Capitalism used to promise a better future. Can it still do that?

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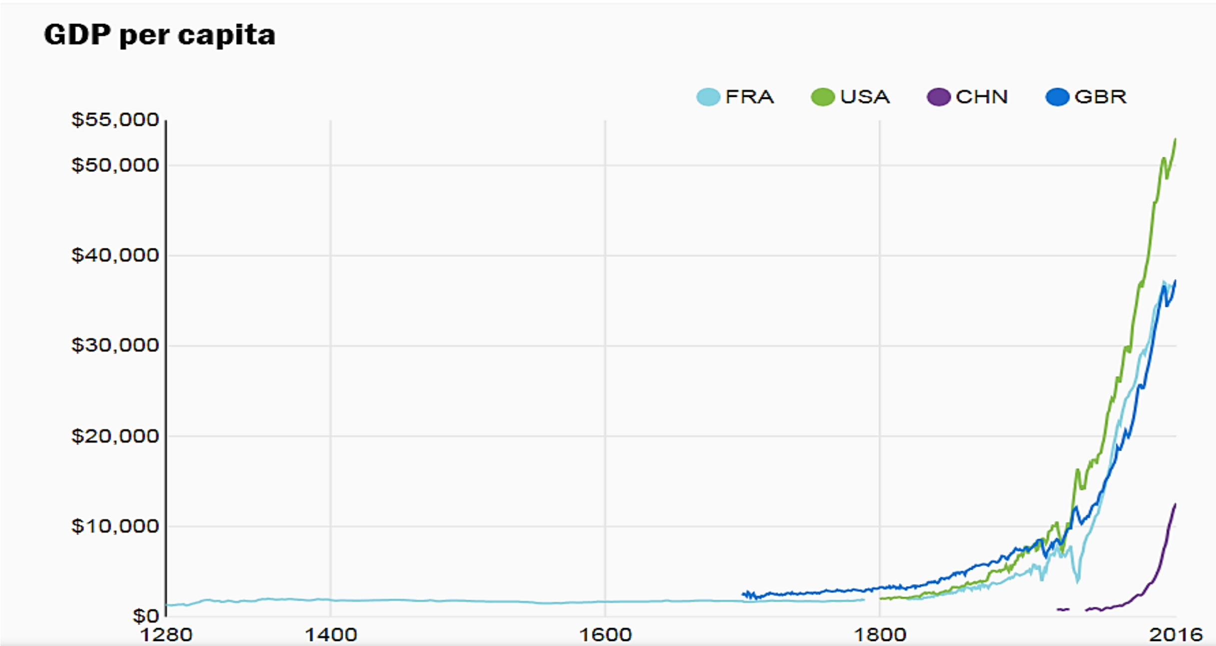
Capitalism is intrinsically futuristic. The ideas that underpin market economies – growth, accumulation, investment – express an unspoken assumption, that tomorrow will be different, and probably better, than today. The question that murmurs through markets is not "What is good?" or "What is fair", but: "What's new?"

This future orientation is one of the most striking hallmarks of modernity. Pre-capitalist societies looked to the past – to founding myths, old religions and ancestral lines. Capitalist societies look to the future – to new inventions, broader horizons and greater abundance. "Oh, the places you'll go!" is an ur-text of market capitalism.

Change is of course a mixed blessing. Opportunity and uncertainty go together. Critics of capitalism sometimes point out that it creates an uncertain future. Economic growth requires change and disruption – Schumpeter's "creative destruction", which can impose some immediate social costs. This is true in the details – nobody knows where market dynamics will lead us. Nobody predicted Facebook and Twitter. But it's false for the overall picture. If the economy grows, as a result of market capitalism, we can predict with confidence that the future will be better than the present.

Capitalism has kept this promise quite well over the broad span of history. Compared with earlier periods in history, the material conditions of life have improved dramatically since the birth of capitalism. For the 500 years up to around 1700, economic output per person was flat. In other words, the median person in 1700 was no better off, economically speaking, than the median person in 1200. Work by the team at The World in Data, led by Max Roser, makes the point visually – and dramatically.

GDP per capita



Source: Maddison Project Database (2018) These series are adjusted for price differences between countries based on only a single benchmark year, in 2011. This makes them suitable for studying the growth of incomes over time but not comparing income levels between countries.

Brookings Watermark

The idea of economic improvement is now so culturally embedded that even half a decade of no progress sends alarm bells ringing, let alone half a millennium.

"The past is another country", is the opening of LP Hartley's 1953 novel The Go-Between. "They do things differently there." Hartley's is a deeply modern though now uncontroversial sentiment. In previous eras, the past was almost exactly the same country, at least in economic terms, where they did things pretty much the same as now. In a feudal or agricultural economy, things today were likely to be quite similar to things a century ago, as well as to things a century later.

A line worker installs the back seats on the flex line at Nissan Motor Co's automobile manufacturing plant in Smyrna, Tennessee, U.S., August 23, 2018. Picture taken August 23, 2018. REUTERS/William DeShazer - RC1B6E2ACF40

Labor Policy & Unemployment

The economy isn't getting better for most Americans. But there is a fix.

But once the capitalism engine revved up, the future entered our collective imagination. Novels began to be set there. "Science fiction" was born. More practically, economic forecasting became an industry in its own right. What will the US economy be like in 2020, or 2050? How big? Growing how fast? What jobs will it contain? How many? A great deal of time and money is spent, both by governments and companies, trying to answer these questions, as well as they can (which is, inevitably, not very well).

For 99% of human history, a belief that life is going to get better – on earth, not just in heaven – would have been considered eccentric. Maybe my children would have more than me; maybe not. Either way, the condition of the future was unlikely to have much to do with human activities. This is why pre-capitalist societies tended to be deeply religious; a good harvest was in the hands of weather systems, which in turn meant it was in the hands of the Gods.

Marx accused religion of being the opium of the masses, distracting them from capitalist exploitation. But capitalism has steadily undermined religion by reliably promising that the future will in fact be materially better, and not because of divine intervention but because of the manmade market.

The greatest promise of capitalism is that each generation will rise, on the shoulders of the one before, as a result of the natural workings of a market economy. It should be no surprise that the greatest challenges to capitalism come when that promise begins to be questioned. If capitalism loses its lease on the future, it is in trouble.

Markets run on psychology. We work to live (see my previous essay in the series on work). But we also work in the reasonable hope that it will allow to us live better in the future, by getting more rewards out of the market as we grow in experience and skill, and by saving and so through what Keynes described as the "magic" of compound interest benefiting from general economic progress. At an individual level, we might say we are saving for a rainy day. But collectively, savings allow for capital accumulation, for investment, which spurs growth. As a result of these processes, we may even look forward in our later years to another modern invention: a "retirement".

Economic progress spans across the generations, too, as parents see their children's standard of living surpass their own, and then their children in turn. The basic human instinct to see our children flourish has been powerfully channeled through market-led growth. We work not only for ourselves, but for our children. We might invest in their education, so that their enhanced skills will mean a better life.

People will invest in a better future if – and it is a very big if – there is a good chance that it will pay off, that the system reliably delivers that better future. Capitalism not only produces a society focused on the future, it requires it. If the promise of a better future starts to fade, a vicious cycle sets in. Why save? Why sacrifice? Why stick at education for longer? If doubt creeps in, people may work less, learn less, save less – and if they do that, growth will indeed slow, fulfilling their own prophecies. The biggest threat to capitalism is not socialism. It is pessimism.

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Right now, there are three big challenges to the capitalist promise of a better tomorrow: slower income growth for many across their own working lives and into retirement; diminishing odds that children will, economically, do better than their parents; and a deepening climate crisis.

First, the expectation of a steadily growing income over time has become harder to meet, as growth slows and job uncertainty grows. Upwards earnings mobility across the span of a working life has dropped. Work by Michael Carr and Emily Weimers shows that the chances of middle-class earners moving up to the top rungs of the earnings ladder has declined by approximately 20% since the early 1980s. In part this is because of a growing premium of acquiring skills early, and getting on a fast track from the start of a career. It has become harder to move up the ladder if you start at the bottom. Corporate CEOs used to boast of starting out in the mailroom. There will not be many of those stories in the future.

Not only is income growth slower today than a generation ago, for some workers there is also more volatility in terms of wages, in part because of more uncertain schedules, but also because of the risk of losing a job in a sector affected by trade or, more likely, automation and having to take another job at a lower wage. What economists label "income volatility" has increased over time, most worryingly for those right at the bottom of the income ladder, as work by Bradley Hardy and James Ziliak shows. Some volatility is good: an unexpected bonus, or a good year in a side enterprise. But much of it comes in the form of a loss of income. These downward economic shocks are psychologically demanding. Humans are hardwired to have "loss aversion" – in other words to experience much more pain from a loss than pleasure from an equivalent gain. Small wonder that most workers rank "security" as their highest priority. The reliability of a flow of income is as important, to many, as its size.

But workers displaced by automation have been treated as effectively disposable by policymakers. Retraining schemes have been almost universally ineffective. Investment has been tepid: for the last few decades, for every dollar spent on Trade Adjustment Assistance, the US has spent $25 on tax breaks for endowment funds at elite colleges. Many scholars now argue for some form of wage insurance to compensate for downward shocks to pay.

Second, the assumption that our children will do better than us is being threatened. Nine in 10 Americans born in 1940 ended up richer than their parents; for those born in the 1980, the number is 50%. This finding, from the Harvard professor Raj Chetty and his colleagues, can certainly be quibbled with: the 50% number does not take into account the shrinking size of households (if it did, it would be 60%); the people born in 1940 largely had parents whose prime working years included the Great Depression, making it easier to surpass them.

Still, the fact remains: intergenerational mobility has slowed. This is for two main reasons: economic growth has slowed, and the proceeds of that growth have accrued to a much smaller slice of the population – the people at the top. (See Heather Boushey's piece in the series). Chetty estimates that about a third of the mobility drop can be explained by slower growth; the rest is the result of rising inequality. This lack of upward economic lift is filtering into general consciousness. Only about one in three US parents think the next generation will be better off; and the gloom is even deeper in many other nations, including the UK.

Mood matters. If the future looks less bright in general, it may seem less rational to invest in an education, take the risk of starting up a business, or move to another town in search of a better job. The interaction between facts and feelings is complicated; but it is important to strike a balance between calling out troubling trends and resorting to a general everything-is-going-to-hell-in-a-handcart declinism.

The third challenge is not psychological, but bluntly physical: the climate crisis. Increases in global temperatures, faithfully reported by the IPCC, are leading to more extreme weather events, endangering certain heavily populated areas and threatening agricultural systems. It is of course necessary to weigh costs and benefits here. If economic growth is responsible for changing the climate – and it is – it has also massively increased the material welfare of billions of people.

The question is whether capitalism can be part of the solution rather than part of the problem; or whether some form of deep-green socialism is the only answer. On the historical record, the socialist approach has little to commend it. Lake Baikal, the world's largest freshwater lake, in the former Soviet Union, was trashed by pollution, absorbing more than 15,000 metric tons of toxic waste. It's true that the market does not value environmental resources (any more than Soviet-style socialism); but that is not the fault of the market, but of politicians. Capitalism doesn't care about the climate crisis, but it is not supposed to. Blaming capitalism for climate change is like blaming distilleries for drunk driving.

The Great Lakes are not protected from pollution because American capitalists read Silent Spring and decided to put planet before profits. If they are relatively clean today, that's because the government protected them, on behalf of the people. Market forces are always being shaped, for good or ill, by politics. And they could be shaped here by introducing a carbon tax, set high enough to strongly alter economic behavior. Most economists favor a carbon tax: a recent statement in support garnered 3,500 distinguished signatures, including four former chairs of the Federal Reserve, 27 Nobel Laureate economists and 15 former chairs of the Council of Economic Advisers.

On three fronts, then, the promise of a better future, which lies at the heart of capitalist psychology and theory, is being challenged. The question is whether that promise can be restored within a capitalist framework – with, say, wage insurance, redistribution and a carbon tax – or whether the system itself comes into question.

Even some of capitalism's friends have given economic growth a shelf life, seeing it as a necessary phase in economic history in order to overcome material deprivation, but unnecessary and possibly harmful once that milestone has been passed. John Stuart Mill, in 1848, argued that it was "only in the backward countries of the world that increased production is still an important object. In those most advanced, what is economically needed is a better distribution." John Maynard Keynes, in his famous essay 1930 essay Economic Possibilities for our Grandchildren, predicted that within a century the economic problem would be "solved" – in other words that all reasonable material wants would have been met. Eleven years to go, everybody!

There are three problems with the idea that economic growth has a sell-by date. First, nobody has a good way of deciding exactly when enough is enough, since our ideas of material sufficiency change too. Air conditioning was once considered by most Americans to be a "luxury". Today it is seen as a necessity: 86% of American households have AC. So who's right? Mill could not imagine the motor cars of Keynes's era. Keynes could not imagine the personal computers used by JK Galbraith. Galbraith could not imagine the laptop on which I am writing this, connected to wifi, on a plane crossing the Atlantic. And so on. The whole point of capitalist growth is that it doesn't have an end point.

Second, capitalism is intrinsically growth-oriented. Markets don't work well in a stationary state; they are like sharks, either moving or dead. Nobody has satisfactorily described a no-growth, market-based model. Third, it is always elite thinkers deciding that enough is enough; when many of their fellow citizens, looking up at them, might reasonably feel differently.

It is now more than half a century since the Club of Rome published The Limits to Growth and Fred Hirsch published the Social Limits to Growth. The first argued that the depletion of natural resources would put the brakes on economic progress; the latter that competition among the affluent for positional goods (valuable precisely because of their scarcity) would reduce overall welfare. While both predictions contained important truths, neither have so far proved correct. Market-fueled growth has slowed, certainly by comparison to the booming decades in the middle of the last century, and has become more skewed towards the rich, but it has not stalled.

The question now is not, I think, whether and how capitalism will end, but how it can renew its promise of a better future – for us all