



As We See It

The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers [sic] its operations; though the effect of these obstructions is always more or less either to encroach upon its freedom, or to diminish its security.

The Wealth of Nations – Adam Smith

As we enter what is popularly called the new millennium—purists insist we are a year early—the United States is the world’s leading economic power. This leadership position has changed a number of times over the centuries. Thus, it is instructive to look back 1,000 years to identify what country maintained the economic status of today’s United States and learn why that country’s status changed.

If we turn back the calendar to the 1000s, we find the world’s most advanced and richest country was China of the Sung dynasty (960 – 1279). Propelled by an economic revolution, Sung China was centuries ahead of its time. Witness the long list of Chinese inventions: the wheelbarrow, the stirrup, the rigid horse collar (to prevent choking), the compass, paper, printing, gunpowder, and porcelain. It would be hundreds of years before Europeans developed many of these things.

China was also far ahead of other countries in terms of shipbuilding and navigation. By the early 1400s, their largest ships were 400 feet long—compared to the 85 feet of Columbus’s *Santa Maria* which sailed nearly 100 years later. China began exploration with large fleets and seemed bent on commerce. Then, in the 1430s, according to David S. Landes in *The Wealth and Poverty of Nations*, “A new Confucian crowd competed for influence, mandarins who scorned and distrusted commerce (for them, the only true source of wealth was agriculture) and detested the eunuchs who had planned and carried out the great voyages.” Landes goes on to state, “By 1500, anyone who built a ship of more than two masts was liable to the death penalty, and in 1525 coastal authorities were enjoined to destroy all oceangoing ships and to arrest their owners. Finally in 1551 it became a crime to go to sea on a multimasted ship, even for trade.”

Chinese rulers were given unlimited power. Not only was shipbuilding and commerce curtailed but the state was always interfering with private enterprise—taking over lucrative activities, prohibiting others, manipulating prices, and exacting bribes—and, thereby curtailing private enrichment. This totalitarian environment destroyed private initiative.

While historians give a number of reasons for China’s lack of progress, the dominant reason seems to be the absence of a free market and secure property rights. In contrast, Landes notes that, “Enterprise was free in Europe. Innovation worked and paid, and rulers and vested interests were limited in their ability to prevent or discourage innovation.”

While the governments of Europe were far less restrictive than the government of China, it was in the United States that security in property rights and free enterprise flourished. According to Landes, “In 1870, the United States had the largest economy in the world. . . . By 1913, American output was two and a half times that of the United Kingdom or Germany, four times that of France. Measured per person, American GDP surpassed that of the United Kingdom by 20 percent, France by 77, Germany by 86.”

To a large extent, the United States excelled because of security in property rights. “America’s society of smallholders and relatively well-paid workers was a seedbed of democracy and enterprise,” according to Landes. He goes on to state, “Meanwhile high wages enhanced the incentive to substitute capital for labor, machines for men. As a result, the new technologies of the Industrial Revolution found fertile ground in the American colonies and the United States.”

As we enter the new millennium, the legacy of the U.S. continues. Its technological lead, its educated, increasingly productive labor force, and its innovative search to minimize the cost of capital, hold great promise and currently serve as an economic model for other nations to emulate. As they do, the national boundaries defined by politics, geography, and ethnic background may become indistinguishable as commerce blends our economic self-interest into one common melting pot. If so, equity ownership will remain the primary means of profiting from this trend.

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