
Pessimistically Optimistic about the Future

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At fifty-five years of age and having been a professional economist for thirty years, I am pessimistically optimistic about our economic future. My bottom line is optimistic because, like the great Julian Simon (1983), I believe that the ultimate resource is the human imagination and that the great diversity of human ingenuity and creativity will help us find our way out of the numerous troubles that we have made and may make for ourselves. But I am pessimistically optimistic because the dominant mental models that human beings deploy to make sense of their interaction with each other and with nature are so fundamentally flawed and grounded in zero-sum and negative-sum moral intuitions.

We systematically underestimate the costs of blocking trading opportunities with one another and of curtailing the creative powers of the entrepreneurial spirit, and we systematically overstate the benefits of attempting to curb the excesses of self-interest through collective action by state power. I am an optimist because of the creativity of individuals and the power of the market; I am a pessimist because of the moral intuitions hard-wired into humans through our evolutionary past in small-group settings and the tyranny of government controls in the affairs of men. The logical outcomes of both are fundamentally opposed: complete and unregulated trade with all or isolation and war against all. Human history, I contend, can be seen as the long drama of these two forces battling it out to determine which norms of interaction will be dominant. Put another way, we can follow the Smithian propensity to truck, barter, and exchange, or we can follow the Hobbesian propensity to rape, pillage, and plunder. Optimism comes from Smithian propensities winning

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out over Hobbesian ones, whereas pessimism comes from the Hobbesian propensities sweeping aside the Smithian ones.

Which force will ultimately determine our future path will be a function of ideas. Economic logic and reality are not subject to popular vote any more than the law of gravity or the physical laws governing the flow of water in a river. Reality simply is not optional. But politicians, pundits, and the public often communicate a message as if economic policy is a question of popular will. There is no doubt that populations can vote for this or that economic policy, but whether the policy decided on will have the intended desirable consequences is not a matter of good wishes. Policy effectiveness is a consequence of recognizing the relevant trade-offs that individuals face in their decisions about the utilization of scarce resources and pursuing the opportunities for gains from trade and gains from entrepreneurial innovation.

Certain policies are compatible with realizing productive specialization and peaceful cooperation, and others are not. Bad ideas about humans and nature produce bad public policies about the way humans interact with each other and with nature, which in turn have bad economic results. In contrast, good ideas lead to good policies, which in turn produce good results. The economic miracle of the Western world was a by-product of ideas and institutions that produced high-powered incentives, quality informational signals, and disciplining feedback so that the gains from social cooperation under the division of labor were realized. The lingering poverty in much of the world is a result of ideas and institutions that prevent the realization of gains from social cooperation.

As we contemplate the future of economic policy, the questions we must ask are: Which ideas and institutions will prevail? Are we looking at a future where property, contract, and consent will be foundational to the social order? Or will our future be one where ideas that challenge the very legitimacy of property, deny the freedom of contract, and claim that consent is but an illusion ultimately define the conventional wisdom of the age? Tomorrow will be better than today provided that property, contract, and consent remain pivotal ideas in the social order—that is, the rights of others are respected, promises are kept, and those rights are exchanged or those promises are modified only if both parties agree to the transfer or modification.

We are very imperfect beings who interact with each other in a very imperfect world, but our institutional environments aid us in stumbling our way through to a better world. As Adam Smith remarked in *The Wealth of Nations*, “The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operation” ([1776] 1976, book 4, chap. 5, 49–50). For our purposes, at least two aspects of this Smithian claim must be addressed. The first is the business of what it means to exert our individual initiative with freedom and security. The second is the

possibility of identifying a tipping point when those impertinent obstructions simply cannot be surmounted.

By stating things in this way, I think, we can begin to identify the probability of whether our future will be bleak because we eliminate the individual's freedom to choose and in so doing adopt not a hundred obstructions to market transactions but hundreds of thousands. What is the probability that the United States will follow a policy path that will kill the proverbial goose that lays the golden egg, as happened in the socialist experiments of the twentieth century in the Soviet Union and China or as experienced in the past decade in Venezuela and Greece? For the democratic West, I say the probability is extremely low, for reasons discussed later, so my pessimism is constrained to the observation that we will continue to muddle through with some form of crony capitalism or mercantilism. Our wealth will not be what it could be. We will continue to suffer from macrovolatility and microdistortions, but the erring entrepreneurs will outpace the bumbling bureaucrats in realizing mutually beneficial exchanges and coming up with creative entrepreneurial innovations in production and distribution of goods and services. We will, as Smith argued, be carried to wealth and prosperity even in the face of the impertinence of human folly motivated by the wrong moral intuitions and the meddlesome preferences of those who hope to lord over others.

To communicate this point to audiences, I have often asked them to envision a horse race between three horses: (1) a Smithian horse representing the gains from exchange, (2) a Schumpeterian horse representing the gains from innovation, and (3) a Stupid horse representing government meddling in the voluntary affairs of humans in the effort to control the economy. As long as the Smith and Schumpeter horses are outrunning the Stupid horse, the economy will continue to progress despite the restrictions under which it must operate. But if we ever allow the Stupid horse not only to gain ground on the Smithian and Schumpeterian horses by shackling them with restrictions on trade and regulations on innovation but also to overcome them, then our economic future will indeed be bleak. The United States isn't at that stage yet, but it might reach that stage if right reason is rejected and emotional appeals substitute for logic and evidence.

Stupidity gains ground if and only if an alliance is forged between wrong ideas and opportunistic political interests. So the economist's task is to debunk popular fallacies and expose the special interests that benefit from the bad policies at the expense of the general populace. Economists must be forever vigilant in their role as public educators—both in and out of the classroom. As I said before, economic reality is not optional—voting for any economic policy by democratic majority does not mean it is a good policy. The worthiness of economic policy measures can be determined on the basis of only one criteria: Do the economic policies proposed result in wealth and prosperity or not? The answer is not arrived at through democratic procedures but through the science of economics and the art of political economy.

In the future, many possible factors will impact the world of affairs—war is perhaps the most obvious, but there are also natural disasters such as earthquakes and hurricanes. But even in the face of these factors, the critical variable under our command is public-policy responses. We should not compound the fury of nature, for example, with the folly of the human being. The policies of economic freedom will dampen the calls for war as trading partners seek to avoid such costly engagements, whereas economic nationalism tends to breed war. In a probabilistic sense, the likelihood of a major war between the Western democratic states is negligible, and thus the biggest threat to our economic future rests with bad ideas and meddling preferences. This means we muddle through, confronting not only periodic volatility and distortions wrought by perverse incentives but also episodic technological breakthroughs and innovations in exchange and production as well as the opening up of new markets, both foreign and domestic.

The great political economist James Buchanan often described himself as a pessimist when he looked to the future but an optimist when he looked back because surely the world should be worse off than what it is. My position is slightly different and might be characterized as “pessimistic optimism.” As I said, my optimism is grounded in the force of argument from Adam Smith to Julian Simon about the creative forces of the human imagination. My pessimism is equally grounded in the force of argument from Thomas Hobbes to James Buchanan about the war of all against all and the self-serving capacity of political interests. Squeeze these intellectual arguments together—Smith and Hobbes, Simon and Buchanan—and what you get is optimism about productive specialization and peaceful cooperation being realized by diverse populations plus a tempered pessimism due to the desire of many to rule over others and the attempt to control the economy. The upshot is that the economic future of my grandchildren will be bright compared to the world we live in today. But it will not be the post-scarcity world envisioned by Keynes or the apocalyptic future envisioned by many conservatives. Instead, it will be a better world than today, but not as good a world as it could have been had individuals come to understand the tyranny of politics and ineffectiveness of economic policies of control and been more receptive to freedom of choice and the power of the market.

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