Keep on Keepin' On: The Disruption of Institutional Forces and Economic Progress

By William Snyder

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This paper was presented to the Southeast Nebraska Torch Club on September 9, 2013.

To keep on keepin' on is what all species have tried to do. The human branch has struggled, and with a bit of luck, has joined the large list of species that are still keepin' on. Where humans differ is in their ability to control their biological environment, as well as their social, political, and economic institutions, as means to keep on. Scholars have provided a statistical and anecdotal account of economic survival, which will be summarized below. In addition, the paper takes a look at the role of power as it shapes social, political, and economic institutions. The power to alter these institutions determines the material success of the society while selecting the individual winners and losers.

Life for our ancestors has been described as brutish, with great insecurity. Insecurity provides a one-word explanation for the tenuous hold on life that makes our continued existence today all the more remarkable. One small but telling economic fact is that food security was unknown in the British Isles until the middle of the nineteenth century. A larger exploration of our economic history has been accomplished by Angus Maddison, who reconstructed GDP per capita for Western Europe and China from 400 CE to present. One of his charts shows a $450 per capita GDP (in current dollars) for China and a smaller GDP for Western Europe from 400 CE to 1000 CE. The uneven distribution of GDP meant that most of our ancestors lived on considerably less than $450 per year. Life was not only brutal; it was also short. Life expectancy was less than forty years unless you were a monk, whose life was more institutionalized and hence less insecure. Women lived shorter lives largely because of the dangers of childbirth, while only slightly more than half of newborns could expect to live to the age of eighteen.

While GDP per capita and life expectancy offer tell us a lot, they fail to capture the day-to-day life of those who came before us. Had you lived in Europe, you would likely never have traveled more than ten miles from your village, a place with no name. If you were taken to war by the local noble, you would have had little chance of finding your way home. Europe was predominantly forest from Poland to France, making it possible to walk the entire distance seeing very little sun; think of Hansel and Gretel.

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Not only did your village not have a name, but most people went by only one name. Some accounts suggest that individualism was essentially unknown, as well as any sense of privacy. Nudity was common, as were shared beds. Strangers slept with the family on the large pile of straw in the middle of the room, with the resulting pregnancies often attributed to an incubus. Property rights were poorly defined and certainly not recognized for the vast majority of the population.

The per capita GDP of Western Europe in the early Middle Ages would signify then, as it would today, a life of cold, hunger, little shelter, and general deprivation. The more prosperous peasants were envied for their beds, since most peasants were lucky to have a pallet with some sort of blanket. There were no glass windows, and few had hearths. A hole was cut in the thatched roof to let out the smoke and let in the rain; often the roof would catch fire. Floors were dirt, covered with reeds and rushes that were seldom removed, making for safe haven for all types of vermin and waste material.

Food insecurity was a constant part of life. Crops could be expected to fail every three or four years, with little alternative food available. Instead of Hamburger Helper, food extenders such as dirt and plaster were used to assuage the hunger. Bread, onions, and a little fruit were standard fare for the poorest of the poor, with only slightly more diverse diets as you moved up the economic ladder.

The decline in Western Europe's per capita GDP seen in Maddison's data begins roughly with the decline of Roman hegemony around 400 CE. Then as now, economic progress requires stability or at least a reduction in insecurity. In the absence of any larger organizing force, the power vacuum created by Rome's fall was filled by the small independent enclaves that sprang up as a means of protection against marauders and vagabonds. Those who provided physical protection in return received fealty from the protected, a true quid pro quo. Power at its very basic level is derived from one party's dependency on another party; without dependency there is no power. Based upon that dependency, a nobility emerged.

However, dependent relationships tend to be unstable, as those in power make mistakes, and the dependents exploit those errors while advancing their own interest. The critical reason to have power is both for its current benefits and to push genes into the future. How does one maintain a position of power? The first obvious answer is by use of force, or what Galbraith called condign power, followed by what he called compensatory power, or simply paying people off. The problem with condign power and compensatory power is the inordinate amount of resources necessary to maintain a power position. Better if one can convince the many that the powerful are in their position as the result of their favor with the ultimate power, God. Galbraith called this conditioned power, power that comes from a wide acceptance of a truth. The nexus between the church and the state resulted in a perceived legitimacy that sprang from the church's influence over people's minds and the power of the state to enforce the King's will.

The alliance between church and state can help us understand the leveling off of GDP per capita in the Middle Ages. While the reduction in insecurity stabilized the economy from circa 600 CE to 1000 CE, the effort of the state and church to preserve their hegemony effectively cut off any innovation as both institutions fought vigorously to preserve the status quo. The state used its police power to enforce arbitrary rules that advanced the interest of the few while it used its compensatory power to reward those who submitted to its rule. The church sanctioned the actions of the nobility, and together they maintained their hold over the people. The elaborate cathedrals and enormous castles that stood juxtaposed against the hovels of the many stand as testimony to the combined power of the church and the state.

The primary problem with power being located in the hands of a few is that institutions that affect people's lives lose the ability to self-correct. The absence of self-correction leads to greater corruption and further repression of the people by the church and the state as power is used to serve the short-term interest of the powerful and their progeny.

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In Maddison's chart, the line for Western Europe's GDP per capita starts climbing at about a 45-degree angle in 1000 CE. What eventually broke the death grip of the powerful and allowed GDP per capita to start expanding? There are many candidates for the causes for this change, and at the risk of overlooking the readers' favorites, here are the author's top picks.

Technology and the ability to innovate matter, of course. Consider the lowly legume—its adoption as a food source greatly increased access to a cheap and reliable source of protein. Many historians cite the three-field system, or the plow, or the horse collar as specific innovations that allowed for greater productivity and a rising standard of living, which are correlated to an increase in GDP per capita. However, this begs the question, why did some economies incorporate and others eschew these economic altering advances? I suggest we look at the role of institutions and their openness or opposition to change.

The underlying premise of this paper is that power corrupts and absolute power corrupts absolutely. The church and the state in Western Europe had formed an alliance that provided at least a modicum of security in a very insecure world after the fall of Rome. Together, the two institutions established hegemony over Western Europe in a way that served their immediate interest, corrupted both institutions, and successfully choked off innovation—hence, the flat-lining economy witnessed in the data.

What ended that hegemony and turned the power of individualism into a force for change that finally frees England from economic insecurity in the nineteenth century? Please keep in mind, history is never linear, but rather a swirl of events whose ripples interact with one another over time. Consider financial overextension by the ruling class to finance wars and luxuries, the church's insatiable appetite for bigger cathedrals and fancier palaces, plague, and the decline of collectivist thinking in the face of new, more individualistic thinking as critical factors in the growth of GDP per capita.

Slowly, wealth was accumulated by the merchant class who were providing the luxury goods so desired by the aristocrats of the church and the state. The result of this gradual accumulation of wealth even allowed prosperous merchants to dare to wear clothing and costumes once reserved only for the elite. This show of defiance can also be seen as a signal that the power in the dependent relationship was shifting toward the emerging merchant class. This shift was accelerated by the need of the ruling institutions to finance wars and luxuries. In return for loans from the merchant class, the lenders required an increasingly more codified understanding of property rights, a better guarantee that they would get their money back. The emergence of property rights is critical to the lessening of hegemony by the two dominant institutions. Markets take on a new vigor that fosters innovation and risk taking.

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While the fledgling merchant class was chipping away at the established powers, along came the plague and an estimated 30% to 60% loss of population. This resulted in a gradual shift of dependency from the nobles and clergy to the workers. Plague now made the ruling class dependent upon the worker and unable to either punish or reward the worker. Now the worker could punish or reward the ruling class by withholding work or by working. Couple this shift with corruption in the church and the church's loss of moral authority (conditioned power) and the gates are now open for individuals to pursue their own self-interest. The combination of seeking one's own economic destiny and one's own spiritual salvation was corrosive to the power of the state and the church.

The weakening of the two dominant institutions allowed for greater innovation, larger GDP, and more accumulation of wealth by a broader group of people, whose wealth had some protection thanks to the emerging property rights movement. The nascent market system was freer to evolve, and along with its evolution there was a growing sense that the individual does matter. One could now break from custom and tradition (conditioned power) while adopting new foods, new production techniques, and a different conditioning that eventually resulted in Adam Smith's discussion of "self-interest."

While the church and the aristocracy remained important players, they were no longer the dominant players. Instead of directing all economic, social, and religious activity, they evolved into institutions that provided necessary stability opposite the anarchy of unfettered pursuit of self-interest. Instead of being the weight, they became the counterweight. Instead of dragging down economic growth, they provided the stability necessary for entrepreneurs to risk everything on the next great idea. A new rivalry was created that persists until today—society's overarching need for security versus the individual's right to pursue happiness and prosperity.

The evolution of the market system dispersed economic activity over an increasingly broader portion of the population. The resulting growth in GDP reduced the level of insecurity for an increasing number of people, improving investment and innovation opportunities, while further reducing dependency on the two primary institutions. The state's use of condign and compensatory power was limited. The more important conditioned power exercised by the church suffered from the growing notion that salvation was the responsibility of the individual and not the church. This then raised the question "If I am responsible for my own salvation, is there any part of my life for which I am not responsible?"

As more people responded that there were no limits to individual decisions, self-regulating markets provided the venue for increasingly more innovation and adaptations that improved efficiency, reduced cost, and increased GDP. Markets are by their very nature self-regulating. When Blackberry missed out on the next level of innovation to the iPhone, resources were withdrawn from Blackberry and transferred to Apple, and we just kept on keepin' on as markets have done for centuries. It is that self-regulation that curbs the power of the powerful and transfers the power of owning resources to new masters. Since there is no single, all-powerful decision maker, there can be no entity that will flat-line the economy while preserving resources for current and future generations. The problem, however, remains. What is to prevent those who benefit most from the market system from establishing their hegemony and short-circuiting the ability of markets to self correct—e.g., banks that are too big to fail and regulators too weak to regulate?

The world does just keep on keepin' on. Today the battle is between those who argue for a very minimum role for government and those who are more skeptical about the market's ability to self-correct. There are any number of very wealthy Americans who freely offer financial support to candidates who favor minimal government intervention. They also establish large think tanks to crank out support for an unfettered market economy. Why? Americans are predisposed to think of themselves as individualists. We are conditioned to believe we are entitled to all we earn because our success is entirely due to our own efforts. It is a relatively easy proposition to enhance the conditioned power that is already in place. The difficulty in reining in the financial institutions, even discussing climate change, while reducing food stamps and resources to the IRS is consistent with the extent that conditioned power is exercised by advocates of a "red in tooth and claw" form of capitalism. The danger is that without an

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effective counterweight, capitalists will establish a new hegemony with results similar to that of the period between 600 CE and 1000 CE. If you will, the decline Maddison finds in real GDP in China after 1950 coincides with the emergence of the Communist Party and its ideological inability to change or self-correct. Irrespective of ideology, groups in power want to hang onto power, and their hanging onto it comes at the expense of an expanding GDP.

Governments have a long history of disabling economies by preserving the privileges of the few at the expense of the many. Markets have a long history of exploiting the many for the sake of the few. A democratic government, like the market, works best when it is self-correcting. This means we should keep on having vigorous debates about the proper role of government in our economy and in our lives. We do need to be mindful of the fact money does buy a bigger microphone. Meanwhile, we will just keep on keepin' on.

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