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DEFINING OPPORTUNITY AND PROSPERITY BEYOND ECONOMIC GROWTH

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Moderator:

NATHAN GAMESTER
Program Director
Legatum Institute

Panelists:

CAROL GRAHAM
Leo Pasvolsky Senior Fellow, Global Economy and Development
The Brookings Institution

CHARLES MURRAY
W. H. Brady Scholar
American Enterprise Institute

RICHARD REEVES
Fellow, Economic Studies
The Brookings Institution

JOHN PRIDEAUX
Washington Correspondent
The Economist

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P R O C E E D I N G S

MS. GRAHAM: Hello. Good morning or good afternoon. I'm Carol Graham; I'm a senior fellow here at Brookings and I've been an academic advisor to the Prosperity Index for many years so it's a real pleasure to host their U.S. launch of their World Prosperity Index. I've watched this Index grow in depth and breadth and its coverage is really amazing. So accepting that I'm biased because I've been involved in it, in some ways I can say with confidence that this is really a complete Index that complements traditional income data with really good data on reported well-being and across a range of domains. And it makes a real contribution. I've been involved in well-being research since the early days when we were considered crazy nuts working on happiness and there's now a whole new science of well-being measurement. And there are serious efforts by for example the government of Britain to include well-being metrics into national statistics. The OECD has already made recommendations for governments around the world who want to include well-being metrics to complement income-based metrics in their statistics, how to do that. Even the U.S. has -- I just finished serving on a National Academies panel where we were tasked with recommending what well-being metrics we would put into our statistics. So there's a lot going on in this area. And efforts like the Prosperity Index which demonstrate how you can apply these different kinds of metrics to complement income based data are really important in terms of the progress we've made and incorporating more complete measures of human well-being into our thinking, into our analysis, and into our benchmarks of progress.

What sets the Legatum Index apart from lots of other efforts in this area is its emphasis on prosperity, and defining prosperity quite broadly, beyond just material welfare, but also across a range of dimensions of human well-being. And what the Index shows is that despite some backsliding which is driven by very difficult situations in particular countries, but despite that in general things are on a positive track in the world. In short life is getting better for many, many people in the world. And I think that's an important story that needs to be told more. The Index is also just an incredible resource for scholars and policy makers across a range of disciplines. It's publicly available. The rankings that you see can be disaggregated. You can go down into the rankings on the website and use them, use the different information as you like. And you can get answers to questions across a range of domains from governance, freedom, health, education, and income to opportunity and prosperity and mobility which is the topic of today's discussion. I hope that in addition to enjoying participating in today's discussion on prosperity and mobility that you'll also take some time after to explore all the other rich dimensions of the Index.

So before introducing the man behind all these numbers I would like to thank Christine Golubski for organizing this whole event on the part of Brookings, and also Neil O'Reilly, and then Chloe Sanum (phonetic 00;14:13) from the Legatum end. It was a joint effort to get this event launched across the Atlantic, but it seems to have worked so far.

So now over to Nathan Gamester who's the Team Leader for the Prosperity Index. He manages to pull this effort off every year in a seemingly effortless manner, but I know it's not effortless. A lot of work goes into this. So over to Nathan to talk about the Index and then we'll have a panel discussion.

MR. GAMESTER: Carol, thank you very much. And it's great to be here. And let me just add my word of thanks to Brookings and also to Carol specifically for not only all the help that you've given to the Prosperity Index, but also in pulling this event together today. So thank you very much for that. I think I'll start by being very British and commenting on the weather because it's not often that a Brit travels abroad and longs for the weather back home (laughter), but having woken up this morning and felt how cold it was that's the position I found myself in so it's a very strange position to be in.

But anyway the Legatum Institute is a London based charitable think tank. Our mission is to help people lead more prosperous lives and all of the programs that we do work towards achieving that. We have a transitions program which is run by Anne Applebaum which looks at the process the nations go through in moving from autocracy or authoritarianism towards democracy. We have an economics program that looks at issues such as free markets, the size of government, and the relationship between the citizen and the state. We have a cultural program which looks at the role played by different aspects of culture and society in shaping prosperity. And finally we have the Prosperity Index which is our signature publication. We launch it every year; we've been doing it for eight years now and I'll take about that in a little bit more detail. I mentioned we're a charity; we're registered as a charity both in the UK and also in the U.S. as a 501(c) (3) -- did I get that right -- here in the States.

Now I'm going to go through some of the data and the findings from the Prosperity Index, but before doing that I want to ask a question, how are you doing? It's a question that we ask each other and we answer several times a day, two, three, four, five times a day. And if you're anything like me you probably have a pretty standard way of responding -- fine, thanks. Yeah, I'm good. It's kind of automatic, it's kind of autopilot. Perhaps even there's sort of a classic understatement, can't complain. I don't know if that's one that you use here in the States. But what if you actually had to think about the answer to that question? What if you had to step back, think about your life, how you are today, and give more than a three word answer? What would you include? What would be the aspects that go into your longer answer about how you are doing? How about this, I'm doing well, thanks. I've got loads of money in my bank account. Maybe. Maybe economic security, income plays a part, but surely it's not everything. How about this, I've got air in my lungs, I'm healthy, I'm fit, I'm doing well, thank you. Again that's probably part of it, but it's not the whole thing. How about this, I've got a decent education, I earn fairly well, I can provide for my family, I'm doing well, thank you. Again that's probably something towards kind of our overall statement of well-being, but again it's not all of it. How about this, yeah, I've got great friends, a strong family, I feel loved, I feel cared for, I'm doing very well, thank you. Well, the truth is that if we were to really step back and try and answer that question fully with a full assessment of how we're doing we wouldn't use just one single measure. Either explicitly or implicitly we would use a number of different aspects of life to go into answering that question.

And that's sort of the same about national success. How is the U.S. doing? We could be tempted to look at say the size of the economy and simply say the U.S. is the most successful country in the world. And by GDP along that may well be true. But just as we don't define our own success using a single measure surely we shouldn't do the same for nations either. And this isn't a new concept. In March of 1968 the then Senator Bobby Kennedy gave a speech in which he highlighted the flaw of using purely economic measures to define our progress. He said this, "Our gross national product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage, it counts the locks for our doors, and the jails for the people who break them. Yet the gross national product does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry, or the strength of our marriages. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither or compassion nor our devotion to our country. It measures everything in short except that which makes life worthwhile." That's a wonderful quote from a wonderful speech from a wonderful politician. And while it's superb oratory and a point very well made it does beg the question, what is success, what is prosperity. The Global Prosperity Index seeks to answer this question.

We define prosperity as Carol mentioned very broadly. It's our belief that prosperity is multidimensional. We include economic data of course; we don't want to get rid of that, but it's also just one among many other factors that matter for prosperity. The categories we include in the Prosperity Index are the economy, entrepreneurship and opportunity, governance, education, health, safety and security, personal freedom, and social capital. Across these eight categories we include eighty nine individual indicators. The Prosperity Index covers 142 countries, accounting for 96 percent of the world's population and 99 percent of global GDP. And one of the elements that sets the Prosperity Index apart from other measures, other tools is the use of both objective and subjective data. We measure each of these eight categories using both hard data and survey data. And the reason we do that is because we believe that putting those two types of data together paints a broader picture, you get a clearer idea of the things that you're measuring. And so for example in our entrepreneurship and opportunity category we do measure things like business startup costs, the amount it costs to start a business has a big impact on whether or not somebody who wants to be entrepreneurial can start a business, but at the same time we also measure citizen's perceptions about whether the country they live in is a good place to be an entrepreneur, whether society rewards hard work, whether or not people can get ahead if they want to.

And so having looked at how the Index is put together I know what you're all thinking, who's top, who's bottom, what do the rankings actually say. If we look at the top we see -- can you see that? Let's zoom in a little more. Norway ranks first in the Prosperity Index as it has done for the last six years. It's getting a bit boring actually.

Norway tends to be the most prosperous country in the world and comes top of quite a lot of indicators and indexes that measure well-being, happiness, and life satisfaction. And it's no different in our case either. Switzerland comes in second and New Zealand is third. Now New Zealand is up from fifth last year because of increases both in the economy category, rising twelve places in just two years, but New Zealand's rise is also driven by strong freedom and civil society. It has the highest levels of tolerance in the world. Ninety two percent of New Zealanders report being tolerant towards immigrants and ninety three percent towards ethnic minorities. On top of that New Zealand ranks second in our social capital subcategory with 96 percent of New Zealanders saying that they have friends and family they could rely on in times of need. Canada comes in at fifth. The U.S. places 10th overall, the UK 13th, and Germany 14th. And I'll come back to those countries in just a moment.

Down at the other end of the rankings -- apologies if you're at the back and you can't see the bottom of this table. I will explain everything that's on the screen, but unfortunately the table is blocking some of your view of the screen. Now what's notable at the bottom, you see Central African Republic in 142nd last position, followed by Chad, and then the Democratic Republic of Congo. And what's interesting about these countries across the bottom is that they tend to perform poorly across each of the categories that we measure. Sierra Leone for example places last on our health category as it has done for the last three years. In fact Sub Saharan African countries make up nine of the bottom ten countries in our health category, seven of the ten countries that spend the least on healthcare in the world are in Sub Saharan Africa, and five the ten countries with the fewest hospital beds per person are in Sub Saharan Africa. And what's interesting here is that our data predates the Ebola outbreak in West Africa, which indicates that many countries across the region lack basic health infrastructure and are therefore vulnerable to outbreaks such as the one we've seen. But it's not all bad news. When we look back over the past six years we can see that eight of the ten countries that have improved the most in our health category are also in Sub Saharan Africa, so things are getting better.

Now obviously the subject of our discussion today is about the role of opportunity in driving prosperity. We wanted to tackle this subject today because the idea of the American dream and of America being a nation of opportunity where people who work hard can get ahead, where regardless of where you're from, your background, your ethnicity, if you put in the effort then you can get ahead. And I'm looking forward to the discussion with our panelists. I think we will go into a little bit more detail about the realities or not of that. Before we get there I want to dig into a little bit of the data from the U.S. that's coming out of the Prosperity Index and compare it to some other countries in the Index.

Now the U.S. ranks 10th overall in our Index this year which is an increase of 1 place, back up into the top 10 this year. And one of the reasons for its move upwards has to do with an improvement in our economy subcategory, rising from 24th to 17th. And one of the reasons for that is lower unemployment, but also in rising economic sentiment. Thirty eight percent of people in the U.S. now think that it's a good time to find a job. And that's up from 29 percent last year. Higher than the UK, comes in at 18 percent, but not as high as Canada at 50 percent. Seventy nine percent of Americans say that they have the freedom to choose the course of their lives. That's down from 86 percent in 2011. In fact the U.S. ranks 49th on that particular indicator whereas in Canada 92 percent of people say they feel free to choose the course of their lives and in Britain it's 91 percent. Now this one may or may not co me as a surprise to you, but Americans feel less positively about their government than at any time in the past five years. Approval of government has fallen to 29 percent from 42 percent in 2010. Business startup costs in the U.S. stand at 1.5 percent of gross national income, which is more than double where they stood in 2009. What this means in practice is that it costs just under $1000 on average to start a business in the U.S. You compare that to UK where it costs just 66 pounds on average, about $100, and you can see an interesting comparison. What about satisfaction with living standards? In the U.S. 77 percent of respondents say they're satisfied with their living standards. In the UK that's 84 percent, Canada 87, and Germany 90 percent. What about this one, the question of whether people feel that working hard will get them ahead in life. In the U.S. that number stands at 86 percent which is pretty high in comparison. And it's a slight decline since 2010 but not significantly so. Slightly higher than the UK, but again not as high as either Germany or Canada. And the subject that we're going to go into now in the panel discussion is about opportunity and mobility. And I do just want to draw your attention to a chapter in this year's Prosperity Index Report; I think you all have a copy of this. If you're interested in looking at the issue of mobility and opportunity in more detail page 19 of this report includes a deeper look at that. Please don't read it now because you'll miss all of the fun stuff, but have a look after the panel session.

Now with that I will invite the fellow panelists to join me on the stage. And as they do please will you join me in welcoming them. (Applause)

So just by way of introduction -- can you all hear me? Is this on? Is this working? Great. Let me just say a few brief words about our panelists this afternoon. Charles Murray is the W.H. Brady Scholar at the American Enterprise Institute. Before joining AEI in 1990 Charles was a Senior Fellow at the Manhattan Institute, a political scientist, author, and libertarian. He first came to national attention in 1984 with the publication of Losing Ground which has been credited as the intellectual foundation for the Welfare Reform Act of 1996. His 1994 best-selling book The Bell Curve, co-authored with the late Richard J. Hernstein sparked heated controversy for its analysis of the role of IQ in shaping America's class structure. Charles' most recent book, Coming Apart, describes an unprecedented divergence in American classes over the last half century. Richard Reeves is a Fellow in Economic Studies at Brookings and Policy Director for the Center on Children and Families. He's also an Associate Director of Centre for Reform. Before moving to Washington in the summer of 2012 he worked as a Director of Strategy for the UK's Deputy Prime Minister. He's a former director of Demos, the London based political think tank. Richard is the author of John Stuart Mill: Victorian Firebrand, an intellectual biography of the British liberal, philosopher and politician. Today he writes powerfully and persuasively on a wide range of topics including policies relating to social mobility and the economics and politics of well-being among other things. John Prideaux is the Political Correspondent for *The Economist* in Washington. Prior to this he wrote for *The Economist*, the *Financial Times*, and the *New Statesman* as a freelancer and worked as a researcher in the House of Commons and the European Parliament, but please don't hold that against him. In addition to covering British politics he has spent as an India correspondent in Delhi, and financial correspondent in London. In 2007 he was appointed Brazil correspondent in Sao Paulo where he wrote *The Economist Special Report: Brazil Takes Off*. And finally Carol Graham is the Leo Pasvolsky Senior fellow at the Brookings Institution and College Park Professor at the School of Public Policy at the University of Maryland. She is also a Research Fellow at the Institute for the Study of Labor. Carol served as Vice President and Director of Governance Studies at Brookings from 2002 to 2004. She has also served as a Special Advisor to the Deputy Managing Director of the IMF and has been a consultant at the Inter-American Development Bank, the World Bank, United Nations Development Program, and the Harvard Institute for

International Development. She's the author of various books and articles including most recently The Pursuit of Happiness: An Economy of Well-Being.

And with that I'm going to ask Carol to kick us off and give a short five minute set of remarks around the idea of opportunity and prosperity.

MS. GRAHAM: Thank you, Nathan. And it's a real pleasure to comment on this particular aspect of the Index because it's one of the newer aspects of the Index and it also reflects my own personal interest and opportunity and it's linkages to well-being. And now we can benefit from having data on this compiled in a rigorous manner for over 100 countries around the world thanks to Legatum. So that's a good thing.

I'm going to focus my remarks on the U.S. And it's a country that's a great example of -- well, in part because we're here today -- but also it's a country that's a great example of why it's important to measure prosperity across a range of dimensions and including the well-being dimension. As you can see from the Index the U.S. ranks quite high on the economic score, not least as it remains one of the most dominant economies in the world and our recovery from the financial crisis was probably the strongest of the OECD economies. So that's I think what pushed up our ranking this past year. But if you look more closely at the data from the subbing indices we're falling behind in many dimensions and in particular equally shared access to opportunity and mobility. So I want to add to that story that's already in the Index with some anecdotal results from my ongoing research on the topic.

But before doing that just one comment about the Index rankings and methodology. And I've certainly shared these comments with the Legatum team, but everybody wants one ranking, that's why everything is sort of merged into one ranking, who's on top, who's on the bottom. Everybody always wants to know that. And so that's sort of what the index industry does is you create rankings. But in the case of this very rich Index you have rankings that can often go in different directions. And in particular when you have -- in some countries, say the Scandinavian countries, the Norways of the world, all good things go together and you get positive attitudes and positive objective rankings and it all makes sense. But if you look more closely, and this is why I encourage you to go down into the sub-indices and into the details of the Prosperity Index, you'll al so see that there's sometimes sort of -- there are puzzles where people in very poor countries, particularly in Sub Saharan Africa can report to be very optimistic, or to have very high beliefs that hard work will get you ahead, or whatever it is that surprises you because it doesn't seem to reflect objective conditions at all. So sometimes when you mix and match the objective and the subjective data some countries can have surprising rankings. So as such I personally encourage you to look at the sub index rankings and also to look and see where there are puzzles, where there are differences between attitudes in countries and actually objective conditions. And that's particularly a problem for very poor countries where people have adapted to bad conditions but they retain sort of innate human optimism. And that's a good thing. But it does make this a complicated art.

Now back to the U.S., it's another example of why you need to look at all the different components of the sub-indices. Our most recent analysis of well-being metrics for the U.S. tell a very different story from the economics sub index ranking, but our metrics also reflect some of the good points that are made in the opportunity sub index of the Prosperity Index. So in the case of the U.S. due to its high levels of top drive inequality, basically inequality driven by differences between the top percent of the distribution and the rest, and to stagnation and mobility rates, I would argue that we're increasingly two Americas. And the data bear this out. On the one hand there's a wealthy cohort which has access to some of the best universities and hospitals in the world, to cutting edge knowledge, and to worldwide outlook and information. And most importantly it's a cohort that has the ability to plan for the future, to seek fulfillment in life, and to pass those abilities on to the next generation, right. One of the things that stands out when you look at the wealthy cohort in the United States is how much they invest in their children, in education starting with preschool, in sports and music, and in everything. But then a less positive story is when you look at the poorest cohort in the United States. It's for the most part living in the moment, focused on day-to-day survival, in poor health, and without access to quality education from the preschool level to the university level. And indeed I just saw another data point which was surprising, over half of households in the bottom quintile of the income distribution in the United States don't have access to the internet. That's pretty remarkable in today's world, right. Again so you just get completely different outlooks if you look at the rich and the poor in the United States.

So one of the things that we've been doing in our research is trying to understand the difference in ability to plan for and invest in the future and therefore have future mobility between these cohorts. And we find that people who face a lot of day-to-day struggles as measured by reported stress among other things, they have very high discount rates. So in non-economist terms this means that they have difficulty planning beyond today and therefore setting aside resources to invest in the future in the health, savings, and education domains among others. If you can't get through today without a lot of stress and a lot of struggle it is very difficult to invest in the future, plan for the future, even think about what the future looks like. And there are a number of markets that suggest that a surprising number of people in this country live that way, day-to-day. So we looked at reported stress levels in the U.S. comparing the rich and the poor, and then we compared them to Latin America which is a region that's long been known for high levels of income inequality and low mobility, even though the region is changing.

What we find -- and you have some handouts -- I don't know if they're on your chairs or under your chairs -- that if you look at stress levels in the United States, which is the frit handout, versus Latin America you find that U.S. respondents in general experienced more stress than respondents in Latin America. This is based on the simple question in the Gallup World Poll that asks people did you experience stress yesterday, yes or no. And the answers are robust to lots of other metrics of measured stress. Well, what's more remarkable than there being more stress in the U.S. than in Latin America -- I'm from Latin America and it's a part of the world that has great quality of life, so that may reflect the lower stress levels, but is it the difference between the stress levels of the rich and poor in the U.S. are significantly higher than the difference between the rich and the poor in Latin America, a region which has long been known for high levels of inequality. So the poor in this country experience much more daily stress and again reflects that they have less ability to plan and invest in their future.

And then if you want an even starker story, and based in the American dream basically, belief in hard work, some data that Nathan put up and the U.S. scored relatively high compared to the rest of the world in terms of the percent of people that believe hard work can get you ahead. But if you compare the U.S. and Latin America -- and this is really a striking slide -- in Latin America you get very little difference in the beliefs of the poor and the rich. Basically relatively high significant percent of people believe that hard work can get you ahead, but there isn't a big difference between the poor and the rich. If you look at the United States what's remarkable is that even though our average is pretty high our difference between the poor and the rich is tremendous. So the poor in the United States are much less likely to believe that hard work can get you ahead than are the poor in Latin America. The rich in the United States are much more likely to believe hard work will get you ahead than the average in Latin America.

But the gap between the rich and the poor in this country I think is striking.

So given what we know, that attitudes about future mobility link to people making investments in those futures, it's not a great story about the American dream. So not only are opportunities unequally shared today, but they're likely to become more so precisely because one cohort isn't thinking about the future, does not have the means and the resources to invest in it, and also lacks confidence in that future versus another cohort that's got all the means in the world. So unlike much of what is in the Prosperity Index that is a positive story about things getting better, I think this is a story that really gives cause for worry and I think other panelists will speak to this obviously. But it's also the kind of differential insight that you get from looking at different kinds of data is the kind of contribution that the index makes across a range of domains by disentangling the numbers and going beyond just income data.

MR. GAMESTER: Carol, thanks. I'm going to ask Charles Murray to go next with his sort of opening gambit on opportunity and prosperity. There is going to be an opportunity for the panelists to pick up on what each other say afterwards, but first of all, Charles, if you'd mind -- going for another five minutes.

MR. MURRAY: Thank you, Nathan. I'm always of the opinion that panelists of this sort should not all repeat each other. And so I'm going to focus actually uncharacteristically for me on somewhat more positive ways of looking at opportunity in the United States. But I want to emphasize that I'm doing that because I assume everybody else is going to want to talk about problems. And after all I did write a book called Coming Apart, which does not sound optimistic about these issues. I could have said about almost everything that Carol said, yeah and I've got some more stuff that reinforces what she said.

So we have huge problems with regard to mobility, with regard to income stagnation at the bottom end and so forth, and yet we also live in a country where we are almost afraid to trumpet the ways in which it's still a land of opportunity. Let me just give you the example of somebody working at $10 an hour job. Now getting a $10 an hour job around the Washington, D.C. area at this moment in history as opposed to about four years ago isn't that hard, in fact it's pretty easy. If you're willing to do manual labor it's real easy. All right, $10 an hour, 40 hours a week, that's only $400. It's hard to live comfortably on $400 a week. But suppose you and somebody else get together. The obvious way to do that is with a spouse, but it could also be, you know, two guys saying well let's pool our resources and get an apartment together and we'll both work 40 hours a week at $10 an hour. Well, now you're talking about $800 a week. You got payroll taxes coming out of that but you don't have any income taxes to speak of. Fifty weeks a year you're talking about $40,000, you can live comfortable. There are graduate students all over the United States living comfortable lives on less than $40,000 a year. That is actually historically remarkable that working at very low level jobs for not that long a week historically and you can have a standard of living that's just fine actually. And if you stick with it, and this is also another characteristic, you don't stay at $10 an hour. The stagnation of wages in real; you don't stay at $10 an hour because there's another thing about opportunity in the United States, that it's almost as if we're embarrassed to talk about which is if -- any employer will tell you this -- is there anybody in the room who is actually an employer of people? One, two -- we've got about three hands. Okay. And you can contradict me if I'm wrong. Good help is hard to find. I don't mean highly educated Princeton graduates. I'm talking about people who will come to work every day on time, be cheerful, and work hard. It's really hard to find people like that. And furthermore if you are that kind of person the odds in the ordinary American business that you will get noticed are very high. And that's why when McDonalds has employees who are flipping burgers, who come to work every day, cheerful, on time, work hard, are good at what they do, they tend to get promoted. A story in my own personal experience is not uncommon. This involved somebody who was hired at the mid-20s. It was a young woman hired to be a barista. Is there anything other than flipping burgers that is more stereotypical about the dead end job? And this was at a large, high end thing in New York called Eataly which has all sorts of different shops within a -- selling things from Italy. Well, she made her espressos for about six or eight months and had the presentation of self that I described and she was then promoted from her 10 bucks an hour to a little bit higher salary and managing 7 of the stalls as it were in that part of the store. And in another year she was managing 30 people. And she was told in no uncertain terms that her future with that corporation -- because they had branches around the United States -- was very bright. This is not somebody who had taken a bunch of courses in marketing or in retail or in anything else. She did not have any really cool new ideas for how to sell stuff there or to manage the payroll or anything else. She just showed up and worked hard and was cheerful and was competent and she got ahead in the classic way. That is not uncommon among people who bring these very basic qualities to the work place in the United States. That's called a chance to get ahead. And if we doubt that that's the case let's take a look at the natural experiment that the United States has going for it right now where we have millions of poorly educated people coming across the border, sometimes illegally, who are getting ahead. In the case of the Asians we have a population of new Americans who are getting ahead spectacularly well. They aren't all coming over here from upper income families in China or Southeast Asia and adding to it, they are coming here often with nothing including no language. And we all know what happens if -- those of you who have teenage children in the Washington area and you go to the graduation ceremonies you all know who the first 10 people are in the graduating class, where they come from, they come from Asia. This country despite all its problems is a place where getting ahead isn't that hard. And that statement is pretty revolutionary in discussions of where the United States is.

Now over the course of the rest of the panel I will reestablish my credentials as a thorough going pessimist, all right. But what I have just said is not wishful thinking, it is not talking about isolated cases that you have to cherry pick. We're talking about a deeper problem which is that 50 years ago in the United States it wasn't so hard to find employees who came to work every day on time, worked hard, and were cheerful. Now it is. And that speaks to cultural changes that have occurred. In the book Coming Apart I discuss those cultural changes at some length and in the response to the book there were a variety of people who said no, I didn't understand, this was just a problem of lack of jobs and once we had a decent job market and decent wages all of these problems would disappear. I submit to you the only people who make that argument are people who don't deal face-to-face, day-to-day with working class America. I submit to you the only people who will make that argument who are people who do not employ others; that the cultural change that has occurred out there is profound, it's widespread, and it is fundamentally reshaping the nature not of the American economy, but of the stuff that has made America America.

MR. GAMESTER: Charles, thank you very much. Richard Reeves.

MR. REEVES: Thank you, Nathan. As someone who has moved from the UK to the U.S. and spent two years here, I can add a new data point on how people answer the question, how are you doing. I like the way you do that. So British people will sometimes say can't complain. My particular favorite from British people though when you ask how they're doing is, mustn't grumble. (Laughter) It's peculiarly British. They then on peculiarly either to grumble at great length, or in away more perversely having said mustn't grumble, then to go on to say that they've been promoted, their kids are doing very well, they've come into some money, et cetera. In the U.S. when you ask the same question, how are things doing, Americans will say great, except for the divorce, the loss of the job, the kids doing drugs, or whatever. So there's a kind of -- people get on the different side of it. So you're right, there's a habitual answer but in American the kind of habitual answer has to be great, and then the real truth comes out.

I'm going to keep my comments pretty brief. I'm just going to respond a little bit to what Charles said as well. But the question of how we think about well-being in relation to economic growth is hardly a new one. It's been around pretty much since recorded history. It was worried about by 19th century economists and it was worried about by John Maynard Keynes, so just to add a British and older voice to the Robert Kennedy quote, John Maynard Keynes wrote the following in 1930, he wrote an essay called "Economic Possibilities for Our Grandchildren." And he said in that -- within a century was his estimate, so we're getting quite close -- by that point we'd have had sufficient economic growth and compound interest growth that for the first time since his creation man will be faced with his real, his permanent problem, how to use his freedom from pressing economic cares, how to occupy the ledger which science and compound interest will have won for him. How, in short, to live wisely, agreeably, and well." And it seems to be that the Index is trying to get at that sense of living wisely, agreeably and well in its kind of multidimensional approach. And I applaud the efforts for doing so. Where of course Keynes and Mill before him and everybody else has always been wrong is assuming there comes a point in economic development where people will say enough is enough, we don't need any more economic growth, we've all got enough stuff, we can stop worrying about that and move to a post materialist age. The truth is that that moment never comes because one of the magical things about economies and markets is that they do create new demands as well as new supply. And so whereas 30 years ago air conditioning the U.S. might have seemed like quite a luxury now arguably correctly it's seen as a necessity, and so on, and so on, and so on. So economic growth will never cease to matter, however it may matter less relatively speaking to other things when it comes to well-being.

I'll just say something kind of briefly about the opportunity side of the Index. I'm delighted that it's in there for the reasons that Carol and others have mentioned because it seems to me that the answer to the question of kind of freedom to choose your own course through life, this fundamental opportunity question is fundamentally about the extent to which you're not inhibited by the circumstances of your birth, by your race, by your gender, your sexuality, from leading the kind of life you want, choosing your own job, choosing your own spouse now of either gender. So the two guys that Charles mentioned may in fact be spouses rather than just two guys getting together. And I think you can tell a good story that the enlargement of individual freedom, to lead their own lives their own way has been captured by this Index really rather well.

The problem is that whilst the U.S. labor market is actually rather meritocratic in the way that Charles identifies such is quite true that people who've got skills and grit and work hard and so on, actually it looks as if the labor market doesn't treat them too badly once they're in the labor market. There's a couple of problems. One is once you're out of the labor market for too long it's difficult sometimes to get back in. So there's a scarring effect from long-term unemployment. And I see Gary Berlitz (phonetic), my colleague, in the audience here. But I think more troubling there is nonetheless huge persistence of income across generations which is where most of my work is. Now I don't think Charles would necessarily disagree with this and his own work supports some of it which is it is the case that we have sticky ends of the income distribution in the U.S. inter-generationally speaking. So broadly if you're born into the bottom 20 percent of the income distribution you've got about a 40 percent change of staying there as an adult and less than a 10 percent chance of making it to the top. And then you'll see the same figures, it's actually repeated at the top of the income distribution. So there is mobility. But inter-generationally the extent to which children's status on the income ladder is affected by their parents is very, very strong, and it's at least as strong in the U.S. as many other countries. So that kind of intergenerational mobility is a problem. And I think the reason that's happening is that most of the damage is done before people enter the labor market. And so whereas the labor market might actually be relatively meritocratic you see huge differences in skill development, access to education, health, family stability, some of which Charles has already mentioned. And so that is a problem.

The American dream has already been kind of mentioned and if you define it in that way, relative mobility, that the American dream is in trouble. And I think as Carol hinted, there's something self-fulfilling about the idea of the dream. There's something actually rather important about believing in it and continuing to believe in it even in difficult times because that's what might lead us to invest in ourselves and our own children in the future. And that might in and of itself lead to mobility.

Very briefly, last couple of points, it's striking to me, and I'd like to hear more from Nathan on this, that when I looked at the Index the correlate within the Index that most strongly seemed to be related to social mobility measured by earnings elasticity which is suboptimal in some ways. But it appeared to be the social capital sub index of the prosperity Index. And if you look at the social capital sub index that does include very Charles Murray-esque type issues like family civility, marriage, volunteering, trust, and so on. And you'll find in that index that on one score at least the U.S. does very well. Eighty percent of Americans have helped a stranger in the last year which is the highest anywhere in the world. And so not to get the old doom and gloom, there is some kind of good news there in terms of generosity of spirit towards people.

One final thought though is when I -- and this is a gut feeling rather than an empirical point, I think the Index does a great job overall. And when you see the countries at the bottom you sense it's getting at something. But it's something about the countries at the top, the top nine, Norway, Switzerland, New Zealand, Denmark, Canada, Sweden, Australia, Finland. When look at that list it sort of bothered me in a way and I was trying to get at what it was that bothered me about it. And I just thought -- and I couldn't decide, but to be honest about it and all, I'll tell you what it is; they all sound a bit dull. They don't sound (laughter) like places that I'd want to live. They all sound a little bit boring. Now, you know, I know I'm being webcast and probably I'll now become a hate figure in nine countries around the world (laughter), but there is something. So I just wonder. The serious thought that might lay behind that intuition is that maybe it's something about actually countries that are a bit more dynamic, that are going through change, that have lots of immigration and so on are actually slightly more interesting and dynamic places to live. So I leave it to other people to say whether they're dying to live in any of those nine countries, but I wonder if some -- the top of the Index, whether actually there's something just a little bit too prosperous if I can say that about some of those countries which is another way of saying that they may be a little bit dull. But my main point is that we clearly need a multi-dimensional way of thinking about well-being, we clearly need to think multi dimensionally about opportunity, we need to think harder about the openness and fluidity of society. And we do clearly need to broaden the way we think about it beyond GDP whilst not losing it.

So to the extent that this moves us in that direction I'm hugely for it. We need if you like to think about prosperity pluralism rather than a unitary way of thinking about it which is just measured by GDP.

MR. GAMESTER: Thanks, Richard. For the sake of the Q & A session which is coming afterwards I do hope that there are some people in the audience from one of those nine countries (laughter) that were just mentioned.

And with that I hand over to John Prideaux.

MR. PRIDEAUX: Thank you very much. I'm Anglo Norwegian so I can take up your challenge (laughter) right away and --

MR. REEVES: Where do you live?

MR. PRIDEAUX: I'm only actually a quarter Norwegian but I'm delighted to see Norway still at the top of the ranking. And actually I can confirm Richard's impression it is in fact rather a dull place and very lovely, but dull.

A lot of the anxiety that we pick up in America at the moment about, you know, sort of what shape the country is in comes back again and again to the kind of single data point which is income inequality. If you go back a few a years there was a good argument going on among economists about whether it was really real, you know, whether something was being missed, and so on and so forth. Now I think, you know, the consensus is absolutely there. Income inequality has been growing and not just in America and a lot of different societies. And in a way it's good that we've got to this point that we have because then you can begin to have another debate which is, you know, if you believe it's a good thing let's talk about that, it might be good it might be bad. If you believe it's a bad thing, and there are things we might be able to do mitigate it. And but I would suggest that although this is something that people worry about on both right and left and it's not necessarily a good idea for governments to have as a name to reduce income inequality or indeed to go back to, you know, the sort of 1950s golden age in

America where incomes were more equal and there was more social mobility purely because the kinds of things that doing that would require governments to do would be so heavy handed that I think they would quite swiftly become sort of incompatible with living in a society that puts such a high price on freedom as America does.

And that said clearly and that presents us with a new question which is what might a good unequal society look like? And that in a way is a strange question to pose because there are a lot of people here who will tell you that it's impossible to have a healthy democracy without a healthy middle class and so on. And that, you know, all these trends in income inequality or regrettable. And they may be right, let's see. And it's certainly true that if you look at the countries on the Legatum ranking that do poorly on income inequality by which I mean they're very unequal, they're not necessarily societies that we in America would want to copy. And they are places like South Africa do very badly, have very unequal income distribution. Brazil, where I used to live, also does as well. But might it be possible to constitute a society that's both highly unequal in terms of who gets the gains from the GDP growth, and somehow sort of good at the same time? I think there are things that governments can and kind of should do to sort of mitigate it, but as I said I'm not sure that actually reversing these processes which we've seen going on for a long time that are either kind of desirable or necessary.

But just quickly some things that governments might do. In America it's very striking, but though the tax system is relatively progressive when you look at how the federal government actually spends tax money it's really not. America manages to spend more on those in the top fifth of income distribution in terms of sort of public resources than on the bottom fifth. And you get, you know, the very large tax breaks for things like mortgage interest relief and some of the tax breaks on capital gains, and some of the agricultural subsidies tend to skew very heavily towards those at the top of the income distribution. So one thing that we ought to do perhaps is change that. And then we may want to think a little bit about some sort of unorthodox ways of providing goods to those at the bottom of the income spectrum. And Charles Murray has written about minimum incomes and those are the sorts of sort of creative ideas that people are not really sort of pushing at the moment, but that we perhaps ought to be thinking about.

But if we accept my premise that, you know, this trend is probably not going away, it's not something governments will be able to reverse even if they can play with it on the margin and probably should, what might a good unequal society look like? I think it might be somewhere where a lot of the things that we think of as public goods now which tend to be provided through general taxation would be provided privately. So I could imagine, you know, taking my son to my, you know, local park in Washington and finding that the maintenance of the park was generously supported by Coke Industries or, you know, something that's already happened. A lot of income inequality ought to bring a golden age for nonprofit institutions. Perhaps those institutions could get more involved with providing sorts of public goods that we tend to provide through general taxation at the moment. I read an article the other day which said that in 2010 10.7 million people are employed by NGOs in America which is a larger number than employed in finance and in construction combined. So when good people like Richard and Bill Galston write things at Brookings and looking at how income inequality might be, you know, sort of might be change in America, this is truly, you know, a selfless act because institutions like Brookings ought to do extremely well out of income inequality.

But there's one thing that I think we perhaps ought to think about just quickly which Richard has already touched on which is meritocracy. And if we were to move to this sort of society in which more public goods were provided privately in a sort of philanthropic way I think one thing we'd need to also do is reexamine the whole idea of meritocracy. And if you take a sort of couple of hundred year view we've been rather smug I'd suggest in western democracies over the past couple of generations because we thought we'd sort of invented a new sort of society, a meritocratic society where sort of what you did, your natural talents, counted for far more than what you inherited, you know, property, land income, and what have you. And actually the studies are piling up as Richard said showing that the education achievements of children are highly, highly correlated with those of their parents. And so it turns out that in fact what we seem to be doing is creating a society we thought that, you know, meritocracy was the sort of antidote to a society in which your position was inherited. And actually it looks like it's more much complimentary that we thought. And I think what follows from that is that, you know, some sort of revival is required of rather sort of 18th century idea of the obligation of those at the top of the income spectrum towards those at the bottom. And maybe that's something we can talk about a bit more.

MR. GAMESTER: Great. Well, John, thank you. I do want to pick up on your question which is what would a good unequal country look like and I'd like to ask all of the panelists to answer. But while you were speaking I noticed Richard furiously scribbling and so I wonder if I could go to him first and ask him what does a good unequal country look like? And I'll add to that how do we get there?

MR. REEVES: So here's where I thought John was going with this and he went completely the other way. So I mean I agree with you about the meritocracy point and the degree to which the inheritance of status is something that I would argue that the U.S. was almost founded against. I mean the very idea of inherited status, inherited jobs, inherited power, was something that was kind of at the founding. And so when you do see these very strong inheritances of income, wealth, education, capital clustering more strongly together, then you worry that the market which was once a very powerful meritocratic tool, the market battered through cartels and protectionist rackets and so on. The market was hugely liberating and hugely meritocratic. The market now can actually cease to be meritocratic.

Where I thought John was going to go was the other way. And I think I'd argue precisely the opposite to what John just argued which is that a good unequal society is one in which the inequality in one domain is not allowed to bleed over automatically into inequality in other domains. And one way to do that is actually rather than push more public goods into the private good, is actually take more goods which are currently private and push them into the public sector where actually you don't have to pay for them. And so actually what you want are more goods that are in a sense not for sale. And then the background income equality or wealth inequality doesn't matter so much. If actually you're not buying your healthcare then I'm much more relaxed about the fact that you're very much richer than me. If you're not buying your education much more relaxed, if you're not buying your public part. And so I actually think you can argue exactly the opposite point which is the more goods are in the private domain the more it matters that there is huge economic inequality. And so if we're going to live with higher levels of economic inequality -- and that I don't really disagree with, I think it's largely difficult to do much about, then we should maybe go the other way and insulate ourselves against its affect by pushing more things into the public sector rather than the private.

MR. PRIDEAUX: Just to be boring I actually do kind of agree with you. I perhaps wasn't clear enough about what I was saying. I think we want to move to a world -- I actually would ideally move to a world in which more public goods are still public but are provided differently. So my local park's maintenance is funded by a philanthropic organization. That doesn't make a huge difference to me using it because I can still take my son along and play on the swings, but the mechanism for providing it is different. It's that sort of thing that I'm suggesting that we might end up moving towards.

MR. REEVES: Public but not state.

MR. PRIDEAUX: Yeah, essentially.

MR. GAMESTER: And, Charles Murray, what does a good unequal country look like and how do we get there?

MR. MURRAY: I thought that was such a great question. And I want to make just very briefly a statement that the idea that all of this private wealth could end up being very useful for the public square is something we ought to realize. That, you know what; I think probably Bill Gates Foundation is spending its money more efficiently than governments do to tackle big problems. There are a variety of ways in which private wealth is enabling lots of money to be dumped onto problems that the government doesn't seem to be able that for very well.

However, since we've raised the specter of meritocracy I guess that you can't carry on this discussion without coming to grips with our fundamental misapprehension about meritocracy because it used to be, ah, we are released from the undeserved status because of who are parents were in terms of the land they had, the titles they held. What we did not think of when we started this -- well actually Mr. Young who wrote Rise of the Meritocracy did think of it -- but which is that you know what, none of us deserves our IQ, none of us has gotten our IQ through hard work. For that matter if you want to be really determinist about it, the amount to which we can take credit for our perseverance and our industriousness is not as great as we used to think it was. Here's the problem, you have a genetic component to almost all of these qualities. Don't worry about whether it's 50 percent, 40 percent, 70 percent, that's not the big point. The big point there is there is a component. Just the last month or two there was a major news study that came out of Kings College where they have the world's leading center on the study of the interaction of genes and the environment, where they have the genome wide complex trait analysis. It doesn't allow you to identify what genes do what, but for statistical reasons that are really complicated and I don't fully understand, it can make fairly confident statements about complex traits and what are contributing to them. And the conclusion in this case was when we know exactly what genes they are that contribute to IQ and to socioeconomic status they're very likely to be a highly overlapping set. More specifically at age seven of this well-known correlation between socioeconomic status and IQ, ninety four percent of it was mediated by genes by the estimation of this study which is -- it's pretty much state of the art kind of work they're doing. Here's the point, the more we equalize the environmental opportunities for people, the better we do pre-K, the better we do public education, the better we do the other kinds of things that people like to think affect these, the less environment will contribute to differences in outcomes and the more it will be concentrated in genes. And I will simply say to you that the evidence is getting stronger and stronger. That the large correlation that now exists between parental socioeconomic status and child socioeconomic status is not because of all the advantages the parents are supplying to their children with their money, it's the genes they gave them. And that is a truth that is resisted now, that we're in front of an onrushing train with regard to these data. In another decade it will be unraveled. We have to come to grips with how we have value places for everyone in a world where those truths apply.

MS. GRAHAM: Just a couple of points. On the genes versus the environment thing there's also a component a well-being that's genetically determined. I mean some people are naturally optimistic and others aren't and we've been working with the distribution of well-being across people. But I don't think you can get around the very, very different environments when you talk about things like public education and public kindergartens. They are just very different in poor places and rich places for all kinds of reasons. And so I think you get sort of a -- regardless of their genetic endowment some cohorts in this country are disadvantaged from day one, and as Richard mentioned disadvantaged before even getting into the labor market.

But just a question for Charles and then a comment on good and bad inequality. I agree with you that if people work hard and are willing to sort of forego current income for a while and share an apartment or whatever it is and they work their way up the labor market they are very likely to get ahead. But it seems as though the people that are able and willing to do that have faith in their own futures, the willingness and ability to postpone current income or all kinds of other things and invest in those futures. And when you have huge differences in beliefs about the future across cohorts then it isn't a surprise then that you have very different outcomes. And so what I would like to ask you is you talked about a huge cultural change that was influencing attitudes I guess of some people in the labor market versus others. And I'm hoping you can explain what you think that is a little bit more in detail.

And then on good and bad inequality it relates to all of this. I mean I agree with Richard. I think a good inequality is the kind of society we thought we had that's a meritocracy, but people have some advantages innate as Charles mentioned and non-innate maybe if, you know, just where you were born. You know, there are big regional disparities in this country. But still not one cohort didn't have all the advantages. Versus a bad inequality is the kind of society that I think we increasingly have which is that, you know, persistent advantage for some cohorts and persistent disadvantage for others.

But so as to not end on too negative a note, as I was listening to everybody talk about the how are you doing and the U.S. typical grade, whatever, I'll never forget a comment by a British friend of mine who had moved here who got so sick of being told to "Have a nice a day" in U.S. stores that she started saying, "Thank you, I have other plans." (Laughter)

MR. GAMESTER: In just a moment we'll open it up to Q & A so please have questions ready. But, Charles, there was a point in there that I think Carol was asking you to respond to. Do you mind doing that?

MR. MURRAY: The quality that Carol is referring to has a label of locus of control for which we've had measures for a long time, and to what extent do you believe that what you do will make a difference in your life. And this goes back to -- was it Richard who pointed out the self-fulfilling prophecy? If you have a high degree of belief that what you do makes a difference lo and behold it works out that way. Locus of control measures which are administered to samples mostly of college kids go back to the 1960s. And we have seen a phenomenal drop in the degree to which people feel they are in control of their own lives. And that's with largely college samples, so you can't attribute that to something specific to the lower class or the working class. Why that has happened, Carol, damned if I know. I mean a bunch of thing have obviously contributed to it. If you're talking about the disadvantaged there is at least one thing that has indisputably happened since the 1960s and that is the rhetoric changed. Jesse Jackson, who is not my favorite policy analyst, but he did use to have exhortations of student groups that he talked to saying it's not your fault if you get knocked down but it's your fault if you don't get up. And there was a very positive message of you are in charge of your life. But the rhetoric since the 1960s in all sorts of dimensions, whether it's in the implementation of social policy or if it's in the messages that are stated, if it's in political rhetoric, are it's not your fault. That you are the victim of circumstances, of an economy that has gone global, you're the victim of you name it. And here's the problem, a lot of those statements are true and the worst possible thing you can say is to tell a 15 year old that. I think that's one thing that's involved, Carol. And believe me I'm not pretending to offer anything like an explanation. One other thing that clearly has happened is that with the decline of marriage in the working class, which is precipitous whereas it has remained quite strong in the upper middle class, you have children growing up who no longer have -- and I'm thinking especially of little boys; little boys are job ready when they get to be 18 where they will show up every morning and they will be cheerful and they will work hard because that's what they saw their dad do every day, even when he wasn't feeling good and he went ahead and did it. And so you have a whole lot of little boys who have never watched an adult male -- and you know what, we don't know how to compensate for that when they're 16, 17, 18 years old. It seems to be one of those things you learn in one way and one way only. That's a very partial answer to your question.

MR. GAMESTER: On that note we're going to turn over for Q & A. Please do keep your questions short, raise your hands, wait for a microphone to arrive, and then please say who your question is directed at. Thank you. We've got some down the front here.

SPEAKER: I guess this question goes more towards Charles, but the panel can respond. I think that the whole reason we're discussing this today and why this is happening, this growth of income inequality in America is primarily due to our tax code. I think our tax code is killing the middle class. And it first comes down to how do we define the middle class. That's the other thing that really frustrates me. I think the definition of middle class is anyone who's not living off a nest egg. So these are people that have to go to work every day. Whether they make $500,000 a year or they make $50,000 a year I think they're middle class because they have to pay the bills every day, they have to hire people, they have to run small businesses, or they have to work within small businesses. And so our tax code at this point I think penalizes people that have to earn an income and pay home mortgages, car payments, because they're taxed on all income even though they're paying home mortgages. I mean, you know, they have a home mortgage deduction or they have an apartment. But I mean let's say education or the cost of starting a business, I mean let's -- I have an orthodontist friend $400,000 in debt. He's 32 years old. So here he is, he goes out, he makes $200,000, he's taxed on every dollar he pays back for that $400,000 in debt. I mean if you had $2 million in the bank and you make $150,000 you're taxed the same as if you're a million dollars in debt and you make $150,000. And that's where our system breaks down.

MR. GAMESTER: Okay. Thank you. We'll hold back and have one more question as well. Just two rows back.

MR. CHECCO: Hi. Larry Checco, Checco Communications. Just a couple of things. Mr. Murray talked about 60 years ago the rhetoric was different, but the economic climate in this country was amazingly different as well. There were a lot of middle class jobs where people can earn enough money that they could provide for their families. I don't know when the last time tried to live in Washington, D.C. on $40,000 but it's pretty difficult.

To John, I really don't like this idea of the private sector taking over public domain because quite frankly what you're really depending on is the kindness of strangers. If the Coke Industries decides to, you know, fund your park, great. What if next year they decide not to? Government is an organizing principle. It's the only we live together. The only common good can be distributed by the government. I'm sorry, we're stuck with it whether you like it or not.

MR. GAMESTER: Okay, the tax code is killing the middle class, first question, and secondly just any more comments on whether or not the private sector should provide public goods. Anybody particularly keen to take those? Carol?

MS. GRAHAM: Just on the private-public question. I wrote a book ages ago, 15 years ago called <u>Private Markets for Public Goods</u> and it was looking at experiments around the world with things like vouchers in education and privatization of social security systems, things that were happening in emerging market countries not in the U.S. or Europe. And what was very clear from that research was that in countries where the public sector was really failing, just incapable of delivering public goods, these private experiments had some positive benefit because it was sort of better than zero, right? I mean but also with a huge risk factor, a lot of heterogeneity in outcomes depending a lot on how organized local voices were. So there was a lot of regressivity too. So there was some progress, but I don't think those are tradeoffs that most people in countries with, you know, sound enough public institutions to deliver basic public goods would want to make, to introduce that much variability, but, you know, I'll leave it to John to comment on that.

MR. GAMESTER: And, Charles Murray, is the tax code killing the middle class?

MR. MURRAY: I have absolutely competitive advantage about the tax code. I'm a tax payer. I will just make one observation. I was doing some work on the one percent and the top five percent and so forth, and you're in the top five percent if you're making less than $100,000 a year. And it's the top five percent that pays -- what percentage -- some 80 odd percent of income taxes and you're not talking about rich people paying taxes there. But I'm not a tax expert.

(Audio interruption 1:20:30 to).

MR. PRIDEAUX: Just a quick on tax and orthodontistry and also then to co me back to on the other question. And when you mentioned your friend who is

$400,000 in debt I immediately thought of the costs of training to be an orthodontist and that if I were designing public policy that's probably where I would push. And I think one of the worrying things in America at the moment is that the inflation and the cost of getting a college degree, you know, even with all the financial aid available in student loans and so forth, does tend to push in the opposite direction to meritocracy and that's something to worry about.

In terms of how you design a kind of tax code that's friendlier, it's incredibly -- and Richard actually has some experience designing public policy so I should defer to him on this -- but it's incredibly hard to make a tax code sensitive to all the sorts of changes in a person's circumstances that you'd want to. And (a) that's very hard to do, (b) it's really hard to do without building in all sorts of kind of odd incentives for people to behave in a certain way which might not actually be a desirable outcome. So I think, you know -- and there are definitely -- you know, the American tax code is certainly no model, but I'm not sure that you can sort of use it to get to kind of where you'd like to g et to ideally.

And just on the -- I supposed what I was trying to describe is a society it might be rather than my sort of ideal society. I mean, you know, there's an awful lot to like about 1950s America and a society in which public goods are provided from a very broad base of taxation and, you know, by governments and so forth. But, you know, some of the data that Charles just mentioned in terms of the number of people paying tax in America, you know if you extrapolate -- it's always a bit dangerous to extrapolate from current trends, you know, into the future but you don't have to go very far to get a to a place where the tax base is sort of incredibly narrow. And, you know, you're taxing really quite a small number of people to provide public goods for everyone. And in order to do that you're going to have to tax them so heavily that they may end up coming up with all sorts of avoidance strategies, even more sort of they do now. And in that situation you may be better off appealing to, you know, the kindness of strangers as he put it. And which is something that only works if you go back to, you know, that sort of slightly 18th century idea that, you know, if you are Bill Gates and you've done spectacularly well, you know, you have an obligation to provide, you know, some kind of welfare to the people, you know, at the bottom. And perhaps, you know, cross your fingers, perhaps they will turn out to do a better job through the Gates Foundation that some type of government bureaucracies. I do think Carol is absolutely right, this would be a society in which the variance between, you know, the standards of kind of public provided public services, by which I mean the kind of services free at the point of use or almost free would be greater. And that's, you know, that's something to think about.

MR. GAMESTER: A couple of more questions. The gentleman right at the back and then the gentleman here, just on the end of the row here.

MR. KLUMPNER: Hi, Jim Klumpner. A question for Charles Murray. I was confused by your argument about IQ and inequality. Are you saying that the variance of IQ in the United States I greater than the variance of IQ in Sweden and that's why we have more economic inequality?

MR. MURRAY: No, no. I'm saying --

MR. GAMESTER: Charles -- there we go.

MR. MURRAY: I was making a couple of points. One of them is that the more you equalize environment the more that the remaining differences are genetic. That's just an arithmetic tautology. And so in that sense the better you get at providing equal environments for all children the more that success is going to depend on these unearned things that are just as unearned as the fact that your father was an Earl. And that is going to be true not just in the United States, it is going to be true in every country in the world. Now you can institute public policies in Sweden which produce a level of income inequality which is X percent smaller than it is in the United States, yes. You can use public policy for those ends. I was suggesting to all of you that we're going to have to quit living in the Never Never Land in which American intellectuals seem to want to live, in which oh, if we only provide good pre-K education for everyone, then we'll see these wonderful increases in the bottom.

And, Carol, here's where -- the data are -- it's not one study it is study after study which says the environmental causes of differences are not things like how much people talk to their toddlers, how many words children are exposed to before they go to elementary school, how good the schools are. This goes all the way back to the Coleman Report, but now it's much more sophisticated. The environmental effects are overwhelmingly concentrated in what is called the non-shared environment. This is a finding which is a consensus across ideological differences among the social scientists who studied it. Non shared environment means things like peers, things like events in the womb; it could mean differences in the environments in which kids grew up because the parents divorced between the first and the second kid. But whatever the elements of the non-shared environment are none of them lend themselves to systematic, programmatic interventions with manipulate the environments. The things we know how to manipulate in the environment are not the things that are the source of environmental variation in things like IQ.

MR. GAMESTER: Can we take a couple of more questions. The gentleman on the end, just sort of just behind you there with the spectacles.

MR. SCHILLING: Yes, I'm Jed Schilling with the Millennium Institute. And I just wanted first to comment that we do work supporting sustainable development and worked in Buton to try to measure gross national happiness and couldn't get it into a single variable, so this is very interesting work on doing that. But we do link economic, environmental, and social factors in doing this.

I have three quick questions. One, on the point that was just made about the genetic basis of people's capacity, one thing those studies -- and you mentioned did not take account of which other studies have shown is very important is access to adequate nutrition for young people. And if young people aren't adequately -- nutrition and even their mothers during pregnancy their intellectual ability is significantly reduced. So here we have a question of not right to life, but right to equal opportunity and whether there ought to be some significant efforts to make sure that people receive adequate nutrition so that they can benefit from whatever genetic base that they have. So that would be one factor.

You had mentioned in the employment issue the story of a woman who had done very well from a $10 an hour job. I know a case where somebody has worked very well and lost two jobs because her bosses were worried that they might be losing their job to her. So you also have this factor in the structure of the environment where in many companies they're not promoting maximum efficiency, more senior people are supporting their own local short-term interests. So how do you deal with that? It's not perfect, but it's more normal what happens in many of the economy.

And the third question for Nathan is on all of the factors you took into account are very important, but there's another factor which I was going to say environment, but after Charles talked about environment as a situation which we live, I'll use echo systems or bio systems and why that isn't taken into account in looking at the long-term prosperity? Because one, it's a very important long-term factor to be taken into account. And I think that Norway or Finland would be doing very well in those areas because they're very environmentally conscious in protecting the environment so that we will have enough resources for the next generation, whereas the United States and places like China and India are not. And we do face this fear long-term challenge of continuing exponential growth when the resources on which we depend are not growing exponentially and we have to adapt to them because our global footprint is now one and a half planets and that is clearly not sustainable. So I think that's an important factor to take into account in this indicator that you have which is very interesting.

MR. GAMESTER: Thank you.

MR. MURRAY: Real quickly. I'm glad you raised that, Jed, because if you're talking about environmental effects there is a big effect on a variety of things including IQ between no education system and an education system. There is a big effect between -- well, okay, (inaudible) there are effects of poor nutrition on IQ of arguable size. And so if you're talking about the initial deficits of environment, such as no education versus education, yeah, there's an effect. Once you get beyond that it's not a linear function. So that the effect -- let's go with IQ -- the effect of having education is big. Once you have the education the fact that you go to National Cathedral School versus go to Valley Elementary School is not that big. And I use those examples because two of my children went to one and two of my children went to the other. So it's increments after those initial effects that don't have much.

MR. SCHILLING: My point was that they need to get adequate education regardless of which school they went to.

MR. MURRAY: Right, right.

MR. SCHILLING: (Inaudible) with nutrition.

MR. GAMESTER: I know that we haven't addressed all of those questions yet, but in the interests of time I do want to take a couple of more and then we'll come back to all of them. So there's a gentleman here in the red tie and then the lady two rows behind as well.

SPEAKER: I should pose this question which is from Norway in the sense of being boring I suppose. Just so you can hear the question and then you can hear the context, are you a little concerned that of 89 indicator variables to determine this Prosperity Index so many of them are subjective? And I would like to just mention two. I noticed one was confidence in government. This is a question to people, a polling result versus let's say something objective like the number of successive years in which the country has had successful and genuine democratic elections. One is objective, the other is subjective; another one is what is your tolerance of ignorance. Again a polling question as opposed to let's say an objective measure. An objective measure would how many immigrants find this country to be an attractive place to go, or do the flows of immigrants to this country, wouldn't that indicate more objectively the desirability of the country. Now my inclination is to think that people in rich countries have this extraordinarily high attitude about how good their government should be mostly because they've never seen what governments are like in Mexico, in Egypt, in the Ukraine, in Thailand. They don't know what bad government is and so when they are giving a subjective answer to this kind of question it's relative to what their expectations were five years ago. So maybe the governments is less good now in some miniscule aspect, but relative to the entire range of governments around the world, most rich countries don't even know what a bag government is. So I think the question is how concerned should users of this Index be that so many of the indicators are subjective when in fact there is an objective measure that could be offered instead? But I think by the way that this is an excellent report. I like it. (Laughter)

MR. GAMESTER: And I like the end of your question better than the start of your question. (Laughter) We're going to take one more question and then we'll answer those together.

SPEAKER: Okay. Mr. Murray mentioned that there are neighborhoods and communities in the U.S. where children or adolescents don't have examples of working males in front of them. And that is true. The root of this problem to some extent is the deliberately created residential segregation by race which was created about 100 years ago and persists in many places today, places like Chicago, and also places where residential segregation is more recent, say even in the last 10 years or 15 years we have growing residential segregation in some places. So would you like to speak about the role of residential segregation in constricting opportunity?

MR. GAMESTER: Thank you very much. Let me just answer very quickly the question about the Prosperity Index. Out of the 89 indicators that we used about 30-35 are subjective. And so the majority of the indicators are actually objective measures. But I completely take your point that there are differences in the information that you can get from subjective data versus objective data. And that's actually one of the reason why we used both types of data in the Index to ground or at least complement one another when looking at certain factors. So you mentioned governance for example. And of course the question do you have confidence in your government may get a different answer to actually some of the more objective data on how effective government is, whether or not the government is stable, you know, the more traditional objective measures of governance. And I completely agree with that point and that's exactly why we used the different types of data in the Index. And sometimes -- and Carol has made this point on several occasions -- that sometimes those two type of data complement each other and you have situations where objectively things are good and subjectively people respond in the same way, but actually there are examples where the two diverge. And sometimes the most interesting piece of an answer is come to look at the difference between the objective and the subjective data.

There was a second part to your question which was about how people in different countries -- well, to summarize it was sort of how you can compare one person's answer in one country to another person's answer in another country using the same question. I want to hand that over to Carol because I know that that's something that you've written about a lot.

MS. GRAHAM: You're handing me the tough question, right? (Laughter) Actually, no, it's a point I made in my opening remarks too that that's a huge problem. So that in some places the rankings -- say Finland or Norway, the boring places, right, you have high expectation that things work well so the subjective and then objective data sort of tell you the same thing. And then in other places, particularly places that have adapted to having bad government or bad health. You often get, you know -- the same percent of Kenyans are satisfied with their health as Americans and yet, you know, the objective conditions are very different; and example after example of that. And so one of the things -- and we've gone back and forth because I've always made the case that I would like to two indices, one of the subjective rankings and one of the objective rankings and then you really could see much more clearly where these differences are and where these quirks are. The problem is everybody wants one index, right. And I don't think that many people go get down and look at the different objective and subjective data and what they're telling you that's different which is where the interesting story is. But, you know, that's a question going forward, what's the best way to do this.

SPEAKER: Could you respond on my question about including environmental factors in your Index?

MR. GAMESTER: Of course. I'll respond very briefly because I'm conscious of time.

The short answer is there are environmental indicators in the Index. We don't have an individual category for the environment. We may do. We're looking to refresh and update the way we conduct the Index. And so it's sort of a partial answer, but when you look lower down there are indicators of the environment within the Index and watch this space because going forward we may decide to introduce an individual category of the environment.

Charles and then Richard.

MR. MURRAY: Real quickly, on the question about racial segregation as a contributing factor to young males not having examples in the neighborhood. I would say socioeconomic segregation which has been increasing very rapidly over the last couple of decades is at least equally important with that. And the proof there is you go to white lower class communities and the residential segregation is such that you can very easily have white lower class communities where they have very few role models.

MR. REEVES: I agree with Gary about the worries about subjectivity. I worried about the immigration question as well. I think that one of the things that can reduce tolerance to immigration is high levels of immigration then becomes highly politicized. And so one way to apparently be tolerant of it is not to have very much of it and I'm not sure we necessarily want that.

I agree with Charles about economic segregation being the new story. There isn't a lot of race segregation, but economic segregation is rising. But I also think that underlying the sort of working male role model thing there's a danger always in conservatism and it ends up being one or another form of "bring backery", it's bring back X, bring back the traditional family, bring back the labor market, bring back whatever. And whether we like it or not I think the kind of wave of feminism and the changes in the U.S. labor market mean that the kind of 1950s model which there was a lot to dislike about as well as stuff to like about isn't coming back.

And then lastly I do think that -- I don't know the study that Charles has referred to on genetics, but I think it's a more contested field still than perhaps he has suggested. And I hope that the studies which suggest that genetics don't play such a strong part in the things that matter most for labor market success hold up better than Charles has suggested because if it turns out that we're not responsible for lots of the things that we end up doing it reduces the scope of personal responsibility, for personal agency. And that I think leads you to a conclusion which is that we should have massive redistribution. And then you're talking place where if we're really not responsible for the outcomes in our life and we really are just inheriting it, that's an argument for kind of levels of redistribution that are currently witnessed nowhere in the world, let alone in the U.S.

MR. GAMESTER: Well, Richard, thank you. On that note I think this is a conversation that could go on and on, and maybe it will once we've drawn formal proceedings to a close. Please do help yourself to food and drink which is at the back.

It just leaves me to say thank you very much to you all for coming and also thank you to the panelists as well. (Applause)

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