

# **The Great Danes: Cultural Values and Neoliberal Reforms\***

**(\*Or: Is There Nothing Rotten in Denmark?)**

**By**

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**Note to GMU seminar attendees:** This paper was written in the summer of 2008. I presented the paper last fall to a mixed group of business and liberal arts faculty at Bentley University, which explains why it is hodgepodge of empirical economics research and *ad hoc* philosophical speculation. I then became distracted by work on the financial crisis, and have not had time to revise it. At GMU I plan to focus my talk on the first half of the paper, up through page 23. There is no need to read the various appendices (they are included for those readers who are interested in my blog.) Despite these disclaimers, I found the empirical results on culture and neoliberalism to be quite interesting, and I look forward to your comments.

## The Great Danes: Cultural Values and Neoliberal Reforms

“Virtually every commercial transaction has within itself an element of trust . . . It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence.” (Kenneth Arrow, Gifts and Exchanges, *Philosophy and Public Affairs*, 1972, p. 357.)

I don't know whether Arrow is correct, but the following anecdote might help to illustrate the concept that Arrow had in mind. While traveling in Northern Michigan this summer I noticed farm stands by the edge of the road selling cherries. Often, no salesperson was present. One simply placed a five dollar bill in a small metal box, and drove away with a quart of cherries. This system makes one realize the enormous waste of labor resources involved in someone waiting by the roadside for motorists to stop and purchase cherries, and may be one reason why high-trust societies tend to be relatively prosperous.

In this paper I plan to examine the relationship between cultural attitudes toward the common good and neoliberal policy reforms. The basic hypothesis is as follows: In the last three decades there has been a worldwide shift away from one aspect of socialist economic policies. This shift was not the product of powerful special interest groups, nor was it triggered by a shift in values. Instead, the economic problems of the 1970s led to a changing *worldview* about the effect of interventionist policies. The economic reforms that followed often led to little or no change in the size of government (as measured by ratio of government spending to GDP) but did lead to a massive wave of privatization, deregulation and reductions in high marginal tax rates. I will call this mixture of free markets and egalitarian social insurance *neoliberalism*.

At the risk of oversimplification, it may be useful to distinguish between three forms of economic liberalism. Classical liberals favored free markets and small government. During much of the 20<sup>th</sup> century, American liberals and European socialists favored income redistribution and interventionist (or *statist*) economic policies. Neoliberalism is then a post-modern hybrid of laissez-faire capitalism and socialism—what Tony Blair called “the third way.” I hope to show that neoliberal policy regimes are now most likely to occur in countries that have highly liberal values—defined as including (among other things) a strong commitment to promoting the common good. Almost all countries moved at least slightly in the direction of free markets during the 1980s and 1990s, but the changes were most effective when not resisted by selfish special interest groups. The title refers to the fact that Denmark leads the world in an amazing number of categories, including liberalism. We will see that by several different metrics the Danes have an unusually strong sense of civic responsibility and also have the most neoliberal economy in the world.

The reader should be warned that this research is very preliminary. You will find that I have grossly oversimplified a number of complex cultural issues in a (failed) attempt to prevent the paper from sprawling into endless digressions (but also because I am ignorant of the relevant literature.) Instead, I frequently refer the reader to various appendices, which discuss assumptions and provide some preliminary thoughts on issues that I plan to study next year. Please regard this paper as a plan for further research, rather than a completed project.

### 1. Genesis of this Project

Most of my career has been spent studying macroeconomics, especially the role of monetary policy in the Great Depression. In a recent paper (2006) I argued that the evolution of monetary theory from the Quantity Theory to Keynesianism to new Keynesianism was motivated by changing worldviews; the Depression discredited the Quantity Theory and the ‘Great Inflation’ of 1966-82 discredited old Keynesianism. More specifically, I argued that early Keynesianism was partially based on a misreading of the Depression. New Keynesianism combined the best features of the Quantity Theory (or monetarism) with the best features of old Keynesianism.

More recently I noticed a similar dialectic at work in the broader field of economic policy. Even before the onset of the Great Depression capitalism was widely seen as being unfair. After the

Depression, it didn't even seem to be very efficient. But as with old Keynesianism this view was partly based on a misreading of events, and the modern liberalism that replaced laissez-faire ran into its own problems in the 1970s. It is important to recognize that the resulting neoliberal revolution was almost entirely non-partisan—governments of both the left and right moved away from statist policies during the 1980s and 1990s. This policy revolution cannot be explained by resorting to theories of nefarious special interest groups suddenly gaining power, nor does it seem plausible that there was a sudden, simultaneous shift in values in countries as diverse as Chile, China, Britain, Russia and India.

As an aside, I obviously must abstract from a lot of real world complexity in order to put all forms of liberalism into three boxes. Some might object to my definition of classical liberalism as small government. The classical economists did not favor complete laissez-faire, and thus the term 'libertarian' might be more appropriate for small government. However even the smallest government in the developed world (say Hong Kong) might have looked rather large to Smith, Hume, or Mill, so the term 'classical liberalism' is not far off base. Modern liberalism represents an ideology that became increasingly accepted during the late 19<sup>th</sup> and early 20<sup>th</sup> centuries, and reached a peak sometime around 1973. Neoliberalism is the ideology of free markets; its adherents favor letting prices reflect opportunity costs, open competition, secure property rights and the rule of law. For developed economies, property rights and the rule of law have been (relatively) secure, and thus the neoliberal revolution was mostly about privatization, deregulation, and lower marginal tax rates. In America, the revolution was less pronounced than elsewhere, consisting mainly of price and market access deregulation, tax cuts, welfare reform, and NAFTA. All four initiatives were widely supported by Democrats, and three occurred primarily under Democratic administrations.

The preceding dialectic led me to wonder whether the term 'liberalism' has any stable meaning. At various points in history, people identified as 'liberals' have been on both sides of virtually every major issue; including the desirability of free markets, an interventionist foreign policy, a color-blind society<sup>1</sup>, restrictions on commercial and hate speech, eugenics, paternalist laws against "vice", etc. If there is no stable liberal ideology, is there a stable liberal value system? I hope to show that there is.

I can see two ways of identifying the core liberal values. One approach would list attributes often associated with liberalism; idealistic, progressive, egalitarian, and secular/rational. Another would be to look for a single core value from which the preceding list is derivative. Thus the term "progressive" suggests a desire for progress, but the term 'progress' begs the question: To what end? The same holds true for the term 'idealistic'. In the end I concluded that the only simple value system that I could find that seemed consistent with (most of the) many diverse views of liberals was some sort of pragmatic utilitarianism. That is, liberals are people who favor policies that, *they believe*, will maximize aggregate utility.<sup>2</sup>

I understand that not everyone will be happy with the equation of liberalism with utilitarianism, and in Appendix B I discuss why I reached this tentative hypothesis. For the moment, let's return to the other five liberal values listed above, as the implications of utilitarianism aren't always clear. In America, the term 'progressive' now means left-wing. This is unfortunate, as this term best reflects the meaning of liberalism in all its various ideological permutations.<sup>3</sup> At each and every stage of modern history, the

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<sup>1</sup> Of course American conservatives have been equally inconsistent in their "principles", and at least liberals can claim to have always sided with the underdog.

<sup>2</sup> As an aside, I will use the terms 'utility' and 'happiness' interchangeably in this paper. However, this is only appropriate if we define happiness broadly to mean "subjective well-being", or "subjective life satisfaction", not simply the narrow Benthamite concept of pleasure. I discuss this problem more fully in Appendix B.

<sup>3</sup> Alfred Kahn (who served in the Carter Administration and who helped to start the neoliberal revolution in America) recently complained that "there is nothing either 'progressive,' 'liberal' or desirable about—successively—populist protectionism, xenophobia, competition—suppressing regulatory cartelization, repression of energy prices, recourse to price controls as a remedy or prevention of inflation or a rush to rein in or hamper the dynamic market processes of technological change."

“liberals” have been the group most associated with progress. Alternatively, liberalism is the value system of most intellectuals who address public policy issues.

When I suggest that liberals tend to be rational/secular I mean that they believe we should strive to improve society (in utilitarian terms), without being hamstrung by traditions or religious dogma. I don't mean to suggest that conservatives are irrational, or that there is no merit to the (Burkean) conservative suspicion of radical change. If a reform that promises greater aggregate well-being conflicts with religious beliefs and/or tradition (say gay marriage), liberals will be more likely to embrace the reform than conservatives.<sup>4</sup> Liberals tend to focus more on the practical effects of providing clean needles to drug addicts, or condoms to high school students, whereas conservatives focus more on the “message that society would be sending.”

Many non-economists seem to view utilitarianism as an inegalitarian value system. Perhaps this is because economists tend to be utilitarian, and economists are often seen as being insufficiently concerned about inequality.<sup>5</sup> However utilitarianism is implicitly egalitarian in two important ways. First, although it places zero value on equality per se, utilitarianism does implicitly assume that every person's well-being is of equal value. In contrast, most people in the real world probably tend to favor those most like themselves. In addition, it is widely believed that a poor person derives much more utility from an extra dollar than does a rich person. This is why most economists favor policies that lead to a more equal distribution of resources. I see their egalitarianism as an implication of utilitarianism, rather than a separate value.

My characterization of liberalism may give the impression that I believe liberals to be more caring or generous than others. That is not my intent. Conservative America donates more to charity than liberal Europe, and within America conservatives give more generously than liberals.<sup>6</sup> Instead, I see liberals as people who have a particularly egalitarian, or expansive, notion of “us.”<sup>7</sup> Some people may be very generous and loyal to fellow family members, others think in terms of their tribe, or ethnic group. I don't see any evidence that any one group of people is more caring than any other; it's simply a matter of their sympathy being focused in different directions. (In Appendix A I briefly discuss ethnocentrism.) In America, conservatives are often viewed as being somewhat nationalistic whereas liberals are characterized as being cosmopolitan internationalists. For instance, I think it's fair to say that American liberals focus more on the welfare of illegal immigrants than do conservatives. And I notice that the liberal media spends more time covering foreign civilians accidentally killed by the U.S. military than do the conservative media.

I am not claiming that the values I focus on in this paper even come close to characterizing all of the differences between self-described liberals and conservatives. Nor would I deny that there is often a rather large overlap in values between the various ideologies. I have never met anyone who doesn't hold at least some liberal and some non-liberal values. Conservative Christians and Moslems often regard each person as having equal worth, but hold illiberal views on many social issues. On the other hand aristocratic conservatives and fascists might not value each person equally, but otherwise may have a secular/rational perspective. One problem with the hypothesis in my paper is that in certain respects it doesn't really fit America very well. America is relatively conservative for a rich country, but it is a relatively “liberal” (or idealistic) form of conservatism. Thus American religious conservatives often have egalitarian values, and patriotic conservatives may emphasize the importance of civic virtue. In

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<sup>4</sup> It should be noted that by this criteria some people called ‘conservative’ in America, including pragmatic libertarians such as Milton Friedman, actually hold liberal values. On the other hand, dogmatic libertarians who believe in a natural right to property and that “taxation is theft”, are not liberals.

<sup>5</sup> I see this as resulting from a misunderstanding of economics. Non-economists often confuse differences in economic worldviews with differences in values, as worldview differences are often difficult to comprehend.

<sup>6</sup> See Brooks (2008.)

<sup>7</sup> Liberal philosophers such as Peter Singer suggest that the maxim of utility maximization should extend to all sentient animals.

other relatively illiberal societies it is often the case that people's loyalties are more strongly focused on the region, tribe, industry, or family unit, rather than the broader society. Later we will see that this distinction is of great importance for good governance. (In Appendix C I speculate about the origin of liberal values.)

As I began to think about the various forms of economic liberalism, it occurred to me that the divisions were generally based on differing worldviews, not values. Although many economists seem to share a broadly liberal (or at least utilitarian) value system, they often sharply disagree over public policy issues. In those disputes, the more "right-wing" (or classically liberal) one's policy views, the more likely one is to hold an economic worldview. In contrast, left-wing liberals tend to hold what I call a "common-sense" worldview. I use the term 'worldview' in the sense of "views about causality." Consider the following common-sense worldviews:

1. People don't respond very strongly to economic incentives. (I.e., higher prices don't discourage consumption by very much, and higher taxes don't reduce peoples' work effort very much.)
2. Imported goods, immigrant labor, and automation all tend to increase the unemployment rate.
3. Most companies have a lot of control over prices. (I.e. oil companies set prices, not "the market".)
4. Policy disputes over taxes and regulations are best thought of in terms of who gains and who loses.
5. Experts are smarter than the crowd.
6. Speculators make market prices more unstable.
7. Price gouging hurts consumers.

I define the *economic worldview* as essentially the mirror image of the preceding seven assertions: incentives matter much more than one would expect; imports, immigrants, and automation do not raise the unemployment rate, prices are primarily determined by market forces, tax and regulatory policies often have little overall effect on income distribution, and a big effect on efficiency, the crowd (or market) is smarter than the expert, speculators tend to stabilize prices, and price gouging is socially beneficial. This is just a small sample of the many ways that economists dissent from popular opinion. (In Appendix D I provide some more examples in support of this hypothesis.)

It should be noted that not all economists have a completely economic worldview. This worldview is certainly most pronounced among right-wing economists, but even center-left economists (who are in the majority) tend to have a much more economic worldview than non-economists. Throughout this paper I assume that "ideologies" reflect values plus worldviews. Thus the liberal worldview has many different ideologies. I follow the standard practice of assuming that the term "left" applies to more socialistic versions of liberalism and the term "right" applies to more libertarian, or classical liberal, versions of liberalism. In Appendix E I discuss examples of both liberal and illiberal ideologies.

Among liberals who are not economists, the common sense worldview is much more prevalent. For instance, Orwell (1937) claimed that socialism was a common-sense ideology:

"Everyone who uses his brain knows that Socialism, is a way out [of the Great Depression] . . . Indeed, from one point of view, Socialism is such an elementary common sense that I am sometimes amazed that it has not established itself already."

The quotation nicely encapsulates two prevalent views of liberal non-economists; that smart people are liberal, and that commonsense suggests the government should play a major role in the economy. Further evidence in support of Orwell's quotation comes from the current financial crisis sweeping the world, which has led most "common sense" pundits to call for increased regulation, or even a new "New Deal."

In future research I hope to show that changes in the persuasiveness of the economic worldview accounts for much of the variation in liberalism over time and across countries. For the moment, let's assume that the problems of the 1970s gave some added prestige to the economic worldview, and that well-intentioned policymakers were led to adopt market reforms. In that case, the most successful neoliberal reforms would have occurred in those countries where people had the strongest sense of devotion toward achieving the common good, whereas reforms might have been prevented or distorted in cultures where people focused their concern more on the family, tribe, or special interest group. This is what I hope to test. (In Appendix F I provide an example of a worldview in the process of shifting.)

Over the past few years I have become increasingly aware of the fact that the Nordic countries<sup>8</sup> tend to be both highly liberal (in terms of values), and surprisingly neoliberal in terms of economic policy. I say "surprisingly" because despite their reputation as being vaguely socialistic, they have privatized a wide range of industries that are generally government run in "capitalist" America. In recent years, Northern Europe has (partially) privatized water systems, school systems, postal systems, passenger rail, airports, air traffic control, and social security. And for quite some time these countries have pursued relatively open policies regarding trade and investment. Yet the mildly socialist reputation of the Nordic countries is not entirely undeserved, as they do have some of the most generous social insurance programs in the world, and also tend to exhibit the lowest levels of income inequality.

Last year I became aware of some highly influential research by two French economists on the relationship between attitudes toward the common good and employment policies. They found the Nordic countries to have the most "public-spiritedness", and also found that these values were positively correlated with generous unemployment insurance and strong labor unions. Conversely in countries where people had less sense of solidarity with the broader society, policymakers protected workers with laws making it difficult to lay off workers, and relied more on minimum wage laws rather than labor unions. Algan and Cahuc (2008) were particularly intrigued by Denmark's "flexicurity" model, which gave companies the freedom to easily adjust employment levels, but also promised workers generous unemployment compensation if laid off. They saw this policy as offering an appealing solution to the equity-efficiency trade-off, but worried whether it would work in countries with weaker civic traditions than Denmark.

Their research spurred me to submit a Valente Center proposal to look at the broader relationship between cultural values and economic policy. After all, a lack of civic spirit doesn't just cause people to abuse welfare programs; it also leads special interest groups to sabotage economic reforms that threaten to reduce the rents they earn from statist policies. In the next section I briefly discuss their methodology, and then develop some basic correlations between values and policy.

## **2. Data on Cultural Values and Economic Policy**

Algan and Cahuc used the response to the following survey question as an indicator of cultural values: Under what circumstances is a person justified in "claiming government benefits to which they are not entitled?" It's not too difficult to imagine that a generous policy of unemployment insurance might be more successful in a country where most people replied "never" to this question. Nevertheless, I found some problems with the way Algan and Cahuc used this data, and thus did not solely rely on this

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<sup>8</sup> I believe that the term 'Nordic' includes the four Scandinavian countries (Denmark, Sweden, Norway and Iceland) as well as Finland and perhaps the Netherlands. In the future Estonia and Latvia might be added to this list, but they are currently too poor to be included in this study.

proxy for liberal cultural values. (Several months ago I sent each of them an email challenging the accuracy of their data. They have yet to respond.)

I derived survey data from both the World Values Survey (WVS) and the International Social Survey Programme (ISSP.) I converted both indices to a scale of 0 to 100, and then calculated a simple average of the mean response on the two surveys. Although my data differs in some respects from that of Algan and Cahuc, we both found a similar pattern. The Nordic countries showed the strongest civic values, then the Anglo-Saxon bloc, then Continental Europe and finally the Mediterranean countries. But when I considered extending the research to the former Soviet bloc, and to the developing countries, I found a number of disturbing anomalies. Many middle and lower income countries had low levels of civic values, just as one would expect from the Western European case. But in 1999 countries such as Bulgaria and Romania scored much higher than Sweden despite their reputation for high levels of corruption. And Bangladesh—a country where college students once rioted over measures taken to reduce cheating—scored among the highest in the world, just below Denmark. By leaving out many of these poorer countries, Algan and Cahuc effectively hid this puzzle from their readers.

I think one problem is that the question they relied may not be interpreted exactly the same way in different cultures. In countries where the system of government benefits is viewed as being somewhat fair, cheating is viewed as being anti-social. But consider a society where most government benefits go to well-connected insiders. In that case, most of the population might resent the cheating of those favored groups, even if they would do the same if given the chance. In that case they might respond to the aforementioned WVS and ISSP questions by saying “never”. *The Economist* (7/26/08) recently suggested:

“Crime, corruption and a weak judicial system are overlapping problems. . . .What scandalizes ordinary Bulgarians is that their country, the poorest of the EU, is missing a vital chance to modernise. . . . So foreign criticism [of corruption in Bulgaria], which in some countries might arouse defensiveness, is in fact welcomed.”

That sounds like a country with a culture of corruption, where most citizens would very much like to change that culture. In that sort of society, it is awfully hard to have much confidence in the way that Algan and Cahuc interpret their survey questions. Perhaps that’s why they did not include many former communist or developing countries in their study. For much the same reason, I decided to initially restrict my study to the 32 developed economies with per capita GDPs (in PPP terms) above \$20,000. I excluded tiny nations like Monaco, for which little data is available, and also a few small nations that rely almost totally on oil extraction.<sup>9</sup>

Despite my reservations, I cannot ignore the fact that the Algan and Cahuc study has been very influential. Thus I do use these survey results, but augment them with corruption data from Transparency International (TI.) Of course this data may also be a flawed measure of culture, as it measures behavior not attitudes. For instance, Singapore scores much higher (less corrupt) on the TI index than do other ethnic Chinese countries, perhaps because their government has very strict sanctions against corruption. On the other hand, I think that actual corruption practices do at least partially reflect culture. Singapore has worked hard to change cultural attitudes, and even in mainland China there are very strict penalties for corruption (including the death penalty.) So I believe that differences in corruption reflect more than simply international differences in law enforcement. Some support for this hypothesis is provided by a recent study of parking tickets received by diplomatic representatives in New York City. These individuals were not required to pay parking tickets (due to diplomatic immunity) until recently. Even with identical sanctions, however, those diplomats from countries with high scores on the TI index were much more likely to voluntarily pay their tickets than were those from the more corrupt countries.<sup>10</sup>

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<sup>9</sup> One can argue that oil extraction in the Persian Gulf isn’t really “production”, but merely the conversion of one asset (oil) into another (financial assets.)

<sup>10</sup> See Fisman and Miguel (2007.)

It's not hard to visualize how corruption might be linked to a lack of honesty, but how does this relate to liberal attitudes? Recall that I view liberalism as being an essentially utilitarian value system, and that utilitarianism requires that the well-being of each and every individual is equally important. Then consider how researchers explain corruption:

“But factionalism begets corruption, scholars say. In an “us” vs. “them” environment, it's easier to rationalize corruption as benefiting “us” and costing “them.”

Indeed, according to Edward Glaeser, a Harvard economics professor who has studied corruption and the development of American cities, the history of Boston's long and largely successful fight to stamp out public corruption is, in part, a story of assimilation. A lot changed over the past half century, but one of the things, Glaeser says, was that people started to think of themselves less as partisans of one or another ethnic group or neighborhood and more, simply, as Bostonians. And as they did so, their tolerance for public corruption decreased. (*Boston Globe*, 7/27/08, p. K2)

In the end I decided to convert the TI corruption index to a scale of 0 to 100, and then average each country's corruption score with the aforementioned average of survey results. Later we will see that this average is more closely correlated with economic policy regimes than is either component considered in isolation. Table 2.1 shows the rankings (from most honest to least) for each of the 32 developed countries. In all of my ranking tables I have bolded the Nordic countries, which Algan and Cahuc thought had especially strong civic virtue. They dominate the top positions in all three of my values indices. Denmark is an especially interesting case, with an average values score of 99.68, far above the next three countries, which all score around 86.4 (on a scale of 0 to 100.)

Some might argue that in simply looking at civic virtue, I have constructed a very simplistic measure of cultural attitudes. It is certainly true that cultures vary in all sorts of dimensions, and civic virtue is only one small part of a much broader picture. For the purposes of this study, the question is not whether civic virtue measures “culture”, but merely whether it is a useful proxy for liberal values. I believe that it is, but I understand that this link is not at all obvious. In further research I hope to develop a much broader index of liberal values, by looking at variables such as tolerance of difference lifestyles and beliefs, gender equality, generosity toward strangers who are of different races and ethnicities, etc. In Appendix G I sketch out a few reasons why I believe that the values index that I have constructed will not change very much when I include a richer definition of liberalism. If I am wrong, I can still do interesting empirical work linking civic virtue and economic liberalism, but I wouldn't be able to construct a new and integrated theory of liberal values and liberal economic policies, which is my ultimate goal.



**Table 2.1 Cultural Values and Economic Policy Regimes**

Liberal Values Rankings			Free Market Rankings		
Honesty Toward Government	(Lack of) Corruption Index	Average Liberal Values	Classical Liberalism	Neoliberalism	Egalitarian Neoliberalism
1. Malta	1. DENMARK	1. DENMARK	1. HongKong	1. DENMARK	1. DENMARK
2. DENMARK	2. FINLAND	2. ICELAND	2. Singapore	2. HongK.	2. SWEDEN
3. NETH.	3. New Z.	3. NETH.	3. Ireland	3. Ireland	3. Britain
4. NORWAY	4. Singapore	4. SWEDEN	4. Australia	4. Australia	4. Belgium
5. ICELAND	5. SWEDEN	5. New Zealand	5. United St.	5. Britain	5. NETH.
6. SWEDEN	6. ICELAND	6. NORWAY	6. New Z.	6. United St.	6. Ireland
7. Australia	7. NETH.	7. Switzerland	7. Canada	7. Singapore	7. Australia
8. Canada	8. Switzerland	8. Canada	8. Switzerland	8. NETH.	8. United St.
9. S. Korea	9. Canada	9. Australia	9. Britain	9. New Z.	9. HongKong
10. Switzer.	10. NORWAY	10. HongKong	10. DEN.	10. Canada	10. Canada
11. Japan	11. Australia	11. FINLAND	11. NETH.	11. Belgium	11. New Z.
12. Ireland	12. Luxemb.	12. Britain	12. ICELAND	12. Switzer.	12. FINLAND
13. Spain	13. Britain	13. Singapore	13. Luxemb.	13. SWEDEN	13. Switzer.
14. Italy	14. HongK.	14. Japan	14. FINLAND	14. FINLAND	14. Austria
15. New Z.	15. Austria	15. Ireland	15. Japan	15. Luxemb.	15. Luxemb.
16. United St.	16. Germany	16. Malta	16. Belgium	16. ICELAND	16. Germany
17. Britain	17. Ireland	17. United St.	17. Cyprus	17. Germany	17. ICELAND
18. Austria	18. Japan	18. Germany	18. Germany	18. Austria	18. Singapore
19. Belgium	19. France	19. Luxembourg	19. Taiwan	19. Cyprus	19. France
20. FINLAND	20. United St.	20. Spain	20. SWEDEN	20. Spain	20. Cyprus
21. Taiwan	21. Belgium	21. Austria	21. Austria	21. Japan	21. Malta
22. Germany	22. Spain	22. Belgium	22. Spain	22. Czech R.	22. Israel
23. Israel	23. Slovenia	23. France	23. NORWAY	23. France	23. Czech R.
24. France	24. Portugal	24. Portugal	24. Czech R.	24. Israel	24. Spain
25. Portugal	25. Israel	25. S. Korea	25. S. Korea	25. Malta	25. Japan
26. Czech Rep.	26. Malta	26. Italy	26. Israel	26. NORWAY	26. Italy
27. Singapore	27. Taiwan	27. Israel	27. Malta	27. Italy	27. NORWAY
28. Luxemb.	28. Cyprus	28. Slovenia	28. France	28. Taiwan	28. Portugal
29. Slovenia	29. Czech Rep.	29. Taiwan	29. Portugal	29. Portugal	29. Slovenia
30. Cyprus	30. Italy	30. Czech Rep.	30. Italy	30. S. Korea	30. S. Korea
31. Greece	31. S. Korea	31. Cyprus	31. Slovenia	31. Slovenia	31. Taiwan
	32. Greece	32. Greece	32. Greece	32. Greece	32. Greece

Notes: The first column represents the fraction answering “Never” when asked “Under what circumstances is one justified in accepting government benefits to which one is not entitled?” There was no data for Hong Kong. The second column is from Transparency International. The classical liberalism column is from the Heritage Institute’s ranking of economic freedom. The neoliberalism column was derived by deleting 3 of the 10 Heritage categories (corruption, taxes, and government spending) and then averaging the other 7. The egalitarian neoliberalism ranking deletes only corruption and taxes, and then inverts the government spending category—producing an index of countries that combine free markets with high levels of government spending.

After collecting data on liberal values, I began to construct indices of liberal economic policies. There are already two popular indices of classical liberalism, or small government. One is produced by the Heritage Institute, and the other is produced by the Fraser Institute. Both are free-market think tanks. I believe that the Heritage index is superior (as it more closely conforms to my own views of the relative market orientation of different countries), and relied on their data when at all possible. The Heritage index of economic freedom is the simple average of ratings in ten different economic categories, constructed on a scale of 0 to 100. The overall scores ranged from North Korea's 3.0 to Hong Kong's 90.3. Among the 32 countries in my sample, Greece came "last", with a score of 60.1. The ten categories included business freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, and labor freedom. (If you are a person on the left, you don't want to know what the Heritage economists consider "labor freedom.")<sup>11</sup>

I don't think it is appropriate to treat corruption as an explicit government policy, and thus I deleted that category.<sup>12</sup> Earlier I defined neoliberalism as a mixture of free markets and egalitarian social insurance. Thus the Heritage index is not a good measure of neoliberalism, as it treats taxes and spending as a negative, a factor that reduces freedom. I decided to construct two different indices of neoliberalism. In the first, I used 8 of the 10 Heritages categories, deleting only taxes and corruption. But I also inverted the "size of government" category, assuming that more government spending, on average, led to a more egalitarian society.<sup>13</sup> This produced an index of what I will term *egalitarian neoliberalism*, roughly corresponding to Tony Blair's "third way".

In practice, the term neoliberalism is more often used for free markets, without any particular assumptions regarding government policies to redistribute income or provide social services. Popular neoliberal voices, such as *The Economist* of the *Financial Times*, often have good words to say about free market economies with both high government spending (such as Denmark) and low government spending (such as Hong Kong.) I'll simply call this neutral approach *neoliberalism*. To calculate this index, I deleted corruption, taxes and government from the Heritage index, and then averaged the other seven categories. (I don't mean to suggest that taxes are unrelated to neoliberalism, but the relationship is complex. For instance, egalitarian neoliberals would regard high marginal tax rates as a negative, but high tax revenues and progressivity as positives. I need to do more work in this area.)

When one looks at a ranking of the 32 developed nations, what really jumps out is that Denmark is not just number one in the egalitarian neoliberalism ranking (no big surprise) but also the neoliberalism ranking. Can "socialist" Denmark really be the most "capitalist" society on earth? Admittedly this is merely the 32 developed countries, but none of the developing countries would have even come close to Denmark.<sup>14</sup> A lot rides on just how one defines the terms 'socialism' and 'capitalism'. Fans of free markets, such as the Heritage Institute, see capitalism as a system where the government refrains from doing many things, and primarily focuses on protecting property rights (which requires an important role for the "rule of law".) For these people, capitalism is a system where taxes and subsidies are low, firms are free to enter or exit markets, hire or fire workers, move goods and capital across national boundaries, etc. In contrast, socialism is a system that restricts all sorts of economic "freedoms." By this definition, Denmark is indeed very capitalist, except for its high taxes.

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<sup>11</sup> OK. It basically means that bosses are free to treat labor any way they damn well please (at least in terms of wages, hours, hiring decisions.)

<sup>12</sup> Corruption may to some extent be caused by excessive government regulation. In that case, however, the other nine indices should pick up the extent to which bad policy causes corruption—the remaining corruption would reflect culture, not policy. The Heritage Institute loses some credibility when it essentially defines "capitalism" as an economic system that is free of corruption.

<sup>13</sup> Later I'll refine this by deleting military spending, but I don't think it will materially affect the results.

<sup>14</sup> Also note that Denmark would have been number one in the last two rankings, even if the corruption measure had been included.

Opponents of capitalism see the system differently. They focus on the lack of protections for workers and the environment. They often visualize a system where companies subject workers to harsh working conditions and low wages, whereas they see socialism in terms of government protections, social services, equality. Those on the left see China as an almost laissez-faire capitalist country (whereas Heritage ranks it at a lowly 126, far below even Greece.) Denmark is seen as a socialist country. People end up talking past each other. In exasperation, Deirdre McCloskey (2006) once exclaimed “I don’t much care how ‘capitalism’ is defined, so long as it is not defined a priori to mean vice incarnate”. I would rather just discard the terms ‘capitalism’ and ‘socialism’, and replace that univariate scale of economic regimes with metrics that measure both ‘statist’ vs. ‘free markets’ and ‘egalitarianism’ vs. ‘inegalitarian’ aspects of economic policy. France is statist and egalitarian, China is statist and inegalitarian. Both Hong Kong and Denmark have very free markets, but Hong Kong is very inegalitarian, whereas Denmark is very egalitarian.

We have already seen that Denmark is far ahead of any other developed economy in my overall index of liberal values. Even more surprisingly, Greece comes in dead last in the list of 32 developed economies for all three measures of liberal values, and also for all three measures of economic liberalism. It hardly seems likely that this is mere coincidence, but is it really all that surprising? It is certainly true that even seemingly unrelated characteristics are often positively correlated, as for instance some researchers claim that people that are smart also tend to be richer, healthier, and (surprisingly) even prettier and better at sports than others. But I don’t think that my liberalism correlations can be explained away so easily. If one looks at a few crude measures of wealth, health, and intelligence (see Table 2.2), then both Denmark and Greece appear to be quite ordinary developed countries, scoring somewhere in the middle of the pack in most categories. Denmark isn’t particularly healthy, wealthy, or wise. But they do have very liberal values (or at least strong civic virtue) and also very neoliberal economic policies, by almost any definition of neoliberalism. (I don’t have much faith in international IQ data, and even view this list as a bit offensive. I included it here because the economists who constructed this index claim that IQ explains much of the “wealth of nations.”<sup>15</sup> For developed countries, IQ doesn’t seem closely correlated with the variables that I will be looking at—income, happiness, economic system, etc.)

To see whether this pattern went beyond Denmark and Greece, I regressed my economic liberalism indices against all three indices of cultural values. In all nine cases the correlation was positive and statistically significant. Because the overall values index worked best (i.e. survey responses averaged with the TI corruption index) I’ll focus on those results. The best fit occurs when one regresses the ordinary neoliberalism index against values, but a regression of egalitarian liberalism on values produces a nearly identical correlation. The t-stat of the regression of classical liberalism on values is also highly significant, albeit modestly lower than the other two. Adding other explanatory variables like per capita GDP and a dummy for East Asian countries had virtually no impact on the results.

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<sup>15</sup> See *IQ and the Wealth of Nations*.

**Table 2.2 Selected Country Indicators**

<b>Per Capita GDP in 2007 ( in US\$ PPP terms)</b>		<b>Life Expectancy At Birth</b>		<b>Average IQ</b>	
1. Luxembourg	64,400	1. Japan	82.02	1. Hong Kong	107
2. NORWAY	53,690	2. Singapore	81.80	2. South Korea	106
3. Singapore	48,520	3. Hong Kong	81.68	3. Japan	105
4. United States	45,850	4. SWEDEN	80.63	4. Taiwan	104
5. Hong Kong	44,050	5. Switzerland	80.62	5. Singapore	103
6. Switzerland	43,080	5. Australia	80.62	6. Austria	102
7. NETHERLANDS	39,500	7. France	80.59	6. Germany	102
8. Austria	38,090	8. ICELAND	80.43	6. Italy	102
9. Ireland	37,040	9. Canada	80.34	6. NETHERLANDS	102
10. DENMARK	36,740	10. Italy	79.94	10. SWEDEN	101
11. SWEDEN	35,840	11. Israel	79.78	10. Switzerland	101
12. Canada	35,310	11. Spain	79.78	12. Belgium	100
13. FINLAND	35,270	11. NORWAY	79.78	12. New Zealand	100
14. Belgium	35,110	14. Greece	79.38	12. Britain	100
15. Japan	34,600	15. Austria	79.21	15. Spain	99
16. Britain	34,370	16. Malta	79.15	16. Australia	98
17. ICELAND	34,060	17. NETH.	79.11	16. DENMARK	98
18. Germany	33,820	18. S. Korea	79.10	16. France	98
19. France	33,470	19. Luxemb.	79.03	16. NORWAY	98
20. Australia	33,340	20. New Z.	78.96	16. United States	98
21. Greece	32,520	21. Germany	78.95	21. Canada	97
22. Spain	30,110	22. Belgium	78.92	21. Czech Rep.	97
23. Italy	29,900	23. Britain	78.70	21. FINLAND	97
24. Taiwan	29,800	24. FINLAND	78.66	24. Portugal	95
25. Slovenia	26,640	25. United St.	78.06	24. Slovenia	95
26. Cyprus	26,370	26. Cyprus	77.98	26. Israel	94
27. New Zealand	26,340	27. DENMARK	77.96	27. Ireland	93
28. Israel	25,930	28. Ireland	77.90	28. Greece	92
29. South Korea	24,750	29. Portugal	77.87		
30. Czech Republic	21,820	30. Taiwan	77.56		
31. Malta	20,990	31. Slovenia	76.53		
32. Portugal	20,640	32. Czech R.	76.42		

(Note, I don't believe the IQ scores are very accurate.)

**Table 2.3 The Relationship Between Cultural Values and Economic Policy Regimes**

In each case the independent variable was the average cultural values described above (which averaged survey responses and the Transparency International’s corruption index.) There were 32 observations in each regression. The results were as follows:

<b>Dep. Variable</b>	<b>Coefficient</b>	<b>T-Statistic</b>	<b>Adj. R-squared</b>
Classical Liberalism	.217	4.77	.412
Neoliberalism	.245	5.87	.519
Egalitarian Neoliberalism	.221	5.77	.510

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To summarize, countries with liberal values tend to have freer markets, and less liberal countries tend to be more statist. There is also some evidence that liberal values are slightly more closely correlated with big government than small government. These findings are hardly earthshaking, but they do suggest that liberal values and neoliberalism may be closely related in a way that would be easy to overlook if one simply put ideologies into left/right boxes. To go beyond these preliminary findings, however, we need to find evidence not just of correlation, but also *causation*. And to do that we need to examine how economic policy has changed over time.

### **3. Changing Worldviews and the Neoliberal Revolution**

I have not been able to find any Heritage data on economic freedom for the years before the mid-1990s. However the Fraser Institute data goes back at least to 1980; and I was able to use this data to see how economic policies evolved during the neoliberal revolution of the past three decades. Before examining the data, it will be useful to review my explanation for why economic policies change over time. I argued that policymakers were likely to have utilitarian goals in countries where people have liberal values. However, there is great uncertainty as to how best to achieve these goals. Until about 1980 it was generally assumed that utilitarian goals could be best achieved through an egalitarian policy regime that was also somewhat statist. Over the next several decades liberal economists began to shift toward a more free market ideology, as statist policies seemed to reach a dead end. I hope to show that this evolving worldview explains much of the move toward neoliberalism. In very liberal countries, one would expect policy to veer sharply toward neoliberalism as worldviews shifted. In countries with weaker civic cultures, rent-seekers would be better able to slow the pace of market reforms.

Also recall that my view of why policy shifted conflicts with more “sophisticated” theorists of both the left and the right—who would presumably be disdainful of a “naïve” view of politics where economic policies might actually reflect idealistic motives. Leftists often see the rise of neoliberalism in terms of the growing political power of international capital. Right-wing economists often champion “public choice” models of how statist policies result from concentrated rent-seeking special interest groups like unions, government bureaucrats, farmers, professional groups, and corporations, all having much more political influence than unorganized voters. As far as I know, neither of these perspectives would predict that countries with highly liberal values should have moved more rapidly toward free market economic policies than the less liberal countries. They might be able to construct some explanation for a correlation between liberal values and free markets, but presumably that explanation would be just as true in 1980 as in 2005.

Also note that although the policy views of liberals in 1980 were more statist than today, liberals never completely abandoned the market. For instance, even in the dark days of mid-20<sup>th</sup> century statism many liberals continued to support free trade, at least for developed economies. This is in keeping with the internationalist bias implicit in egalitarian utilitarianism. In 1980 liberals clearly favored a much more statist policy regime than they do today, but certainly not Soviet-style statism. The key implication of my model is that countries with liberal values should have moved more rapidly toward free markets in the period since 1980. If evidence for this “smoking gun” can be found, all the other pieces of the model would snap into place:

- 1) The more liberal a country’s values, the more liberal its economic policy.
- 2) In 1980, a liberal economic policy was somewhat statist.
- 3) By 2005, liberals tended to favor free market policy regimes.
- 4) The neoliberal revolution was caused by a change in worldviews, not a change in values or a shift in the power of special interest groups.

The Fraser Institute data contains five categories; legal structure and property rights, sound money, free trade, regulation, and size of government. The size of government category had three components: top marginal tax rates, government consumption plus transfers, and government enterprises. I deleted the first two, which are partly motivated by egalitarianism, and used only government enterprises, which is a statist policy. (In the Fraser Institute data, having fewer government enterprises leads to a higher score in the size of government category.) Then I averaged this score with the other four categories. I then computed my Fraser neoliberalism scores for each country in both 1980 and 2005. All 28 moved toward neoliberalism over that 25 year period, which should come as no surprise to anyone who follows trends in economic policymaking. (There was missing data in 1980 for Cyprus, the Czech Republic, Malta, and Slovenia.)

The next question is how to measure the size of the change. It is obviously more difficult for a country that is already highly neoliberal to move even further towards neoliberalism. Therefore I measured economic regime change in a way that would give each country an equal chance to score high (on a scale of 0 to 100.) To do this I calculated the percentage of statism that was removed between 1980 and 2005. Thus if a country had an economic freedom score of 60 in 1980 and 70 in 2005, it moved 25 percent away from statist policies. (I.e., they would be 40% statist in 1980, but only 30% statist in 2005.) Even this procedure may not fully account for the disadvantage of already being free market in 1980, if there is a sort of irreducible minimum of statism required (for either political or utilitarian reasons), and thus I also included the level of neoliberalism in 1980 in my regressions.

I was quite pleased by the results shown below. As expected, the countries that were already very free market-oriented in 1980 (such as the U.S., Hong Kong and Switzerland) did not move much further toward neoliberalism, while highly statist Israel moved sharply toward neoliberalism. The most exciting finding, however, was that the more liberal a country’s values, the more rapid the shift toward neoliberalism. And this result is highly significant (t-stat=3.53.) As with the earlier regressions, adding per capita GDP and an East Asian dummy did not change the results. This time Denmark came in number two, with only New Zealand (another country with liberal values), moving more rapidly toward neoliberalism. Also note that Denmark was not a particularly neoliberal country in 1980, ranking only 14th out of the 28 countries where data was available. And yet even in 1980 Denmark seems to have had highly liberal values.<sup>16</sup>

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<sup>16</sup> They scored 91.6 on the WVS honesty toward government question in the 1981 survey, which is higher than their overall average for all the WVS Danish surveys.

**Table 3.1 The Relationship Between Cultural Values and Changes in Economic Policy**

In this regression the dependent variable was the percentage by which statism fell between 1980 and 2005 in the Fraser Institute Index (with size of government consumption and transfers removed from the index.) There were 28 observations in the regression. The results were as follows:

<b>Indep. Variables</b>	<b>Coefficient</b>	<b>T-Statistic</b>	<b>Adj. R-squared</b>
Constant	79.82	5.48	.375
Values	.459	3.53	
FraserIndex In 1980	-9.33	-3.78	

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In further research I hope to use these findings to change the way that people think about liberalism. Obviously the term ‘liberalism’ has both right and left-wing connotations. I believe that this ambiguity reflects the deeply counterintuitive nature of economic regimes. I hope to show that terms like ‘free markets’ and ‘corporations’ easily fit together with ‘altruism’ and communitarian.’ That capitalism is not necessarily “based on greed and individualism,” although it certainly can be. And that communism can lead to atomistic individualism. Thus people who grew up in communist China or Russia are far less likely to form voluntary NGOs to address social problems than are people in Denmark (or even America.) And why should they? They grew up in a culture where the central government was responsible for almost everything. Fukuyama (1995) showed that the cooperative, high-trust societies in Scandinavia have produced the most corporate-dominated economies on earth. Now we can see that they have some of the most free market economies as well.

#### **4. Does Liberalism Lead to Happiness?**

I’ve suggested that liberalism is a utilitarian value system. Since utilitarianism values only maximizing aggregate “happiness,” or some other related concept such as “life satisfaction”, then it is natural to want to see whether liberal countries actually are happier. In addition, it would be nice to know which economic policy regime produced (or was associated with?) the greatest aggregate happiness.

I have no idea what happiness is, much less how to measure it. But experts in the burgeoning field of happiness research insist that happiness can be objectively measured.<sup>17</sup> So let’s put aside our skepticism<sup>18</sup> and have some fun with this important<sup>19</sup> subject. Most surveys actually measure some sort of “life satisfaction” or “subjective well-being”, but as even happiness experts cannot seem to agree on these terms, let’s just call it ‘happiness’ with the understanding the definitions are inevitably a bit fuzzy. In Table 4.1 I ranked the 32 developed countries according to 3 different happiness surveys, which used

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<sup>17</sup> I haven’t had much time to examine this literature, but I believe that they claim that subjectively reported happiness is highly correlated with other’s view of one’s happiness, or changes in brain activity, or diary entries maintained throughout the day.

<sup>18</sup> I am half serious in this section. At times my writing may seem gently mocking, because measuring happiness seems far-fetched to me. But Nobel laureates much smarter than I am say it can be measured. I don’t want to be a philistine, mocking a field I know little about. On the other hand, Wilkinson (2007) presents a pretty convincing critique of the entire field of happiness research.

<sup>19</sup> Recall that for utilitarians, happiness (and pain) is not just an important subject, it is *the only important entity* in the entire universe—the only thing of intrinsic value.

**Table 4.1 Various Happiness Rankings, and also Two Measures of Income Inequality**

Happiness Rankings (actually “subjective life satisfaction”)				Income Equality Rankings (Based on Gini Coefficients)	
Leicester University Survey	World Values Survey	World Database of Happiness	Average Happiness Ranking	United Nations	CIA
1. DENMARK	1. DENMARK	1. DENMARK	1. DENMARK	1. DENMARK	1. DENMARK
2. Switzer.	2. ICE.LAND	2. Switzer.	2. Switzerland	2. Japan	2. SWEDEN
3. Austria	3. Ireland	3. ICELAND	3. ICELAND	3. SWEDEN	3. Belgium
4. ICELAND	4. Switzer.	4. Austria	4. Austria	4. Czech Rep.	4. NORWAY
5. FINLAND	5. NETH	5. FINLAND	5. Ireland	5. NORWAY	5. France
6. SWEDEN	6. Canada	6. SWEDEN	6. SWEDEN	6. FINLAND	6. FINLAND
7. Canada	7. Austria	7. Australia.	7. Canada	7. Germany	7. Czech. Rep.
8. Ireland	8. Malta	8. Canada	8. Luxembourg	8. Slovenia	8. Germany
9. Luxemb.	9. Luxemb.	9. Luxemb.	9. NETHERLANDS	9. NETH.	9. Slovenia
10. Malta	10. SWEDEN	10. NORWAY	10. FINLAND	10. Austria	10. NETH.
11. NETH.	11. New Z.	11. Ireland	11. Malta	11. Luxemb.	11. Austria
12. New Z.	12. United St.	12. NETH.	12. NORWAY	12. S. Korea	12. Spain
13. NORWAY	13. NORWAY	13. Malta	13. New Zealand	13. Canada	13. Switzer.
14. United St.	14. Belgium	14. United St.	14. United States	14. France	14. Canada
15. Australia	15. Britain	15. New Z.	15. Australia	15. Belgium	15. Greece
16. Belgium	16. Australia	16. Belgium	16. Belgium	16. Switzer.	16. Australia
17. Germany	17. FINLAND	17. Germany	17. Britain	17. Greece	17. S. Korea
18. Britain	18. Cyprus	18. Britain	18. Germany	18. Ireland	18. Ireland
19. Spain	19. Singapore	19. Italy	19. Cyprus	19. Spain	19. Italy
20. Cyprus	20. France	20. Cyprus	20. Singapore	20. Australia	20. New Z.
21. Italy	21. Germany	21. Singapore	21. Spain	21. Britain	21. Britain
22. Singapore	22. Japan	22. Spain	22. Italy	22. Italy	22. Japan
23. Israel	23. Spain	23. Slovenia	23. France	23. New Z.	23. Portugal
24. France	24. Israel	24. Israel	24. Israel	24. Portugal	24. Israel
25. HongK.	25. Italy	25. France	25. Slovenia	25. Israel	25. Singapore
26. Slovenia	26. Portugal	26. Czech R.	26. Taiwan	26. United St.	26. United St.
27. Taiwan	27. Taiwan	27. Greece	27. Czech Republic	27. Singapore	27. HongK.
28. Czech R.	28. Slovenia	28. Japan	28. Japan	28. HongK.	
29. Greece	29. Czech R.	29. Taiwan	29. Greece		
30. Japan	30. Greece	30. Portugal	30. Hong Kong		
31. Portugal	31. S. Korea	31. S. Korea	31. Portugal		
32. S. Korea	32. HongK.	32.	32. South Korea		

Notes: World Database of Happiness data is missing for Hong Kong. The World Values Survey averages answers to questions on “happiness” and “life satisfaction”, which they term “subjective well-being”. The other two surveys simply measure life satisfaction. Thus my average is 1/6 happiness and 5/6 life satisfaction. Income equality data is missing for Iceland, Malta, Taiwan, Cyprus, and (from the CIA) for Luxembourg.



slightly different questions about life satisfaction. I also show a list that ranks countries by the average score on the three happiness surveys. It is this average score that I will use in my subsequent empirical investigations.<sup>20</sup>

In Appendix B I argue that the view that utilitarianism gives inadequate weight to egalitarian considerations is an illusion. But many philosophers would disagree with me, and so in Table 4.1 I also included income equality data based on estimates of “Gini coefficients” made by both the UN and the CIA. No prizes for guessing which country comes in number one in all four happiness rankings, as well as both equality rankings. Denmark’s score would look good under a utilitarian standard, a Rawlsian standard, or indeed under almost any conceivable definition of liberal values. This time Greece was able to avoid last place, ranking 29<sup>th</sup> out of 32 countries in my overall happiness scale, and scoring near the middle on income equality.

In his book *The Geography of Bliss*, Eric Weiner (a morose personality with a name pronounced “whiner”) traveled around the world to try to discover the secret of happiness. He concluded that beyond a certain point more money did little or nothing to promote happiness. (This conclusion has been challenged in recent studies that show average happiness of countries is positively correlated with per capita GDP, and the relationship (as a function of the log of income) does not flatten out above \$10,000/year.) Weiner eventually concluded that what really mattered most was culture:

“Money matters, but less than we think and not in the way that we think. Family is important. So are friends. Envy is toxic. So is excessive thinking. Beaches are optional. Trust is not. Neither is gratitude.” (p. 322.)

Envy is a supremely illiberal value—incompatible with a utilitarian value system that places a positive value on others doing well.<sup>21</sup> Trust happens when most people in a society have concern for others—a liberal value. Weiner again and again comes back to notions of living in such a way that one feels interconnected with others—again a very utilitarian way of looking at the world. There is statistical evidence that happiness is positively correlated with being socially engaged, but we don’t know the direction of causation.<sup>22</sup> His book led me to expect that values would be a more important determinant of happiness than income, and also more important than the economic policy regime.

Table 4.2 shows that when I regressed happiness separately against the three versions of liberalism, against per capita GDP, and also against values, the relationship was always positive and significant (at the 1% level.) Notice, however, that as we move from egalitarian neoliberalism, to ordinary neoliberalism, to classical liberalism the correlation becomes steadily weaker. As we will see, however, these simple regressions are highly misleading; as the independent variables are themselves closely interrelated.

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<sup>20</sup> In principle, utilitarians actually favor maximizing total utility, not per capita utility. But few liberals take this criterion seriously, as it would imply the world would be better off if total population were doubled and per capita utility fell by 49 percent. Interestingly, in recent years it has been conservatives who have been most concerned about falling birth rates in developed economies—suggesting that they are more likely to think in terms of aggregate utility. Here I will assume that total population is given—or determined by factors outside economic policy, and that policymakers are only concerned with maximizing per capita utility.

<sup>21</sup> When Bob Dylan sings about the man who “cares not to come up any higher, but rather get you down in the hole that he’s in”, he doesn’t explicitly link envy with misery, but we get the point. Weiner reports the following popular joke in Moldova (one of the world’s most unhappy places.) In a tour through hell the visitor notices a group of Russians in a pit of fire, with the group surrounded by guards. Later, a group of well-guarded Americans is sighted on top of a burning pyre. Finally, he reaches a group of Moldovans engulfed in flames, but with no guards. When he asks why the Moldovans are left unguarded, the guide says that if any tried to escape, the others would pull him back.

<sup>22</sup> Those involved in service learning might want to publicize the fact that “people doing voluntary work report higher life satisfaction.” (Frey and Stutzer, 2002, p. 9.)

If happiness is regressed (in a single equation) on values, neoliberalism, size of government spending on consumption and transfers, per capita GDP, and a dummy for East Asia, a completely different pattern emerges. Now the two policy variables are statistically insignificant, and the sign on size of government is even negative. (The latter finding is surprising, as Denmark has a very high level of government spending on consumption and transfer programs.) Two variables are of paramount importance; values, and living in East Asia. Per capita GDP still seems to have a modest positive effect, but the significance level is very marginal. It seems that the reason why happiness was closely correlated with liberal economic policy regimes; is because those regimes tend to occur in countries with liberal values. But it is the values themselves, not the associated economic policies, which seem to generate happiness.

The preceding interpretation does not mean that policy has no influence at all, just that the influence is not direct. Neoliberal policies tend to make countries richer, and that extra wealth may slightly boost happiness. People don't like free markets, but they like what free markets can provide. Even so, values seem much more important than either policy or income. These findings call into question the recent research suggesting that a given percentage increase in real income boosts happiness just as much in rich countries as in poor countries. Perhaps the Swiss and Danes are happier than South Koreans and Portuguese not because they are richer, but rather because they have more liberal values.

#### **Table 4.2 The Relationship Between Happiness and Other Key Variables**

In each case the dependent variable was the level of happiness, derived by averaging the three happiness indices in Table 4.1. There were 32 observations in each regression. All regressions included a constant term (not shown.) The results were as follows:

	<b>Indep. Variables</b>	<b>Coefficient</b>	<b>T-Statistic</b>	<b>Adj. R-squared</b>
1.	Classical Liberalism	1.48	2.50	.145
2.	Neoliberalism	2.11	4.13	.341
3.	Egalitarian Neoliberalism	2.76	5.57	.492
4.	Values	.809	5.18	.454
5.	Per Capita GDP	.0013	2.87	.189
6.	Neoliberalism	.427	0.87	.758
	Government Size	-.226	-0.80	
	Values	.593	3.74	
	Per Capita GDP	.591	2.17	
	East Asian Dummy	-40.8	-5.11	

The Asian dummy is another surprising result. The coefficient is more than 40, and is negative. This is enormous for a variable that ranges from 0 to 100. It means that an East Asian country that would be expected to score around the 70<sup>th</sup> percentile, based on its values, economic system, and income levels, actually scores around the 30<sup>th</sup> percentile. Other researchers have noticed the Asian happiness deficit and some have argued that it may merely reflect cultural differences in the way East Asians answer this question. It may be that East Asians are simply less inclined to show off about being happy than Americans and Europeans. For instance, one researcher noted that Japanese women traditionally cover their mouths when giggling. Or it may reflect a cultural variable not included in my model.

## 5. Three Models of Neoliberalism

Despite the fact that some countries have recently slid back toward statism (Venezuela), authoritarianism (Russia), or religious fundamentalism (Iran), the overall trend throughout most of the world is still strongly in the direction of liberalization. Of course that is not the impression one gets from watching the evening news—which I why I don't watch TV news. But the hard numbers show a persistent trend toward more open markets, freer trade, privatization, and lower marginal tax rates. They also show a world getting progressively freer, more democratic, more prosperous, and more peaceful. Indeed these changes seem to have accelerated in recent decades. Thus I take Fukuyama's prediction that we are moving inexorably toward liberal democracies as a given. For me, the only interesting question left is: Which form of liberalism?

Here I will discuss three small countries that I believe best exemplify three themes that I have discussed in this paper. The first is Denmark, which is an obvious choice given that my rankings show it having the most liberal values, the most free market economic policies, and the most egalitarian economic system. It is also the happiest nation on earth. Let's call the Danish system *hyper-egalitarian neoliberalism*. For utilitarians, and even for Rawlsian liberals, the Danish system is highly appealing. It is not easy to argue that any alternative system could beat out Denmark, but I think that it is at least possible. My argument will be based on the distinction between the common-sense view of economic causality, and the economistic view.

I see Denmark as representing an almost perfect embodiment of the center-left consensus in economic policymaking circa 2008—free markets plus social insurance. The one area where Denmark might fall a bit short is efficiency. Suppose that the right-wing view of the importance of economic incentives is correct, i.e. suppose that Obama economics guru Austin Goolsbee is wrong in assuming that high tax rates have relatively little impact on incentives to work, save and invest efficiently. In that case Denmark's high tax rates would tend to discourage economic growth, and might conceivably even reduce living standards of the bottom 10 percent of the income distribution. I don't think it's hard to make a case that high marginal tax rates can depress economic growth, as it is difficult to find any other plausible explanation for why Denmark's per capita GDP trails more lightly taxed countries such as the U.S., Switzerland and Singapore. But are those disincentive effects strong enough to overcome Denmark's highly equal distribution of income?<sup>23</sup> Unfortunately, we don't have an ideal perfect match-mate country. The U.S. is simply too different in all sorts of ways. Singapore is still growing fast, so we don't yet know where its lower classes will end up when it reaches its potential. Switzerland is probably the best comparison, but unfortunately is considerably less market-oriented than Denmark, so the actual income difference (which is sizable) probably *understates* the disincentive effects of taxes.

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<sup>23</sup> For those skeptical that a small government regime could produce high incomes for the lower classes, consider the state of New Hampshire. They have the lowest overall tax burden in the U.S. (except for the special case of oil-rich Alaska.) Yet despite these low taxes, the bottom 20 percent of the income distribution in New Hampshire has a higher average income than the bottom quintile in any other state. Admittedly, comparisons between American states are distorted by ethnic differences, but the same might be said regarding Denmark's apparent success in reducing poverty.

There is one other obvious caveat to consider before other countries rush off to emulate the Danish model—just how important a factor is culture in Denmark’s success? And to what extent is culture an exogenous variable, impervious to policy? If one looks at culture as a sort of natural resource, then Denmark is the Saudi Arabia of liberal values, and is able to achieve policy outcomes that would be unachievable for less liberal societies.<sup>24</sup> Algan and Cahuc viewed culture as a given, and were pessimistic about other European countries being able to effectively utilize Denmark’s “flexicurity” approach. I have a less pessimistic perspective, as I believe that cultural attitudes can change, and that policy can help shape values. But I also think that change takes a long time, and that we still have only a rudimentary understanding of how policy influences values.<sup>25</sup> I’d like to do some empirical research on this topic, but it will be difficult to construct an appropriate data set.

Now let’s consider how liberalism would evolve if policymakers had an economistic worldview. While Hong Kong and the U.S. are two possible examples of economistic neoliberalism, I think that the economic policy regime of Singapore best encapsulates this worldview. A recent book by Ghesquiere (2007) presents a picture of a *hyper-economistic neoliberalism*, where policymakers obsessively focus on giving people the “right” incentives. Perhaps as a result of these policies, Singapore has gone from being a relatively poor country in 1965, to being one of the world’s richest today. Indeed according to World Bank estimates (which are admittedly imprecise), in 2007 Singapore became the first sizable country without massive oil reserves to surpass the U.S. in (PPP) per capita GDP in roughly a century.<sup>26</sup>

How did Singapore accomplish this “miracle”? Of course there are no economic miracles; they simply applied some basic economic principles. The ruling People’s Action Party began with a socialist orientation, but soon focused on economic growth. Its leaders claimed that “Western liberalism” was decadent, and thus favored “Asian values.” I think much of this Asian values talk is hogwash—their values (i.e. goals) are not obviously different from those of Westerners. Rather, their leaders happen to have a different worldview—that people respond strongly to incentives. While Singapore’s government has always tried to maintain a relatively open economy, they started out with a statist orientation, with the government owning many corporations, providing public housing, education, medical care, etc.<sup>27</sup> They also pioneered the road pricing scheme that was later adopted by London, and as a result Singapore has by far the fewest traffic jams and the lowest pollution levels of any major Asian city. As the neoliberal revolution spread around the world in the 1980s, Singapore’s government began privatizing state-owned enterprises and selling off public housing, but still maintained a more significant role than, say, the Hong Kong government. Even government-owned companies such as Singapore Airlines, however, are not provided with government subsidies or protected by market access barriers—which eliminates the two major reasons why state-owned firms are often somewhat inefficient.

The best way to understand Singapore is to start with what looks at first glance like a huge deviation from *laissez-faire*—the requirement that each citizen save a large share (currently about 33%) of their wages. These savings are placed in different accounts where they can be used for both self-insurance and retirement. Thus about 6% is put into a medical savings account, which can later be used for health care expenses. Another portion is set aside to cover periods of unemployment. This allows Singapore to have virtually eliminated abject poverty, despite spending only about 1 percent of GDP on transfers payments (vs. about 13% in most OECD countries!) With little social welfare burden, Singapore is able to have low taxes on wages, virtually no taxes on capital, and still run a budget surplus

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<sup>24</sup> Consider Belgium, a relatively high-tax, high-benefit country. The unemployment rate in the Flemish part of Belgium (ethnically similar to Holland) is about 5 percent, whereas in the French-speaking south it is 11 percent.

<sup>25</sup> McCloskey’s (2006) recent book on “bourgeois virtues” is an interesting attempt to explore this area. Algan and Cahuc cited studies showing that immigrants (and their children) retained part of their distinctive value system, even after moving to the U.S.

<sup>26</sup> Singapore has about 4.5 million people, which is roughly comparable to countries such as Denmark, Finland and Norway. I excluded tiny Luxembourg and oil-rich Norway when ranking Singapore number one in per capita GDP.

<sup>27</sup> Also recall that Singapore was founded in 1965, right in the heyday of statist liberalism.

of more than 10% of GDP (and an even larger current account surplus.) In the next few decades Singapore is likely to become extremely wealthy.

Consider Singapore's health care system, where their success has been especially impressive. Because most Singaporeans self-insure through medical savings accounts, the state is able to provide universal coverage with a public expenditure of a mere 1.3 percent of GDP (vs. about 7% in the U.S.).<sup>28</sup> And because they pay a large portion of their health care expenses out of their own savings, they are extremely cost conscious in their purchases, and as a result total medical spending is only about 4.5 percent of GDP (vs. 16% in the U.S.). This could be viewed as a rebuke to American conservatives who defend our highly expensive system where 47 million are still uninsured. But it also seems to refute the views of some on the left, as Singapore has done what pundits like Paul Krugman claimed was impossible—they built a system that relies on medical savings accounts, and very low public expenditures, and yet achieves universal coverage and arguably the world's healthiest society.<sup>29</sup>

Yes, Singapore has many flaws. It is a democracy of sorts, but a highly authoritarian one that limits press freedom and has an extremely punitive criminal justice system. Some might argue that it is not worth paying that political price in order to achieve a high level of economic efficiency. But it's not obvious to me that in order to copy their innovative system for financing health care, or their fully-funded retirement system, we would have to start "caning" naughty boys or executing drug smugglers.<sup>30</sup> Some pundits have recently tried to make a more general connection between neoliberalism and political repression. In Appendix H I explain why I think that hypothesis is not consistent with recent political and economic trends around the world. If anything, there is a strongly negative relationship between neoliberalism and political repression. Nevertheless, I do think that there is a more subtle political argument against hyper-economistic liberalism.

Recent research on "the wisdom of crowds" suggests that the traditional distinction made between economic and political systems may not be tenable. This research suggests that democracy is a sort of political "market" where votes are aggregated in a way that is loosely analogous to the way financial markets aggregate opinions on the proper valuation for a company. If so, then not only is Singapore not as democratic as it should be, but even "democracies" like Denmark should become much more democratic, with voters given more direct control over issues such as taxes and spending. This leads to the third and final model of liberalism, *hyper-democratic neoliberalism*.

There are no perfect examples of direct democracy in the modern world, but one country comes far closer than any other, Switzerland. During the 20<sup>th</sup> century, almost one half of all national referenda in the entire world occurred in Switzerland. And there are two other factors that further contribute to Swiss democracy, it is a relatively small country and it is highly decentralized. Aristotle said that no country could remain well-governed if its population exceeded 100,000. As we will see, recent European history provides some support for Aristotle's hypothesis.

We have already seen that Switzerland is still a fairly neoliberal economy, but no longer exceptionally so. In 1980 Switzerland ranked somewhat higher in the Fraser index than today. I think it's fair to say that Swiss voters never moved as far toward socialism as most other countries, but have also been less aggressive with neoliberal reforms since 1980. In addition, Switzerland has long had much lower tax and spending levels than its immediate neighbors, which suggests that under direct democracy voters may prefer less egalitarian policies than those prevalent in Western Europe. We have also seen that Switzerland is the second happiest country on earth. Is there any correlation between happiness and

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<sup>28</sup> I've slightly overstated the differences here, as the Singapore data is from 2002.

<sup>29</sup> Technically they are tied for the lowest infant mortality rate with Sweden and Japan, and slightly trail Japan in overall life expectancy, but their life expectancy is rising much faster than in Japan. Of course life expectancy is a highly imperfect indicator of health care quality, but fair is fair, and Krugman often uses America's relatively low life expectancy as evidence that our medical system fails to produce good health care for all people.

<sup>30</sup> It might be difficult to sell Americans on a forced savings plan, but in countries like China the public already saves more than 40% of their income.

democracy? A recent study by Inglehart (1990) found a strong correlation between happiness and democracy, and later studies suggested that the causation ran in both directions.

Until recently, most happiness researchers assumed that aggregate happiness in most countries remained stable over time. An important recent study by Inglehart, et al (2008, p. 266), however, reports strong evidence that happiness has been rising throughout much of the world between 1981 and 2007, and also suggests some reasons why:

“Like democratization, social tolerance broadens the range of choices available to people, thus enhancing happiness. Accordingly, Inglehart and Welzel (2005) found that support for gender equality and tolerance of outgroups were strongly linked with happiness—not just because tolerant people are happier, but because living in a tolerant society enhances everyone’s freedom of choice. Similarly, Schyns (1998) argued that gender equality is linked with happiness.

During the late 1980s and early 1990s, dozens of societies experienced transitions to democracy that enhanced freedom of expression, freedom to travel, and free choice in politics. Moreover, from 1981 to 2007, support for both gender equality and tolerance of outgroups increased substantially in most of the countries monitored by the [World] Values Surveys (Inglehart & Welzel, 2005). Furthermore, during the past two decades, low-income countries containing fully half the world’s population have experienced one of the highest rates of economic growth in history, allowing them to emerge from subsistence-level poverty. By a favorable combination of circumstances, societal changes of the past two decades have increased both the prosperity of people in less-prosperous societies and the political and social freedom of people in middle-income and high-income societies, enhancing the extent to which people in both types of societies have free choice in how to live their lives. We hypothesize that these changes have been conducive to rising levels of happiness within entire societies.”

Thus it is no surprise that I found happiness to be much more highly correlated with liberal values than with economic variables, others have found the same. One potential problem with their findings is that the causation between democracy and happiness could run in either direction. Frey and Stutzer (2002, p. 424) noted that:

“For Latin America and Russia, one study (Graham and Pettinato 2001b) indeed identified a mutual dependence of pro-democracy and pro-market attitudes with well-being: both raise happiness, but happier people are also more likely to have pro-democratic and pro-market attitudes. With due caution, it may be hypothesized that, for the respective respondents, there is a virtuous circle in which attitudes favorable to democracy, to the market, and to life satisfaction, reinforce each other.”

Let’s assume that there is at least some causation running from democracy to happiness, which seems plausible given that much of the huge wave of democratization in the late 1980s and early 1990s was exogenous, as events in one country quickly impacted its neighbors. This still wouldn’t tell us whether or not moving from representative democracy to direct democracy further boosts happiness. Fortunately, the extent of direct democracy varies considerably across the 26 Swiss cantons. Frey and Stutzer (2002, p. 425) report that:

“the extent of direct democratic participation possibilities exerts a statistically significant, robust, and sizable effect on happiness *over and above* the demographic and economic determinants normally taken into account. When the full variation in the institutional variable is considered, i.e. when individuals in the canton with the highest democracy index (Basel Land) are compared to citizens in the canton with the lowest direct-participation rights (Geneva), the former state with [has?] an 11-percentage-points higher probability that they are completely satisfied. This effect is larger than living in the top rather than in the bottom income category.”

If the result in the last sentence is valid, it would suggest a very powerful relationship between direct democracy and happiness. And they also report (p. 425) results from a number of other interesting studies of both the U.S. and Switzerland showing, among other things:

1. Direct democracy leads to greater responsiveness to voter preferences.
2. Direct democracy leads to lower levels of government expenditure, except perhaps on education.
3. Direct democracy results in public services being provided at lower costs.
4. Direct democracy leads to higher per capita incomes.

I have noticed that intellectuals are fond of the maxim that “democracy is the worst system, except for all the others”. I gather that intellectuals who say this mean that we would be better off being ruled by a “philosopher king” rather than a bunch of mostly ignorant voters, but alas “power corrupts” (another overused cliché) and thus we need democracy to insure that the government is responsive to the wishes of the voters, and doesn’t become highly repressive. I think this view is wrong. Democracy is the best system, period. It is the best way of deciding what to do, and it is the best way of insuring that the government actually does those things. Just as the median guess of a group of average people is often better than a guess by an expert, the median view of voters is usually better than the policy view of “experts.” This seems to defy common sense, which is why I included it in my list of economic views. Indeed it is so difficult for intellectuals to forgo their strong prior belief that they know best, that even economists who believe that financial markets aggregate economic data efficiently, and can forecast better than experts, are often reluctant to extend that hypothesis to political markets. [Update 9/14/09: I just noticed that Bryan Caplan’s *The Myth of the Rational Voter* undercuts much of this argument.]

Yes, there are many examples of where democracy failed to produce the optimal result, but these failures are anecdotal. I know of no systematic study that shows experts make, *on average*, better public policy decisions than voters. In the one example of somewhat direct democracy during the 20<sup>th</sup> century, we see voters who remained skeptical of highly statist economic policies, even when they were in vogue among policy experts and intellectuals. Of course Switzerland has many flaws. Its behavior during WWII was in some respects disgraceful, as was true of virtually all European countries.<sup>31</sup> But consider one other huge success—Switzerland remained neutral in 1914. In contrast, many other European armies were marching off to senseless slaughter with the enthusiastic support of the overwhelming majority of their public intellectuals.<sup>32</sup>

The concept of democratic accountability goes beyond voting. It is almost impossible for governments ruling over a very large population to be responsive to voters’ needs in any sort of efficient way. This problem of “diseconomies of scale” in governance has been well hidden because of two historical facts. First, prior to WWII larger countries did have two important advantages, a large domestic market, and a greater ability to deter invaders. Neither advantage is important for modern day members of the EU and NATO (or other developed country treaty organizations.) Second, the extraordinary success of the U.S. has led to complacency about the ability of large countries to be successful. (I say “extraordinary” because one would expect a large, ethnically diverse country to be closer to the middle of the pack in per capita GDP. Also note that the U.S. is a very happy<sup>33</sup> country, despite press reports to the contrary.) In recent years, however, there has been a little-noticed trend for the smaller countries in Europe and Asia to rise up the charts and surpass the bigger countries like Japan, Germany, France, Britain and Italy in per capita GDP. As for why the U.S. has been so successful thus far, it first achieved

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<sup>31</sup> I recall reading that British and Swedish banks also kept Jewish bank deposits, although the amounts were somewhat less.

<sup>32</sup> Also note that Switzerland has done well despite its linguistic segregation. Alesina and Zhuravskaya (2008) found that linguistic and ethnic segregation was generally associated with lower quality governance—presumably because it usually leads to an “us vs. them” mentality, and thus illiberal cultural values.

<sup>33</sup> The U.S. generally does not make the “top ten” on happiness rankings. But most of the happiest countries are very small, so only about one or two percent of the world’s population lives in countries happier than the U.S.

its great success with a more decentralized framework of federalism, has been relatively open to referenda, and had a large economy when large domestic markets were still very advantageous. We may now be coasting on our past success, and may have missed out on important parts of the neoliberal revolution.<sup>34</sup> I hope to study this trend more fully in the future, and to show that the U.S. will eventually need to break up into an EU-type arrangement. Once again, Frey and Stutzer (2002, p. 426) have something interesting to say about decentralization:

“The study on Switzerland (Frey and Stutzer 2000) measured the extent of local autonomy by an index based on survey results. Chief local administrators in 1,856 Swiss municipalities reported on how they perceived their local autonomy using a 10 point scale. The estimate reveals a statistically significant positive effect of decentralization on subjective well-being. For local autonomy, the proportion of people who indicate being completely satisfied with life increases by 2.6 percentage points, compared to a situation in which the communes are one standard deviation less autonomous vis-à-vis their canton.”

It sounds good, although the thought of living with a bunch of Swiss who are “completely satisfied with life” makes me very depressed for some reason.

I’d like to conclude this section with an example that I think nicely exemplifies all three of the neoliberal models discussed above. In a referendum conducted during 2007, voters in Stockholm, Sweden approved an electronic road-pricing system for reducing traffic congestion in the central city. Starting with the obvious, a referendum is a very Swiss way of determining whether to adopt a new public policy. The parallels with the Danish model are less clear, but perhaps even more significant. The fact that Stockholm voters were willing to pass this legislation, suggests that there is a high level of civic trust. In most cities around the world voters are far too cynical to buy into this sort of wonkish policy experiment. London’s similar plan was introduced by a mayor with broad executive powers. New York would like to do the same, but the political opposition is intense. Voter approval requires a certain level of trust in the intentions of the policymakers. Voters must be convinced that the plan is fair to all groups, that it is not just a scheme to raise more revenue for the government. Presumably the lower income groups in Sweden are more likely to use public transport, and thus a tax on driving might have been seen as being relatively egalitarian. In addition, it reflects the intuition that those who impose external costs should pay for those costs. It requires a certain egalitarian mental attitude to understand that when one is caught in a traffic jam, one is also the *cause* of the traffic jam, not merely the victim.

We have already seen that Singapore was the first to adopt central city road pricing, and this system certainly reflects the economistic way of thinking about public policy. Like many free, commonly-owned goods, central city road space is usually grossly overused. The economistic approach to policymaking is all about “getting prices right” so that people have an incentive to behave in a socially optimal way—in this case by driving less.

## 6. Conclusion.

My research suggests that if world bliss is the goal, policymakers should instill Danish civic values, adopt Swiss-style democracy, and install Singaporean economic policies. But how can we be sure that I am right? We cannot. Therefore my preference would be that policymakers focus on greater democracy, let the “unacknowledged legislators of the world”<sup>35</sup> influence values, and then let the “wisdom of the crowd” (voters) decide which economic policies are best. If economists have a role it is to educate the public about counterintuitive economistic principles, not to tell society what to do.

And further research is needed.

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<sup>34</sup> We have done a fair job of deregulating and cutting marginal tax rates, but trail far behind other developed countries in privatization.

<sup>35</sup> According to Shelley, poets fill this role. Rorty (1989) argues that it is novelists who create liberal values.



## Appendix A. A Disclaimer on Ethnocentrism

Because my grandparents were of Swedish, Norwegian, Dutch and British ancestry, one might assume that I favor the sort cultural attitudes found in Northern Europe. I do think that these cultures have some positive qualities. My concern in this paper, however, is solely to look for the relationship between certain cultural attitudes and neoliberal economic policies. It is not my purpose to argue that liberal values toward the common good are in any overall sense “superior” to alternative cultural attitudes. For instance, it is said that in some cultures “family comes first.” If so, then it is not surprising that in many countries people feel that there are circumstances where one might be justified in undertaking actions that help one’s family at the expense of the greater good. Those aren’t liberal values, but that doesn’t mean that they are inferior values in any objective sense. In any case, there is much more to life than the values that lead to neat, tidy, prosperous societies:

"In Italy for thirty years under the Borgias they had warfare, terror, murder, and bloodshed, but they produced Michelangelo, Leonardo da Vinci, and the Renaissance; in Switzerland, they had brotherly love, they had five hundred years of democracy and peace, and what did they produce? The cuckoo clock."--Harry Lime (played by Orson Welles in *The Third Man*.)

Although I consider myself to be someone with mostly liberal values, I recognize that there are critiques of liberalism that are not easily dismissed. Some writers are particularly worried about how the confluence of liberal values and technological progress is inexorably pushing us towards what Fukuyama calls a “post-human” future. *Brave New World* and *A Clockwork Orange* are two examples of literary works that offer this sort of critique of liberalism. I don’t see how these concerns can be addressed without moving outside of the liberal value system. Like everyone I know, I have a mixture of conflicting values, both liberal and illiberal.

## Appendix B. What are Liberal Values?

Definitions are matter of convenience, not dictionaries. I try to use two criteria: how the term ‘liberal’ has actually been used in different times and places. And is there a single definition that is coherent, i.e. that unifies seemingly disparate usages of the term ‘liberal’? I intend to spend my sabbatical studying liberalism, and therefore do not yet have a well-developed theory of liberal values. Here I will merely sketch out a few preliminary ideas that I plan to research further. Although the root of the word ‘liberal’ is liberty, I do not believe that it is useful to think of liberty as being a core principle of liberalism. Indeed, in America people who want the government to leave them alone are often assumed to be conservatives. Instead, I will focus on the common underlying themes that underlie liberalism in all its incarnations.

What unites all forms of liberalism is not a particular policy stance on any given issue, but rather a common approach to issues that is idealistic, rational, secular, progressive and egalitarian. In my view, the term ‘utilitarian’ best encapsulates these five values. However, I have discovered that many non-economists are much less enamored with the concept of utilitarianism. Thus it may be useful to offer a brief rebuttal to some common anti-utilitarian perspectives. In one sense this is off-topic, as I am claiming that liberals are utilitarians, not that utilitarianism is a sensible value system. However, some readers of this paper might consider themselves liberal, and I don’t think I will make much headway if I try to convince self-described liberals that don’t really have liberal values. Later I will contrast liberal and illiberal values.

### Are Liberal Values Utilitarian?

1. A common complaint about utilitarianism is that it focuses on aggregate utility, with no consideration of equality. At a certain level this is true, but utilitarianism is actually a quite radically egalitarian value

system in two different senses. The first is conceptual, utilitarianism treats the well-being of every human being equally (and Peter Singer would even include animals in this calculus.) It doesn't merely say "love thy neighbor," it says that one should care just as much about the well-being of a stranger in a far away country, as one's family or friends. No favoritism is to be shown to people of different nationalities, races, genders, sexual preferences, or economic class. Very few people, even very few liberals, are quite this unbiased. For instance, in their proposals for domestic and international transfer programs, most liberals act as if they care more about the poor in their own country than the poor in other countries.

The second argument is more pragmatic. Although utilitarianism would theoretically allow for a highly unequal distribution of wealth, as a practical matter it almost certainly favors egalitarian distributions (other things equal) as an extra dollar is valued by a poor person much more than by a rich person. Thus I believe that rather than viewing egalitarianism as a fundamental liberal value, it makes more sense to view it as an implication of utilitarianism. Also recall that liberals usually oppose policies that are seen as making society more equal simply by reducing the well-being of the rich. Some have argued (John Rawls?) for a liberalism where policies can only be adopted if they do not hurt the worst off members of society. Although appealing at first glance, on closer examination this criterion is deeply flawed. Virtually all policies have at least an infinitesimal effect on the lowest classes of society, for better or worse. Thus in practice, a *maximin principle* would simply revert to the policy test where the well-being of the worst off was the *only* consideration that mattered—which is obviously at variance with utilitarianism, and also with common sense.<sup>36</sup> Liberals generally focus on the concerns of the lower classes, *as they should under the utilitarian criterion* (as there is more possibility of improving their well-being), however they do not follow the extreme maximin principle.

2. Some have attacked utilitarianism with thought experiments. One is asked to imagine some sort of morally repugnant societal set-up, and then asked to assume that it meets the utilitarian criterion of maximizing total utility. This is supposed to end debate, as we all know that "societal set-up X" is immoral. For instance, it is often alleged that utilitarianism would theoretically allow for the existence of institutions such as slavery. This argument implicitly assumes that slavery is obviously unethical, and that this fact does not need to be demonstrated. One problem with this sort of argument is that our moral intuition that slavery is abhorrent might well have been based on utilitarian reasoning. Thus we might have read historical accounts of the appalling suffering that slaves endured in the ante-bellum American South, and this might have convinced us both that slavery is morally unacceptable, and that it fails the utilitarian criterion. In that case, it is not clear that these two intuitions have separate sources. This sort of argument is persuasive only if there are no possible systems of slavery that would be morally unacceptable, and there are some systems of slavery that would satisfy the utilitarian criterion. But although it's easy to visualize some far-fetched<sup>37</sup> scenario where it is plausible that slavery is both morally justified and meets the utilitarian criterion, it is almost impossible to imagine a system of slavery that is both morally repugnant and likely to boost aggregate happiness.<sup>38</sup> I also think that we should stop thinking about utilitarianism as "maximizing pleasure," as for public policy purposes it is actually more about minimizing pain. When Rorty (1989) said that liberals are people who believe that "cruelty is the worst thing that we do"<sup>39</sup> he wasn't very far from utilitarianism, as the pain of history's victims is (it seems to me) vastly more consequential than the frivolous pleasures of its villains.

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<sup>36</sup> If this is not obvious, imagine a *reductio ad absurdum* example where the welfare of homeless people could be improved a tiny amount (say by giving them slightly warmer coats.) But this could only occur by reducing everyone else to a level only slightly above the homeless. Few liberals would embrace this tradeoff. And if it did occur, most would favor speedily undoing it, even though reversing it would violate the maximin principle.

<sup>37</sup> I.e., you set up a case where one person, or a handful of people, must be enslaved to save the human race.

<sup>38</sup> And why stop with slavery, one might just as well argue that, in principle, utilitarianism might require the destruction of planet earth—one need only make the Hobbesian assumption that the average person's utility is negative.

<sup>39</sup> I believe that he got this idea from Judith Shklar.

3. Some critics of utilitarianism advocate a deontological approach where concepts such as human freedom and dignity represent ends in themselves, not merely a means to an end. If so, one cannot justify denying someone liberty on consequentialist grounds. In my view, these “natural rights” really are “nonsense on stilts.” Society always faces ethical trade-offs that require the (utilitarian) weighing of costs and benefits. Thus even most liberals accepted the need for a military draft to help defeat the Nazis, despite the fact that FDR’s decision essentially sacrificed the freedom of young men for the greater good. Of course FDR’s military draft doesn’t disprove the validity of the deontological approach to ethics, but it does suggest that in policy decision-making, liberals are pragmatic consequentialists. Indeed, it is difficult to find a single example of where liberal policy views are obviously in conflict with the strictures of utilitarianism. Where is the historical example of slavery, or any other institution repugnant to liberals, that actually passes the utilitarian test?

My view of liberal values is probably a minority view, as I think most would want to augment utilitarian concerns with some sort of concept of “fairness” or “human rights”. Let’s consider four possible principles that might be viewed as “rights”; liberty, private behavior by consenting adults, free speech, and non-traditional marriages. We have already seen where liberals are willing to discard the right to liberty—the military draft in a “just war.” “Consensual private behavior” won’t work either—as liberals often support vice laws on utilitarian grounds—as with highly addictive drugs like heroin. And liberals often oppose free speech in areas such as commerce and hate speech. Finally, liberals do tend to support gay marriage, but not based on any abstract principle that one should be able to marry whomever one chooses—as most liberals oppose legalizing incest and polygamy. What do all four of these cases have in common? I would argue that utilitarianism is at work in all four cases. Liberals will easily discard any abstract “human right” if they think it that we can improve aggregate utility by restricting freedom. Of course there are a few radical civil libertarians who refuse to give up these rights under any circumstances, but I see them as analogous to the dogmatic libertarians who see the right to property as being fundamental, both groups are outside the liberal mainstream.<sup>40</sup>

4. Robert Nozick argued that according to utilitarianism, people should be willing to abandon reality and have their brain hooked up to a “happiness machine” which fed in constant pleasure. He argued that most people would actually prefer reality, even at the cost of some happiness. I have a methodological objection to working through philosophical issues with one’s moral intuition. Recent experimental evidence,<sup>41</sup> for instance, has shown that people do respond to the hypothetical scenario exactly as Nozick postulated. But when the thought experiment is inverted (and they are told to imagine their life up until now had been a dream), the results also change. If given the choice of the (unfamiliar) real world or their dream, people preferred to go back to the “dream world” with their family and friends. These experiments show that what Nozick thought was a preference for reality was actually a preference for the status quo. Another experiment showed that in the abstract, people don’t believe that individuals are morally culpable for their sins in a deterministic universe. But when given an example of a particularly egregious sin, people change their view, even with determinism still assumed. As with the example of slavery, moral intuitions involving highly emotional examples are not reliable ways to develop philosophical principles.

5. Some argue that there is much more to life than happiness, and that the utilitarianian criterion is too narrow. But what is utility? Is it happiness? Subjective well-being? Life satisfaction? Peter Singer argues for a “preference utilitarianism”, which would aim at maximizing those preferences that individuals would prefer if fully informed and reflective. Of course, there is the problem of who gets to

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<sup>40</sup> This is not to say that anyone supporting a blanket legal protection is a dogmatist. For example, one can support a 1<sup>st</sup> Amendment-type guarantee of free speech on pragmatic grounds—it may be less costly to allow all speech, than to try to decide which types of speech don’t meet the utilitarian criterion.

<sup>41</sup> I heard Joshua Knobe discuss this experiment on Bloggingheads.tv. I presume it is in his new book.

decide which preferences are valid when confronting public policy issues. Even so, preference utilitarianism has the virtue of addressing one major criticism of Benthamite (hedonic) utilitarianism—that people are complex and seek more than one objective in life.<sup>42</sup>

The preceding is my attempt to both explain and defend utilitarianism. But even I have my doubts. My knowledge Nietzsche's writing is very superficial, but I expect to find that he intuited something deeply inhuman about a value system that ignores much of what it means to be human. There are undoubted benefits from rising above our basest motives, but also costs. Thus I am not trying to suggest that utilitarianism is the best value system, nor are my values completely utilitarian. But I do think that it closely approximates the actual value system of mainstream liberalism. I know of no obvious examples of where liberals favor a public policy that they expect to reduce aggregate utility. But what about other value systems? How do they compare to liberalism?

### Liberal and Illiberal Value Systems

One way of thinking about liberal values is to contrast them with non-liberal values. Non-liberal value systems fall into two distinct categories; those that do not put the happiness of society first, and those that do not place equal value on the well-being of all humans. The first category would obviously include religions that put more weight on following the word of God, than on individual happiness. It might also include modern conservatives who value tradition for its own sake, such as modern secular conservatives who favor “traditional marriage” for reasons other than of religion or utility. Another example would be dogmatic libertarians who believe that taxation is theft, and who even oppose social welfare programs that might boost aggregate happiness. The second category includes those who differentiate between groups, favoring a particular class, religion, gender, ethnicity, race or nationality. These values lead to ideologies such as feudalism, nationalism, imperialism, racism, totalitarian Marxism<sup>43</sup> and in some cases conservatism.

Conservatism is particularly difficult to pin down, because it is so historically contingent. Consider how conservatives often embrace the problematic term ‘patriotism’. What does it mean to “love one’s country”? Cosmopolitan liberals are often put in a quandary, resenting being called unpatriotic, but uncomfortable promoting patriotism—which is hard to distinguish from nationalism. (Herman Melville tried to resolve this dilemma by arguing that one must be “a patriot to heaven.”)

When it comes to economic issues of poverty and inequality, conservatives focus on the ethical obligation of rich individuals to help the “deserving poor”. Liberals focus on the obligation of society as a whole to improve the lives of all poor people—a stance easy to justify on utilitarian grounds, at least in principle. During the nineteenth and much of the twentieth century, liberal opinion increasingly favored various types of social-welfare programs, which were seen as reducing economic inequality. When neoliberals began to support welfare reform in the 1980s, it was not because their values had shifted, but rather because they no longer saw existing welfare programs as promoting an egalitarian society.

There is a common misperception that (in America) conservatives are “pro-market” and liberals are “anti-market”. On some policy issues this is certainly the case, but if one takes a deeper look at their underlying value systems, the opposite is often the case. Consider the proposal to allow a free market in transplant organs. This sort of proposal is opposed by a wide range of groups, from conservative Catholics who worry that turning the human body into a commodity would in some sense de-sanctify human life, to liberals who worry that this sort of scheme would be coercive and inegalitarian. But there are important differences between these two types of skepticism about markets. The liberal concern about an organ market is based on their common-sense worldview. If this worldview is wrong (and I think that

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<sup>42</sup> Nietzsche was probably thinking of Bentham and Mill when he sarcastically remarked something to the effect that “Man does not seek happiness, only the Englishman does.”

<sup>43</sup> Here I am not referring to the views of Karl Marx, but rather the views of so-called “Marxists,” such as Stalin, Mao, and Pol Pot.

it is wrong in this case)<sup>44</sup> then there is every possibility that liberals can be convinced to embrace a market for organs. Indeed, I believe this process has already begun to occur. In contrast, it is difficult to imagine any empirical evidence that could be used to persuade conservative Catholics to abandon their opposition to an organ market.

It has almost become conventional wisdom that liberals are more intellectual than conservatives.<sup>45</sup> Indeed, the actual imbalance might even exceed the perceived imbalance, as the American two party system forces many divergent ideologies to congregate under the same “big tent”. This means that a fair number of intellectuals called “conservatives” in America actually hold somewhat liberal values. Pragmatic libertarians aligned with the Chicago school of economics tend to have extremely liberal values.<sup>46</sup> I believe that the same is true of legal conservatives such as Richard Posner. Many neoconservatives are essentially liberal internationalists (with a possibly exaggerated view of how much good can come from the judicious use of force.) Burkean conservatives such as George Will also frequently rely on pragmatic utilitarian arguments. It seems clear that “conservative” intellectuals in America are far more likely to hold somewhat liberal values than is the average conservative voter. On a wide range of issues such as trade, immigration, school choice, humanitarian interventions (i.e. Kosovo), vice laws, etc., Republican policy wonks tend to favor policies that are opposed by many conservative voters. On the other hand, there is an enormous block of ordinary Republicans (and even Democrats) in America that hold somewhat tribal values, and for which there are virtually no respected intellectual champions. Religious conservatives, however, do have intellectual champions, especially in the Catholic Church.

### The Pursuit of Happiness

To summarize, I view utilitarianism as the value system that most closely approximates the values of liberals. While it is easy to caricature a value system based on the *pursuit of happiness* as being shallow and superficial, consider for a moment V.S. Naipaul’s take on that famous phrase from the U.S. Declaration of Independence:

“Familiar words, easy to take for granted; easy to misconstrue . . . This idea of the pursuit of happiness is at the heart of the civilization to so many outside it or on the periphery. I find it marvelous to contemplate to what an extent, after two centuries, and after the terrible history of the earlier part of this century, the idea has come to a kind of fruition. It is an elastic idea; it fits all men. It implies a certain kind of society, a certain kind of awakened spirit. So much is contained in it: the idea of the individual, responsibility, choice, the life of the intellect, the idea of vocation and perfectibility and achievement. It is an immense human idea. It cannot be reduced to a fixed system. It cannot generate fanaticism. But it is known to exist; and because of that, other more rigid systems in the end blow away.”

Note that Naipaul puts more emphasis on “pursuit” than “happiness”. Put aside your opinion of America and consider Naipaul’s statement (made in 1991) as an almost perfect definition of the spirit of liberalism. Liberalism is certainly no “fixed system,” rather it is an unceasing search for a better world.

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<sup>44</sup> Regarding coercion, under the current voluntary system relatives with matching blood-types are under enormous family pressure to donate an organ. Utilitarianism is blind to family considerations, and provides no rationale for any extra obligations due to blood relationships. And regarding the issue of class, empirical studies suggest that the lives of many poor people would be saved by an organ market, as the total supply would increase enormously.

<sup>45</sup> And this is not a new perception, as Mill once called the British conservatives “the stupid party.”

<sup>46</sup> Among economists, one finds a particularly interesting pattern where academic economists vote much more left wing than the general public, but (due to their economic worldview) vote much more right wing than other academics. And if anything, the higher up in the profession one moves, the more right wing the policy views (judging by the grossly disproportionate share of Nobel prizes won in recent years by economists of the “Chicago School”).

## Appendix C. Where Do Liberal Values Come From?

Although I have not had time to research this question in any depth, it is easy to imagine at least four factors that may have contributed to the development of liberal values: religion, literature, rising incomes, and climate. Many of the world's major religions have an egalitarian view of the intrinsic value of humans and/or encourage good works to help the unfortunate. These are certainly liberal values. Literature (or more generally the narrative arts) puts the viewer into the shoes of others, and may help to increase the public's empathy for people of different backgrounds. Liberal values may also be useful in promoting the sort of cooperation necessary to survive in harsh, cold climates.

The role of economic growth is more complex. For much of human history, population growth was continually causing mankind to press against the limits of nature. In that sort of Malthusian world warfare was an almost constant presence, and was arguably more humane than the alternative (starvation.) In the 18<sup>th</sup> and 19<sup>th</sup> century, mankind began to break free from these limits as technological progress exceeded the rate of population growth. This led to steadily rising living standards and turned warfare into a negative sum game. In the Malthusian world one would expect people to have little sympathy for those outside the group, who were potential enemies. Today in the rich world there is an increasing tendency to celebrate diversity, to inculcate cultural norms of tolerance and multiculturalism.

If we look across space at a point in time, we observe that the more liberal societies tend to have a relatively cold climate<sup>47</sup>, high average incomes, and a Protestant religious tradition. However it should also be noted that many of the most liberal countries are now fairly secular. And causation could run in either direction—more liberal cultures might have been more accepting of the Protestant Reformation. If we look at the development of liberalism over time, then it is a bit more difficult to see how religion could have played a major role. One possibility is that religion provided the theoretical template for egalitarian social attitudes, but that these weren't made operative until the advent of modern literature. I wasn't able to find much data on book readership, but what I did find suggested that Northern Europeans read more than most other cultures. Also note that the novel came into its own in the 18<sup>th</sup> and 19<sup>th</sup> centuries, which roughly corresponds to the rise of classical liberalism. Slavery co-existed with Christianity for nearly 2000 years, but was abolished in the U.S. a mere 13 years after the publication of *Uncle Tom's Cabin*.

I haven't had time yet to do any research on Scandinavian culture, but Borges once claimed that "In the twelfth century, the Icelanders discovered the novel—the art of Flaubert." And I think it's fair to say that people don't go to Scandinavian films for their car chases. Perhaps when the narrative arts are psychologically complex they promote liberal values more effectively.

There are probably many other sources of liberalism. Some have claimed, for instance, that Europe's geography facilitated the development of trade. If so, this might have made Europeans more cosmopolitan, and eventually more liberal, than less geographically favored regions. I doubt whether any single factor was decisive.

## Appendix D. Why is Economics So Counterintuitive?

Because economics is a deceptively counterintuitive field, it is easy to find numerous examples of where commonsense views differ from the economic perspective. Some of these do not even involve empirical judgments, but rather seem to merely reflect logical errors. For instance, Krugman (1996) pointed out that people often worry about a net loss of jobs both from U.S. investment flowing overseas, and from Americans buying foreign goods, even though as a matter of accounting both problems cannot exist at the same time. (A U.S. trade deficit can only be financed by a capital account surplus.)

I often find news articles, even in respected publications, which confuse the most basic principles of supply and demand. Thus in a recent *LA Times* piece entitled "Americans may be losing faith in free

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<sup>47</sup> This is also true within a given country. In the U.S. the north tends to be more liberal, whereas in Australia the south is more liberal.

markets” Peter Grosselin (2008) argued that “Most mainstream economists assert that these [gas price] increases are simply the logical outcome of booming global demand meeting limited global supply. But the price run-ups seem out of whack with demand, which has increased only about 1% worldwide.” (Actually, a small rise in “demand” (i.e. consumption) is exactly what one would expect if rapidly rising demand was pushing up against highly inelastic supply.) And this sort of misuse of supply and demand occurs almost every day in major media outlets.

If I ask students (or adult non-economists) how a firm would respond to a rise in its costs, they almost always say that firms will pass on the higher costs to consumers. But they are much less likely to say that firms would pass on lower costs in the form of lower prices. This sort of reasoning makes little sense to economists, as the profit function is symmetrical. I assume that the average person’s reasoning goes as follows:

1. Companies are greedy
2. It would be altruistic for the company to absorb higher costs without a price increase
3. It would be altruistic for the company to pass on lower costs to consumers
4. Therefore, companies don’t absorb higher costs and don’t pass on lower costs

The flaw in this reasoning is point #3, although it would seem that a greedy company would not want to pass on lower costs in the form of lower prices, in fact that is exactly what a greedy company would want to do. (I.e., if moving from cost situation A to B causes companies to raise prices from X to Y, then logically moving from cost situation B to A should cause companies to want to reduce prices from Y to X.) Why don’t people see this as obvious? Perhaps moral reasoning gets somehow entangled with reasoning about causality.

An experimental philosopher named Joshua Knobe reported some interesting findings in an interview on Bloggingheads.tv. Knobe said that two groups of people were given two slightly different stories, and then asked a question. The first group heard a story where an engineer went to the CEO of a company with a project that he said would dramatically boost profits. But there was one drawback; it would seriously harm the environment. The CEO said “I don’t care about the environment, I only care about profits. Do the project.” For the second group, everything in the story was exactly the same except that project was said to actually help the environment. Again the CEO said “I don’t care about the environment, I only care about profits. Do the project.” In both cases the listener was asked whether the CEO intentionally hurt (or helped) the environment. Most people in the first group said the CEO did intentionally hurt the environment, but most in the second group said that he did not intentionally help the environment.

As with the case of greedy companies passing on higher prices, the two situations in Knobe’s experiment are symmetrical. Knobe was not able to ascertain the cause of the peculiar asymmetry in responses. But it struck me as interesting that in both of these examples the public seemed to adopt such a highly skeptical view of the motives of big corporations that they were led to an irrational asymmetry in their worldview.

Economic philosophers have also addressed this problem. Wilkerson (2005) noted that human brains evolved under conditions far different from the modern economy:

“because of the social nature of hunting and gathering, the fact that food spoiled quickly, and the utter lack of privacy, the benefits of individual success in hunting and foraging could not be easily internalized by the individual, and were expected to be shared. The EEA [i.e. Stone Age] was for the most part a zero-sum world, where increases in total wealth through invention, investment, and extended economic exchange were totally unknown. More for you was less for me. Therefore, if anyone managed to acquire a great deal more than anyone else, that was pretty good evidence that theirs was a stash of ill-gotten gains . . . Our zero-sum mentality makes it hard for us to understand how trade and investment can increase the total amount of wealth. We are thus ill-equipped to easily understand our own economic system.”

Not surprisingly, Hayek (xxxx) also has something interesting to say about this issue:

“If we were to apply the unmodified, uncurbed, rules of the micro-cosmos (i.e., of the small band or troop, or of, say, our families) to the macro-cosmos (our wider civilization), as our instincts and sentimental yearnings often make us wish to do, *we would destroy it*. Yet if we were always to apply the rules of the extended order to our more intimate groupings, *we would crush them*. So we must learn to live in two worlds at once.”

One way of illustrating the extraordinary counterintuitiveness of economics is to consider how society views recent Chinese history. Let’s start with Mao’s “Great Leap Forward,” which led to the death of untold millions. Why has perhaps the greatest disaster to ever afflict a single nation received relatively little attention from artists and historians? The first systematic account of this episode is only now being published, whereas other great disasters<sup>48</sup> have been extensively covered in hundreds or thousands of books, both fiction<sup>49</sup> and nonfiction. Maybe the problem is that the Great Leap Forward was a disaster that can only be made sense of from the (counterintuitive) economic perspective. In all of my reading of history I only recall a few brief mentions of this tragedy. And the discussion was mostly anecdotal—stories of farmers building backyard steel mills. I suppose the historians thought they needed some sort of common-sense explanation that people could visualize, but backyard steel mills can hardly account for a disaster of such vast scale. The obvious economic explanation is quite simple; reduce farmers’ incentive to produce to near zero, and food output plummets. But how do we explain to school children that millions had to starve because of a policy that encouraged people to *share*?

Many right-wing economists are fond of Orwell’s *Animal Farm*, which is a barely disguised satire on Stalin’s Soviet Union. But they shouldn’t be, as this is a deeply misguided book. Orwell was a great man, but he was not very knowledgeable about economics. In *Animal Farm* we are led to believe that the major problem with the Soviet Union was hypocrisy, i.e. that they didn’t quite live up to their egalitarian ideals. In fact, had the Soviet Union adopted a perfectly egalitarian policy regime, it would have been an even more brutally inhuman system. (Just imagine the reaction of Western intellectuals if it was discovered that *Animal Farm* had inspired Mao to adopt the Great Leap Forward, or the Cultural Revolution!)<sup>50</sup>

In 1979, 20 years after the Great Leap Forward, a Chinese policymaker named Zhao Ziyang instituted a new (and more market-oriented) policy regime in China’s rural areas. This time there actually was a “backyard” industrial revolution in China’s countryside, as farmers rushed to set up factories. But there was no mass starvation, as food production also soared. The Chinese government rewarded Zhao for his reformist zeal by imprisoning him in 1989. No good deed goes unpunished. And this wasn’t just

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<sup>48</sup> Here I am thinking of disasters like WWII, the Nazi holocaust, the American slave trade, the European treatment of indigenous populations, etc.

<sup>49</sup> Zhang Yimou’s film, *To Live*, does have a few scenes that represent the Great Leap Forward, but it never very clearly shows exactly what went wrong. Unfortunately, it seems that while the narrative arts are good at presenting conflicting values, they are almost wholly incapable of addressing different worldviews (about causality) in any sort of intellectually meaningful way. Perhaps the arts are inherently *specific*, whereas worldviews can only be understood in terms of broad generalities, or abstract concepts. For left-liberals that may not be a big problem, as they see their primary intellectual opponents as being conservatives with different values. But it is very problematic for right-wing liberals, who tend to see their only serious intellectual opposition as left-liberals holding similar values but differing worldviews. I plan to study the problem of political art more fully next year. I have read dozens of film reviews that discussed the political implications of films, and I have yet to see even one example where the film actually addressed the political issue in a comprehensive fashion (i.e. both values and worldviews.) A lot of “political” art says little more than that “suffering sucks”; the best (such as *To Live*) consider less obvious liberal values, such as rationality. But values aren’t enough; after all, sharing is also a nice value.

<sup>50</sup> Slavoj Žižek is the only western intellectual that I am aware of who has good things to say about the Cultural Revolution.



an ordinary good deed, but one that (in pure utilitarian terms) might be the best single thing that has ever happened. In just a few years, hundreds of millions were quickly lifted above abject poverty and hunger. (Zhao died in 2005, still under house arrest. Mao's picture still graces Tiananmen Square)

Today, tourists visualize China's development in terms of big shiny new buildings in the cities. What they don't know is that they are seeing the fruits of government policies that were financed by extracting resources from the productive (and less visible) sectors of China's economy (the rural areas and the urban entrepreneurs) and diverting them to grandiose (and statist) projects that actually *slow* China's growth. In economics, things are almost never as they seem.

## **Appendix E. Liberal and Illiberal ideologies.**

Let's assume that ideologies represent a mixture of values and worldviews. Then we can better understand liberalism if we briefly contrast liberalism with illiberal ideologies of both the left and the right. Leftist ideologies tend to put a lot of weight on egalitarianism. In that case, are all leftist ideologies liberal? Obviously not, for instance almost no one would consider totalitarian communism to be liberal. Most 20th century communist governments were not motivated by utilitarian values.

Liberals favor policies that increase aggregate happiness. As a practical matter these policies often did have egalitarian implications, as it is generally assumed that an extra dollar yields more utility to a poor person than a rich person. In contrast, Mao's Cultural Revolution aimed at equalizing utility by reducing the welfare of the rich (urban residents), not raising the welfare of the poor (rural peasants.) Pol Pot followed a similar policy of equalizing welfare at the lowest common denominator. However, the most important difference between the ideologies of totalitarian communists and liberals shows up not in these anti-urban policies, but rather in egalitarian schemes aimed at the peasants. Mao's Great Leap Forward attempted to construct a rural economy based on the concept of *sharing*. Unfortunately, when goods are shared equally there is little or no incentive to work hard, and food production plummets. The great famines that occurred in China, Russia, Cambodia, and North Korea during the 20<sup>th</sup> century were associated with this sort of policy regime. (This is not to suggest that these countries actually achieved egalitarian outcomes, but the important point is that egalitarianism was the motivation.) Liberals have a very different view of egalitarianism. They don't view equal utility as the goal, but rather seek to maximize total utility. Thus they favor the redistribution of income, but not to the point where it becomes counterproductive.

There are a much wider variety of non-liberal ideologies on the right. Here it might be useful to begin with some research on values by moral philosopher Jonathan Haidt. Haidt interviewed self-identified liberals and conservatives and found that liberals were primarily motivated by two values; harm/care and fairness/reciprocity. Conservatives share those values to a lesser extent, but also value loyalty, authority/respect, and purity/sanctity. He strongly emphasized that the term 'conservative' did not include libertarians, who actually had liberal values—and indeed they had the lowest correlation with religious conservatives of any group. I agree with Haidt, but would add that it is very misleading to lump libertarians together, as dogmatic libertarians (probably the most prevalent type of libertarians) are not true liberals. They value property rights over utilitarian values. Rather, among libertarians only the very small but nonetheless influential *pragmatic libertarians* are actually liberals. These include many members of the Chicago and Austrian schools of economics.

Haidt claimed that most intellectuals hold somewhat liberal values that are at least vaguely utilitarian. To a liberal, immoral actions nearly always involve identifiable harm to specific individuals. He also argued that most intellectuals looked at values from a consequentialist perspective, and that they were blind to values involving concepts such as disgust—which show up in issues such as flag burning. Although a self-described liberal utilitarian, Haidt claims that most liberals don't really understand conservative values:

“The second rule of moral psychology is that *morality is not just about how we treat each other* (as most liberals think); *it is also about binding groups together, supporting essential institutions, and*

*living in a sanctified and noble way.* When Republicans say that Democrats “just don’t get it,” this is the “it” to which they refer.”<sup>51</sup>

I share Haidt’s liberal values, and also his perception of American conservatism. But I don’t think that his sympathetic treatment tells the full story of American conservatism, and even less so of foreign conservatism

Outside the U.S., right wing ideologies are even more likely to be inegalitarian. Many fascists, for instance, favor a particular nationality or race. Similarly, feudal or aristocratic ideologies place a higher value on the upper classes of society. In America today there are many types of conservatives, but Haidt believes that the term is most applicable to the so-called religious right, for whom values such as purity and sanctity are obviously important. Among the economic and foreign policy conservatives it is often difficult to disentangle policy views motivated by utilitarian considerations, from those that reflect values like loyalty, respect for authority and tradition, and the need for hierarchies and rules. Thus a conservative might argue that in Iraq “we cannot abandon our friends” (loyalty) but also that “leaving now would create a mess in the Persian Gulf” (utilitarian concerns.) On questions like illegal immigration, nationalists like Pat Buchanan emphasize the ‘immigration’ part of the issue, arguing that immigrants are changing our culture and taking away our jobs. Other conservatives focus on the ‘illegal’ aspect of the issue, stressing the need to respect authority and the rule of law. I doubt that any overarching theory of conservatism is possible, but I’ll keep looking.

### Liberal Ideologies

Among those with liberal value systems there are three primary ideologies; classical liberalism (or small government), modern (mid-20<sup>th</sup> century) American liberalism (statism plus egalitarian social insurance) and neoliberalism (free markets plus egalitarian social insurance.) At any point in history, the dominant liberal ideology is the one most consistent with the majority worldview. In the 18<sup>th</sup> century big governments seemed antithetical to human progress, and liberals tended to favor small government. In the 19<sup>th</sup> and early 20<sup>th</sup> centuries, problems such as inequality, monopoly, and unemployment seemed to increasingly confirm the common-sense worldview that government was a potential mechanism for reform. However, by the late 1970s a more nuanced view of government led to neoliberalism replacing modern liberalism. This occurred as the problem of stagflation lent credence to certain aspects of the economic worldview—especially the value of privatization, deregulating market access, and low marginal tax rates.

Different worldviews can also result from different geographic locations. American liberals live in one of the most capitalist societies on earth, and look longingly at the more egalitarian Western European model. Polish liberals are also eager to become more like Western Europe, but they are just emerging from communism. This may be why American liberals favor a larger role for the government, while Polish liberals favor a smaller role. In Poland, it is the conservatives who are the statist. I had to read the following comment on Chinese politics twice before I could even figure out what was going on:

“However, one reformist scholar said yesterday that the People’s Daily article—which cited March comments by Mr. Hu backing greater reform – would help to kill widespread speculation that top leaders were associating themselves with party conservatives. ‘I think it will keep the leftists’ mouths shut for quite some time,’ the academic said.” (*Financial Times*, p. 2, 6/6/06.)

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<sup>51</sup> This from a quite interesting essay entitled “What Makes People Vote Republican?” which is on his website.

## Appendix F. A Recent Example of a Worldview in the Process of Changing

The following blog entry was written by one of the very few Americans that actually calls himself a “neoliberal,” and thus should be viewed with caution (he has an ax to grind here.) Nevertheless, I thought it was a nice example of a worldview in the process of changing. The ‘commonsense’ view of education is that public schools are the best way to promote the common good. And this is the traditional liberal position. More recently, however, problems within America’s public school systems have led some to argue that a system based on consumer choice and competition might do better, even for the poor, than a top-down state-run system where decisions are made by education bureaucrats and teachers unions. As noted earlier, this neoliberal trend in education is already more advanced in Northern Europe than in the United States.

# Dems Rally Against Unions!**OK, TEACHERS' UNIONS. STILL ...**

*By Mickey Kaus*

Updated Sunday, Aug. 24, 2008, at 8:52 PM ET

**Things We Thought We'd Never See: Democrats Rally Against the Teachers' Unions!** I went to the [Ed Challenge for Change event](#) mainly to schmooze. I almost didn't stay for the panels, being in no mood for what I expected would, even among these reformers, be an hour of vague EdBlob talk about "change" and "accountability" and "resources" that would tactfully ignore the elephant in the room, namely the teachers' unions. I was so wrong. One panelist--I think it was Peter Groff, president of the Colorado State Senate, got the ball rolling by complaining that when the children's agenda meets the adult agenda, the "adult agenda wins too often." Then Cory Booker of Newark attacked teachers unions specifically--**and there was applause. In a room of 500 people at the Democratic convention!** "The politics are so vicious," Booker complained, remembering how he'd been told his political career would be over if he kept pushing school choice, how early on he'd gotten help from Republicans rather than from Democrats. The party would **"have to admit as Democrats we have been wrong on education."** **Loud applause!** Mayor Adrian Fenty of D.C. joined in, describing the AFT's attempt to block the proposed pathbreaking D.C. teacher contract. Booker denounced "insane work rules," and Groff talked about doing the bidding of "those folks who are giving money [for campaigns], and you know who I'm talking about." Yes, they did! As Jon Alter, moderating the next panel, noted, it was hard to imagine this event happening at the previous Democratic conventions. (If it had there would have been maybe 15 people in the room, not 500.) Alter called it a "landmark" future historians should note. Maybe he was right.

## Appendix G. Does Civic Virtue Imply Liberal Values?

While the preceding question is beyond the scope of this paper, I'd like to sketch out a few reasons why I think these concepts are closely related. I have already argued that my conception of liberalism (roughly egalitarian utilitarianism) puts an implicit value on civic virtue. Here I'd like to argue that this virtue is likely to be correlated with other, better known, aspects of liberalism. I will confine my comments to the Nordic countries, as they tend to score highest on my metric for liberal values.

I'll start with the issue of marriage and the family. In the U.S., people often distinguish between intact families where both parents are present and married, and "broken homes" where children are raised by one parent, usually the mother. In the Nordic countries another pattern is very common, intact families with unmarried parents. It seems to me that this is a rational/secular, pragmatic model of the family. It places little or no value on something that is very important to religious or tradition-oriented conservatives—the formal institution of marriage. Yet it also acknowledges the widespread perception (whether true or not) that children do better when raised by two parents. Indeed, this eminently utilitarian social practice nicely encapsulates my vision of liberalism.

The Nordic countries are also well-known for other aspects of liberalism. An exceptionally large number of elected officials are women, for instance. Another indicator of gender equality is that Sweden leads all developed countries in the share of housework done by men, and Denmark is number two. Indeed, five of the top six countries for male housework participation are Nordic (the other is the U.S.!) Denmark leads in overall female labor force participation. And I believe that the Nordic countries also have fairly liberal laws in areas such as gay rights and euthanasia. In most countries, a prostitute is viewed as a criminal, a reflection of religious values. Prostitution is also illegal in Sweden, but the prostitute is viewed as the "victim." This makes more sense from a utilitarian perspective, as prostitutes are often abused.

One possible objection to my focus on civic virtue is that the Nordic reputation for not littering and not demanding bribes may not be true egalitarianism, but rather a sort of nationalism, a loyalty to the Danish "tribe." After all, these are small countries in terms of population, and until recently had highly homogenous societies. But there are other reasons to believe that their egalitarian values are not just tribal. They tend to have relatively non-militaristic, internationalist foreign policies. And they give an unusually large share of their GDP in humanitarian assistance to poor countries.

One area where these societies may fall short of the liberal ideal is immigration. As in many other developed countries, there is friction between the majority group and the recent immigrants from less developed countries. But even their xenophobia has a slightly liberal tint. A few years ago a popular anti-immigrant Dutch politician named Pim Fortuyn was assassinated by an Islamic extremist. Called a "far-right wing" politician by the BBC, Fortuyn was nevertheless an advocate of gay rights (and was himself openly gay.) He opposed immigration from cultures that he felt did not share the liberal values of Dutch society—not exactly the grounds on which Pat Buchanan opposes immigration. In many countries, liberals wrestle with the conundrum of how (or whether) to be tolerant of less tolerant cultures.

I am continually coming across empirical findings that relate to this project. For instance, a recent Bloggingheads.tv episode discussed how drivers are more reckless in countries that are more corrupt, *and also in countries with fewer women in the legislature*. Many of the examples cited seemed to correlate with my work: The Netherlands is safer than Belgium, Flemish Belgium is safer than French Belgium, Northern Italy is safer than Southern Italy, etc. The Nordic countries were the safest. Note that a liberal should drive safely, if only out of (utilitarian) concern for others. It's not that Volvos are safe cars; it's that they're driven by liberals.

I haven't yet had time to construct a broader index of liberal values. But when I do, I anticipate that the Nordic countries will still come out on top, and that my empirical results will still hold up.

## Appendix H. Political Liberalization and Neoliberal Economic Reforms

One of the most heartening developments of the last three decades has been the extremely close correlation between political liberalization and neoliberal reforms. I know of no example of a country that was politically repressive in 1980, and which then engaged in substantial neoliberal reforms without also having at least some political liberalization. Because many do not see this relationship, and some even hold the exact opposite opinion (that neoliberalism is associated with political repression) it is worth briefly reviewing the evidence.

Recall that in the 1970s the vast majority of countries were dictatorships, including even some countries in Western Europe. Since that time the world has seen both a neoliberal economic revolution, and an enormous increase in the number of both complete and partially democratic countries. But are these trends linked? Here is what we know:

1. There is a strong positive correlation between statism and political repression, throughout almost all areas of the world. In Europe, as one moves farther east governments tend to get more repressive and more statist. In East Asia the most repressive countries (North Korea, Burma) are highly statist. Of the ethnic Chinese countries, China itself is by far the most repressive and the most statist. But it is also true that China is considerably less repressive and considerably less statist than in the 1970s. On the Indian subcontinent, India itself has been reforming its economy the most aggressively, and is obviously the most democratic country. I know less about the Islamic Middle East, but Turkey tends to be at least somewhat more democratic and somewhat more neoliberal than most other nations in that region. In Latin America, Cuba is by the far most statist, and is also one of the most repressive countries.

2. The perception of a link between neoliberalism and repression may be partly based on (a misreading of) recent Chinese history. During the 1980s, the few members of the Chinese government who favored market reforms; were often the same people who favored more political liberalization. They had to almost operate in secret, as most top officials were committed communists. Zhao was able to sneak some reforms into the countryside, which then took off without government encouragement. China also became much less repressive (but still is very repressive.) By 1989, rural incomes had risen more rapidly than urban incomes, and the income distribution had become *more equal than 10 years earlier!* Unfortunately, relatively little had changed in the cities, and this led to frustration over stagnant living standards, and also the 1989 Tiananmen Square revolution. The Tiananmen protesters had diverse views, some wanting to completely ditch communism and move to a western-style democracy, others simply wanting to end corruption and speed up reforms. So far as I know, almost none wanted to return to Maoist communism. Zhao was the only member of the leadership who sympathized with the protesters, and thus was sacked by the hardline communists who regained power after the revolution was crushed. They immediately put the economic reforms on hold and began cracking down on entrepreneurs. Even as late as 1992, Deng had great difficulty starting the reform process, as much of his own government still opposed market reforms. Since China joined the WTO in 2002, it has modestly accelerated market reforms in urban areas, and it has also become much more popular with urban residents.

It is also important to recognize that the reforms in China have proceeded much more slowly than in Eastern Europe, where governments are much more responsive to public opinion. (Don't take my word for it—neoliberalism skeptic Joseph Stiglitz says the same thing, and uses it to defend the Chinese approach as being superior to the Eastern European approach!) There is little evidence that “shock therapy” is strongly associated with repressive governments.

3. Those who remember the 1970s, might recall a series of events in Chile that also led to a widespread misconception about the links between neoliberalism and repression. It is true that the first neoliberal reforms were instituted under a repressive regime and with the assistance of economists who had studied at the free market University of Chicago. But there are also many myths about this episode. The Pinochet regime certainly did not overthrow a democratically elected government to institute neoliberal

reforms—as I’m sure they didn’t even understand the concept in 1973. Instead, after taking power, they instituted the same sort of statist, paternalistic regime that other Latin American dictators traditionally maintained. Only when the economy continued to spiral downhill in 1974 and 1975, did they turn to the “Chicago Boys” to fix the mess. When Chile finally returned to democracy in 1989, the new center-left government maintained the neoliberal reforms. Thus even the best example of the link between neoliberalism and repression isn’t quite as clearcut as it seems. Elsewhere in Latin America, neoliberalism was often associated with political liberalization. For instance, Argentina had a highly statist policy in the 1980s under the military junta and only began to liberalize its economy in the 1990s, after it had returned to democracy.

Nor is it true that the intellectual leader of the neoliberal movement, Milton Friedman, was an “advisor” to the Pinochet government or a secret supporter of repressive regimes. Friedman did visit Chile briefly in 1975 and spoke with Pinochet (as Obama has promised to speak with the Iranian President), but he also turned down 2 honorary degrees from Chilean Universities because they were funded by what he called the “despicable” Pinochet government. He gave the same sort of policy advice to numerous communist governments, but has never been accused of being a communist. Friedman was a lifelong radical libertarian who even regarded U.S policies as far too repressive for his taste. He opposed the military draft in the in the 1960s, the war on drugs, the Iraq War, restrictions on civil liberties, the military industrial complex, etc. On the question of militarism and political repression, he was far to the left of what the media in the U.S. call “liberal Democrats”. When the University of Chicago was about to accept a donation from the Iranian Government (under the Shah), Friedman made an impassioned speech about how the University should not accept money from a dictator, and Chicago decided to reject the funds. The recent attempt to paint him as a closet authoritarian would be laughable if it wasn’t so sad.

4. In the Fraser index, only 4 countries have not liberalized since 1980, so it is obviously possible to find neoliberal reforms occurring in some pretty nasty regimes. And of course the most messed up countries are exactly those places where the World Bank and IMF are called in for help. Inevitably the problems will continue, as deep-seated governance failures in the developing world are at the root of the problem, not a lack of advice by “experts.” I suppose that if one uses the Chomsky definition of causality—which is roughly that in any country where the U.S. has any involvement, any and all problems are the fault of the U.S.—then it would be possible to have a darkly conspiratorial view that sinister forces in the World Bank and IMF are holding back progress in the developing world. I favor abolishing these institutions, and removing the trade embargo on Cuba, to give the people more clarity as to the root cause of their problems—their own governments. Even in illiberal societies governments know what policies promote development—they simply lack a commitment to the common good.

5. Polls might occasionally show public opposition in Eastern Europe to this or that market reform. But voters in those countries also strongly supported joining the EU, knowing full well that in doing so they were required to discard their statist economic models and adopt the much more neoliberal models of EU nations.

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- I also relied on watching TV, specifically *Blogginheads.tv* episodes with:
- Joshua Knobe (highly recommended, he also has a new book entitled *Experimental Philosophy*.)  
Jonathan Haidt (also highly recommended)  
Tom Vanderbuilt—"How We Drive" (9/19/08)  
Linda Hirshman and Michelle Goldberg: Discussed women's rights in America and Scandinavia (8/4/08)