits who postulated on short circuiting “take-off” for developing states. But there are now hundreds of empirical examples which illustrate the bankruptcy of this conclusion.

Surely software sales and technical innovations such as the Internet might accelerate the process, but nations eager to enter the ranks of the wealthy must go through the three stages of political, economic and social reform.

Wealth generation is not a mystical process having something to do with political alchemy. It is the culmination of intentional structuring, habits built into a nation. The great advantage that the United States has on the world stage is not merely its capital accumulation, nor is it the abundance of technically proficient entrepreneurs in its midst. Instead it is the habits cultivated in a free and open society protected by law.

The assembly of the fast convoy into the future is led by the United States and those nations with similar social habits. Should others be inclined to join the convoy, they must recognize the stages of development and avoid the pitfalls that accompany short cuts and facile prescriptions.

### **Trendless Volatility in the Stock Market**

Each day brings new meaning for market analysts eager to deracinate the stock market. Since the beginning of the year market volatility has fluctuated dramatically with the Dow moving up and down 16,500 points, an unprecedented shift. Moreover, in eighty percent of active market days there was a shift of one percent or more, a rate four times greater than the previous year and the market average.

Yet after all the rise and fall, after all the prediction of gloom and the claims of irrational exuberance, the market is roughly where it was a year ago. The whipsaw event has been nothing short of mind boggling as opinions shift hourly from too much bullishness to too much bearishness. So much emotion for so little result.

The gross overvaluation of many of the dot-com companies coupled with the undervaluation in "value" stocks has contributed to a manic-depressive trading frenzy.

Since the Federal Reserve has raised interest rates in order to control inflationary pressure the result has been negative pressure on price-earnings ratios and an economic slowdown. But it isn't clear whether the market has already accounted for this action and is about to take off.

As some of the hightech balloons are punctured, there appears to be a scramble by money managers to diversify their portfolios. Generally speaking, this is a healthy sign that reduces risk and unleashes funds into other areas of the market.

In most respects the fundamentals in the economy are sound. Production schedules are in line with retail expansion so that inventory to sales ratios are in equilibrium. Consumption levels are high; unemployment is low and with the exceptions of escalating oil prices and a tight labor market, the economy is robust.

Clearly an inflation rate comparable to the one in the last quarter could alter the economic picture and may trigger higher interest rates. This is after all an agnostic's market; you need proof before you invest.

What is most needed at this time is a patient investment position. The "miracles" of Internet stock in the last few years are probably gone. Over the long term a return of ten percent still equates to terrific performance.

As I see it, this is the early stage of a return from an irrational to a rational market. For those who wait a trend may emerge, but for the moment what

anyone should expect is more of the same. The roller coaster has not yet reached its destination.

In the long term (ten years?) there is a growth trend born of technological marvels. A biotech revolution, for example, will create a host of customized pharmaceuticals calibrated to one's genetic profile. Supersonic jets will increase international travel. Nanotechnology will lead to production at distant sites.

Of course one cannot be sure when the market will respond to these developments or whether an external factor, such as government's desire to regulate, will impede a promising source of business activity. It is also true that predicting trends doesn't help in stock selection.

Celera may be responsible for mapping the genome system, but it's difficult to predict whether this company can be successful in marketing products that emerge from this process. Boeing may produce a jet that can travel from New York to Japan in five hours, yet it is impossible to predict the demand for this aircraft at some elevated price.

In addition to these obvious factors, there are the imponderables that impinge on market decisions. A war, an earthquake, a monetary failure could at any point in my hypothetical scenario disrupt the market. Consumption patterns could change as the Baby Boomers reach retirement age and seek tranquility rather than adventure.

It is glib to discuss Dow 36,000 or any other number. Rarely do prognosticators tell you when that number will be achieved. Since the experts don't know, it is wise to select the stocks you believe in and avert your gaze from daily price listings. History is generally on the side of the patient investor.

For those uncomfortable with a volatile market that swings up and down only to end up where it started, remember that this is a trendless market searching for clues about the future. Since the clues are not discernible, hold on to what you believe in and pray.

### **Globalization or the Enduring Nation-State?**

There is a well established intellectual tradition in the West that associates interdependence and international stability. In the most recent form of this discourse proponents contend that globalization is creating a homogenous world of McDonald's golden arches and Internet communication that will inevitably result in the end of the nation-state and the emergence of world government,

Surely there is something to this claim since cyberspace doesn't recognize national borders and the march of American culture across the globe is manifest in Michael Jordan t-shirts visible in Gabon, Jakarta, Tokyo and Paris.

But in this instance there is less than meets the eye. At the moment, exports account for under ten percent of the U.S. gross domestic product. For Western Europe and Japan trade is twelve percent of G.D.P. One might contend that trade is the catalyst for interdependence, but as the present numbers suggest it is a long way from being a decisive factor.

Most expenditure in the most developed states are internal. Similarly, about

eighty percent of direct foreign investment can be found in the U.S., the United Kingdom, Germany and Canada—four nations representing about six percent of the world's population.

Globalizers contend that even if the world is not completely interdependent the trend is immutable. Here again the evidence challenges the claim. States change and conditions within states change. Japanese mercantilism, which was employed as a world model in the 1980s, is now regarded as an anachronism even by the Japanese. National systems display resilience as the shift from New Deal federal authority to Reaganesque local authority in a scant fifty years indicates.

Admittedly financial transactions in real time across national borders unfettered by intermediaries create the impression that the nation-state is withering away. Yet that reality is challenged by the growth in government expenditure of G.D.P. in advanced economic nations.

States perform essential functions that are only partially economic. They are the magnified version of families in which rules are established and the conditions for healthy evolution are made possible. In the last two hundred years the sovereign state has proven to be the best organization for maintaining order and laying the foundation for economic growth.

When the state fades away—and there are examples in China during the 1930s and several African states—it is not replaced by globalization, but by anarchy. Economic interests are not sufficient to maintain stability.

What the globalists generally ignore is that states vary dramatically by capability. Let me state the obvious: some nation-states are rich, others poor; some depend heavily on other states for assistance, some not at all. If there is one overarching global interest it is the reliance on American military strength to maintain international order. Yet even that condition may not be guaranteed if the U.S. loses the will to assert its power or other nations rise to challenge American hegemony.

What the globalizers contend is that the world is ruled by markets, an idea intoxicating for nineteenth century liberals. But the twentieth century argues for a different reality in which politics invariably trumps economics. A bizarre grab for power or ethnic antipathy or national assertiveness are written on the pages of international history even when the end result is economic dislocation.

To suggest that we are moving down an irreversible track to One World government is as absurd now as it was in 1900 when this idea first gained steam. The nation-state undoubtedly has its flaws, but as a system for promoting law and order it is indispensable for economic progress.

Before one argues that the trader in Japan engaged in plays on the New York Stock Exchange is the man of the global future, keep in mind that rules in Japan and the U.S. allow him to make that trade and in many parts of the world that transaction would not be possible. Golden arches do represent cultural homogenization, but before one exaggerates the importance of this symbol, consider the reaction to the unfurling of national flags at the Olympics in Sydney Australia. That response tells of another enduring reality. Ω