



Economic Growth Enriched Us, and it Will Enrich Our Descendants – If We Let It

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12-08-2022



Abstract

Our lives differ radically from our ancestors' because of what McCloskey calls the Bourgeois Deal, which embraces Adam Smith's "liberal plan of equality, liberty, and justice." The Deal means our descendants' lives will differ radically from ours, and the differences will be even more pronounced if we extend the Deal now to areas it does not reach. One such place is Danish land use planning, which restricts productivity growth in Danish retail and, therefore, economic growth in Denmark. Deregulating land use planning and allowing for larger stores would translate into lower prices and more output for modern Danes and their descendants.

Keywords: Retail, Denmark, Netto, Aldi, Walmart, Bourgeois Deal, Great Enrichment, Deirdre McCloskey, Adam Smith, standards of living

JEL Codes: B53, N30, L81

I. Introduction

Imagine one of our illiterate peasant ancestors arrived on your doorstep, freshly arrived from the fourteenth or fifteenth century or from sometime before the birth of Christ. If you wanted him to understand just how radically different things are now compared to then, where would you take him?

I think the answer is pretty simple: you would take him to a grocery store like Netto (which we do not have in the United States) or Aldi (which we do).

Why? Stores tell the most important story of the last two and a half centuries: the Great Enrichment. Life went from being “solitary, poor, nasty, brutish, and short,” as Thomas Hobbes described it in *Leviathan* (Hobbes 1651), to being connected, wealthy, clean, peaceful, and long. It happened because people adopted a humane liberalism that embraced cooperation and innovation, “allowing every man to pursue his own interest his own way, upon the liberal plan of equality, liberty and justice” (Smith 1776). Deirdre McCloskey called it the Bourgeois Deal: “leave me alone, and I’ll make you rich” (McCloskey 2006, 2010, 2016; see also McCloskey and Carden 2020). The world’s poor have been the big winners, and the results have been dramatic even in the last few decades: the share of the world’s population living in extreme poverty fell from 42.6% in 1981 to 8.7% in 2018.¹

Except we don’t *really* leave one another alone. At least not yet, and this is to our detriment and our descendants’. A trip to a Danish grocery store would blow your ancestor’s mind, but it would be even better—and the Danish economy would grow more rapidly, and poverty would disappear even more quickly—without planning restrictions that keep stores smaller and goods more expensive than they would otherwise be. There is room for improvement, specifically by relaxing land use planning rules that reduce Danish retail productivity.

II. Taking Our Ancestor to the Grocery Store

First, we should highlight some obvious differences between now and then. What would make a trip to Netto so remarkable for your ancient ancestor?² First, there’s the sheer number of calories available. Our ancestors teetered on the brink of starvation for most of their lives, periodic famines meant suffering and premature death, and parents saying “no, you can’t have that” to their crying children were not referring to a colorful display of tooth-rotting sweets but to the grain they had to save for next year’s planting. They faced a stark choice: save, or starve. Even worse, in places and at times when agricultural productivity was so low, people practiced infanticide (killing infants) and senicide (killing the elderly) to reduce the number of mouths they had to feed.

The contrast between then and now would come into high relief at Netto and other stores. One of the 21st century’s remarkable facts is that *obesity*, not starvation, is so widespread in some places that some people call it an epidemic. The “problem” facing poor people in countries like Denmark and the United States is that they consume too many calories, not too few. People might object that it is too easy to get highly-processed junk food and too hard to get healthier fresh produce and lean meat. The fact remains, however, that “food insecurity”—where people face serious nutritional deficits because they can’t afford enough food—is lower now than it has ever been. In fact, evidence

¹ <https://data.worldbank.org/indicator/SI.POV.DDAY>, last accessed August 12, 2022.

² As of this writing, my only “visit” to Netto has been via YouTube videos.

from the United States shows that people have greater food security when Walmart Supercenters open (Courtemanche et al. 2019).

Second, your ancestor would likely be astounded by the variety. Perhaps it is too easy to get nutritionally-empty junk food and too hard to get lean meat, but for your ancestor, *any* meat would have been a rare treat. At Netto, he would confront an incredible selection of fish, pork, chicken, beef, and other meats already butchered, processed, and ready to be taken home in plastic packaging that does a pretty-good-but-not-always-perfect job keeping disease at bay. He would be able to enjoy his meat alongside a similarly-incredible selection of fresh fruits and vegetables from around the world.

Third, it would last a lot longer because of modern packaging, transportation, and refrigeration. Insects and animals would be a lot less likely to have gotten to it first. It wouldn't go bad as quickly, and it would likely taste better because it would be seasoned to enhance the food's flavor rather than to mask the taste of rot.

Fourth, he would be able to get what he wanted when he wanted it without being bound by growing seasons or having to preserve food for later when nothing was growing. Today, instead of preserving the food we grow ourselves and saving it for lean times, we save by holding money and other financial instruments that, in part, provide people with the capital they need to specialize in growing, packing, and storing food. The ever-more-rapidly-integrating global economy means that many foods which were once out of the question when they were out of season can now be bought all year round.

Fifth, he would have an easier time seeing what he was getting and taking care of things after the sun goes down. *European Supermarket News* reports that as part of their continuing turnaround plan, "Aldi's renovated stores feature a modern layout with more space and light, green solutions, and a carefully selected range of everyday items at attractive prices," ostensibly to compete with the Netto where you're shopping with your ancestor.³ Lighting is easy to take for granted, but as the Nobel Prize-winning economist William Nordhaus (1996) has shown, the price of lighting has fallen by several orders of magnitude. Imagine producing that much light with smoky candles made of beeswax or animal tallow. It would put quite a strain on air quality, among other things, and the amount of wax and tallow needed would likely require a lot of land to produce. Electric lighting today requires far fewer resources and fouls the air far less than what our ancestors knew (and it would be even better if more countries got out of the way of nuclear power).

Sixth, these super-abundant, high-quality goods sold in well-lit, climate-controlled stores are available at modest prices to people of modest means. Your peasant ancestor's descendants live and eat far, far better than your peasant ancestor's ruler in the castle on the hill thanks to the power of economic growth. Economic growth owes itself not to the wisdom of the ruler in the castle but to the ingenuity of people tinkering in workshops and bakeries and places like that with new-and-improved goods and new-and-improved ways of making them without being shut down by governments and guilds.

Seventh, he would probably notice that you have more opportunities to develop and affirm his values.⁴ There is more to life than material consumption, and modern abundance makes it easier to

³ <https://www.esmmagazine.com/retail/aldi-denmark-to-focus-on-turnaround-plan-in-2022-180080>, last accessed July 26, 2022.

⁴ See Carden et al. (2020) for a discussion of religious expression in the marketplace.

explore and act on ethical principles. Someone for whom survival hangs in the balance doesn't have the luxury of thinking meat is murder or worrying about the genetic properties of his oats. Today, many people are rich enough to pay premium prices for organic vegetables, cage-free eggs, "dolphin-safe" tuna, meat raised and butchered humanely, and coffee roasted by a company that shares their political commitments. Our higher incomes make it easier to decide what to buy and where to shop based on our most deeply held values.

III. The Bourgeois Deal Bore Literal Fruit for the Poor and Their Descendants

Economic growth matters. Tyler Cowen (2020) explains why, and Deirdre McCloskey (2021) explains that we have the innovation-embracing Bourgeois Deal to thank for it. Governments and guilds still do a lot of shutting down, as they always have. However, the newfound liberty and dignity for entrepreneurs and innovators that sprang up in northwestern Europe in the eighteenth century means that we should be, in McCloskey's words, "optimistic about human creativity in a liberal world."

In various places, McCloskey calls it The Great Fact: the Great Enrichment (by orders of magnitude) of average people and their descendants over the last two to three centuries means that there are a lot more people who live much longer lives supplied with many more goods and services.⁵ It happened because people embraced—not always completely, not always willingly—a Bourgeois Deal that said "leave me alone to risk my own money and my own reputation on my own ideas. Let me keep the gains if I choose wisely, and I reluctantly agree to bear the losses if I choose poorly. By the time all is said and done, I and those like me will have made a great deal of money. In the process, we will have made *you all* very, very rich."

And that's exactly what they did. As Nordhaus (2004) explains, almost all of innovation's benefits accrue to consumers rather than producers. People like Jeff Bezos, Bill Gates, and Sam Walton have made vast fortunes by making the rest of us much, much better off. As Joseph Schumpeter (1942) put it,

There are no doubt some things available to the modern workman that Louis XIV himself would have been delighted to have yet was unable to have—modern dentistry for instance. On the whole, however, a budget on that level had little that really mattered to gain from capitalist achievement. Even the speed of traveling may be assumed to have been a minor consideration for so very dignified a gentleman. Electric lighting is no great boon to anyone who has money enough to buy a sufficient number of candles and to pay servants to attend to them. It is the cheap cloth, the cheap cotton and rayon fabric, boots, motorcars and so on that are the typical achievements of capitalist production, and not as a rule improvements that would mean much to the rich man. Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort.

They were able to do it because societies beginning with Holland, England, and the rest of northwest Europe began "allowing every man to pursue his own interest in his own way, upon the liberal plan

⁵ See McCloskey (2006, 2010, 2016, 2021) as well as McCloskey and Carden (2020).

of equality, liberty, and justice” (Smith 1776 [1981]).⁶ Smith wrote this in the context of his criticism of the French finance minister Colbert, who “had unfortunately embraced all the prejudices of the mercantile system” of restrictionism and central planning. Even the French would accept the Bourgeois Deal eventually, and a 2018 report from the Organization for Economic Cooperation and Development highlighted and applauded French retail liberalization in the form of Sunday opening hours (Organization for Economic Cooperation and Development 2018). No society has ever agreed to the Bourgeois Deal entirely. Not even Denmark. Societies have agreed to enough of it that global living standards and global poverty continue their steady marches in opposite directions. Living standards keep rising while global poverty keeps falling.

Those two facts—steadily-rising standards of living and steadily-falling global poverty—are why economic growth matters. Nothing has expanded people’s scope for meaningful lives like economic growth. Official measures like Gross Domestic Product are fraught with problems, but they are very highly correlated with all the things we would really like to measure. People in rich countries are making a serious mistake by emphasizing income *distribution* when income *production* is what matters. Here is how 1995 Nobel Laureate Robert Lucas explains it:

“Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution. In this very minute, a child is being born to an American family and another child, equally valued by God, is being born to a family in India. The resources of all kinds that will be at the disposal of this new American will be on the order of 15 times the resources available to his Indian brother. This seems to us a terrible wrong, justifying direct corrective action, and perhaps some actions of this kind can and should be taken. But of the vast increase in the well-being of hundreds of millions of people that has occurred in the 200-year course of the industrial revolution to date, virtually none of it can be attributed to the direct redistribution of resources from rich to poor. The potential for improving the lives of poor people by finding different ways of distributing current production is *nothing* compared to the apparently limitless potential of increasing production.” (Lucas 2004).

Economic growth seems like an imperative if we want to see more and more people living flourishing lives free from the poverty, ignorance, disease, war, and isolation that afflicted our ancestors.

A Dane entertaining an ancient ancestor would want to show him around Netto or maybe Aldi. An American—very specifically, someone who lives in my neighborhood in Birmingham, Alabama—would want to drive *past* the Aldi on Crestwood Boulevard, maybe slow down to look at the Amazon fulfillment center right next to it, and then continue down to the Walmart Supercenter. Compared to Netto or Aldi, a Walmart Supercenter is much larger and carries a much wider selection of food, clothing, electronics, sporting goods, office supplies, and housewares.

Walmart’s clientele might be the most remarkable part of the trip. Walmart does not just carry a cornucopia of goods. It sells that cornucopia to shoppers who are solidly in the bottom ½ to 2/3 of the US income distribution, and the Walmart cornucopia contains growing selections of organic foods, cage-free eggs, and other premium goods.

The answer for a modern-day Dane entertaining an ancient ancestor probably would have been “Walmart” instead of Netto, as well, but there are no Walmart Supercenters or comparable stores in Denmark due to land use regulations. Land use regulation that reduces retail productivity is one

⁶ <https://oll.libertyfund.org/title/smith-an-inquiry-into-the-nature-and-causes-of-the-wealth-of-nations-cannan-ed-vol-2>, last accessed August 12, 2022.

reason why an average Danish family’s groceries cost more than the European Union average. Deregulating land use to allow larger stores would shrink this gap.

IV. Retail, Regulation, and Economic Growth in Denmark

“Further deregulation of network and retail sectors can help boost investment in Denmark.”⁷

As you bid farewell to your ancient ancestor returning to his life of illiterate, scat-smearred poverty, you notice someone else approaching. It’s one of your descendants from a few centuries hence. She has a far higher standard of living than you, but she wants to talk to you about what you can do now to spare her and her contemporaries some of the difficulties and heartbreaks that remain in a world where scarcity can never be *completely* overcome. Higher economic growth would relax those constraints at least somewhat, and recent findings on productivity growth in Danish retail suggest that this would be a good place to start.

The Danish economy is growing, but it could be growing faster. Figure 1 shows IMF estimates and projections of Danish economic growth until 2027. The IMF expects 1.8% annual growth in real Gross Domestic Product from 2024 through 2027.

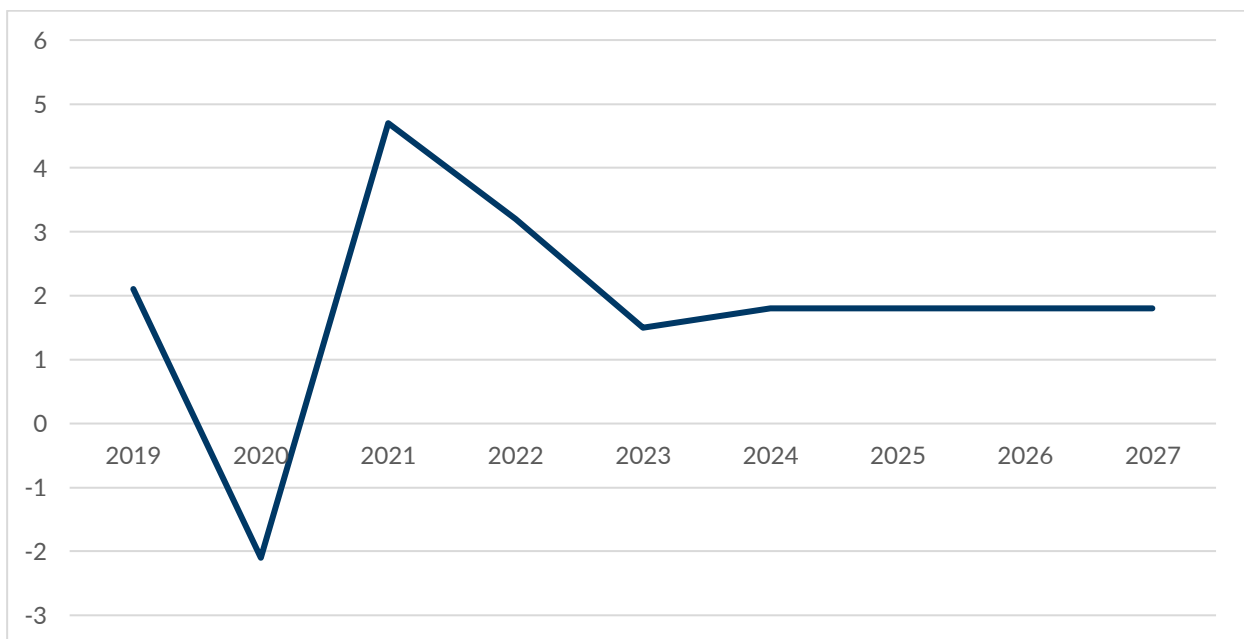


Figure 1. Projected Real GDP Growth in Denmark, 2019-2027 (Source: IMF Country Report 22/169, p. 4)

Denmark is one of the best places to do business worldwide. The US State Department recognizes this, pointing out that Denmark ranks first out of 180 countries in the Corruption Perceptions Index, fourth out of 190 in the World Bank Doing Business ranking, and sixth out of 131 in the Global Innovation Index (US Department of State, 2021). There is still room for improvement; in its assessment of the Danish investment climate, the State Department explains:

“Principal concerns include low productivity growth, a high personal tax burden, and limited competition in the retail sector. Overall, however, operating conditions for companies are broadly

⁷ Poghosyan (2018:12)

favorable. Denmark ranks highly in multiple categories, including its political and institutional environment, macroeconomic stability, foreign investment policy, private enterprise policy, financing, and infrastructure.”

Denmark already regulates its retail sector lightly. As figure 2 shows, Danish retail regulation compares very favorably to retail regulation in the rest of the OECD, land use rules notwithstanding, it appears to be a veritable free market paradise compared to the United States. It also compares very favorably to other Scandinavian countries (indicated in red).

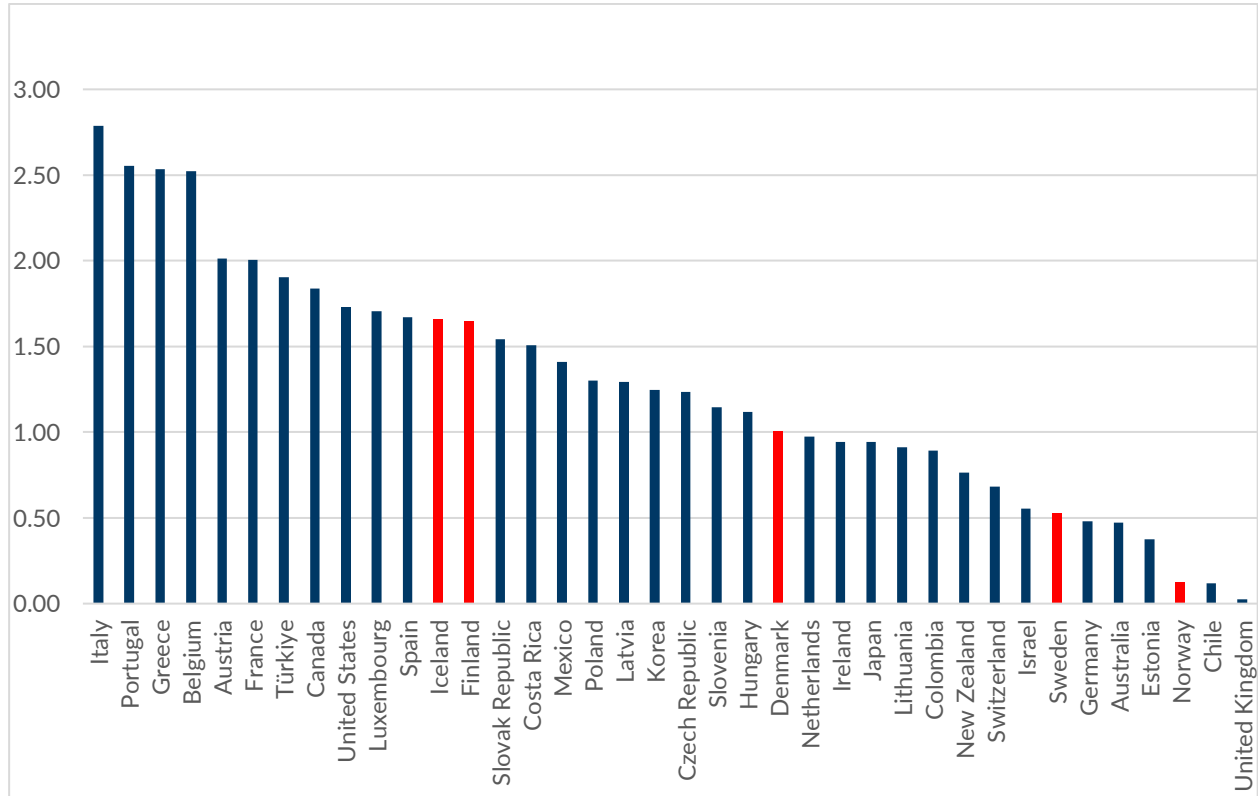


Figure 2. OECD Indicators of Product Market Regulation for Retail Distribution, 2018. <https://www.oecd.org/economy/reform/indicators-of-product-market-regulation/>, last accessed August 11, 2022.

Again, there is still room for improvement. In a 2013 report for Copenhagen Economics prepared for the Danish Productivity Commission, Kjoller-Hansen et al. (2013) point out that zoning regulation restricts means retail is less productive than it otherwise would be. Using Sweden as a benchmark, the authors pointed out that 61% of Danish shoppers went for groceries more than three times a week compared to 35% of Swedish shoppers (Kjoller-Hansen et al. 2013:14). Danish shoppers are not just spending more money on their groceries. They are also spending more time going to get them.

Liberalizing Danish retail requires overcoming potentially stiff opposition from two groups. Bruce Yandle (1983) describes coalitions of the materially interested and the morally interested “bootlegger and Baptist” coalitions. In the United States under alcohol prohibition, bootleggers made money because the government eliminated their legitimate competition. At the same time, “Baptists” who did not approve of drinking also supported the rule and helped monitor its enforcement. Retail regulation in Denmark likely has a similar dynamic.

First, there are special interests, or the “bootleggers”: store owners and operators who stand to lose money if there is more competition. Second, there are activists with “moral” rather than material interests in keeping superstores out (the “Baptists”). While superstores would mean lower prices, people tend to be skeptical of large enterprises and a lot of people claim that superstores might destroy city centers, change the character of their communities, or replace good jobs with bad jobs that exploit workers.

Evidence from the American retail market is inconsistent with these charges and suggests that superstores (sometimes Walmart specifically) have effects ranging from neutral to positive.⁸ What is more, the benefits superstores bring in the form of lower food prices are progressively distributed. Since they spend larger shares of their income on groceries, lower-income households benefit disproportionately from lower food prices (Furman 2005). CEPOS analysis suggests that Danish grocery prices are 41% higher than European Union average, and the Danish Ministry of Finance estimates grocery bills would fall by about 2.3% with superstores.⁹ Their estimate is broadly consistent with US findings on relationship between Walmart entry and grocery prices in the United States identified by Basker and Noel (2009).

Even the negative effects are small compared to the benefits. Courtemanche and Carden (2011) used their estimate to show that some of the increases in obesity in the United States can be attributed to Walmart Supercenters but also estimate that additional obesity-related health costs offset about 5.6% of the consumers’ savings from Walmart’s lower prices. Courtemanche et al. (2019) explore the relationship between Walmart Supercenter diffusion and food security in the United States and find that Walmart Supercenters’ effect on prices and selection increases food security, particularly for the poorest. Liberalizing Danish retail and opening it up to supercenter competition would likely mean faster, progressively distributed economic growth.

V. Conclusion

Danes enjoy one of the world’s freest and most productive economies; however, the retail sector is a conspicuous exception. While it is lightly regulated relative to the retail sectors in other OECD countries, land use planning rules keep stores smaller than they would be and prevent Danes from taking advantage of the lower prices and greater selection they would enjoy at superstores like Walmart or Carrefour. By keeping stores small and by keeping superstores out, Danish land use regulations mean inefficient incumbents are not replaced by more efficient competitors. They are also not allowed to enjoy the economies of scale that make for higher retail sector productivity. Danes—and their descendants—pay for it through higher grocery prices and lower economic growth. By official measures, Denmark is already a great place to do business. Embracing the Bourgeois Deal more closely in retail would make it even better.

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⁸ See Vedder and Cox (2007) and Hicks (2008) for book-length treatments. Carden and Courtemanche (2016) summarize the evidence on general merchandisers in the American economy.

⁹ <https://cepos.dk/abcepos-artikler/0193-danmark-har-de-hoejeste-forbrugerpriser-i-eu/>

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