

# ONWARD AND UPWARD!

**Bet on Capitalism—It Works**





## TABLE OF CONTENTS

A Message from the Dean.....	1
Onward and Upward!.....	2
‘The Bet’—Bigger than Two Men.....	5
Data Divide Optimists, Pessimists .....	12
2015-16: Year in Review.....	17

The William J. O’Neil Center for Global Markets and Freedom was founded in 2008 with an initial grant from William J. O’Neil, a 1955 SMU business school graduate, and his wife Fay C. O’Neil. Its broad mission is the study of why some economies prosper and others do poorly, focusing on two critical issues for the 21st Century economic environment—globalization and economic freedom. The center’s programs promote understanding of how capitalism works among the general public, policy makers, business managers and the next generation of business leaders. To these ends, the O’Neil Center teaches SMU Cox students, conducts economic research, publishes economic reports, sponsors conferences and educates the public through the media and speeches.

SMU will not discriminate in any program or activity on the basis of race, color, religion, national origin, sex, age, disability, genetic information, veteran status, sexual orientation, or gender identity and expression. The Executive Director for Access and Equity/ Title IX Coordinator is designated to handle inquiries regarding nondiscrimination policies and may be reached at the Perkins Administration Building, Room 204, 6425 Boaz Lane, Dallas, TX 75205, 214-768-3601, [accessequity@smu.edu](mailto:accessequity@smu.edu).

Design by WiswallMcLainDesign

## A Message from the Dean



Dean Niemi

Our views of the world are heavily influenced by the environment we live in. We here in Texas feel pretty good about the economy because we've seen steady growth in employment, incomes and population. For the same reason, optimism marks a handful of other states, mostly in the Southeast and the Mountain West.

In other parts of the country, decades of job losses and declining population have left many Americans somewhere between apprehensive and downright pessimistic. It's not because they're all that different from Texans; it's because the economic realities they encounter every day give them little reason to expect a brighter future.

The essay that starts on the next

page focuses on this perennial divide between optimists and pessimists. O'Neil Center founding director W. Michael Cox and his co-author Richard Alm answer a question that's growing more pressing in these uncertain times: Is American capitalism headed into inevitable decline, as so many pessimists claim, or will human ingenuity, spurred by our free-enterprise system, continue to deliver the progress and prosperity that marked this country for most of its history? Cox and Alm make a case for optimism, supported by hard evidence and anchored by the inherent nature of capitalism. The essay gives all of us a lot to think about.

The Year in Review section reports on the O'Neil Center's accomplishments in academic year

2015-16. Since its founding in 2008, the center has remained true to its mission of studying why some economies prosper and others remain poor, building an outstanding record of scholarly research, publications, on-campus conferences, guest speakers, teaching and speeches in Texas and beyond. This past year, the O'Neil Center took several big steps forward by recruiting a scholar who focuses on state-level economic freedom, launching a research project on the Texas economy and starting a program to help Texas teachers improve their teaching of free enterprise.

Albert W. Niemi, Jr.  
Dean, Cox School of Business



# ONWARD AND UPWARD!

## Bet on Capitalism—It Works

By W. Michael Cox and Richard Alm

In the early 1980s, two college professors faced off in a highly public battle about American capitalism and the future of humankind. Paul Ehrlich predicted the world, with too many mouths to feed, would soon run out of resources, leading to a bleak future of growing scarcity and widespread starvation. Julian Simon offered a far more upbeat view, a future of abundance with higher living standards for more and more people, thanks to almost limitless potential of human ingenuity operating in a capitalist system.

For more than a decade, the two professors slugged it out in the arena of public opinion, largely through a series of books and articles, the academics' weapons of choice. Along the way, they made their disagreement personal with a bit of impromptu political theater that history knows as

The Bet. The actual wager amounted to a few hundred dollars in cash, but it carried much higher stakes in the currency of intellectual prestige.

The Bet took place in 1980—a time when the intellectual climate tilted in favor of Ehrlich, and Simon initially struggled to be heard. It focused on the inflation-adjusted prices of five industrial metals over the upcoming decade as a test of whether the world was heading toward scarcity or abundance.

If the metals' prices rose, it would signify the world was running out of important commodities, vindicating Ehrlich's pessimistic view of the future. If the prices of the five metals declined, it would indicate that humans had produced more than enough to meet growing demand, supporting the optimistic view that Simon championed.

We'll tell you who won The Bet

in a bit, but settling up didn't end the feud between pessimists who see capitalism as a destructive force and optimists who see it as the best chance for expanding human welfare, especially among the poor.

Today, pessimists seem once again ascendant, channeling Paul Ehrlich with warnings about a future of growing scarcity and potential catastrophe as climate change raises sea levels and temperatures around the globe. The optimistic voices—heirs to Julian Simon—press on, making the case that capitalism, if unshackled, will provide a better life for more of us. They point to the 1 billion people around the world who have risen out of extreme poverty as China, India and other countries embraced capitalism in recent decades.

The Bet didn't resolve the issue of scarcity or abundance partly because



of limitations imposed by its small sample of five metals, single decade of data and muddled concept of how to calculate real prices as a measure of human progress.

“Onward and Upward!” takes a fresh look at The Bet, expanding it to include more goods and services, extending the time period and using more precise concepts to gauge scarcity or abundance. Recasting the Ehrlich-Simon wager in this way will allow today’s Americans to see for themselves whether it’s wise to bet on capitalism.

### A Long-Simmering Dispute

Does capitalism work? The rivalry between optimists and pessimists on this question goes back to the earliest days of economic thought. In 1776, Adam Smith’s *The Wealth of Nations* struck a hopeful note by focusing on how trade

and specialization in market economies made both individuals and societies better off. In Smith’s view, progress was possible in a capitalist system.

We now revere Smith as the founder of modern economics, but it wasn’t long before the pessimists raised their objections. Thomas Malthus published *An Essay on the Principle of Population* in 1798, arguing that population would grow to exhaust any increases in the resources that sustain life, condemning the mass of mankind to a meager existence at subsistence wages.

David Ricardo let some sunlight into Malthus’ gloomy scenario by asserting that wages could rise above subsistence when new investment or technology pushed up productivity and pay, increasing the demand for labor faster than its supply. A generation after Ricardo, Karl Marx

savaged capitalists for plundering the working class—although, somewhat ironically, he had an optimistic side, proclaiming a future of material abundance. It just wouldn’t arrive, Marx declared, until capitalism had been eradicated from the Earth.

The critics of capitalism remained vehement, but the Industrial Revolution hurtled forward, bringing with it the greatest material progress in human history. According to Angus Maddison, global real income per capita was just \$615 a year in 1700—less than \$2 a day. Today, it’s 12 times higher at more than \$7,600. Under its capitalist system, the United States did quite a bit better, with average real income increasing 33-fold from \$1,257 in 1800 to more than \$40,000 today.

Rising incomes fueled optimism about capitalism, but the relative

prosperity didn't silence the pessimists. In the waning decades of the 19<sup>th</sup> Century and the first years of the 20<sup>th</sup> Century, America's Progressives campaigned for government intervention to remedy the ills they associated with markets—from industrial concentration and instability to child labor and unsafe products.

Pessimism spreads in hard times, so it's not surprising that the Great Depression of the 1930s cast a dark cloud. Bad government policies had a lot to do with the economic collapse, but British economist John Maynard Keynes and others ushered in a new age of government meddling in an economic system they now regarded as fatally flawed.

After World War II, the United States entered into a new era of prosperity. A sprawling American middle class could afford houses, cars, televisions, vacations and other trappings of the good life. Voices rose to celebrate the economic progress as a triumph of capitalism—most notably Milton Friedman, the highly influential author of *Free to Choose*. In his wake came such scholars as Thomas Sowell and Walter Williams.

The post-World War II era's champions of free enterprise didn't go unchallenged. Amid the unprecedented abundance, pessimists continued to espouse negative views of capitalism, shifting their reproach from subsistence wages to such issues as poverty amid plenty, prosperity's empty consumer culture and the growing threat of industrial pollution. The environmental movement's rise in the 1960s provided the stage for Paul Ehrlich, then an obscure University of California at Berkeley biologist specializing in butterflies.

**“The foundation of Simon’s optimism was a conviction that markets will spur human beings to increase the supplies of resources that grow scarce or develop substitutes that are cheaper and more plentiful.”**

#### **Making ‘The Bet’**

Ehrlich burst into the spotlight in 1968 with his book *The Population Bomb*, which revived Malthus' thesis that population would overwhelm available resources, especially food. The consequences, Ehrlich warned, would be widespread famine and a collapse of global living standards, starting in the 1970s. The only way to avert this catastrophe would be government policies and social norms that limited population growth.

Ehrlich's reasoning was simple and straightforward, especially for a biologist trained to think about the interaction of species and their environments. When it came to the natural limits imposed by finite resources, he asserted, human beings were no different than other animals. Ehrlich appreciated that technology could raise productivity and allow the economy to support more people, but he thought the advances could never stave off a calamity he regarded as inevitable.

Julian Simon, then an economist at the University of Illinois, rejected the idea that rising population would doom humanity. In his mind, people were a blessing not a curse. Resources weren't fixed; quite the opposite, history since the time of Malthus had shown that innovation could overcome scarcity and raise living standards for the masses.

The foundation of Simon's optimism

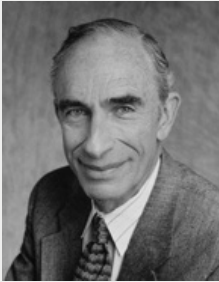
was a conviction that markets will spur human beings to increase the supplies of resources that grow scarce or develop substitutes that are cheaper and more plentiful. *The Ultimate Resource*, the title of one of Simon's books, captured his faith in the power of markets and minds to develop better and cheaper ways to meet the needs of a growing population. In effect, Simon tells us that human beings are different from other animals.

Ehrlich and Simon differed widely in how they saw the world and human beings' place in it—one pessimistic, the other optimistic. Their views could never be reconciled, and by the late 1970s the two professors had become increasingly bitter rivals in a contest to shape public opinion. What started as an academic debate eventually figured into national politics and the 1980 race for the White House (*see Box 1*).

No matter how eloquently argued, opinions about future scarcity and abundance were unlikely to change many minds; what Simon needed was an objective way to prove he was right. Scarcity lies at the core of economics as the reason why we have to pay for most goods and services. In markets, prices rise and fall in response to changes in supply and demand. So Simon quite naturally hit on prices as a way to gain some ground in his dispute with Ehrlich and his allies.

Simon challenged his adversaries





Paul Ehrlich

**“We must rapidly bring the world population under control, reducing the growth rate to zero or making it negative. Conscious regulation of human numbers must be achieved.”**



Julian Simon

**“The most important benefit of population size and growth is the increase it brings to the stock of useful knowledge. Minds matter economically as much as, or more than, hands or mouths.”**

## ‘The Bet’—Bigger than Two Men

Disputes between college professors rarely spill out of academia and into Americans’ living rooms. One that did involved Paul Ehrlich and Julian Simon, who squared off from the late 1970s to the 1990s. Two compelling and combative protagonists tackling high-stakes issues struck a chord with the general public.

*The Population Bomb*, Ehrlich’s best-seller that warned of the looming cataclysm of a world running short on the resources needed to sustain life, came out in 1968, just as environmentalism was gaining momentum in mainstream America. An engaging and witty personality, Ehrlich became the celebrity face of the movement, speaking widely, engaging the media and even appearing with Johnny Carson on *The Tonight Show*.

Scholars had worried about overpopulation for decades, but Ehrlich and his allies had the good fortune of perfect timing. The energy crisis of the 1970s gave Americans a foreboding sense of scarcity. In 1972, the Club of Rome’s *Limits of Growth* report painted a doomsday scenario of industrial collapse, rampant pollution and cratering population. The *Global 2000 Report to the President*, released in 1980, was just as dismaying. The spread of Zero Population Growth chapters testified to Ehrlich’s ability to galvanize the public.

The gloom and doom percolated into politics. Elected in 1976, President Jimmy Carter fully embraced the zeitgeist of a future of scarcity and limits.

Julian Simon simply couldn’t accept population

growth as damaging or the prospect of an end to progress. He joined the fight in earnest in 1980, with an article in *Science* magazine that attacked the prevailing orthodoxies of finite resources and ecological limits. *The Ultimate Resource* in the title of his 1981 book referred to human beings, with their inexhaustible capacity for developing technologies that make people better off and overcome scarcity.

Simon started as that lonely voice in the wilderness. Moving from downstate Illinois to Washington, D.C., he rose to prominence by defending capitalism with gusto, writing prolifically and matching Ehrlich’s flair as a champion of his ideas. He won a devoted following among a new generation of economists and politicians who favored free enterprise over bigger government.

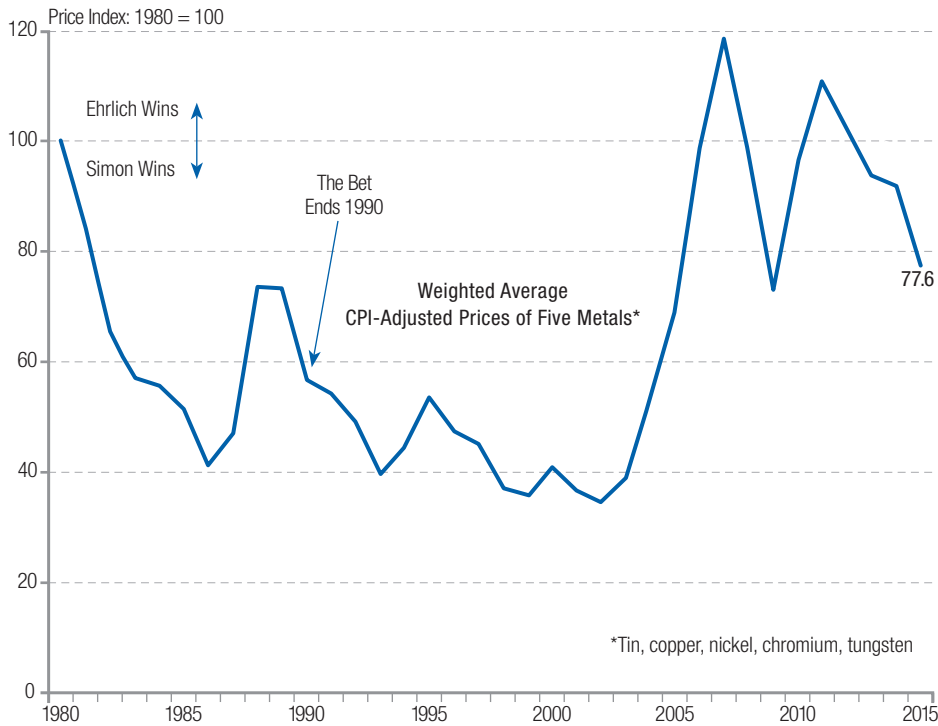
If the 1970s were Ehrlich’s decade, the 1980s belonged to Simon. In the 1980 election, Ronald Reagan wrested the White House from Carter, campaigning on a Morning in America theme that envisioned a future of economic growth and limitless possibilities.

At age 84, Ehrlich is president of Stanford University’s Center for Conservation Biology, still insisting that overpopulation will lead the world to ruin. Simon died in 1998, but his admirers still cite his optimistic ideas about capitalism’s penchant for progress. So in a very real sense the Ehrlich-Simon debate remains with us—one side seeing a world rushing headlong toward scarcity and collapse and another countering that capitalism will continue to deliver better living standards to more people.

**EXHIBIT  
1**

## Bringing 'The Bet' Up to Date

Julian Simon won the wager on the inflation-adjusted prices of five metals from 1980 to 1990. Continuing The Bet through 2015, Simon still would have won most of the time—but by smaller margins. The five metals' prices spiked in 2007 and 2011 over the past decade, and Paul Ehrlich would have prevailed in those two years.



to a simple wager on the future prices of a few commodities. He'd even let the pessimists pick which ones. Rising prices would point to increasing scarcity. Falling prices would signal increasing abundance. Vexed at Simon's needling, Ehrlich and his allies decided to accept the wager in October 1980.

They agreed to start with \$1,000 allocated equally to five metals chosen by the Ehrlich team—tin, copper,

nickel, chromium and tungsten. The prices of these metals had risen in the 1970s, so the doomsayers went into The Bet feeling confident.

The winner would be determined by the difference between the \$1,000 starting value and the five metals' worth a decade later, adjusted for inflation. If the real prices rose, it would point to increasing scarcity, and Simon would pay. If they declined,

the results would suggest increasing abundance and Ehrlich would pay.

In October 1990, Simon opened an envelope to find a check from Ehrlich for \$576.07, accompanied by a calculation of inflation-adjusted prices for the five metals over the past decade. Over all, the real price of the metals basket had fallen more than 50 percent. Tin was down 70 percent; chromium and copper also became cheaper—all in a decade in which world population rose by 800 million.

### Making 'The Bet' Better

Ever since Ehrlich paid up, optimists have celebrated Simon's winning The Bet as confirmation that capitalism tends toward abundance rather than scarcity. Not everyone accepted the verdict, suggesting that Simon might have just been lucky in picking a decade of unusually weak metal prices. What happened in the 1980s might not hold for other times—a testable hypothesis.

Scholars have simulated The Bet over different time spans, and Simon doesn't always emerge the victor. Writing for the Property and Environment Research Center, David McClintick and Ross B. Emmett ran The Bet for each decade of the 20<sup>th</sup> Century, concluding that Simon would have won in only five of them—the 1900s, 1910s, 1940s, 1980s and 1990s. Katherine A. Kiel, Victor A.



Tin



Copper



Nickel



Chromium



Tungsten



Matheson and Kevin Golembiewski, all of them then at Holy Cross, found that Ehrlich would have won slightly more than 60 percent of the 98 10-year intervals between 1900 and 2007.

Commodities prices remained low in the 1990s but spiked after 2005. Extending The Bet a quarter century beyond 1990 shows that Simon still would have won in 2015—but by a smaller margin than in the 1980s (*see Exhibit 1*). He'd have won if the wager had ended in most other years after 1990. However, Ehrlich would have come out on top by a few dollars if The Bet had ended in 2007 or 2011, two years marked by particularly sharp increases in commodity prices.

Having the winner vary from one period to another leaves The Bet's results frustratingly ambiguous. However, the original wager on the 1980s and the subsequent simulations were based on misconceptions about the best way to adjust for inflation and properly measure the five metals' *real* prices. Making The Bet better might make its meaning clearer.

Money prices generally rise over time—so the dollars and cents we spend today don't buy as much as they did yesterday. The common practice for dealing with this involves using the Consumer Price Index (CPI) or other deflator to adjust for the fluctuating value of money—and The Bet and its reconstructions followed that script.

Adjusting for inflation in this way tells us whether the prices in the five-metal basket have risen more or less than the general rate of inflation. However, finding that one good becomes more or less expensive in terms of another isn't the best way to determine whether the world has been running short of vital

resources. Getting a read on scarcity or abundance requires an *absolute* standard—units of human labor.

If every product required 10 percent more human labor, relative prices would not change. Yet, workers would produce 10 percent less each hour and grow poorer in terms of what their time could buy. Now consider the opposite case—every good requiring less labor by the same amount. Once again, relative prices wouldn't fall, but workers would be able to consume in greater abundance.

Adam Smith showed us the *real* meaning of real. He recognized that money wasn't the ultimate measure of the cost of goods and services: "The real price of everything ... is the toil and

trouble of acquiring it. What is bought with money ... is purchased by labor."

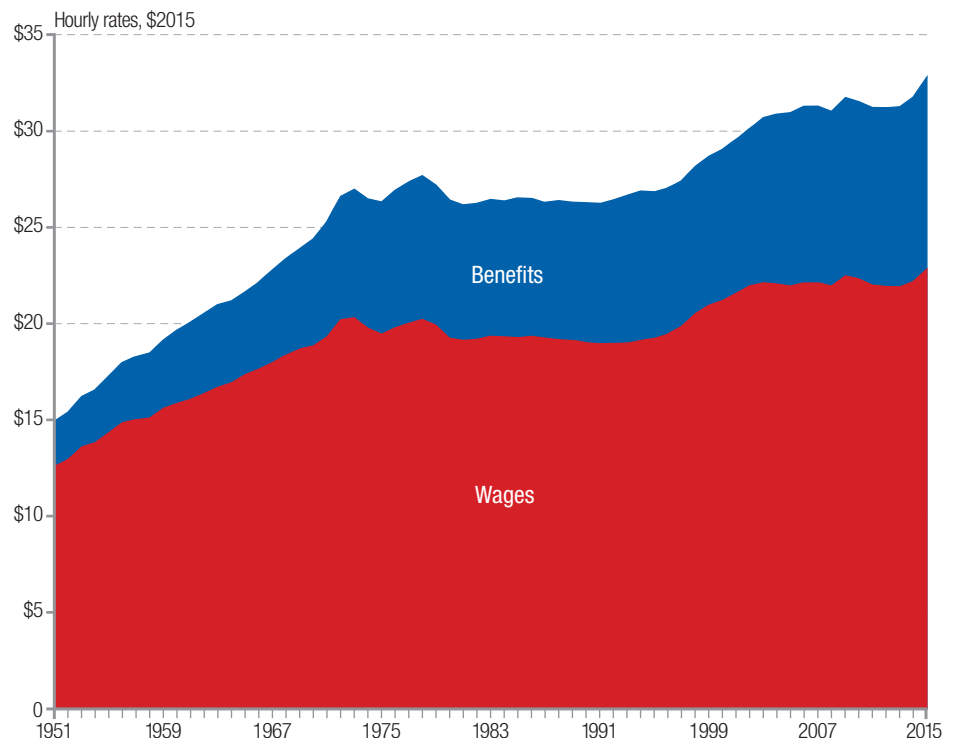
The Bet should be scored in work-hour prices—the hours and minutes it takes an average worker to earn the money required to buy something. Work-hour prices are typically based on average hourly wages—but these data have a flaw. They don't capture non-cash benefits, which are becoming a bigger share of what a typical worker earns (*see Exhibit 2*).

The data on total compensation include wages and benefits, and they're a more accurate way to calculate work-hour prices because they incorporate all the rewards from work. For the average U.S. worker, inflation-adjusted total compensation rose steadily from \$24.68

## EXHIBIT 2

### Benefits Gap Growing

Today's working Americans are receiving a larger part of their incomes in the form of benefits—such as health care and retirement plans. Non-wage earnings rose from 19 percent of wages in 1951 to 44 percent in 2015. Including these benefits provides the best gauge of the rewards from each hour of work.



an hour in 1980 to \$32.88 in 2015.

Over time, work-hour prices of most goods and services fall faster than CPI-adjusted prices because employee compensation tends to rise faster than the overall price index. Since 1990, the work-hour prices of The Bet's five metals fell almost twice as fast as the CPI-adjusted prices (see Exhibit 3). In work-hour terms, Simon wins The Bet in every year from 1980 to 2015, removing the ambiguity from the results.

### Making 'The Bet' Broader

The Bet's other key shortcoming is its narrow base of just five metals. They account for only a small slice of the economy, and their prices might not be representative of what's happening in the broader commodities markets. Enlarging the bundle of metals to 20 is a good first step toward increasing confidence in the implications of The Bet.

Aside from mercury, the work-hour prices of the 15 added metals look a lot like the five metals that Ehrlich chose in 1980. Overall, the work-hour prices of the 20 metals fell nearly 50 percent from 1980 to 2015 (see Exhibit 4, top panel). Cadmium, cobalt, titanium and silver had the biggest declines in real prices—all becoming more than 75 percent cheaper.

What would happen if Ehrlich and Simon had specified this basket of 20 metals? The overall result of the five-metal scenario holds: Simon wins The Bet in just about every year in terms of what really matters—work-hour prices (see Exhibit 4, bottom panel). With 2015 as the payoff date, Simon's margin of victory over Ehrlich would have been 4.5 percentage points larger

**“Since 1990, the work-hour prices of The Bet’s five metals fell almost twice as fast as the CPI-adjusted prices. In work-hour terms, Simon wins The Bet in every year from 1980 to 2015.”**

with 20 metals than with five metals.

Metals aren't the only commodities that might be relevant in reaching a verdict on scarcity or abundance. Indeed, Malthus and Ehrlich focused primarily on food in drawing their dim views of mankind's prospects. So we took a look at work-hour prices of 15 common foods, plus an assortment of other commodities that, broadly speaking, contribute to the availability of clothing, shelter, utilities and transportation.

As with the basket of 20 metals, we find one outlier that didn't become cheaper in time at work—apples still cost what they did in 1980 (see Exhibit 5). The rest of the foods meet the test of greater abundance. Work-hour prices fell by 50 percent or more for potatoes, oats, wheat, soybeans, corn, beans, rice, peanuts, milk and pork. Among the non-food commodities, cotton fell by 75 percent in work-hour prices. Coal and oil were down by nearly 60 percent.

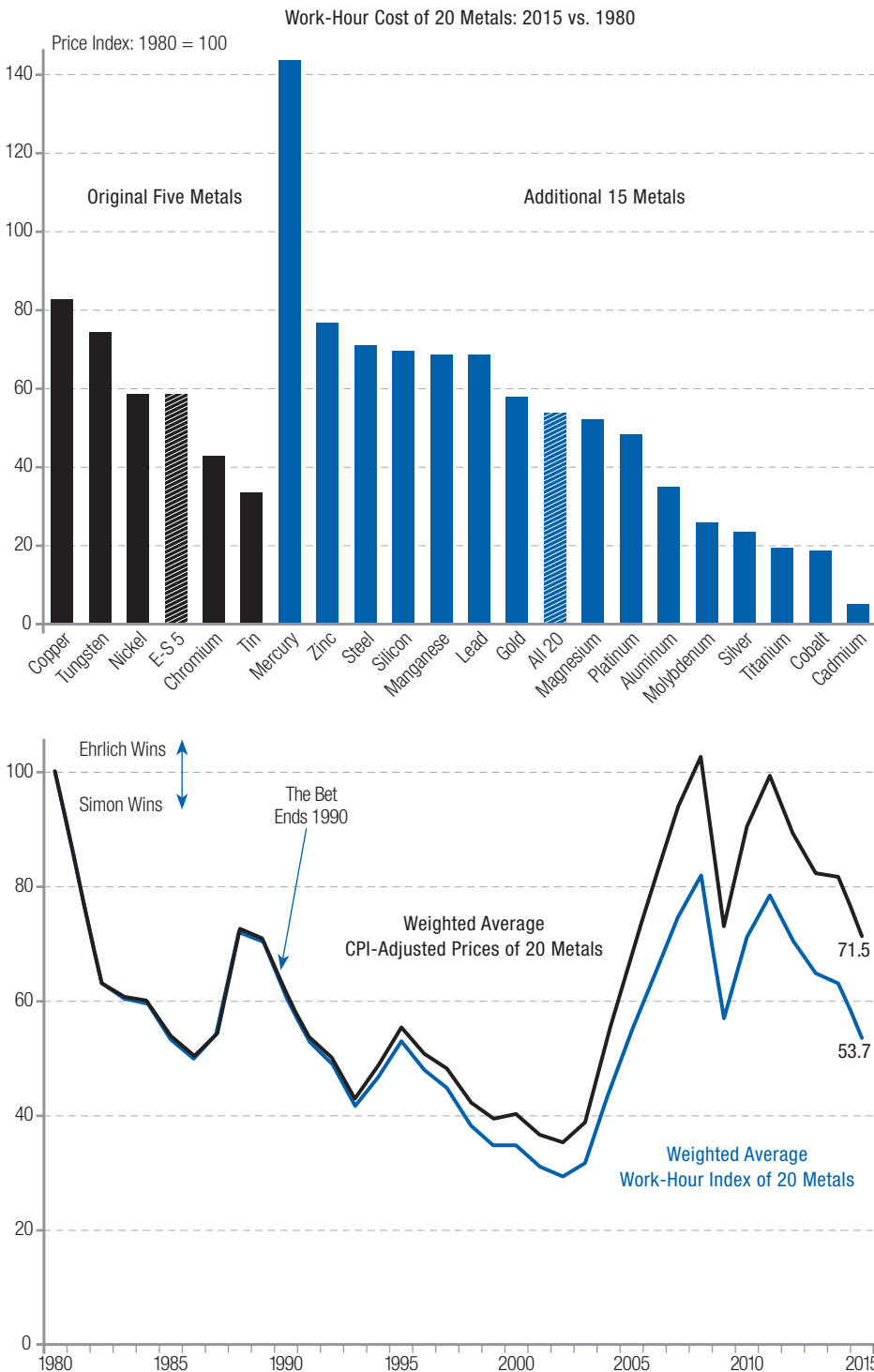




**EXHIBIT  
4**

## Bigger Basket of Metals

Through 2015, Simon wins the original bet for the five metals in work-hour prices. Adding 15 metals provides a broader test of whether supplies have grown scarcer or more abundant at work-hour prices (*upper panel*). Twenty metals doesn't change the outcome—Simon still wins at work-hour prices every year through 2015 (*lower panel, blue line*).



If Ehrlich and Simon had decided to place their wager on this commodities bundle, there's little doubt that Simon would win quite easily. Measuring real prices the right way and looking at longer time periods and larger samples of products makes The Bet better—but the outcome stays the same.

### Everyday Abundance

Most people don't pay much attention to trading in metals and basic commodities. The goods and services they buy regularly are an altogether different matter. Consumer spending makes up 70 percent of the U.S. economy, so it's very important to ask whether Americans are experiencing greater scarcity or abundance in their everyday lives.

Taking a long and broad view, work-hour prices of all U.S. consumer goods have fallen nearly 90 percent since 1900 (*see Exhibit 6, top panel*). Market prices have risen more than 23-fold in those 115 years, but today's total compensation is 208 times higher, leading to the enormous gains in the value of hours and minutes of work. So work-hour prices are lower—by a large margin.

Turning to the period since 1980, the year Ehrlich and Simon made their wager, the decline in work-hour prices for all consumer goods has been 25 percent. Apple introduced the iPad tablet computer in 2010, and its work-hour price has already fallen nearly 15 percent. With more time, work-hour prices have fallen even further for other gadgets—more than 99 percent since 1984 for cell phones, 94 percent since 1987 for camcorders and 96 percent since 1997 for DVD players.

These price declines don't take into

account the value of improvements in quality. The clunky cell phone of 1984 just made telephone calls—when it worked. Today’s smart phones are pocket-sized computers that can surf the Internet, fire off messages, take and send photographs, run a wide variety of apps and so much more.

Cheaper and better—that has been a major theme of American capitalism. The pattern holds for homes, cars, air travel, home furnishings and so many other familiar products (*see Exhibit 6, bottom panel*). Given Ehrlich’s worries, it’s particularly gratifying to see that food hasn’t been growing scarcer. Take a basket of 12 food staples, including milk, bread, sugar, coffee, bacon, eggs and a few fruits and vegetables. What took 9 hours and 30 minutes of work to buy in 1919 now just takes 1 hour and 38 minutes—an 83 percent reduction in the food basket’s real cost.

As with metals and commodities, the data on real consumer prices point to increasing abundance. But questions of scarcity and abundance really aren’t on the lips of most Americans. What they usually talk about is their living standards, particularly whether today’s families can emulate past generations in achieving upward mobility.

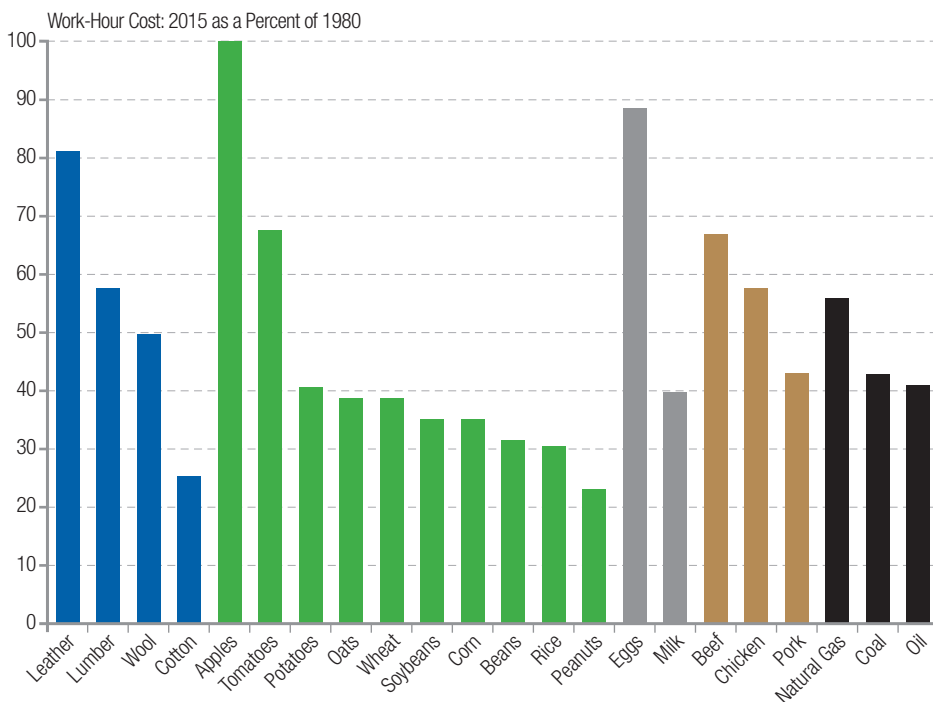
Pessimists shake their heads in dismay. They proclaim that U.S. households are struggling to keep up with the rising cost of living because today’s jobs don’t pay enough to support a middle-class family. Adjusted for inflation, median household income and average hourly earnings have been largely flat for the past decade (*see Box 2*).

Other data from the same government statistics mills corroborate the more optimistic story that emerges

**EXHIBIT  
5**

## Moving Beyond Metals

Other commodities saw work-hour prices fall from 1980 to 2015. The pattern holds for a wide range of basic products—from leather, wood and fiber to basic foodstuffs and fossil fuels. Nearly three-quarters of the commodities show declines in real prices of 40 percent or more. Had The Bet focused on commodities at work-hour prices, Simon would win every year.



from the trends in work-hour prices. The readings from per capita income and total compensation show that the average American has continued to fare well, even in the past decade.

When it comes to living standards, direct measures provide another way of finding out which way we’re going. Inflation-adjusted consumption per capita doubled from 1980 to 2015—so we’re collectively consuming a lot more than we did when Ehrlich and Simon made The Bet (*see Exhibit 7, top panel*).

A smaller share of our household budgets go to meeting basic needs, leaving more for enjoying leisure time. Smart phones and cars are commonplace. Today’s homes are larger and more likely to be fitted with central heat and air-conditioning.

Net worth is up, partly because of a huge increase in the value of U.S. stocks. Gains don’t stop there. Health, safety and security have been improving for most of us; so have working conditions.

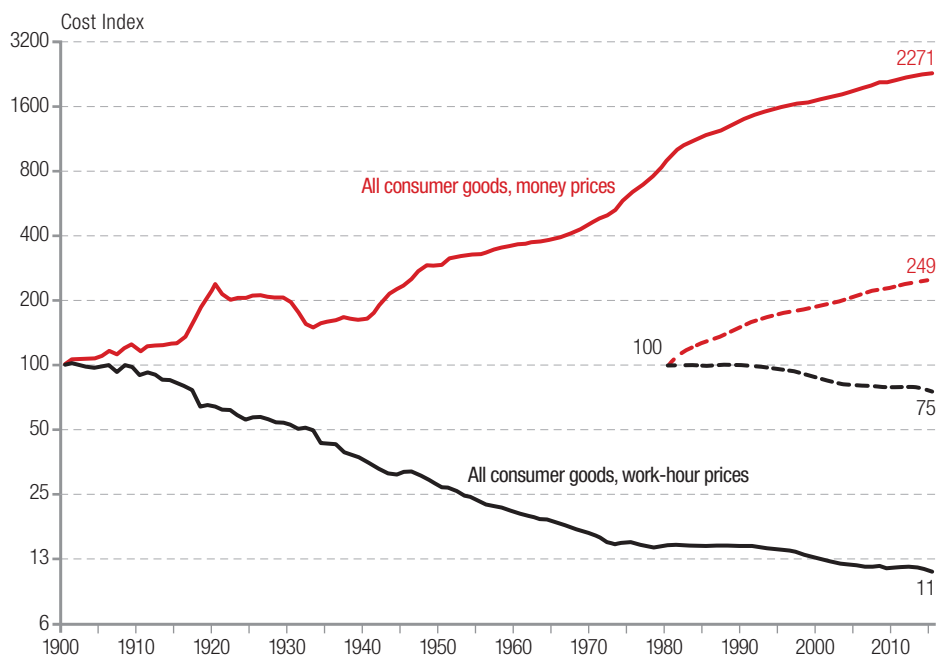
Declining work-hour prices haven’t made life better just for the rich. Wealthy households are the first beneficiaries of most new products. As goods get cheaper, middle class and poorer households can afford to buy them. That’s what happened for a wide range of consumer products from 1900 to 2015—telephones, electricity, automobiles, stoves, refrigerators and clothes washers early in the 20<sup>th</sup> Century, VCR/DVD players, computers, digital cameras and smart phones in more recent years (*see*



# EXHIBIT 6

## Consuming Interest

Money prices for consumer goods move steadily upward (red lines), but Americans' true cost of living is better measured in hours and minutes of work. Overall, work-hour prices have fallen nearly 90 percent since 1900 (solid black line). They've declined 25 percent since Simon and Ehrlich made their bet in 1980 (dotted black line). The table shows work-hour data for individual products.



## The Falling Real Cost of Everyday Products

Today's Work-Hour Prices as Percent of Early Year

Product	Early Year	2015 vs. Early Year	Product	Early Year	2015 vs. Early Year
iPad	2010	85.3%	Camcorder	1987	5.7%
Movie	1917	74.6%	Dryer	1940	5.5%
New home	1920	69.4%	Coca-Cola	1900	5.0%
Pizza	1940	59.2%	DVD player	1997	3.9%
7-day cruise	1972	40.5%	Air travel	1926	3.3%
Men's suit	1927	38.6%	Range	1910	2.9%
Dry cleaning	1946	36.8%	Dishwasher	1913	2.6%
Auto rental	1970	28.7%	Washer	1911	2.4%
Automobile	1908	26.0%	Color TV	1954	2.1%
Gasoline	1920	20.5%	Microwave	1967	1.8%
Levi's jeans	1897	16.9%	Refrigerator	1916	1.2%
Food basket	1919	16.9%	Calculator	1972	0.7%
Room A/C	1952	10.8%	Cell phone	1984	0.5%
Mattress	1929	10.1%	Electricity	1902	0.5%
Hershey bar	1900	9.4%	Computing	1984	0.009%
Chicken	1919	7.6%	Phone call	1915	0.0005%

Exhibit 7, bottom panel).

What's more, products are spreading into households more quickly in recent years. It took decades for half of all households to own washers, yet only a few years elapsed before computers, cell phones and digital cameras reached 50 percent penetration. Shorter waits for new products indicate an easing of the disadvantages of living on low incomes.

Ehrlich and his followers took a global view, worrying less about scarcity in the United States than famine in places like India. They might concede that Americans probably wouldn't face any persistent shortages. How abundance came to mark the United States, however, gets to the very heart of the question raised by The Bet. The answer takes us to the reason Simon expected to win—the power of markets to overcome scarcity.

### What Makes All the Difference

Shortages of food and other goods have been the lot of mankind for most of history, and no country pulls itself out of poverty by happy accident. Quite the contrary, abundance arises from an economic system that rewards the innovation that leads to greater productivity and output.

That economic system is capitalism. Markets mobilize the incredible power of human ingenuity, encouraging individuals and companies to discover better ways to achieve greater abundance by increasing supply and lowering costs.

Capitalism sets into motion a virtuous cycle that diminishes scarcity. Incentives to innovate push human beings to introduce technologies that increase productivity, which contributes to workers earning higher

## Data Divide Optimists, Pessimists

Inflation-adjusted median household income rose 25 percent over three decades, going from \$44,339 in 1967 to \$57,915 in 1999. It then fell 3 percent to \$56,245 in 2015 (*left chart, red line*). With their incomes shaky, American households have struggled to maintain their living standards—or so the narrative goes.

Another data set tells a starkly different story. Consumption per capita stood at \$14,237 in 1967, and it rose steadily to an all-time high of \$38,146 in 2015—a total gain of 168 percent (*left chart, blue line*). These numbers support an alternative narrative: the U.S. economy can still deliver higher living standards.

Hourly wages, adjusted for inflation, averaged \$22.80 in 2015, up an underwhelming 19 cents since 2003 (*right chart, red line*). With pay essentially flat, the path to upward mobility has become a much harder climb.

When benefits earned on the job are included, however, the value of work in America has never been higher. Inflation-adjusted total compensation rose from \$24.99 in 1991 to \$32.85 in 2015—a gain of 31 percent (*right chart, blue line*).

American capitalism’s critics are likely to latch onto the household income and hourly wage data. Those who favor free enterprise will find per capita consumption and total compensation more persuasive. Ideological shouting

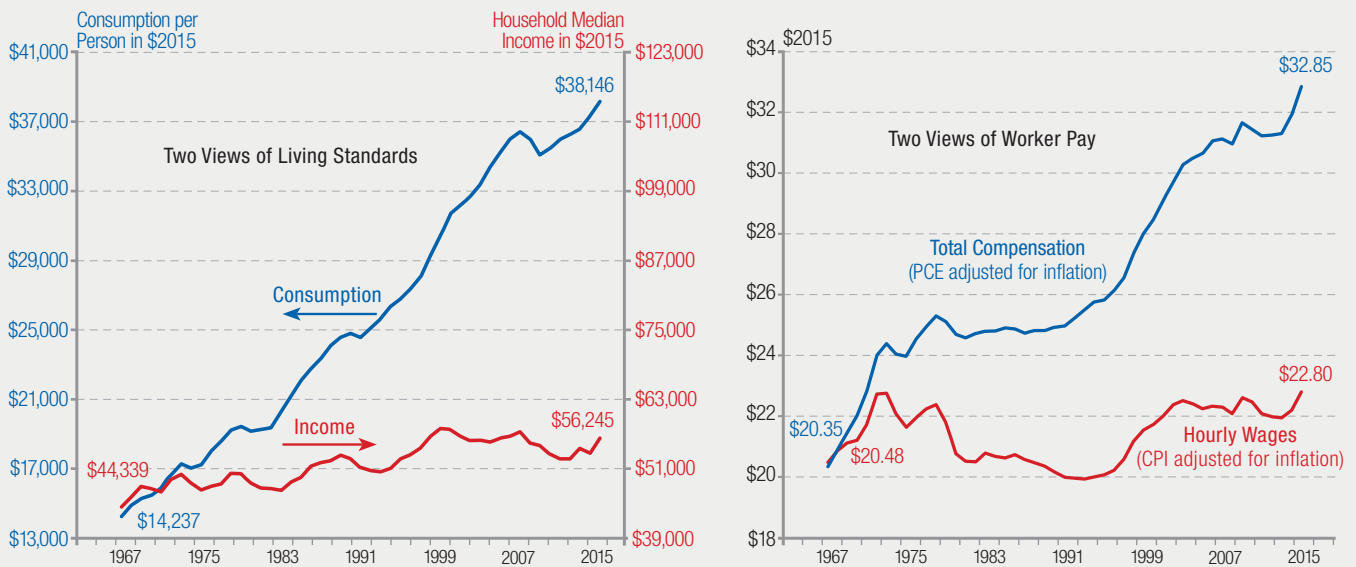
matches won’t tell us which view makes more sense. We need to look at what’s behind the gaps in the numbers.

**On living standards:** With the kids grown, aging Baby Boomers are reaching retirement age. As some of them begin to kick back, labor-force participation has fallen below 63 percent, contributing to the sag in median household income.

The smaller household incomes aren’t crimping living standards. With more people living alone and fertility rates falling, the average American household shrunk from 3.2 members in 1967 to 2.5 in 2015. Spreading each household’s income over fewer people leaves room to boost consumption per capita.

**On the value of work:** Health care, savings plans, Social Security, paid time off and other non-cash benefits have risen from 19 percent of wages in 1951 to 44 percent today. Total compensation captures these benefits, producing a more accurate measure of the value of work.

In addition, the consumer price index (CPI), typically used to compare wages over time, overstates inflation and makes data on real wages artificially low. The total compensation calculation uses the price deflator for personal consumer expenditures, which differs from the CPI by an average of 0.4 percentage point a year. Over the long haul, the small difference adds up.





wages. These pay gains are key to the falling work-hour prices that produce evidence of greater abundance. Rising living standards follow, increasing the capacity for innovation.

We've seen it happen with the constraint imposed by the Earth's supposedly finite capacity for producing food. Ehrlich didn't believe the world could feed its population of 3.5 billion in 1968; today, the planet supports a population of more than 7.4 billion.

Fertile minds have been as important as fertile soil. We've found ways to improve seeds and plants, control pests and diseases, irrigate crops, mechanize planting and harvesting and store food for future consumption. The spectacular gains in agricultural productivity since Malthus' time have been one of mankind's greatest accomplishments.

It wouldn't have happened without capitalism. Demonstrating this proposition requires the concept of an economic freedom capital stock, which broadly measures nations' commitment to free enterprise.

The *Economic Freedom of the World (EFW)* report locates more than 150 countries between the poles of free markets and government control of the economy. The annual rankings combine data on the size of government, respect for property rights, the soundness of money, openness to free trade and the burdens of regulation.

Freedom capital stock recognizes that reaping the benefits of free enterprise requires maintaining pro-market policies over time. It's calculated as a declining weighted average of each country's *EFW* scores back to 1970.

The United States ranks among the Top 5 countries in freedom

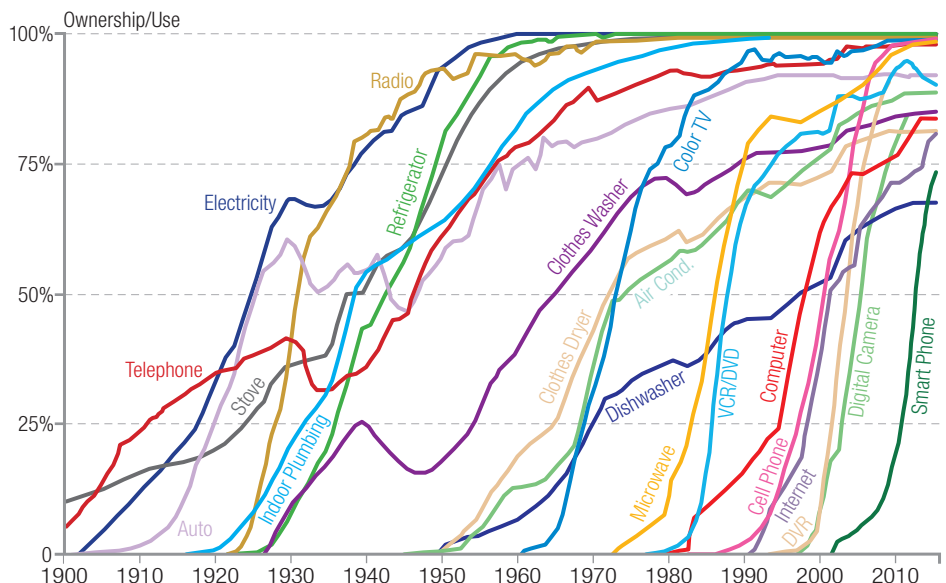
**EXHIBIT  
7**

## Still Making Progress

Declining work-hour prices contribute to higher living standards. Indicators show positive trends in consumption and wealth; health, safety and security; and conditions in the workplace (*top*). As products become more affordable in work time, they spread from a few wealthy consumers to a larger and larger share of households (*bottom*).

CONSUMPTION AND WEALTH	1980	2015
Consumption per capita (\$2015)	\$19,182	\$38,146
Share of household budget spent on:		
Food, clothing, shelter and utilities	35.6%	27.6%
Entertainment and recreation	8.9%	14.3%
Adults owning a smart phone	0%	68%
Average size of a new home (square feet)	1,595	2,701
New homes equipped with central heat and air	63%	91%
Households with computers	0.2%	84%
Households with 3+ internet-connected devices	0%	90%
Households with two or more vehicles	51.5%	57.0%
Work hours required for 1,000 miles of air travel	8.3	4.3
Work hours for the gasoline to drive 1,000 miles	6.1	2.7
Median family net worth (\$2015)	\$47,037	\$92,334
Mean family net worth (\$2015)	\$121,361	\$607,791
Market capitalization of all listed U.S. firms (\$2015)	\$3.4 trillion	\$25.1 trillion
HEALTH, SAFETY AND SECURITY		
Life expectancy at birth	73.7	78.8
Overall death rate (per 100,000)	1,007.3	724.6
Death rate: heart disease	517.0	218.6
Death rate: cancer	206.4	161.2
Automobile deaths per billion miles driven	32.9	11.1
Airline deaths per 100 billion miles flown	53.9	0.2
Overall accident death rate	43.4	40.5
WORKING CONDITIONS		
Average work week (Index: 1980 = 40)	40.0	38.5
Output per hour worked (Index: 1980 = 100)	100.0	198.3
Work-hour cost of CPI bundle (Index: 1980 = 100)	100.0	64.4
Employee benefits as a percent of money wages	37.3	44.1
Mean retirement age	63.7	62.9
Work-related deaths per million workers	134	31
Work-related non-fatal accidents per 1,000 workers	85	34

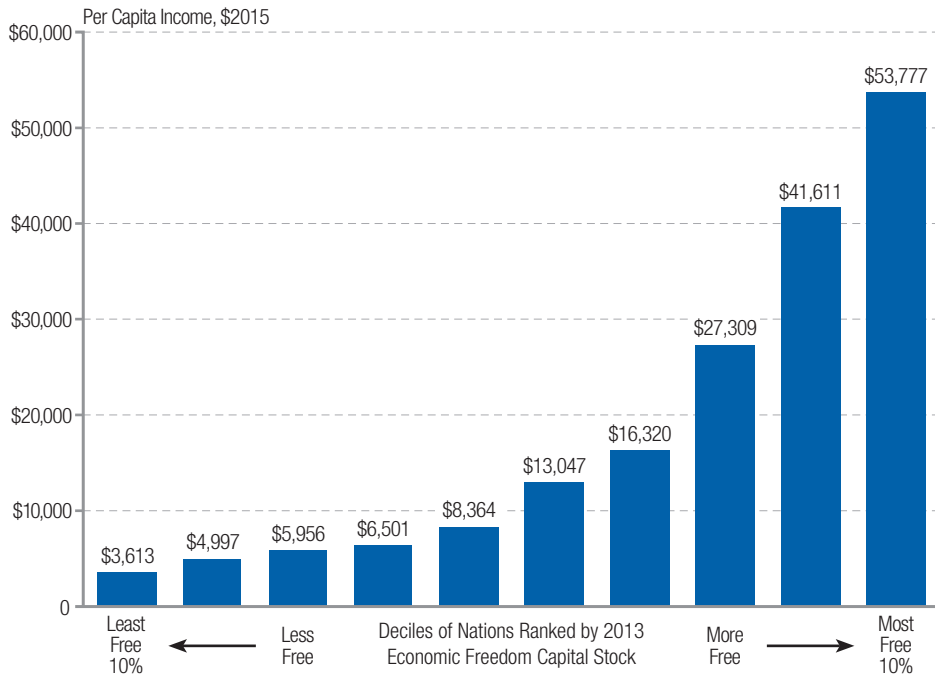
## Spread of Products into American Households



**EXHIBIT  
8**

## Reason for Optimism

A nation's economic freedom capital stock measures how well it maintains policies that favor private initiative over government control. Looking at more than 150 countries, those that embrace capitalism see positive outcomes, including higher per capita incomes. As countries turn away from economic freedom, the results become progressively more pessimistic.



capital stock, along with Hong Kong, Singapore, Switzerland and Canada. None of these countries spends much time worrying about scarcity—at least as a domestic issue.

To generalize, we divide countries into groups of 10 percent based on their freedom capital scores.

The decile with the most enduring commitment to capitalism has the highest average per capita income at \$53,777 a year (*see Exhibit 8*). Average per capita income drops off steadily as freedom capital diminishes. By the fourth decile, it has been reduced by two-thirds. Countries in the lowest

10 percent scrape by on a meager \$3,613 a year—less than 7 percent of the top decile's income.

The wide gap indicates that the optimistic scenario of growing abundance Simon championed characterizes capitalist economies that rely on the invisible hand of the market. The pessimistic view of increasing scarcity associated with Ehrlich and his followers shows up in less-free economies dominated by the heavy hand of government.

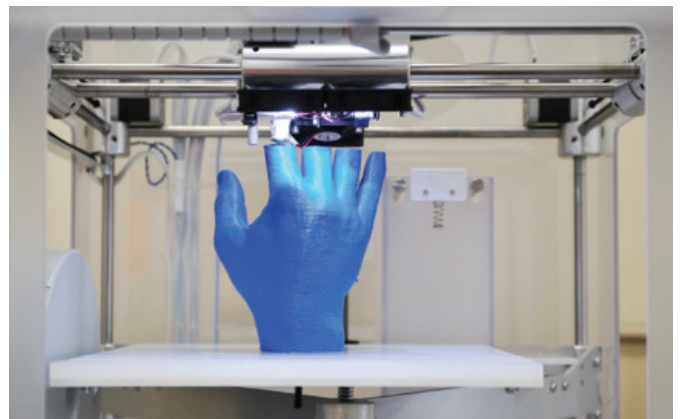
Pessimists almost always call for greater government control over the economy as the way to avert whatever calamity they imagine lies over the horizon. It's tragic that they're seeking to expand an economic philosophy that has proven to increase the likelihood of making the resources that support life scarcer.

### Pessimism or Optimism?

A grumpy lot, pessimists may make us want to crawl into a cave and hide. However, it would be foolish to blithely dismiss them as out-of-touch misanthropes. Like canaries in a coal mine, they can alert us to the dangers that lurk in this volatile world we live in. Paying greater heed to the



Artificial intelligence



3-D printing

worriers, for example, might have been wise in the years leading up to the financial crisis of 2008-09.

Optimists' sunny outlook might make them more pleasant company, but they can be faulted for living in fantasylands far removed from the real world and its troubles. Blindly accepting the Pollyanna's happy view of life increases the risk of being unprepared for the real world's inevitable adversities.

Pessimists and optimists have always been with us, and they will always be with us, but deciding between them should come down to one factor—the evidence. That was Julian Simon's mindset in proposing The Bet in the first place. He wanted the world to examine the evidence on scarcity or abundance.

Skeptics may still dismiss the declining real prices for The Bet's five metals in the 1980s—too small a sample or too unusual a decade, they'll protest. It's a lot harder to brush off the similar results for a larger basket of 20 metals, a wide range of basic commodities and consumer goods in general. Work-hour prices have been falling for a great many goods and services for a long time.

It makes a strong case for abundance—looking backward in

**“The optimistic scenario Simon championed characterizes capitalist economies, while the pessimistic view associated with Ehrlich shows up in less-free economies dominated by government.”**

time. Whether abundance will endure beyond the present day depends on human ingenuity's capacity to continue to deliver the innovations that lead to abundance.

The great hope lies in today's vast inventory of science and technology, made even more valuable by the ability to communicate and share information. Computers and the Internet have been around for decades, but they still offer plenty of productivity-enhancing possibilities.

Relatively untapped are the emerging technologies of the 21<sup>st</sup> Century, such as artificial intelligence, three-dimensional printing, commercial drones and self-driving vehicles. Inventive minds no doubt will find ways to use them to make the world a more productive place, allowing living standards to continue rising.

New threats will arise, of course. The dire predictions from scientists who fear climate change echo Ehrlich's jeremiad about the looming

catastrophe of *The Population Bomb*.

Rather than bigger government imposing top-down remedies that stifle the economy's capacity to produce, it would be better to enlist the innovative power of capitalism to forestall the challenges of rising temperatures. With proper incentives, the private sector will find solutions that won't make the world poorer—ways to remove carbon dioxide from the atmosphere or lessen dependence on fossil fuels.

Science and technology, as wondrous as they are, won't create greater abundance without the economic freedom of capitalism. For a better future, today's world should heed the wisdom of Julian Simon and bet on capitalism. It works.

*W. Michael Cox is founding director of the William J. O'Neil Center for Global Markets and Freedom (wmcox@smu.edu). Richard Alm is writer in residence at the center (ralm@smu.edu).*



Commercial drones



Self-driving cars



## Notes and Data Sources

### Acknowledgment

The authors thank John F. Papp, commodity specialist at the U.S. Geological Survey, for his help in obtaining historical price data and for several conversations during the early stages of the analysis.

### Box 1:

#### 'The Bet'—Bigger than Two Men

Paul Sabin, *The Bet: Paul Ehrlich, Julian Simon, and Our Gamble over Earth's Future*, Yale University Press, 2013.

### Exhibit 1:

#### Bringing 'The Bet' Up to Date

*Metals prices*: United States Geological Survey, Department of the Interior. Available at [usgs.gov](http://usgs.gov). *CPI*: U.S. Department of Labor, Bureau of Labor Statistics. Available at [bls.gov](http://bls.gov).

### Exhibit 2:

#### Benefits Gap Growing

*Wages*: U.S. Department of Labor, Bureau of Labor Statistics. Available at [bls.gov](http://bls.gov). *Benefits percentages: 1951-85* from U.S. Chamber of Commerce. Available at [uschamber.com](http://uschamber.com). Data for 1986-2013 from Employee Benefits Research Center. Available at [ebri.org](http://ebri.org). Figures for 2014 and 2015 are estimates using data on employee benefits from the U.S. Department of Labor, Bureau of Labor Statistics. Available at [bls.gov](http://bls.gov).

### Exhibit 3:

#### 'The Bet' in Work-Hour Prices

See sources for Exhibit 1: *Bringing 'The Bet' Up to Date*, and Exhibit 2: *Benefits Gap Growing*.

### Exhibit 4:

#### Bigger Basket of Metals

See sources for Exhibit 1: *Bringing 'The Bet' Up to Date*, and Exhibit 2: *Benefits Gap Growing*.

### Exhibit 5:

#### Moving Beyond Metals

*Agricultural and farm prices*: U.S. Department of Agriculture. Available at [usda.gov](http://usda.gov). *Leather and lumber prices*: U.S. Department of Labor, Bureau of Labor Statistics. Available at [bls.gov](http://bls.gov). *Coal, oil and natural gas prices*: U.S. Energy Information Administration. Available at [eia.gov](http://eia.gov). See also sources for Exhibit 2: *Benefits Gap Growing*.

### Exhibit 6:

#### Consuming Interest

*Overall Price Index*: U.S. Department of Commerce, Bureau of Economic Analysis. Available at [bea.gov](http://bea.gov). See also sources for Exhibit 2: *Benefits Gap Growing*.

### Exhibit 7:

#### Still Making Progress

*Consumption per capita, household budget shares*: U.S. Department of Commerce, Bureau of Economic Analysis. Available at [bea.gov](http://bea.gov). *Adults owning a smart phone*: Pew Research Center. Available at [pewinternet.org](http://pewinternet.org). *Average and median size of a new home, percent of new homes with central heat and air conditioning*: U.S. Department of Census. Available at [census.gov](http://census.gov). *Households with a computer and 3+ internet connected devices*: Ericsson. Available at [ericsson.com](http://ericsson.com). *Households with two or more vehicles*: American Housing Survey. Available at [census.gov](http://census.gov). *Work hours required for 1,000 miles of air travel and airline deaths per 100 billion miles flown*: Airlines for America. Available at [air-transport.org](http://air-transport.org). *Work hours for the gasoline to drive 1,000 miles*: Energy Information Administration. Available at [eia.gov](http://eia.gov). *Median and mean family net worth*: Board of Governors of the Federal Reserve System. Available at [federalreserve.gov](http://federalreserve.gov). *Market capitalization of all listed U.S. firms*: Bloomberg Business Week. Available

at [Bloomberg.com](http://Bloomberg.com). *Life expectancy at birth, overall death rate, death rate for heart disease and cancer, overall accident death rate*: Center for Disease Control. Available at [cdc.gov](http://cdc.gov). *Automobile deaths per billion miles driven*: National Highway Traffic Safety Administration. Available at [nhtsa.gov](http://nhtsa.gov). (Data are for commercial carriers in the U.S.) *Work-related death rates per million workers and work-related non-fatal accidents per 1,000 workers*: National Safety Council. Available at [nsc.org](http://nsc.org). *Average work week, output per hour worked and mean retirement age*: U.S. Department of Labor, Bureau of Labor Statistics. Available at [bls.gov](http://bls.gov). *Work-hour cost of a CPI bundle*: See sources for Exhibit 6: *Consuming Interest*. *Employee benefits as a percent of wages*: See sources for Exhibit 2: *Benefits Gap Growing*.

*Spread of Products*: Cox, W. Michael, and Richard Alm. *Time Well Spent: The Declining Real Cost of Living in America*. Dallas: Federal Reserve Bank, 1997 Annual Report; "Residential Energy Consumption Survey." U.S. Energy Information Administration. Available at [eia.gov](http://eia.gov). "American Housing Survey for the United States: 2009." U.S. Census Bureau. Available at [census.gov](http://census.gov).

### Box 2:

#### Data Divide Optimists, Pessimists

*Median household income*: U.S. Department of Census. Available at [census.gov](http://census.gov). See also sources for Exhibit 2: *Benefits Gap Growing* and Exhibit 6: *Consuming Interest*.

### Exhibit 8:

#### Reason for Optimism

*Economic freedom rankings and scores*: Economic Freedom of the World Project. Available at [freetheworld.com](http://freetheworld.com). *Per capita income*: The World Bank. Available at [worldbank.org](http://worldbank.org).

# 2015-16: Year in Review

The 2015-16 academic year began with Robert Lawson taking over as director of the O'Neil Center for Global Markets and Freedom. In his first year, the center continued successful programs established in seven years under founding director W. Michael Cox, and it expanded its reach to include free-enterprise courses for high school teachers and a focus on economic freedom in Texas and other states.

During the year, the O'Neil Center added three new members. Dean Stansel, a George Mason University Ph.D. who had been a professor at Florida Gulf Coast University, came on board in January. Since 2013, Stansel has been the primary author of the *Economic Freedom of North America (EFNA)* report, a data-driven assessment of the balance between markets and government control in each of the continent's states and provinces. Stansel also created the first index that measures economic freedom for the nation's 380-plus metropolitan statistical areas (MSAs).

Lawson arrived at SMU in 2011 with expertise in measuring economic freedom for countries, serving as a co-author of the *Economic Freedom of the World* report. With Stansel on board, the O'Neil Center is the only research institute with expertise in measuring economic freedom on all three levels—national, state and MSA.

In April, the O'Neil Center added Meg Tuszynski, who had been working at George Mason University's Mercatus Center while pursuing her Ph.D. in economics at GMU. At the

O'Neil Center, Tuszynski will work primarily with Stansel on updating the *EFNA* index, and she will take on related research projects. She expects to complete her doctorate in December.

Daniel Serralde joined the O'Neil Center in May as the economic education coordinator, with primary responsibility for the Teaching Free Enterprise in Texas program. It offers continuing education courses for Texas high school teachers, with the goal of helping them meet the state's mandate to provide economics instruction with an emphasis on the free-enterprise system and its benefits.



In addition to Lawson, Cox and the three newcomers, the O'Neil Center includes SMU Cox Dean Al Niemi, professor Mike Davis and writer-in-residence Richard Alm. After serving as Lawson's research assistant for two years, Ryan Murphy moved up to faculty rank as research assistant professor. For a second year, Dwight Lee continued his affiliation with the O'Neil Center as a senior fellow, visiting campus twice during the academic year and continuing to use his SMU affiliation in his writings and other professional activities.

Before the fall semester began, the O'Neil Center's office suite received a much-needed facelift. We removed the hulky, seldom-used

receptionist's desk, replacing it with a large conference table, 12 chairs, bookshelves and four study carrels. The remodeling gives the center space for meetings, student reading groups and seminars. Students with an O'Neil Center affiliation are welcome to use the space for a quiet place to study.

Liberty Fund, a national organization dedicated to economic and political freedom, helped us fill the bookshelves, donating its entire catalog of freedom-focused titles by James Buchanan, F.A. Hayek, John Stuart Mill, Adam Smith, Gordon Tullock, Ludwig von Mises and many kindred spirits. Jerry Fullinwider, a frequent O'Neil Center benefactor, donated several dozen books from his personal collection.

The O'Neil Center revamped its website in January, making it easier to locate information about the center's faculty and staff, research, events, economic education programs and media exposure. The center's e-mail alerts and social media efforts on Facebook and Twitter will give our supporters early notice regarding new postings on the website.

The center created its first official logo (*above*). It tells people who we are by linking the O'Neil Center's name with the established brand of the highly regarded SMU Cox School of Business.

## New Initiatives Target Texas

As a group, the O'Neil Center professors have more than a century of classroom experience teaching about the American free-enterprise

system. The new Teaching Free Enterprise in Texas program gives them an opportunity to use this skill set to help improve the teaching of economics in Texas high schools.

Houston-based homebuilder Richard Weekley provided initial funding for Teaching Free Enterprise with a five-year commitment of \$1.25 million. In February, the William J. O’Neil Foundation gave the program a boost by matching Weekley’s pledge.

Rather than teaching high school students directly, the center decided time and money could be better spent focusing on teachers, giving them the knowledge and classroom materials they need to explain free enterprise more effectively.

Teaching Free Enterprise kicked off with pilot sessions in February on the SMU campus and at Westin

Oaks hotel in Houston. Cox taught two interrelated modules on how the constant churning of free enterprise generates material progress and raises living standards. Lawson made presentations on the gains from trade and the importance of economic freedom to prosperity.

The seven-hour program received high marks on participants’ evaluations. “This changed my thinking about economics,” one teacher wrote. “It framed my thinking in a way that I hadn’t thought of before today.” Another said: “Both Dr. Cox and Dr. Lawson’s presentations were great.” And a third complimented the entire event: “It was professionally done and well organized.” All participants responded that they’d recommend Teaching Free Enterprise classes to colleagues and they’d sign up for another one of our

courses in the future.

The success of the pilots led the center to schedule additional Teaching Free Enterprise sessions in Austin and San Antonio, plus return engagements in Dallas and Houston. (*For more on Teaching Free Enterprise, see Conversation with Daniel Serralde, below.*)

At the start of 2016, the O’Neil Center launched the Texas Economic Freedom project, led by Cox. The new initiative will take a Texas view of the center’s signature research mission, focusing on the Texas model of low taxes and smaller government, with relevant comparisons to other states.

The Texas economy, with its strong growth and job creation, has been on the minds of O’Neil Center researchers from the beginning, starting with the first annual report essay “The Ascension of DFW: How

A Conversation with Daniel Serralde

## Helping Texas High Schools Teach Economics the Right Way

In setting up the Teaching Free Enterprise in Texas program, the O’Neil Center needed someone who knew the ins and outs of high school education. It found the right person in Daniel Serralde. He’s a former Texas high school teacher and an educational scholar, with a master’s degree in educational leadership from the University of North Texas. He brings to the table years of experience in working with the state’s educational establishment, including the Texas Education Agency.

Serralde joined the O’Neil Center in May as economic education coordinator, with primary responsibility for Teaching Free Enterprise. He had worked on the program from the beginning as North Texas field director for the Libre Institute, the O’Neil Center’s partner in running pilot events in Dallas and Houston.

### **Q: What’s the goal of Teaching Free Enterprise in Texas?**

**A:** Texas leads all states in economic growth and job creation because it lets free enterprise work. To keep a good thing going, the next generation of Texans needs to understand the importance of such core concepts as creative destruction, economic freedom, free trade and the catalysts for economic progress. A few years ago, Texas lawmakers mandated the teaching of free enterprise and its benefits—so we’re right on target.



Lawson at the Teaching Free Enterprise event in Dallas.



to Keep a Good Thing Going” (2009). The next year’s essay, titled “Looking for the ‘New’ New World,” focused on why Texas leads all other states in attracting migrants from other states.

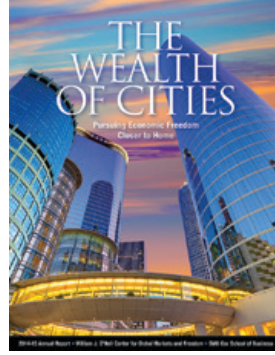
The Texas Economic Freedom project adds a new online publication *The Texas Economy*. Topics of the first six issues included Texas’ strong gains in growth and employment, the diminished threat of low oil prices and the leading growth sectors of the past two decades. Alm began a series of *The Texas Economy* articles on the evolution of the Texas economy—one on how geography and geology have shaped the economy and another on King Cotton, slavery and early efforts to populate Texas.

Since 2010, Cox and Alm have been writing *D CEO* magazine columns on the Texas and DFW economies. In 2015-16, they wrote about: labor-

market freedom as the secret to DFW’s job-creating machine, how amenities may lead to higher taxes, an index they created to show where Texas cities stand on metropolitan area air service, the wealth of cities and the resiliency that comes from Texas’ growing economic diversity.

### O’Neil Center in Print

The O’Neil Center published its sixth annual report, highlighted by the essay titled “The Wealth of Cities: Pursuing Economic Freedom Closer to Home.” Using Stansel’s MSA index, co-authors Cox and Alm found economic freedom associated with faster economic growth and



job creation, lower unemployment and living costs, higher wages and less income inequality. Voting with their feet, Americans are moving to MSAs with more economic freedom.

Lawson and his co-authors released the 2015 installment of the *Economic Freedom of the World (EFW)* report in September. The *EFW* provides an empirical measure of economic freedom in more than 150 countries, based on five criteria: the size of government, legal system and property rights, sound money, freedom to trade internationally, and the regulatory burden.

The most economically free countries in this year’s report were

#### Q: Why teach teachers?

**A:** Teachers have a multiplier effect. When you change teachers’ hearts and minds, you impact every student those teachers encounter in the classroom. In just one year, a high-school teacher typically reaches 200 or more students; the next year, the teacher will reach another 200, with 200 every year after that.

Through our program, teachers will develop the knowledge and skills they need to make economics a more compelling subject in their schools. When students are more economically literate, they will make better choices in their lives as workers, consumers, investors and voters.

#### Q: How will the O’Neil Center’s program teach about free enterprise?

**A:** We’re focused on teaching economics as a subject of daily life. We want to provide course outlines and classroom materials that stimulate the interest of Texas students by teaching them economics as an active, involved and life-changing discipline. We hope to spark a total rethinking of the state’s economics curriculum, which has typically been dull and boring, focused too much on theoretical economics and very little on real-life application of economic concepts.

We’re clearing up misconceptions about free enterprise and teaching that it isn’t something to be feared or scorned. In school and outside it, students are going to encounter a lot of critics of the system that produced the world’s most successful economy. We want to give the teachers and students the information they need to intelligently evaluate these messages.

#### Q: What are the teachers saying about the program?

**A:** The comment that gave me the greatest satisfaction came from a former colleague from a high school I taught at in South Dallas. He’s currently in his 11<sup>th</sup> year of teaching, and he told me, “This is the best professional development program I’ve ever been to in my life!”

Our partners in the state’s Education Service Centers and school districts’ Professional Development Departments are also raving about the program, calling it world-class, eye-opening and amazing. I guess this comes from designing a program with the student and teacher at the center of the educational experience. We’re seeing an immediate adoption rate in excess of 35 percent, which is extremely high in the education world, so we got off on the right foot. We’ll be looking for ways to improve as we move forward. We’ll add more professors, more courses and more events in all parts of the state.



Phil Gramm

Hong Kong, Singapore, New Zealand, Switzerland and the United Arab Emirates. For the United States, the latest report revealed a further ebbing in its economic-freedom ranking—from 12<sup>th</sup> to 16<sup>th</sup>. The United States’ EFW scores peaked in 2000, when it ranked second in the world.

The O’Neil Center continued reaching the broad public via newspapers’ op-ed pages. *The Dallas Morning News* printed “Economic Freedom Down Again in America” by Lawson and “Tyranny, Not the Free Market, Spurs Human Trafficking” by Lawson and Murphy.

*Investor’s Business Daily* published two Cox and Alm articles—“The High Cost of Less Freedom: Lower U.S. Living Standards” and “Cities, Just Like Nations, Need Freedom to Grow.” Real Clear Politics ran Stansel’s “Economic Liberty is Down in American but Up in Texas.” He gave Florida a similar treatment in the *Naples Daily News*. Lee had an *Atlanta Journal-Constitution* guest column titled “Price Gougers Satisfy Need.”

Murphy put a modern twist on Thorstein Veblen’s conspicuous consumption by noting that there

is a certain status connected with hard-to-find experiences. His essay “The New Aristocrats: A Cultural and Economic Analysis of the New Signaling,” published by the Adam Smith Institute, struck a nerve in the British press. *The Daily Mail*, *Spectator* and *Guardian* newspapers wrote stories based on Murphy’s research. *Quillette*, an online journal, published a shortened version of Murphy’s original article.

Lee contributed two pieces to *Regulation* magazine: “Does Freedom Need Bootleggers?” and “Nailing the Mouse, but Missing the Elephant,” a review of *The Rule of Nobody* by Philip Howard. *Regulation* also published Murphy’s “How States Can Effectively End Federal Income Taxation—and Why They Should.” The Library of Economics and Liberty published Lee’s “The Sharing Economy Is as Old as Markets” and “Bootleggers, Baptists, Anger, and Voters.”

In 2015-16, O’Neil Center’s scholars published their research in a number of academic journals (*see inside back cover*). In addition, several O’Neil Center articles have already been accepted for future publication.

The media continued to seek out O’Neil Center scholars for commentary and analysis. Cox appeared nationally on Fox News seven times, giving his views on the



Robert Lawson



Albert W. Niemi



W. Michael Cox



Michael Davis



Dean Stansel

meetings of the Federal Reserve’s Open Market Committee. In October, *The Dallas Morning News* ran a Q&A with Lawson under the title “How Free Are We Really?” Stansel was a frequent commentator on radio shows in Florida and other states. At the end of the academic year, Cox, Davis, Niemi and Lawson all ranked among the Top 10 in the SMU Cox tally of media mentions.

**Bringing Ideas to Campus**

Early October saw about 300 business leaders and students gather in the SMU Cox Collins Center for the O’Neil Center’s seventh annual conference. The five speakers addressed the topic of “Keeping the Texas Economy Strong,” a theme designed to highlight the center’s continuing interest in its home state.

Former U.S. Senator Phil Gramm set the tone for the day with a rousing morning keynote that began with anecdotes from his years in politics. Then he turned to the Texas model, which he lauded for freeing of low taxes and smaller government the private sector to grow the economy and create jobs.

A Ph.D. economist, Gramm used precise data to drive home his point. On economic growth, the Texas state budget per capita has been half that of New York, a big government state;



*George Will*

yet, Texas has had double the increase in per capita income. On job creation, Texas employment rose five times faster than the nation as a whole over the past decade.

“Texas is what America once was and what America could be again,” Gramm said.

Columnist and TV commentator George Will, the luncheon keynote, lamented the burdens imposed by the size and complexity of an ever-larger federal government. According to Will, increasing dependency on government will inevitably sap “a

nation once known for its dynamism,” slowing economic growth. “Making dependency the norm works directly against capitalism,” he said.

Will held up a sheaf of paper three inches thick, telling the audience that its tiny type spelled out the provisions of just one law. According to Will, this massive doorstop typifies how modern government puts policy beyond the comprehension of most Americans. If citizens can’t understand government, they can’t control it. Instead, it controls them.

The rest of the “Keeping the Texas



*Richard Alm*



*Ryan Murphy*



*Daniel Serralde*



*Meg Tuszynski*



*Dwight R. Lee*





Brooke Rollins

Economy Strong” program included:

**Dean Stansel:** A few months before joining the O’Neil Center, Stansel described the *EFNA*’s measurement of state-level economic freedom, then pointed out that Texas has consistently been at or near the top of the annual rankings. He showed that greater economic freedom leads to better economic outcomes—i.e., faster growth in per capita incomes, larger employment gains and higher rates of population growth.

“The Texas model shows that economic freedom leads to high economic growth—and the *EFNA* confirms that,” Stansel said.

**W. Michael Cox:** The O’Neil Center’s founding director presented his Wealth of Cities research on how economic freedom boosts the performance of U.S. metropolitan areas (MSAs). The research relies on

Stansel’s MSA index, which ranks Houston second and Dallas-Fort Worth third in economic freedom among the nation’s biggest urban areas.

Cox also presented his latest work on how greater diversity—the creation of new industries—has helped the Texas economy continue to grow despite the recent decline in oil prices. “We remade our economy from oil to something else,” Cox said. “We had the economic freedom to do it.”

**Brooke Rollins:** The president of the Texas Public Policy Foundation, an Austin-based research institute, stressed the importance of free-market policies for strengthening Texas over the next decade.

While saluting today’s high degree of economic freedom, Rollins suggested avenues for further improvement—repeal the “complex and onerous” business margins tax, continue to

keep spending low, make school choice universal, reduce dependence on property taxes, end corporate subsidies, get public pensions under control and end criminal penalties for some offenses.

“Prosperity requires freedom to precede it,” Rollins said. “If we want to have a strong economy, we must have a free society.”

**James K. Galbraith:** The University of Texas at Austin professor agreed Texas had “a successful model,” but he reminded the audience that Texas’ prosperity hasn’t been solely due to the private sector. Governments at all levels have played a role—for example, through the federally financed interstate highway system.

According to Galbraith, we shouldn’t forget that federal money boosted such Texas industries as aerospace, electronics and health care. Border security pumps resources into a poor region of the state. “Texas is not unique in having benefitted from federal investment, but thanks to its particular political weight in our nation’s history, it has done extremely well,” Galbraith said.

To allow continued access to the conference presentations, the O’Neil Center has posted videos of all speakers except Will on its website. Previous conferences are available on the site as well.

In addition to the conference, the O’Neil Center enhanced intellectual diversity on the SMU campus by sponsoring an eclectic assortment of speakers. In September, Helen Chan, a government economist, gave O’Neil Center faculty and staff a briefing on Hong Kong, which has consistently ranked No. 1 in the *EFW* report.

The next month, the O’Neil Center hosted Danish monetary-policy guru Lars Christiansen, founder of Markets and Money Advisory and senior fellow at the Adam Smith Institute. In a classroom session with more than 100 SMU students, Christiansen discussed the European Union’s malaise as the logical end to misguided monetary policy. The O’Neil Center subsequently teamed up with the Federal Reserve Bank of Dallas to sponsor an evening program, with Christiansen warning that the United States has been forcing deflationary monetary policy on China.

In January, University of Oklahoma professor Kevin Grier gave an O’Neil Center seminar on “The Economic Consequences of Hugo Chavez: A Synthetic Control Analysis.” Using a methodology that constructs counterfactuals based on real-world outcomes, Grier finds that the overall economic consequences of the Chavez administration were bleak.

In February, Eaton Vance investment strategist Marshall L. Stocker presented his finding that financial and political shocks are unlikely to promote greater economic freedom. In a seminar co-hosted with the SMU Economics Department, Chapman University professor Bart Wilson presented his behavioral study that shed light on the relationship between human cooperation and language in prehistoric times.

Adam Martin, research fellow at Texas Tech University’s Free Market Institute, gave an O’Neil Center seminar in April on the “Myths of Economic Development and Foreign Aid,” discussing why trillions of dollars in government largesse have done little good in helping the



James K. Galbraith

world’s impoverished nations sustain economic development.

### Have Ideas, Will Travel

O’Neil Center faculty members took to podiums across the nation and around the world, speaking on a range of topics. Lawson gave 13 public lectures on the *Economic Freedom of the World* report, finding eager audiences as close to home as Arlington and Dallas and as far away as Israel, Lithuania, Latvia, Estonia and Georgia (the country).

In addition to his presentation at the O’Neil Center conference, Stansel spoke on aspects of state and MSA economic freedom in Fort Lauderdale, Florida Gulf Coast University in Fort Myers, Alabama’s Troy University and Virginia’s James Madison University.

Cox gave 20 speeches around the country, many of them to professionals in the financial services industry. His topics included U.S. economic growth, personal and corporate tax rates, interest rates and monetary policy, the stock market, trade policy and economic freedom. On the Texas economy, Cox’s speeches addressed the state’s dwindling dependence on oil, its growing economic diversity, labor markets, migration, taxes, regulation, school quality, the cost of living and the importance of economic freedom for states and cities.

Five O’Neil Center members went to the Association of Private Enterprise Education (APEE) annual meeting in Las Vegas. Lawson gave a talk on “What Matters More? Institutions or Specifications?”—based on his forthcoming academic paper, written with Murphy. Stansel gave two presentations: “Economic

Freedom in the U.S. States in the 19<sup>th</sup> Century” and “An Exploratory Note on the Relationship between Labor Market Freedom and Female Labor Force Participation.”

Murphy’s APEE presentation was titled “Beggaring-Thy-Neighbor at the State and Local Level.” Lee spoke on “Tax Reform as a Discovery Process,” “Taking Simple Ideas and Rendering Them Completely Incomprehensible” and “Higher Costs Appeal to Voters: Implications of Expressive Voting.”

In addition to his APEE presentations, Murphy presented a paper on “Economic Freedom of North America at the State Borders” at the Southern Economic Associations’ annual meeting in New Orleans and at the Public Choice Society conference in Fort Lauderdale. Closer to home, he gave a seminar on “Intergovernmental Organizations and Economic Freedom” at SMU’s Tower Center for Political Studies.

APEE was just the start for Lee, too. He spoke around the country on a range of topics: “Economic Challenges to Achieving the American Dream” Dallas’ National Center for Policy Analysis in October; “The Political Economy of Economic Freedom” at the Southern Economic Association meeting in New Orleans in November; “Tax Reform as a Discovery Process” at the Public Choice Society conference in Fort Lauderdale in March; and “In Defense of ‘Price Gougers’: An Economist’s Quest to Reduce Hatred and Decriminalize Helping Others” at Ohio State University and nearby Kenyon College in April.

*EFNA* scholars held their annual meeting at SMU in June, providing an opportunity for allied organizations to discuss the index and its scholarly uses. In October, Lawson’s *Economic*

*Freedom of the World* colleagues gathered at SMU for a similar meeting, scheduled for the day after the O’Neil Center conference. Murphy contributed two papers on issues related to the measurement of economic freedom: “Explicitly Addressing the Missing Values Problem” and “What Matters More? Institutions or Specifications?”

In February, Lawson and Stansel went to Austin for a Texas Public Policy Foundation conference on “Economic Freedom vs. Government: Which Provides the Best Opportunity for Prosperity?” Stansel made a presentation discussing the findings of the 2015 *EFNA* annual report.

### **Molding Young Minds**

O’Neil Center professors performed their regular teaching duties for SMU Cox in 2015-16, with Lawson and Cox handling classes in microeconomics for MBA students. Niemi attracted some of the best undergraduates to his Evolution of American Capitalism class.

Cox taught non-business majors in his summer Markets and Freedom class. Davis taught international finance, macroeconomics and a course on decision-making under uncertainty. He also accompanied students on Global Leadership Program trips to Buenos Aires, Santiago, Hong Kong and Shanghai.

W. Grady Rosier, president of food distributor McLane Co., provided support for the O’Neil Center’s free market reading group for a third straight year. In the fall semester, Lawson led discussions of readings on such topics as free trade, Prohibition, urban planning, sweatshops, inequality and immigration. In the spring, the O’Neil Center expanded to two reading groups, both led by Stansel.

The readings focused on poverty, property rights, the rule of law, entrepreneurship and gains from trade.

Parallel groups at Texas Tech and Baylor read the same materials, and all three groups gathered on the SMU campus for two days of in-depth discussion and activities in November, joined by a group from the University of Central Arkansas. Citadel professor Russ Sobel gave the 60 students presentations on productive and unproductive entrepreneurship and economic progress under capitalism. Baylor hosted the spring-semester reading group gathering, where Baylor professor David Corey lectured on economics and the good life.

The O’Neil Center continued to support student groups devoted to free-market ideas. At a March dinner sponsored by the O’Neil Center, the newly formed SMU chapter of the Adam Smith Society, a nationwide organization for MBA students, listened as Lee explored the *Theory of Moral Sentiments* and *The Wealth of Nations* in a talk titled “Adam Smith: Two Books and Two Moralities.”

The center joined with the SMU chapter of Young Americans for Freedom to co-sponsor an April lecture by Steve Forbes, who gave an audience of 200 his anti-Big Government prescription for reviving America by repealing Obamacare, instituting a flat tax and reforming the Fed.

In January, the O’Neil Center provided funding for three Liberty@SMU leaders to attend Students for Liberty’s annual meeting in Washington, D.C. In March, the SMU student group joined with America’s Future Foundation, another organization dedicated to free-market ideas, to host a screening of the film *Poverty, Inc.*



# Scholars at Work

The O'Neil Center enhances its reputation and influence by publishing academic research on economic freedom and related issues. The following shows the depth and breadth of the center's academic publications for the 2015-16 academic year:

## Robert Lawson's journal articles were:

- "The Relationship between Income, Economic Freedom, and BMI" in *Public Health* (with Ryan H. Murphy and Claudia R. Williamson);
- "Good Cops, Bad Cops, Whatcha Gonna Do?" in the *Journal of Private Enterprise* (with Keri Lawson);
- "Why Statutory Incidence Matters" in the *Journal of Private Enterprise* (with E. F. Stephenson);
- "Do Travel Visa Requirements Impede Tourist Travel?" in the *Journal of Economics and Finance* (with S. Roychoudhury);
- "Can Two Observations Confirm a Theory? A Comment on Max U Versus Humanomics" in the *Journal of Institutional Economics*;
- "Gross Receipts Taxes" in *For Your Own Good: Paternalism, Taxes, and Fiscal Discrimination in the Twenty-First Century*, edited by Todd Nesbit and Adam Hoffer.

## In addition to the publication with Lawson, Ryan Murphy wrote:

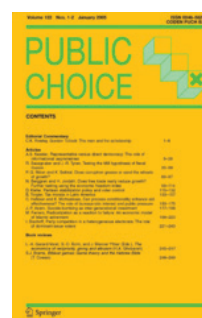
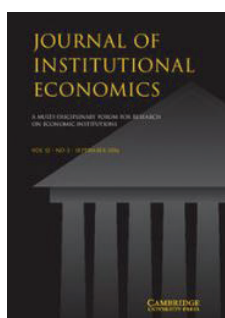
- "Immigration Causes American Businesses to Fail and That Is a Good Thing" in the *Journal of Entrepreneurship and Public Policy* (with Rick Weber);
- "The Willingness-to-Pay for Caplanian Irrationality" in *Rationality and Society*;
- "Rational Irrationality Across Institutional Contexts" in the *Journal des Économistes et des Études Humaines*.

## After joining the O'Neil Center in January, Dean Stansel had two articles published in scholarly journals:

- "The Determinants of the Severity of State Fiscal Crises" in *Public Budgeting and Finance*;
- "Takings and Tax Revenue: Fiscal Impacts of Eminent Domain" in *Review of Law and Economics*.

## Dwight Lee published the following journal articles:

- "Tax Reform as a Discovery Process" in *For Your Own Good: Paternalism, Taxes, and Fiscal Discrimination in the Twenty-First Century*, edited by Todd Nesbit and Adam Hoffer;
- "The Beast Is Not Easily Starved" in *Public Choice*;
- "Higher Costs Appeal to Voters: Implications of Expressive Voting" in *Public Choice*.





O'NEIL CENTER FOR  
GLOBAL MARKETS AND FREEDOM

PO Box 750333

Dallas, TX 75275-0333

[oneilcenter.org](http://oneilcenter.org)

214.768.4210