Are Current Economic Activities Undermining Future Prosperity?

Randall G. Holcombe*

1. Introduction

The Industrial Revolution, which has brought remarkable economic progress, began in the mid-1700s, so is less than three centuries old. While that is barely a blink of the eye in the whole of human history, everyone living today was born well after the Industrial Revolution began. For the young, it is particularly easy to take for granted the remarkable prosperity that two and a half centuries of economic progress has brought. After all, they have known nothing else their whole lives. Even the oldest of the Earth’s inhabitants were born after (some) people were already driving automobiles, when cities had electricity service, after the invention of the airplane, and after the first skyscrapers had been built. Although they have witnessed substantial increases in prosperity over their lifetimes, it still might be easy to take the economic progress that brought it about for granted, because economic progress has continued and even accelerated throughout their lifetimes. The ready acceptance of this prosperity sometimes comes with a feeling of guilt. Citizens of developed economies have a much higher standard of living than those in less developed economies, and there is the perception that this high standard of living comes at the expense of those in less fortunate circumstances, and that it is being paid for by an unsustainable use of resources that will leave future generations with a lower standard of living than those in developed economies enjoy today. The question this essay asks is whether

* Randall Holcombe is the DeVoe Moore Professor of Economics at Florida State University.
these perceptions are accurate. Are current economic activities undermining future prosperity?

To answer that question one needs to understand the cause of current prosperity, and the cause of the past economic progress that has brought the current population its high standard of living. An examination of this question shows that prosperity is produced by entrepreneurship and innovation, and it is only through entrepreneurship that people have been able to productively use many of the resources that have been on Earth for thousands of years. We are, indeed, in danger of having our current economic activities undermine future prosperity, not because of the current use of resources, but because we are putting into place economic policies that threaten to undermine the incentives to entrepreneurship and innovation that generate economic progress.

2. Resource Use: The Commonly-Viewed Threat to Future Prosperity

The commonly-held view that future prosperity is threatened by current resource use goes back at least to Malthus’s (1798) *Essay on Population*, in which he argued that population tends to grow faster than the resources available to support that population, so most of mankind was doomed to live at a subsistence level of existence. More than two centuries later it is obvious that Malthus’s dismal prediction did not hold up for much of mankind—those people living in capitalist economies—but his dismal thesis lives on, and there has been a continual outpouring of analysis concluding that the current level of prosperity is the result of an unsustainable use of resources, and that present consumption is undermining the prosperity of future generations. Erlich’s (1968) warning of unsustainable population growth is explicitly Malthusian in its analysis. Meadows et al. (1972), a highly-publicized book subtitled *A Report for THE CLUB OF ROME’S Project on the Predicament of Mankind*, predicted a dramatic decrease in the world’s standard of living, and the world’s population, in the twenty-first century, as a result of an overuse of resources. Albert Gore (1992, 2007) has been a highly visible proponent of the viewpoint that resource use today is compromising the well-being of future generations. More recently, Diamond (2005) warns of an impending collapse in the world’s standard of living because of resource overuse.

Counterarguments have been offered by many writers, such as Simon (1981) and Lomborg (2001). The line of reasoning taken here will be to begin by look-
ing at what has caused the remarkable progress and prosperity that the developed world has experienced since the beginning of the Industrial Revolution, with an eye toward analyzing whether the factors that have produced the current prosperity are likely to remain in place to allow economic progress to continue.

3. Progress Is New

The first thing to note is that the economic progress that the current generation takes for granted is a relatively new phenomenon, dating back only to the mid-1700s. Life in 1750 was not much different from life in 1650. Life in 1650 was not much different from life in 1550. Life in 1550 was not much different from life in 550. Prior to the Industrial Revolution, people would not have been able to perceive any economic progress in their lifetimes. Certainly the economic circumstances of particular individuals could get better or worse, but people’s lifestyles, the goods and services they consumed, the types of work they did, the way they traveled, the housing in which they lived, and their overall standards of living were much the same in 1550 as they had been a thousand years before. Someone living in 550 could wake up in 1550 and see an economic world that would be largely familiar. The same could not be said of someone living in 1900 and transported to 2000. The actual progress is remarkable, but even the concept of progress is only a few hundred years old.

This is not to say there was no progress before the Industrial Revolution; only that it was slow enough that it would not have been apparent in one person’s lifetime, and that therefore people did not recognize the concept of progress. Indeed, when one looks at the remarkable accomplishments of the civilizations in ancient Rome, or in China around the same time, those societies had advanced well beyond primitive existence. But at that point, economic progress stalled, and was only revived as the Industrial Revolution began. The reason is that those civilizations of ancient Rome and China were at the limits of economic development in a top-down hierarchical system of economic organization. One can talk about all the innovations that came as a result of industrialization, but the big innovation that led to the Industrial Revolution was the development of a decentralized market economy.

As Mokyr (1990) and Landes (1998) note, nations that have adopted a capitalist economy and market institutions have prospered, while those that have not, have not. One would be hard-pressed to find an exception. In the unfortunate
but dramatic natural experiments after World War II when Germany and Korea were divided into two countries, one with a market economy and the other with a centrally-planned economy, the market economies thrived while the centrally-planned economies lagged behind. In the mid-twentieth century, India and China were among the poorest countries of the world, and after moving toward market institutions, have among the world’s fastest rates of economic growth at the beginning of the twenty-first century.

At the beginning of the twenty-first century the idea that economic progress is directly linked to capitalist institutions would seem to be both indisputable and generally known. Still, an issue is what specific factors link capitalism with prosperity. In the midst of prosperity and progress, fewer people reflect on how recent economic progress is, or why the world went through more than a millennium during which there was almost none. The economy of ancient Rome exhibited slow, steady economic progress through military conquest and slave labor. One must marvel at their advances in construction, government, and law, while realizing that especially with regard to material advances, it was the availability of resources that came through conquest, combined with slave labor, that produced the roads, the public works, and the infrastructure. The peak of the Roman empire represented the limits of the prosperity that could be produced by this type of economic organization. The Industrial Revolution ushered in economic progress because it brought with it a form of economic organization that rewarded innovation and entrepreneurship.

4. Entrepreneurship: The Cause of Economic Progress

Resources have value as inputs into production processes only to the extent that individuals are able to find ways to employ them to enhance value. In 1800, if someone’s land had oil seeping out of it, it would damage the value of the land because the seepage would make the land unsuitable for farming and most other uses. A century later that nuisance was transformed into an asset because entrepreneurs found a use for that oil. Economic analysis of growth tends not to take account of the entrepreneurship it takes to make this kind of transformation. In the early twenty-first century mainstream economic growth theory primarily falls into two camps. One is based on general equilibrium growth models, in which growth is depicted in a formal manner within a production function framework. Output, Q, is a function, \( f \), of inputs, typically represented as capital, K, and labor,
L, or Q=f(K,L). Institutional economics represents a second camp and finds that economic growth occurs as a result of institutions that are conducive to growth.

This second camp is consistent with the story told here, in that capitalist institutions result in economic progress. Yet it is incomplete in that it looks at the institutional environment that generates growth without considering the process that institutional environment fosters. One can say that if a particular environment exists, then growth will occur, but that institutional analysis does not explain why that growth occurs. The short answer is that particular institutional environments foster entrepreneurship, and entrepreneurship is the cause of economic progress.

Economists talk about economic growth, meaning growth in real income, but even using that terminology obscures the process. Prosperity is the result of economic progress, and growth is but a subset of economic progress. Consider how much better off people are today than they were 30 years ago, or 50 years ago, or 100 years ago. One reason is that people have higher incomes, so they can consume more than they were able to in the past. But more significantly, goods and services available for consumption have increased, so people not only consume more today than people did in the past, they consume different things. Today people can cross a continent in jet aircraft in a matter of hours. A century ago people would have crossed a continent in days, in a train. Two centuries ago a cross-country trip in horse-drawn transportation would have taken months, or years. People cook their food in microwave ovens while they talk on their mobile phones with internet connections, living in air conditioned comfort. In the United States, per capita income was about seven times higher at the end of the century than at the beginning, but people did not eat seven times as much as a century earlier, they did not take seven times as many train trips, own seven times as many horses, or send seven times as many telegraph messages. They do not own seven times as many stoves, but the stoves they do own are better because of stove design. Microwave ovens allow food to be cooked quicker and more conveniently than wood or coal stoves. Phones are no longer wired into the walls of buildings, and also serve as maps, music players, and multiple other functions. People write on computers rather than on manual typewriters, or by hand. One component of economic progress is income growth, but a more significant component is the availability of a wider range of consumption opportunities, many of which could not have been imagined a century earlier, or in many cases even a few decades earlier.
Economic growth—growth in income—could not have occurred at the pace it did without that other aspect of progress: the availability of new goods and services. People would not have the demand for seven times as much of the goods and services they would have been consuming a century ago, so income growth would have stalled had it not been for the new goods and services that the market economy made available to consumers. Income growth can only occur along with the progress that brings with it enhanced consumption opportunities in the form of new goods and services. Those new goods and services are the result of entrepreneurship. To understand growth, one must first understand progress, because growth will be minimal without a broader economic progress to support growth.

Consider the production function framework within which neoclassical growth theory is framed, where $Q = f(K, L)$. Within this theory, the inputs into the production process, $K$ and $L$, are given, as is the production function, $f$. Producers then choose the optimal combinations of $K$ and $L$ in their businesses to maximize profit as they produce their output. Output can increase if the quantities of inputs increase or if the production function changes so that more output can be produced with the same amounts of inputs. An increase in inputs, $K$, and $L$, can occur through investment that adds to $K$, or taking a broad view of $L$, increases in human capital, following Lucas (1988). The production function is often operationalized as embodying technological change, so technological advance can result in a new production function $g$ such that $Q' = g(K, L) > Q = f(K, L)$, where the inputs are the same in both cases.

Within this production function approach there is minimal room for entrepreneurship. Perhaps research and development can create a more advanced production function, but this leaves unanswered the question about how research and development finds its way into the production function. The answer is that entrepreneurs see the R&D results as a potential profit opportunity. The inventions produced by R&D do not automatically produce innovations in the goods and services that are available to consumers. The intermediate step that connects invention to innovation is entrepreneurship, as Schumpeter (1934) noted. The production function approach to understanding growth leaves out entrepreneurship: its fundamental cause. Consider this a bit further by looking at each individual component that makes up the production function.

How does growth actually occur? As already argued, increases in real incomes of the amount actually observed since the beginning of the Industrial Revolution could not have occurred without economic progress that changed the type
of output being produced. Thus, by looking at growth as an increase in Q, that framework leaves out qualitative changes in the components of Q. Start by looking at the nature of output itself. In the neoclassical framework that underlies the production function approach to growth theory, competitive equilibrium is the benchmark for economic efficiency, and a competitive equilibrium assumes that firms in an industry produce homogeneous products. In other words, the characteristics of Q are assumed given and the same across firms. In reality, this is never the case. Sellers always try to differentiate their products to attract buyers from competitors. Even goods as apparently homogeneous as gasoline are advertised by their sellers as better in some dimensions, who display their brand names with the hopes of attracting customers to a better product. Industries that are very competitive, such as fast foods, clearly have differentiated products.

The reason firms differentiate their products is hidden within any intermediate microeconomic theory book, although that reason is never clearly articulated to readers. The typical book presents a chapter on competitive markets, in which firms produce homogeneous products and arrive at an equilibrium in which all firms just earn normal products. This is the best these firms can do, in the long run, anyway, and is the nature of competition, from the standpoint of microeconomics. As Pindyk and Rubinfeld (2005: 283) note, “The idea of an eventual zero-profit long-run equilibrium should not discourage the manager—it should be seen in a positive light, because it reflects the opportunity cost to earn a competitive rate of return.” Discussing the competitive model, Besanko and Breautigam (2005: 335) argue, “Free entry will eventually drive economic profit to zero. This is one of the most important ideas in microeconomics.”

Skip a few chapters ahead and these same microeconomics textbooks explain how firms with monopoly power can earn above-normal profit as long as they can retain their monopoly power. Reading the two chapters together reveals a non-sequitur: On the one hand, the profit-maximizing strategy for competitive firms results in zero economic profit in the long run, while on the other, firms with monopoly power earn above-normal profit. Read the two chapters together and it becomes apparent that the profit-maximizing strategy for the competitive firm is not to accept zero economic profit, but is to try to gain some monopoly power. How do competitive firms do this? By differentiating their products.

Homogeneous products in the competitive model is an assumption, not a conclusion that is derived from the model. If firms in an industry produce homogeneous products, then following Marshall (1890) the output of the individual
firms can be summed to find the industry output. If output is not homogeneous, well, you can’t add apples and oranges. But this convenience in modeling should not obscure the fact that in the real world product differentiation is a competitive strategy, and the assumption of homogeneous products obscures one of the most significant competitive mechanisms in a market economy.

Product differentiation is the engine of economic progress, as Holcombe (2009) notes. Firms do not differentiate their products to make them different, they differentiate them to make them better, and to attract customers from competing sellers. How does product differentiation occur? As Kirzner (1973) notes, entrepreneurs spot profit opportunities that can result from improving their products, and differentiating them from what others are producing. Entrepreneurship leads to new and improved products, which drives economic progress. Thus, any theory of economic progress must be based on a heterogeneous and continually evolving market basket of goods and services, not a homogeneous Q in a production function.

Likewise, improved production processes enable producers to produce more output from a given set of inputs. One can observe this in examples as wide-ranging as Henry Ford’s adaptation of assembly line production to automobiles, and the remarkable increase in the computing power of semiconductors that has occurred since the invention of the transistor. This was depicted above as \( Q' = g(K,L) > Q = f(K,L) \), but where do producers get this new production function \( g \)? Entrepreneurs must recognize that profit opportunity and be willing to act on it. Any explanation of economic progress must not only account for improved production processes, but must also be able to explain how they come to be adopted. Entrepreneurship is the answer.

One can look at factors of production in the same way. Capital and labor are not homogeneous, and entrepreneurs are always looking for ways to combine them such that they can lower cost and increase productivity. Sometimes, as Lucas (1988) notes, this means enhancing the human capital of heterogeneous labor inputs. Other times it means adjusting the production process such that labor with less human capital can be more productive. One example is the evolution of cash register technology. Decades ago cashiers had to key in prices by hand, and while the cash register would add up the total purchases, cashiers had to figure out how much change was due from the money a customer tendered. Now, not only do cash registers automatically calculate the change due, scanning cash registers eliminate the need for cashiers to key in prices, which eliminates a source of error.
In this case, cashiers can be more productive with less human capital than a few decades ago.

Progress occurs because when one looks at the production function, \( Q = f(K, L) \), every component is subject to change, and entrepreneurial innovation in the characteristics of factors of production, production processes, and the characteristics of output, is what produces economic progress. Economic growth would come to a standstill, as it did from 500-1500 AD, without the innovations of broader economic progress, and economic progress is the result of entrepreneurship.

5. Prosperity: Past, Present, and Future

The discussion to this point has been on the growing prosperity enjoyed by that segment of the world that adopted capitalist institutions, which started the Industrial Revolution and led to the remarkable growth in material well-being, culminating in the remarkable standard of living people in countries with market institutions enjoy today, coupled with a continuing economic progress that is easy to take for granted, because it is all people in today’s world have ever known. That progress continues to march ahead so that people take it for granted that the goods and services they consume today will be superceded by improved goods, and different goods. The cause of the growing prosperity of the past which has led to the high standard of living in the present is entrepreneurship.

While it is true that this prosperity is not uniformly shared around the globe, as Mokyr (1990) and Landes (1998) have noted, those nations that have adopted capitalist institutions have thrived, while those that have not remain poor. Any discussions about resource constraints standing in the way of prosperity must be tempered with the observation that there is little correlation between the countries that are resource-rich and those in which their citizens enjoy prosperity. Where entrepreneurship is rewarded and allowed to thrive, prosperity is the result. Looking toward the future, then, what are the prospects for continued economic progress?

To answer, one should look at the cause of past economic progress, and entrepreneurship is the cause. The Industrial Revolution did not begin in the 1700s because the Earth’s resource base increased. Advances in science and technology went hand-in-hand with industrial development, but those advances were as much the result of economic progress as the cause. Schumpeter (1934) makes
the distinction between invention and innovation, and perceptively notes that inventions—the development of new technologies, goods, and processes—do not increase people’s standards of living until they are brought to market by innovators. The market innovation is what creates economic progress, and when there is profit in innovation, it encourages invention that can lead to innovation. The wireless computer mouse could not have been developed without the graphical user interface, and the graphical user interface was available to consumers only because of the development of the personal computer, which was only made possible by the invention of the integrated circuit, which was an innovation that could only have occurred after the production of the transistor. Innovation is the result of entrepreneurship, and entrepreneurship opens the door to more innovation.

Looking to the future, economic progress will continue for those who follow as long as economies remain entrepreneurial. The basic resources that industrial economies have been using since the start of the Industrial Revolution were not created in the 1700s—they were available all along. What changed was the ability to use those resources to enhance human well-being, and that ability was generated through entrepreneurial innovation. As long as that entrepreneurial innovation continues, economic progress will continue. Future prosperity depends on future entrepreneurship.

6. Current Economic Activities and Future Prosperity

Having identified entrepreneurship as the cause of prosperity, it is now possible to address the question in the title of this paper, and ask whether current economic activities are undermining future prosperity. Future prosperity depends on maintaining an innovative and entrepreneurial economy, so the question reduces to understanding whether current economic activities are undermining entrepreneurship. In an insightful article, followed up by a book, Baumol (1990, 1994) argues that entrepreneurial activity is roughly constant across societies, but that in some institutional contexts entrepreneurial activities are channeled in productive directions whereas in other institutional contexts entrepreneurial individuals engage in unproductive or destructive activities.

If entrepreneurship, following Kirzner (1973) is the observation of unexploited profit opportunities, in some societies most profit opportunities will consist of market activities in which individuals find a better product to deliver to customers, or a better way of producing and delivering an existing good or ser-
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In this environment, entrepreneurship means undertaking activities for the mutual benefit of the entrepreneur and the entrepreneur’s suppliers, employees, and customers. The result is that the general welfare is enhanced by the wealth-generating activities of the entrepreneur. However, if a society’s institutions are designed such that the way people prosper is to place themselves in situations where they can transfer resources from others to themselves, entrepreneurial individuals will be looking for profit opportunities that result in destructive activities. In a lawless society entrepreneurial individuals might find greater profit opportunities through theft than through production—which would leave producers vulnerable to those who specialize in theft. In a society that is characterized by substantial government transfers, subsidies to business, and regulatory barriers to productive activity, entrepreneurial individuals might find greater profit opportunities in trying to secure government transfers rather than engage in productive activities, as Krueger (1974) noted. Under a certain set of institutions, the best profit opportunities are predatory—transferring wealth from other people—rather than producing wealth.

The question of whether current economic activities are undermining future prosperity is thus best seen as the question of whether current economic activities support productive entrepreneurship, or whether they channel people’s entrepreneurial instincts toward unproductive or destructive activities. Institutions that undermine productive entrepreneurship will undermine future prosperity.

7. Entrepreneurship and Risk

Entrepreneurship always carries with it a degree of risk, because one can never be sure whether resources invested in an entrepreneurial venture will pay off. People tend to think of entrepreneurs as people like Henry Ford, Steve Jobs, and Bill Gates: people whose entrepreneurial actions did pay off. The common view is that they are businesspeople who inevitably make money. There are many more people, however, who thought they had a good idea and invested resources into it, but ended up being wrong, and for one reason or another, ended up generating losses rather than profits. Henry Ford was successful in the automobile industry, but many others failed in that same industry. Steve Jobs was successful in the computer industry, but many others failed in that same industry. Focusing on successful entrepreneurs tends to overlook the implications of the riskiness inherent in entrepreneurial activities.
The risks involved in theft are obvious, either as a result of government punishment or more direct action on the part of the victim. Rent-seeking runs the risk that resources devoted to it may not generate the rents. Similarly, engaging in productive entrepreneurship runs the risk of a loss. Entrepreneurs always must weigh the risks against the potential returns. If institutions tilt the balance against productive activity by lowering the potential returns, entrepreneurs will be less willing to take those risks. If institutions tilt the balance toward making government transfers easier to obtain, a straightforward implication is that some entrepreneurs will turn their attention more toward competing for government transfers, and away from productive activities. Businesses will lobby for tax breaks, trade restrictions on foreign competitors, and regulatory barriers that favor their businesses over rivals, rather than looking for innovative new products and improved production methods.

One cannot draw the conclusion that business is on the whole profitable, and therefore economic progress will continue. One reason is that some business profits do in fact come from rent-seeking and destructive entrepreneurship, so when institutions allow predatory entrepreneurship, profits are not necessarily an indicator of productive activity. Another reason is that if the business environment becomes sufficiently uncertain, firms will be reluctant to commit resources at present toward projects whose profits appear less certain. Productive entrepreneurship requires institutions that assure entrepreneurs that if they engage in productive activities, they will be able to keep the profits from those activities. The prospect of a small profit may not be sufficient to ensure entrepreneurial innovation when one recognizes that uncertainty about that profit means entrepreneurs must always balance the profits they hope to make against the risk of losses if they have miscalculated.

8. The Institutional Foundations for Entrepreneurship

Entrepreneurship-friendly institutions are institutions that support productive activity and market exchange, as Harper (1998) notes. Gwartney and Lawson (2004) provide a good guideline to market-friendly institutions in their Economic Freedom of the World (EFW) index, which quantifies the degree to which countries around the world support economic freedom. They identify the institutions of economic freedom as protection of property rights, rule of law, low taxes and government spending, minimal regulatory constraints on economic activity,
freedom of trade, and a stable monetary system. The institutions Gwartney and Lawson identify in their EFW index provide a good starting point for considering whether the institutional structure supports productive entrepreneurship.

Perhaps the most important institutions that provide a foundation for entrepreneurship are protection of property rights and rule of law. Without clearly defined and protected property rights, any wealth entrepreneurs generate is subject to appropriation by someone else. This simultaneously reduces the incentive for productive entrepreneurship—why produce something if there is a good chance it will be taken from you?—and increases the incentive for destructive entrepreneurship, because it becomes relatively easier to appropriate the property of someone else than to produce wealth. On this count, western democracies fare relatively well. Property rights do tend to be secure and ownership rights are well-defined.

Rule of law means that everyone is treated the same under the law. When this is the case, the legal system provides a level playing field for entrepreneurial activity. When it is not, and the legal system favors some over others, this creates the incentive for entrepreneurial individuals to work toward obtaining favored status under the law, so that they can use legal advantages to enhance their wealth. This also removes some incentive for productive entrepreneurship, while creating the incentive for destructive entrepreneurship. Western democracies fare relatively well on this count too.

Low taxes and government expenditures mean that individuals who earn their incomes by engaging in productive activities get to keep most of what they earn. When taxes and government spending is high, this simultaneously reduces the return to productive entrepreneurship, because the government takes a share, and increases the return to destructive entrepreneurship. Higher levels of government spending give entrepreneurs an incentive to engage in rent-seeking activities to compete for a share of government spending. The growth of government throughout the world in the twentieth century has worked against productive entrepreneurship on this count, and government growth shows few signs of abating in the twenty-first century. Rent-seeking—destructive entrepreneurship—has become more profitable, while productive entrepreneurship has become less.

Similarly, regulatory constraints on economic activity have grown, which lowers the profitability of productive entrepreneurship and encourages destructive entrepreneurship. Firms can find it profitable to seek regulatory protection
from their competitors, sheltering their current businesses from competition and lessening the need to take the risks of productive entrepreneurship.

Freedom of trade is always threatened by the potential for protectionist policies, driven by firms who want to be sheltered by government policies against competitors. The good news is that the benefits of free trade are generally recognized, and there does not appear to be a long-run trend toward increased protectionism. The final institution noted in the EFW index is monetary stability, and the past several decades have seen a dramatic increase in monetary stability worldwide. After substantial inflation in developed economies around the world in the 1970s, inflation has come down and policymakers understand the benefits of a stable monetary policy. Hyperinflation—once common in less-developed economies—is rare. Freedom of trade and monetary stability are two areas that appear to be working in support of productive entrepreneurship.

The major threat to productive entrepreneurship in wealthy economies is government growth—both regulatory growth and expenditure growth. High taxes and regulatory barriers reduce the returns to productive activity. Entrepreneurs who might take risks if they could keep the profits, or if they were not prohibited from risk-taking by regulation, will not take the same risks when the government takes a substantial share of any returns from risk-taking. Through the tax system, the government shares in a firm’s profits, but any losses are borne entirely by the risk-takers. Meanwhile, higher government expenditures and increased regulation makes rent-seeking more profitable. Firms compete for a share of government revenues, and push for regulations that give them advantages over other firms and protection from competitors.

The balance is shifting because of government growth, so that productive entrepreneurship is becoming less attractive relative to destructive entrepreneurship. This is why future prosperity is being undermined by current economic activity.

9. Conclusion

Ever since the publication of Malthus’s (1798) *Essay on Population*, people have expressed the fear that current economic activities are undermining future prosperity. Malthus’s concern, and the concern of those who have followed him, was that people were using up resources at an unsustainable rate. During Malthus’s time, when poverty was widespread, he foresaw a future in which people remained in poverty, pushed to a subsistence level of existence because of resource
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constraints. The two centuries since have seen an increase in standards of living that would have been unimaginable to even the most farsighted of Mathus's contemporaries, but Mathus's concerns continue in current policy debates. That same Malthusian argument that unsustainable resource use will lead to economic collapse is as current at the beginning of the twenty-first century as it was at the end of the eighteenth.

An evaluation of this argument must begin by understanding the cause of the remarkable economic progress that has occurred since the beginning of the Industrial Revolution. Malthus thought that there were barely enough resources to support the world's population in his time, but the world's population has increased from less than one billion in 1800 to nearly seven billion people in 2010. No new resources have been bestowed upon the planet since Mathus's time, but people have learned how to make better use of the resources that are here, so the standard of living of the population seven times as large today is substantially higher than the much smaller population when Malthus lived. Diamond (2005: 509) notes that “… many times in the past the gloom-and-doom predictions of fearmongering environmentalists have proved wrong…” but argues that, as with the boy who cried wolf, there are good reasons to take these gloom-and-doom predictions seriously today.

One must look at the history of the past 250 years and think that the economic progress that has occurred since the Industrial Revolution has not been related to the availability of resources, because no new resources were created, but rather to the increases in creativity and innovation that led to better use of available resources. That innovation was driven by entrepreneurship, and the growth in entrepreneurship paralleled the development of market institutions, as the historical evidence shows (Mokyr 1990; Landes 1998). The future of economic progress hinges on maintaining the capitalist institutions that foster entrepreneurship: the same factor that has been responsible for the economic progress of the past.

The importance of entrepreneurship is underrecognized because it is too easy to take for granted the continual march of economic progress that everyone on Earth today has seen throughout their lifetimes. Taking economic progress for granted, it is easy to argue that income inequality requires substantial redistribution programs to produce social justice, and that corporations need to be regulated so that they are not able to use their economic power to take advantage of the general population. The market economy itself is often characterized as a system run on greed, where some people are able to use their wealth to under-
take activities that work against the public interest. The policies that follow from this line of reasoning undermine the market institutions that are necessary for the entrepreneurship that has produced the current level of prosperity, and that will continue generating economic progress, as long as those market institutions remain in place.

Those market institutions and the entrepreneurship they engender are threatened by economic policies that emphasize redistribution over production, that argue for increasing the size of the government sector of the economy relative to the market sector, and that advocate regulatory control over people’s economic decisions. If public policy continues to move in this direction, as it has for a century, then yes, current economic activities will undermine future prosperity.

In the 1940s Friedrich Hayek (1944) saw changes undermining market institutions as the road to serfdom, and Joseph Schumpeter (1943) expressed the concern that those who reaped the greatest benefit from capitalism were unwilling to stand up and defend it, so it was in danger of being undermined by democratic institutions. The threats Hayek and Schumpeter perceived remain alive in the twenty-first century. Prosperity is generated by ideas, innovation, and entrepreneurship. If the Malthusians turn out to be correct, it will not be because people have depleted the Earth’s resources, but because, not recognizing the true causes of prosperity and progress, economic policies will have undermined their foundations.

References


