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## The Liberal Arts and the Wealth of Nations

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## **The Liberal Arts and the Wealth of Nations**

**Louis D. Johnston**

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**Address to Phi Beta Kappa Initiation, April 22, 2015**

Thank you for the opportunity to share some ideas with you tonight. That is, after all, what Phi Beta Kappa is all about!

Let me begin by congratulating our new members. My wife, Susan Riley, and I have been members of Phi Beta Kappa for over 30 years, and as we moved from Minnesota to California, to Maine, and back home to Minnesota we've connected with Phi Beta Kappa chapters in each place. Staying connected with the Society continues to enrich our lives and I urge you all to keep in touch with the Society wherever life takes you.

As you heard earlier, Phi Beta Kappa was founded at the College of William and Mary in Williamsburg, Virginia, on December 5, 1776. 1776 is, of course, a special year to Americans more generally because on July 4, 1776, the Continental Congress declared that the colonies, "ought to be Free and Independent States; that they are Absolved from all Allegiance to the British Crown, and that all political connection between them and the State of Great Britain, is and ought to be totally dissolved; and that as Free and Independent States, they have full Power to levy War, conclude Peace, contract Alliances, establish Commerce, and to do all other Acts and Things which Independent States may of right do."

1776 is important for another reason: on March 9, 1776, a professor of moral philosophy at the University of Glasgow named Adam Smith published a book: *An Inquiry Into the Nature and Causes of the Wealth of Nations*. That book, which we usually refer to simply as *The Wealth of Nations* is the founding document of my discipline, economics.

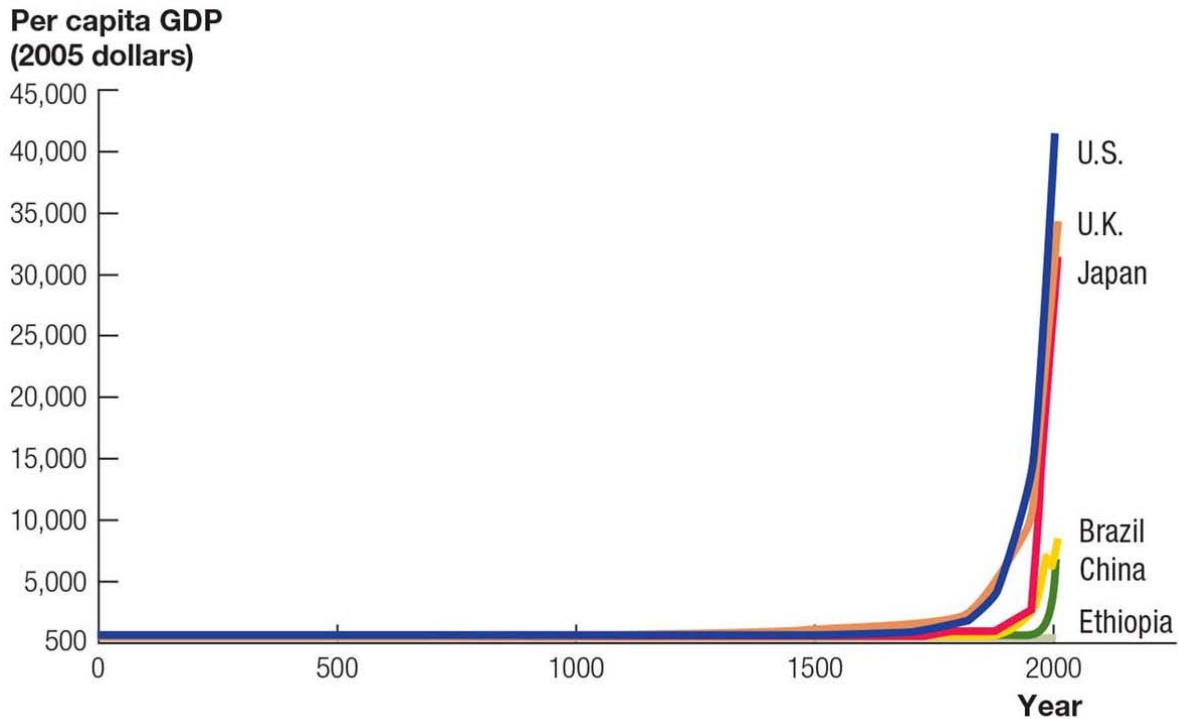
So what is so special about that time, that it would produce *The Wealth of Nations*, the Declaration of Independence, and Phi Beta Kappa? And how the heck is *The Wealth of Nations*, both the book and the subject, related to the liberal arts? And why should you even care about this?

Well, like any good economist let me start with a picture...

The Hockey Stick

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## Economic Growth over the Very Long Run in Six Countries



(Picture from Charles I. Jones, *Macroeconomics*, Third Edition. Norton, 2014.)

I'll call this the Hockey Stick of Incomes. The vertical axis measures income per person, the horizontal axis measures time. Notice where the blade curves away from the handle: somewhere around 1750 or so. Hmmmm...

Let's take a closer look at the picture, starting at the left side. To the best of our knowledge, average incomes 2000 years ago were pretty much the same all over the planet.

And they stayed that way until around 800 years ago. Then, we start to see things change, especially in areas of Europe (think England, the Netherlands, Spain, Italy) and east Asia (think eastern China, Japan, and Korea). Standards of living started improving in these areas. Population grew as well, both in quantity and in density.

These patterns intensified between 800 and 500 years ago, especially in western Europe. Not all was going well; plagues, infectious diseases, and war regularly wiped out large numbers of people with the result that population and income would grow rapidly, fall, then grow again. But, starting in the 16<sup>th</sup> century *both* standards of living *and* population started growing, consistently, year after year, in western Europe and, especially in areas of the modern-day Netherlands and England. This trend intensified and spread in the 17<sup>th</sup> and 18<sup>th</sup> centuries, and then exploded in the 19<sup>th</sup> and 20<sup>th</sup> centuries.

The Nobel laureate Simon Kuznets labeled this phenomenon Modern Economic Growth. And it has led to standards of living beyond anything Adam Smith imagined in 1776, and income disparities across the globe of stunning proportions.

Now wait a minute, how do we know this? Archeological and anthropological evidence on things like caloric intake and shelter, written accounts of daily life in various parts of the world; evidence on climate and how it would have affected growing seasons and yields; in short, we know this because hundreds of scholars have carefully applied all the tools in the liberal arts toolkit to help us understand standards of living across time and space. It's been a group effort.

### Sources of growth

This leads me to a question that I've been obsessed with for 30 years: How can standards of living be so different in the US, Brazil, China, and Ethiopia? We all live on the same ball of dirt. We're all made of the same DNA. What is going on?

If you ask an economist this question, he or she will answer by saying that there are three proximate sources of economic growth:

- Higher labor force participation, i.e. more workers as a share of the population
- More resources (physical capital, human capital, natural capital) for each worker;
- Greater productivity of all resources considered together.

What's the most important factor? Most people, when asked, will say that it must be MORE RESOURCES PER WORKER. The system is called CAPITALism, after all.

This leads to a particular story about the bend in the hockey stick: Europeans got rich because they had Jared Diamond's "guns, germs, and steel" that allowed them to exploit the human and material resources of the Americas, Africa, and Asia. In fact, this both made Europeans wealthy and impoverished the rest of the world.

There is a lot of truth to this story. It's clearly true that Europeans committed atrocities, gouged out mineral wealth, and enslaved peoples.

However, it turns out that the Europeans who most relied on this recipe were not the ones who got rich *and then kept getting richer*. Spain, for instance, got rich early on but was falling behind the rest of Europe by 1750.

No, the biggest factor of all in understanding why the hockey stick bends and why there are such great disparities in income across countries is productivity, using your resources in new and more efficient ways.

And this is where the liberal arts again come into the picture. The liberal arts both created the bend in the hockey stick and contributes mightily to economic growth today.

### Timing of the bend: 1776 and the Wealth of Nations

How did this happen? The short version is that the bend in the hockey stick was a product of the Enlightenment, in general, and of the scientific revolution, in particular, which grew out of it.

Here I want to highlight an [argument](#) made by [Joel Mokyr](#), an economic historian from Northwestern University. Mokyr argues that the *scientific enlightenment* of the 16<sup>th</sup> and 17<sup>th</sup> century had to take root in places such as England and Holland before it could generate an *industrial enlightenment* in the 18<sup>th</sup> and 19<sup>th</sup> century.

What was needed, in other words, was the spread of the liberal arts, especially ideas developed in philosophy, natural science, and a variety of areas we today would label social science.

To be blunt, Adam Smith wrote *The Wealth of Nations* when he did because that's when the hockey stick was bending, and the stick was bending because the fruits of the spread of the liberal arts were bursting out everywhere he looked and generating huge improvements in the wealth of nations.

So what about today? Politicians ask, "Is it a vital interest of the state to have more anthropologists? I don't think so." ([Rick Scott](#)) and "Why should we subsidize intellectual curiosity?" ([Ronald Reagan](#)) My answer is that intellectual curiosity and the liberal arts drive the wealth of nations. Countries that suppress the arts and humanities, underfund basic scientific research, or mock the social sciences as codified common sense are the ones that find themselves growing more slowly or slipping into stagnation.

This is where you come in, fellow members of Phi Beta Kappa. To quote the great philosopher [Stanley Martin Lieber](#), "With great power comes great responsibility." We must be advocates for the liberal arts, for intellectual curiosity, for *enlightenment* because they are the mainspring of human betterment.

If someone asks, "do we really need more English majors?" you should answer YES! If someone asks, "isn't it better to study something practical like chemical engineering instead of chemistry or electrical engineering instead of physics," you should answer NO, we need both.

Just remember the hockey stick.

Thank you.