



When Culture Trumps Economics

By Yevgeniy Feyman – July 24th, 2013

Once a mysterious concept to non-social scientists, “human capital” has become a generalized designation for an individual’s range of competencies—intelligence, creativity, and social skills, among others. The growing importance of human capital in a knowledge-based economy has led, Brink Lindsey argues, to a new system of “human capitalism.” Despite that gentle-sounding name, human capitalism is characterized by social and economic complexity, and it creates demand for people with the skill sets to deal with abstract issues: bankers, scientists, and doctors, among others. The widening inequality that has resulted is not a new subject, but Lindsey, formerly a scholar at the Cato Institute and now a senior fellow at the Kauffman Foundation, offers some original proposals for how to reduce it.

Inequality is more the symptom than the problem, Lindsey maintains. “Rising inequality is often depicted as a failure of capitalism,” he writes, “but in fact capitalism is operating exactly as we might wish it.” In the new American economy, he argues, jobs across the spectrum require ever-growing levels of human capital. There are and always will be people who work harder, who are smarter, and who can do more, and if the market values their contributions, there’s no reason why they shouldn’t be appropriately rewarded. Capitalism isn’t broken, but its economic incentives don’t seem to be working for those at the lower end of the income scale. But Lindsey believes that we can make the incentive structure apply more equitably.

Here Lindsey ventures into an area that conservatives have often ignored: the social exclusion of low-skilled adults. Their increasing isolation is at least partly the result of misguided or misapplied social-insurance policies, like Social Security Disability Insurance. The percentage of adults on SSDI has doubled over the last two decades, from 2.3 to 4.6 percent. Relaxed eligibility standards for enrollment have largely been responsible for this growth. Getting those wrongly categorized as disabled back into the workforce would be a boon to them—and to economic growth. Lindsey suggests supplemental payments that would encourage people with some disabilities to continue working—because their employment income, plus subsidy, would exceed what they could earn by collecting SSDI and staying home.

In other areas, subsidies can work against low-income recipients. Lindsey believes that federally subsidized college loans—which “benefit” both students and schools—should be limited. While subsidies might make college more accessible nominally, they have the unintended effect of guaranteeing higher tuitions, because the colleges can charge based on “ability to pay.” They also saddle students with debt and, because they’re so generous, can encourage students to pursue often less practical and remunerative fields—like liberal arts—when they might be better served, for example, by attending trade school.

The disparities between winners and losers might, in the end, have more to do with culture than economics. “Culture by its very nature is sticky,” writes Lindsey, “it simply . . . gets passed from the heads of one generation to the heads of the next.” Growing complexity has certainly benefited the middle and upper classes, but persistent behavioral differences prevent the lower

classes from making similar gains. Middle-class parents, for instance, spend more time helping their kids with homework than working-class parents do. How people value their time represents an even more basic divide between the classes. Those in the middle class regularly forego short-term gains for long-term ones; working-class people, on the other hand, are often more present-oriented, leading them to underinvest in resources like education. Even differences between seemingly similar groups—GED holders and high school graduates, for instance—are salient. Those who graduate with a diploma tend to be more motivated than those who pursue a GED.

Lindsey's biggest break from traditional conservative thinking, though, is the attention he gives to America's vast prison population. The "lock-'em-up strategy" has largely failed, he says, as inmates continue to flood into prisons after crime has already leveled off. He notes that the penal system has harmed communities and the families of those incarcerated. Though he doesn't explicitly say so, Lindsey seems to view mass incarceration as "criminogenic"—generating crime more than deterring it. While Lindsey's solutions here aren't terribly inventive—he wants to reform drug laws and mandate milder punishments for non-violent offenses—policymakers on the right should take note of the prison issue, which is begging for serious attention and ripe for reforms.

Human Capitalism is a powerful and timely analysis of American inequality. While Lindsey acknowledges a serious problem, he also makes a convincing case that the government's approach to fixing it should be guided by essentially capitalist principles.