

**Wealth
and
Poverty**

**GEORGE
GILDER**

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WEALTH AND POVERTY,

GEORGE GILDER

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DESIGNED BY VINCENT TORRE

**For Rosamond Gilder
a Great, Great Aunt
and Grand Lady of Literature**

P R E F A C E

WEALTH AND POVERTY are the prime concerns of economics, but they are subjects too vast and vital to be left to economists alone. Although economists have provided me with some of my most valued counsel—and I will be acknowledging them in numbers—this book is in part an essay on the limitations of contemporary economics in analyzing the sources of creativity and progress in all economies.

Sociologists, too, have contributed to this work, and I will be thanking several. But one of my major themes is the grave distortions of view that issue from the sociological practice of discussing society chiefly in segments to be studied separately and statistically: the poor, the rich, women, men, business, and labor.

This book sprang from an earlier work of mine, *Visible Man*, an essentially sociological venture that undertook to understand poverty by studying the poor. *Visible Man* became a nonfiction novel based on interviews with hundreds of poor people in Albany, New York, and Greenville, South Carolina. I learned much from these researches about the devastating impact of the programs of liberalism on the poor. But perhaps the most important lesson I learned was the inadequacy of any theory of poverty that did not embody a theory of wealth. So *Wealth and Poverty* began with the title "The Pursuit of Poverty" and ended as an analysis of the roots of economic growth.

The contributors to my earlier analyses have been acknowledged in earlier works. Let me merely say in passing that this book could not exist without the earlier works and previous researches, and that my immersion in the world of economics was made far more fruitful by my previous immersions in the literature of anthropology and social theory, from Margaret Mead's *Male and Female* to Steven Goldberg's *The Inevitability of Patriarchy*.

Nonetheless, this book gained its special reach and character from a

study of economics that began ten years ago with Milton Friedman's *Capitalism and Freedom* and led over the years through the works of Schumpeter and Keynes into what has been described with some felicity as "the supply-side" school of contemporary economists.

Intellectual progress, like the creation of wealth, does not normally occur in the rational and incremental way preferred by professional departments. I have learned that like Milton Friedman, Fredrich Von Hayek, Ayn Rand, and William Buckley, who were widely derided at the time they shaped my early economic ideas, Arthur Laffer, Irving Kristol, and Jude Wanniski are unpopular figures even among the professional economists who have taught me most. It so happens that the kind of "good" or "sound" economists who contribute most to the development of the science tend both to exaggerate its scientific rigor and to present their ideas in a way that fails to capture the high adventure and redemptive morality of capitalism. Even Adam Smith put altogether too much stress on self-interest rather than altruistic creativity as the foundation of the system.

In any case, Kristol and Wanniski, both in their books and on the editorial page of *The Wall Street Journal*, together with Warren T. Brookes, in his brilliant columns in *The Boston Herald American*, gave me a feeling for a capitalist economics that banished forever my previous apprehensions about the dismal science. Although I share the misgivings of many on its "political model," Wanniski's book *The Way the World Works* is one of the great inspirational works of economic literature—in the tradition of Henry George's *Progress and Poverty*—and in many ways, my book follows the supply-side trail that Wanniski so boldly blazed. I also want to thank Jude Wanniski and Nathan Glazer for their valuable encouragement after reading a ramshackle first draft of the manuscript.

As all writers learn sooner or later, it is only their best friends or closest allies who are willing to offer the kind of tough and tenacious criticism that all authors need. Jeffrey Bell, whose impact on Republican politics is only just beginning, gave this book a going over that strengthened several of its weakest chapters, and it may well be that I should have followed even more of his trenchant (that is, cutting) advice.

Like many of those acknowledged here, David Warsh will receive with great enthusiasm my authorial assurance that the ideas (and errors) in this book are my responsibility alone. Nonetheless, some of his own themes are easily found in these pages, and other less visible contributions of advice and encouragement abound.

Although I have only known him for a few years, Tom Bethell already seems an old friend, and his editorial counsel and criticism have made a highly significant impact on virtually every chapter of this book. Other

early readers and valuable critics include Paul Craig Roberts and Tom Bray, then both of *The Wall Street Journal*; Michael Brewer who has been teaching me economics for more than ten years and who I hope can take some small pride in the work of his pupil, however aberrant it may be; Larry Pratt of the American Institute of Economic Research in Great Barrington, Massachusetts, a shrewd and sophisticated reader who alerted me to pitfalls in my arguments more rapidly than I could fill them; and Christopher De Muth of the Kennedy School at Harvard.

I had the great good fortune of meeting David Stockman before dispatching this book to the printers. Representative Stockman is by far the leading intellectual in the U.S. Congress, and his incisive criticisms and cogent amendments to this work—despite the pressure on his time—are deeply appreciated. Neil Howe, who is collaborating on an important book with Stockman, also gave me crucial advice during the final editing of this work.

Other valuable readers of all or part of the manuscript include Bill Hammett and Lynne Middelveen, my close colleagues with Antony Fisher at the International Center for Economic Policy Studies in New York, which provided an exciting intellectual atmosphere for the final writing on the book.

Parts of this book appeared first in magazine articles and their reception encouraged me to continue. Lewis Lapham and Mathew Stevenson of *Harper's* played an especially crucial role in shaping the final chapters, and the responses of Jack Kemp and Ronald Reagan alerted me to the emergence in America of Republican politicians who crave and celebrate ideas.

Although the ideas in this book are regarded as “conservative,” I gathered them through a political education in circles as “liberal” as *The New Leader* magazine and the Ripon Society, the Kennedy Institute of Politics, the senatorial offices of Charles Mathias and Jacob Javits, and the three presidential campaigns of Nelson Rockefeller, a great American leader and patriot, whose loss transcends all the usual categories of ideology and politics. Three Ripon presidents, Josiah Lee Auspitz, Bruce Chapman, and John Topping participated heavily in the debates from which this work arose, and Auspitz made key contributions to the final chapters. Richard Rahn and Mark Bloomfield, also of Ripon, preceded me on my supply-side course. I believe that the central theme of *Wealth and Poverty*—the need to extend to the poor the freedoms and opportunities, the values of family and faith, that are indispensable to all wealth and progress—is also a central theme of American liberalism. Yet today, in a great historic irony, Phyllis Schlafly, Connie Marshner, Edwin Feulner, Jack Kemp, and others on the “New Right” have become the best friends of the poor

in America, while Liberalism administers new forms of bondage and new fashions of moral corruption to poor families.

Bruce and Sarah Chapman and their innumerable friends in Seattle, Washington, provided the settings, surrounded in the distance by sparkling waters and snow capped peaks—with either the savory cornucopia of the Pike Place Market below or the dark firs and friendly livestock of Vashon Island—for the writing of most of this book. I cherish their friendship and their generosity and hope that the product is not unduly embarrassing to them. I wish also to thank Mike and Edith Williams for putting me up on their exquisite farm on Vashon Island.

Rod and Mellie Gilder had to endure most of the ideas in this book presented in their most raw and unpalatable form, at dinner or breakfast or late into the night, while at the same time putting up with the vagaries of the author well beyond the call of familial duty. I am grateful as ever for more services than I can even remember, let alone repay.

David and Peggy Rockefeller have shown faith in me when I lacked it in myself—and their faith has given me a sense of standards and possibilities that has extended the boundaries and lifted the goals of my life. This book is most deeply a tribute to them and to David's friendship with my father, which lives on in my life—and in their unending love and generosity to me.

This was Midge Decter's last book at Basic; her work, as usual, was superb and her support inspiring. The typists were Sally Bergmans, who also served as an able editor, and Bernice O'Neill.

My family is the source of all I am and can become and I want to thank them, my mother and Gilly, for their example and their love; and my wife, Nini, for giving me a reason and a way to live and for giving me Louisa.

GEORGE GILDER

Tyringham, Massachusetts
July 20, 1980

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PART

I

*The Mandate for
Capitalism*

CHAPTER 1

The Dirge of Triumph

THE MOST IMPORTANT EVENT in the recent history of ideas is the demise of the socialist dream. Dreams always die when they come true, and fifty years of socialist reality, in every partial and plenary form, leave little room for idealistic reverie. In the United States socialism chiefly rules in auditoria and parish parlors, among encounter groups of leftist intellectuals retreating from the real world outside, where socialist ideals have withered in the shadows of Stalin and Mao, Sweden and Tanzania, gulag and bureaucracy.

The second most important event of the recent era is the failure of capitalism to win a corresponding triumph. For within the colleges and councils, governments and churches where issue the nebulous but nonetheless identifiable airs and movements of new opinion, the manifest achievements of free enterprise still seem less comely than the promises of socialism betrayed. If socialism is dead, in some sense intellectually bankrupt, morally defunct, as they say, why does the capitalist vision seem to teeter so precariously over the same ash can of history? Why do the same writers who most tellingly confute the collectivist argument sing the praises of free enterprise only in an almost elegiac tone, writing staunch conservative tracts that end in the cadences of a dirge for their favored beliefs?

The dirge is sung in varied harmonies and arrangements. But it is undeniably a dirge. It is a curious fact that the celebrated group of neoconservative intellectuals, heralded as saviors of business, discuss the nature and future of capitalism in the same dolorous idiom used by some of the chastened but still assured advocates of "socialism." Meanwhile the intel-

lectuals of the Old Right have usually shunned altogether the challenge of reconciling their philosophies and their economics, and they are equally likely to confide a belief that capitalism is in decline. William F. Buckley's *National Review*, which for two decades has waged brilliant battle for the free economy, publishes anti-Communist and Christian "socialists," if they are culturally conservative, with much of the enthusiasm and frequency that it devotes to the cause and philosophy of private enterprise. Conservatives give Solzhenitsyn and Malcom Muggeridge, both impassioned critics of the works of business, a place in their pantheon equaled by no contemporary businessman or philosopher of capitalism. Both are great writers and inspired Christian voices, and perhaps there are moments when carping is beside the point. Still, it is important for conservatives to deny with some comparable passion that capitalism is a historic and moral failure.

Yet Daniel Bell could survey the writers of the Right over the last seventy-five years and conclude that "romantic or traditionalist, Enlightenment or irrationalist, vitalist or naturalist, humanist or racist, religious or atheist—in this entire range of passions and beliefs, scarcely one respectable intellectual figure defended the sober, unheroic, prudential, let alone acquisitive, entrepreneurial, or money-making pursuits of the bourgeois world."¹ This statement must be qualified, since many important thinkers have defended capitalism. But Bell is right that the defenses have usually not resounded clearly; they have been almost always *faute de mieux*, praising free enterprise for the lack of an alternative that accorded more easily with the writer's religious and aesthetic convictions and with his sense of the way in which the world was going. Capitalism has been presented as a transitory and conditional compromise: The worst possible system, as Churchill once said of democracy, except for all the others.

This negative view allows to arise, without indignant refutation, something of a consensus among thinkers on both the Left and the Right that, for all its superficial virtues, private enterprise suffers from profound social conflicts and moral contradictions deriving from its continuing practical failures and lack of transcendent justification. Our rising affluence, it is said, springs from a consumer ethic with a hedonistic base, a continual whetting of appetites by advertising that is in the end destructive to the moral disciplines of capitalist production and distribution. Or capitalism leads inexorably to large bureaucratic structures that stifle the spirit of entrepreneurship that is the essence and rationale of private enterprise. Such contradictions may be relieved, for a while, by economic growth. But growth is dependent on a momentum of technology that creates a new elite and exalts a rationalist mind-set also incompatible with democratic and religious values.

This, with some reservations, is the essential message of the recent works of John Kenneth Galbraith and Robert Heilbroner, both professed socialists. And this, amid all the mazes of his learning, even the pedantry of his endless verbal distinctions, is the practical message of "neoconservative socialist" Daniel Bell. This, among their fierce denunciations of contemporary social and psychological science, is the thesis of cultural conservatives Christopher Lasch and Robert Nisbet. This, too, amid all his sparkling wit and wisdom, is a persistent theme of neoconservative and capitalist writer Irving Kristol, who holds a deserved but nonetheless ambiguous position as our leading apologist for private enterprise.

One might ask whether, for sympathetic but firmly dolorous reflections on the decline of the bourgeois ethic, on the cultural contradictions of capitalism, on the inexorable emergence of a technocratic and possibly stationary state, we really need a neoconservative revival. We still have, after all, in those of our libraries not altogether devoted to the dissemination of best-sellers and audiovisual aids, the works of Marx, Tocqueville, Veblen, and Schumpeter. All these writers eloquently celebrate the vigor and thrust and the immense historic role of the bourgeoisie, only to predict its decline and fall. All traffic in the same moral contradictions, technological imperatives, managerial transformations, material satiations, and social changes that animate the critique of capitalism now and that were at least partly evident even to the Swiss economist Simonde de Sismondi, a pioneer of dynamic analysis, who nonetheless "wondered what we could possibly do with more production now that we had already met the essential needs of man"—in 1815.²

Even Adam Smith, whose very name symbolizes the capitalist order, foresaw its eventual decrepitude, in which the devoutly wished-for achievement of general riches would dissolve the purposes and preconditions of the system. To other visionaries over the years it was an exhaustion of resources as population grew that portended the obsolescence of capital. But for whatever reason, wealth or poverty or mediocrity or inequality or some other bizarre conjunction of complaints, agitated seers for centuries have been predicting the death, decline, stagnation, doom, and decay of capitalism and the emergence of some sort of more stationary state, some kind of benign equilibrium, some surcease of the human struggle.

In fact, the current prophets of ambivalent capitalism are in such ample and various company, reaching so far back into the past that one may guess that the meaning of their analysis resides less in what it says about capitalism than what it says about the incapacity of great thinkers to believe that their own epoch is not the climax of the human story—when soon will be broken the seven seals of the revelation, shaking "the

mountains and islands . . . from their places."³ Both intellectuals and commercial "statesmen" show a persistent tendency, stemming perhaps from their own increasing disappointments before the mirror and on the stairs, to predict the decline and fall of the most permanent things, followed by some stationary Nirvana, much resembling the Aspen Institute. Divorcees predict the transformation of the family, aging intellectuals and businessmen the declining vigor of capital.

Sociology, however, does not recapitulate biology. Even though senescence may afflict great men on their paths of glory to final equilibrium, it is not a characteristic of nations, and capitalism, like the family, is not an institution that can become obsolete or decrepit as long as human societies persist. Human needs and numbers annually increase; science and technology provide their continuing surprises. The exigency, complexity, and multiplicity of life on earth become yearly more unfathomable to any tyrant or planner. No nation can grow and adapt to change except to the extent that it is capitalistic, except to the extent, in other words, that its productive wealth is diversely controlled and can be freely risked in new causes, flexibly applied to new purposes, steadily transformed into new shapes and systems. Time itself means continuous change of knowledge and conditions. Among all states it is the "stationary state" so favored by the prophets that is most sure of withering away.

The more important charge of the intellectual consensus is that capitalism is morally vacant. At the innermost reaches of the system, after crossing plush carpets and mincing down hushed halls, we enter the sacramental crypts, part the velvet curtains, and find, says Daniel Boorstin, only an empty sanctum. He is glad of this, regarding it a source of our freedoms. Other capitalist defenders agree. The great Austrian political economists Friedrich von Hayek and Ludwig von Mises, like Milton Friedman in *Capitalism and Freedom*, are all eloquent in their critique of collectivism and their celebration of liberty, but they are uncertain of what it is for: their argument tends to be technical and pragmatic. Freedom is good in itself and also makes us rich; collectivism compounds bondage with poverty. None of these writers sees reason to give capitalism a theology or even assign to its results any assurance of justice.

None of them cogently refutes the thesis that the greatest of capitalists—the founders of the system—were in some sense "robber barons." None convincingly demonstrates that the system succeeds and thrives because it gives room for the heroic creativity of entrepreneurs.

These capitalist writers have neither a satisfactory reply to Kristol's question: "Can men live in a free society if they have no reason to believe it is also a just society?" nor a response to his answer, "I do not think so. My reading of history is that, in the same way as men cannot for

long tolerate a sense of spiritual meaninglessness in their individual lives, so they cannot for long accept a society in which power, privilege and property are not distributed according to some morally meaningful criteria."⁴ It is the new consensus that capitalist freedom undermines capitalism both because freedom defines no moral basis for its results, and because its successes are really dependent not on liberty but on bourgeois disciplines and restraints—diligence, integrity, and rationality—all inconsistent with the drives and appetites of the unfettered consumer in a heat of commerce, who is believed to give impetus to the system's growth. Capitalist freedom, it is suggested, leads to a vulgar and decadent civilization, afflicted with libido for the ugly and the trivial, the shallow and the ungodly, and lacking the discipline and courage to survive or the values to be worth preserving.

The leftist critique includes such charges and goes beyond them. Capitalism is not only morally vacant, it also perpetrates gross immorality: racism, sexism, inequality, environmental abuse. It is a practical failure as well, because it brings inflation and unemployment, and it prevents the emergence of the large-scale planning that is indispensable in a time of world ecological crisis, resource scarcity, and rising expectations in the populous Third World. Above all, capitalism creates and perpetuates inequality—between the rich and the poor, rich countries and poor ones, men and women—and destroys balance—between man and nature, consumption and conservation, individual appetites and social needs. This argument does not contradict the conservative one. The radicals agree with the idea that the goods of America are materially shoddy and that the consumer society is morally erosive. But they add a series of further charges that conservatives regard to be overwrought or misconceived, and they propose corrective programs that conservatives perceive as futile, wasteful, and often perverse.

Nonetheless, I believe that the two themes of criticism of American life converge as much as they divide. Robert Heilbroner, Daniel Bell, Irving Kristol, Aleksandr Solzhenitsyn, and Tom Hayden have more in common than they suppose. Most crucially, they assume that capitalism is an edifice without an inherent foundation in morality and religion, and that therefore it engenders a shallow and dubious order of human life. None of these men, it would seem, could have done much better than the dumbfounded President Dwight D. Eisenhower when he was confronted with Nikita Khrushchev's charge that our system is immoral because it is based on greed.

What has happened, one might ask, to the dreams of *The Good Society*, firmly and necessarily capitalist, that Walter Lippmann celebrated in his masterpiece of the late 1930s? Then he could assert in the face of impend-