

The Five Forces

That Affect

Prosperous Nations

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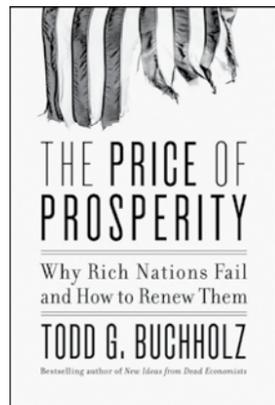
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The Price of Prosperity: Why Rich Nations Fail and How to Renew Them
by **Todd G. Buchholz**
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Author Todd Buchholz talks with

TIE's David Smick about his latest book.

Smick: In your new book, *The Price of Prosperity: Why Rich Nations Fail and How to Renew Them*, you have the amazing ability to make reading about economics a fun experience. You bolster your thesis with interesting and provocative anecdotes. Congratulations—it's very difficult to make this stuff as lively as you have.

Let's start with your main thesis that nations are just as likely to unravel after periods of prosperity as during periods of depression. Why is that so, and what are the forces that threaten to unravel prosperous nations?

Buchholz: Many people have written about how poor nations fall apart. They discuss Syria, Sudan, Libya, and so on. But we have seen rich nations fall apart as well. My family recently celebrated the 100th birthday of my wife's grandmother, and the 102nd birthday of her grandfather. When these two were born, a Habsburg empire and an Ottoman empire stretched across middle Europe and the Middle East. Now those empires are long gone. They didn't fall apart due to a terrible depression that led to starvation and insurrection. Instead, they unraveled.

Five forces, I submit, are common among nations as they become more prosperous, but then lead to their unraveling. Together they make up what I call the price of prosperity. One of them is falling birth rates. When countries grow rich, people have fewer babies. That's not just something that we've seen in the last twenty or thirty years in the United States. It's something that Victorian England experienced, as did France in the early 1800s. Even Aristotle wrote about it when describing the Spartans.

In peasant economies, more kids meant more prestige. We used to size up a man by counting his children. Now we count Rolex watches, six-pack abs, and Twitter followers.

Why do wealthy countries have fewer kids? In modern times, you don't need children as farmhands or to crawl on their bellies into coal

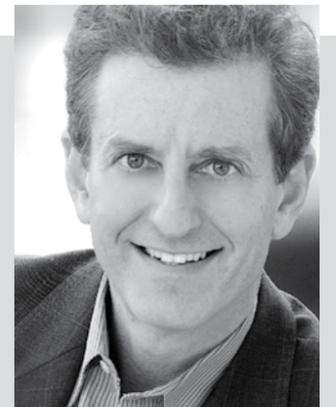
mines, so prosperity turns children more into luxury goods—as if they were pets. As Gary Becker, the Nobel laureate from the University of Chicago, put it, in modern times people see a tradeoff between the quality and the quantity of children. Parents would rather have a few kids but get each of them into a super-competitive college, invest in orthodontia so they have perfect smiles, get them perfect haircuts and the latest fashions, rather than have six or eight kids running around with smudged faces and buck teeth.

So what's the problem? If life expectancy expands, someone has to service people as they get older. Someone has to act as a respiratory therapist in the hospital. Someone needs to clip toenails at the nail salon. That means a country with a falling birthrate generally needs immigrants. Immigrants can provide a very positive charge for the economy, but they raise a challenge: A country cannot maintain its character and its sense of patriotism amidst newcomers unless the newcomers embrace the dominant culture and adopt the history of their new home. That was a problem faced by the Habsburgs and

Free Market Victims

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—T. Buchholz



Todd Buchholz

the Romans and virtually every other successful civilization that is now relegated to history books.

All of these issues are paradoxes because they're both demonstrations of prosperity, but carry the possibility of undermining that prosperity.

Smick: You had some interesting data on economies that grow faster than 2.5 percent annually for a certain period. Can you explain that further?

Buchholz: Essentially, the population replacement rate is about 2.1. In other words, you need a fertility rate just over two children per woman if the population is not going to shrink. Looking at the data throughout history, I found that when GDP growth begins to exceed 2.5 percent and continues at that pace for roughly two generations, then the fertility rate drops to just over the replacement rate. A handy rule of thumb is 2.5 percent growth for two consecutive twenty-five year periods brings the fertility rate down to 2.5. But then if GDP growth continues for a third generation, the fertility rate

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drops to or below the replacement rate of 2.1. At that point, the nation needs immigration to maintain a stable working population.

Smick: On trade, you said it eventually shakes the customs and character of nations, which is an interesting observation. Give us a little more of what you mean.

Buchholz: Nations can't get wealthy or stay wealthy unless they trade, and we know that countries that don't engage in trade turn stale or rotten. The most extreme example is North Korea. Other examples include the Soviet Union, which wasn't able to keep up, and Cuba, which was stunted.

The downside of trade is that countries can lose their missions or their sense of selves. "Made in USA" used to be a symbol of pride. But we've moved from "Made in USA" to "Made in Wherever's Cheaper" or more strategically superior in the view of the manufacturer.

Compare the Boeing 787 to the Boeing 747. In 1968, Boeing unveiled the 747 with great fanfare as a symbol of American ingenuity and manufacturing might, and the plane was made almost entirely in the United States. The new Boeing 787 is also a widely admired marvel of ingenuity. But its components are made in countries throughout the world in order to drum up support so that Boeing can sell its jets everywhere. The 787 is no longer a mighty symbol of uniquely American know-how or a reason for Americans in particular to feel pride. That pride has been diluted and diffused throughout the world.

In a more globalized economy, businesspeople find that their counterparties are on the other side of national borders. A software salesman or hedge fund analyst may have much more in common with a salesman or an analyst doing similar work in Bangalore than a fellow citizen in Burbank. Sure, these new, far-flung relationships help the economy create wealth and allow firms to take advantage of the best pricing. But at the same time, they undermine the sense of the country itself.

Smick: U.S. presidential candidates Donald Trump and Bernie Sanders both pointed out that almost half the country lacks the savings to cover an unexpected \$500 repair bill or medical expense.

Buchholz: Those of us who wore Adam Smith neckties and consider ourselves disciples of Milton Friedman have been advocating free trade for a long time, but we didn't spend enough time admitting overtly that free trade creates victims. Overall, trade makes the country better off. It raises GDP and the overall standard of living. But it also punishes individuals who either do not have appropriate training or skills or are victims of

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miserable management that is unable to compete with companies in other countries. Free markets are not pain-free markets. That's what Trump and Sanders are tapping into.

Smick: What's the third force that leads to a prosperous nation unraveling?

Buchholz: The third force is debt. As countries grow richer, they build bigger bureaucracies and they tend to inflate their debt loads. Your readers are familiar with Mancur Olson's well-known book, *The Rise and*

Decline of Nations. He argued that as countries get older, they build bigger bureaucracies.

On top of that, I suggest something I call the Paradox of Theft. It recalls John Maynard Keynes' Paradox of Thrift, which was his argument that if a nation starts saving more, it will spark a recession because retail sales will plunge. Here's my Paradox of Theft: poor families tend to be more indebted than wealthier families as a percentage of income; yet wealthier nations are more indebted as a percentage of GDP than poorer nations.

This can have political implications. One reason why Russia's Vladimir Putin could strut bare-chested through Crimea was that he wasn't worried about borrowing in the international bond markets. Russia's debt level was low. Now granted, with the collapse of commodity prices, the Russian economy has since rolled over. But why is it that wealthy countries borrow more? Because they can! People will lend to them. And then they build even bigger bureaucracies.

So who will be responsible for the debts? If your father is a spendthrift and dies broke, as his son or daughter, you are not legally required to pay his debts. However, when our politicians rack up debts and then retire or die, we and our children and grandchildren get stuck with those liabilities. Because prosperous nations can borrow and because we lack appropriate incentives for our contemporaries to look out for future generations, debt levels climb higher. That's what I call the Paradox of Theft.

Smick: So public debt is much more dangerous than private debt.

Buchholz: Exactly. For private debt, a borrower must persuade someone to lend the money, and it's not backed by the full faith and credit of the government.

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But when it comes to public debt, we seem to have an almost inexhaustible ability to borrow, bond vigilantes notwithstanding.

The next force I talk about is the work ethic. We've seen the U.S. labor participation rate decline sharply. In a recent jobs report, it actually ticked downwards again.

When countries become more prosperous, people don't go hungry. They just stop waking up early. Everyone has a comfortable bed, but fewer have a reason to get out of it in the morning.

Smick: You had some interesting policy prescriptions for addressing this issue.

Buchholz: One idea, to turn unemployment benefits into a signing bonus, I proposed in a *Washington Post* essay a few years ago. We should incentivize people to accept a job sooner rather than later. I would argue that if they accept a new job that pays less than the old

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job they were laid off from, the bonus should be bigger to further incentivize them to accept the new job. As I pointed out in my prior book, *Rush*, sitting around at home endangers one's physical and mental health.

And let's not forget the costs we face on the disability insurance front. Millions more people collect on disability claims, even though jobs are safer than ever before in history. It's rather staggering to think that these days, when fewer people are working in meat-cutting plants with whirring blades threatening to cut off their fingers, or literally doing back-breaking labor, that we've got more people on disability. Some of them have never done anything more strenuous than swivel in a Herman Miller Aeron chair. My book presents statistics about certain states—in West Virginia, for example, where the disability rate is frighteningly high.

A couple of years ago, the *New York Times* reported that nearly every single retired member of the Long Island Rail Road was collecting disability. They tracked down all these people and found them on the golf course and the tennis courts and in the bowling alleys. The other thing you find is that when people receive disability payments, they almost never re-enter the workforce, even if offered a job that's less demanding on their bodies. Prosperous countries can afford this up to a point. But you wonder when that point becomes critical and part of the unraveling.

The last factor is the challenge of maintaining patriotism in a multicultural country. As I argued, as a result

of trade and falling birthrates, we are destined to become and should become a multicultural country. Obviously, the United States has already become one. But the question is whether there's any way to maintain a sense of history and a sense of character? The United States did a pretty good job in the first half of the twentieth century, inviting tens of millions of immigrants who came and embraced America and the American ideals and added to the national culture.

*For every entrepreneurial wiz,
you've got thousands of kids on mom's
basement sofa who may consider
themselves a commander
at World of Warcraft.*

We've applauded all sorts of sports heroes with names like Nagurski, DiMaggio, and Trevino who are symbols of America. It's not as if immigrants need to worship only dead white Anglos. People ought to be contributing new heroes.

Smick: You have an interesting term: "patriotist." You also talk about how to build better communities with new or more desirable institutions.

Buchholz: A patriot is someone who loves his or her country. I call a "patriotist" a person who believes as a matter of principle that it's a good thing to love your country. We all (one hopes) love our mothers, but it's another thing to say that, as a matter of principle, people should love their mothers. The concept of being a patriotist has been under attack. In the book, I quote Howard Zinn and others who deplore much of American history.

In a more multicultural country we can't avoid the question of whether it is a good thing to be devoted to and to adore your country. Many so-called intellectuals answer "no." They ask, why aren't other countries just as deserving of our affections? You see schools replace the Pledge of Allegiance with a pledge of allegiance to the

world. And instead of singing "America the Beautiful," they sing about global warming and battling pollution.

Smick: You see it in the corporate world. You quote Nader's survey of corporate types. It's interesting how they do not identify themselves as American corporations as much as international organizations.

Buchholz: A corporation has obvious incentives to maintain its trade relationships. But individuals don't face that obligation. An individual doesn't lose money by raising the American flag in the morning.

I think everyone applying for a green card or applying to immigrate should be required to have his or her passport stamped by at least five different historical sites or museums or libraries—for example, Gettysburg, Paul Revere's house, the Museum of Tolerance, or the Statue of Liberty. Americans, and in particular American students, should be under the same obligation. If you're applying for a student loan from the government, I would require you, too, to have your passport stamped at any number of historical locations. How can we expect foreigners or immigrants to embrace a country if the people who live here don't appreciate it? Of course, this does not mean that criticism should be silenced. We should be protesting and holding placards and denouncing corrupt politicians and incumbents who fail us. Of course we should do that.

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But at the same time, we have to ask ourselves, do we care whether this particular country is going survive or not?

Smick: The American idea is unique in the world. You would think if you were coming here, you would want to embrace that.

Buchholz: One of the few uplifting things I've seen recently is the musical *Hamilton*. Not only is it great

entertainment, but the very idea that this multicultural cast, largely African-American and Hispanic, is portraying the Founding Fathers and claiming them as their own instead of relegating them to the dustbin of dead white males is the attitude that needs to be embraced.

I see an obligation for those who were born here to turn to immigrants and say, "You are just as entitled to embrace and celebrate Thanksgiving—and to feel as if you yourself came over on the Mayflower—as any Connecticut Yankee who can trace his roots to the Pilgrims at Plymouth Rock." And immigrants, I believe, have an obligation to feel affection for our founding. If they don't, then they are welcome to visit and to shop at our stores at the airports, but they shouldn't go much beyond the airports.

Smick: A lot of our readers either have children or grandchildren who are millennials. What advice and/or warnings do you have for today's millennial generation, so different from our own baby boomer generation? Are you pessimistic or optimistic about their future?

Buchholz: I'm hopeful for the millennials. I'm concerned about the distribution not of income, but of work ethic. There's a sliver of Americans in the upper middle classes who are goaded by their parents to work hard, to study for the

SATs, to pry their way into the best schools, to find good internships, and they all feel as if they're in some rat race. High schoolers drink coffee and stay up until two in the morning because they've got to take five Advanced Placement classes. They suffer all sorts of stress and anxiety.

Those of us who are in that community are mistaken to think that these kids reflect the broad swath of the American population. A huge proportion of the population is not prodded and tutored and mentored. For every entrepreneurial wiz, you've got thousands of kids on mom's basement sofa who may consider themselves a commander at World of Warcraft. But they don't have the grit to get off the sofa and get out of the house. Prior generations, including my own, took summer jobs and sometimes after-school jobs. We didn't necessarily learn very much. But...

Smick: Just having to get up and get dressed and go to a job and arrive on time is a big deal. We took it for granted.

Buchholz: If we're not going to require millennials to work sooner, then we've got to give them advice on how to be grittier and how to handle surly bosses and how to devise for themselves a continuing education.

Smick: Thank you very much. ♦