

THE HERITAGE LECTURES

No. 603

Why Strong Social Institutions
Are Needed to Survive
Economic Growth

by Stuart M. Butler



Founded in 1973, The Heritage Foundation is a research and educational institute—a think tank—whose mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense.

Heritage's staff pursues this mission by performing timely and accurate research addressing key policy issues and effectively marketing these findings to its primary audiences: members of Congress, key congressional staff members, policy makers in the executive branch, the nation's news media, and the academic and policy communities. Heritage's products include publications, articles, lectures, conferences, and meetings.

Governed by an independent Board of Trustees, The Heritage Foundation is a non-partisan, tax exempt institution. Heritage relies on the private financial support of the general public—individuals, foundations, and corporations—for its income, and accepts no government funds and performs no contract work. Heritage is one of the nation's largest public policy research organizations. More than 200,000 contributors make it the most broadly supported in America.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, D.C. 20002-4999
202/546-4400
<http://www.heritage.org>

Why Strong Social Institutions Are Needed To Survive Economic Growth

Stuart M. Butler

People all over the world have concerns about the impact of economic growth on their societies. There is no question that people gain from growth. There is also no question that economic growth changes the institutions of a society in profound ways, some of which may be very unwelcome. But what is often not fully appreciated is that strong social institutions improve the ability of people to take advantage of economic opportunity and to withstand the turbulence and strains associated with economic change.

History shows that periods of change and greater access to new ideas lead people to think differently—not just about economic opportunity, but also about the social and political structures of their nation. This rethinking can trigger a welcome surge of excitement, creativity, and enterprise. People begin to challenge outdated ideas and social arrangements that previously had been universally accepted but now act as constraints. However, this rethinking of institutions can also have a disturbing side. It can lead to the weakening of institutions that are far more important than people had realized—institutions that are essential for a society to deal with and take advantage of the opportunities that are available by access to the wider world.

Decades ago, people who lived in the more open economies were not affected by new ideas from the outside to the degree they are today under globalization. Communication between individuals was limited and much slower. Ordinary people rarely traveled significant distances. It is only recently that this has begun to change. Consider this: Just 20 years ago, overseas calls represented 5 percent of the U.S. telephone industry's revenues; today, they represent 20 percent. Over those same 20 years or so, international air travel literally opened up new vistas to ordinary people in the advanced countries. And, of course, television has saturated almost every home in every society with information, ideas, and different visions of what people's lives could be like. The outside world influences open societies as never before.

The institutions most under threat today are the family, the organized practice of religion, and the many organizations that can be classified as “community.” Until recently, it was thought that the erosion of these institutions was merely an unfortunate byproduct of economic improvement and change—maybe even a necessary byproduct. But now we are beginning to recognize that these institutions actually are crucial to our ability to respond to economic change. Experience suggests strongly that they play a critical role in enabling us to take advantage of change rather than being ground down by it.

While many Western countries display the characteristics I will discuss here, I will use two particular countries to illustrate some of my points—the United States and Britain. Both have undergone changes in recent decades that have been shaped in large part by

Stuart M. Butler is Vice President of Domestic Policy at The Heritage Foundation.

He spoke at the ICARE (Instituto Chileno de Administracion Racional de Empresas) annual conference in Santiago, Chile, on October 28, 1997.

ISSN 0272-1155 © 1997 by The Heritage Foundation.

the same kind of challenges now facing the newer economies. The United States, of course, has long experienced the economic and social changes associated with globalization. The people of the United States have also been affected by the popular American culture, which is now being exported through movies and television to other countries and influencing their cultures. Britain's experience is relevant because, since World War II, it has undergone the wrenching changes associated with shifting its focus from its empire to Europe. This access to continental Europe triggered similar political and economic changes in countries now changing their focus to the wider world.

THE FAMILY AS FOUNDATION FOR SOCIAL AND ECONOMIC STABILITY

In Britain and the United States, it is no exaggeration to say that the family is on the brink of collapse. Today, the illegitimacy rates in Britain and the United States are over 30 percent. And remember, that is their average rate. In the African-American community in the United States, it is a staggering 69 percent. In other words, more than two out of three black children in America today are born to unmarried women. We now have black communities in American cities in which virtually every child grows up without a father in the home. And the white population is catching up fast; indeed, the white illegitimacy rate in the United States is near where the black rate was about 30 years ago.

We should be aware that the collapse of family as an institution can occur quite suddenly. Look at Britain. Between 1550—the time of King Henry VIII—and 1950, the illegitimacy rate in England never went above 5 percent, according to the best data available. But since 1950, it has increased sixfold. Like Britain, the illegitimacy rate in the United States did not exceed 5 percent until 1960. Today, it is over 30 percent. And we should not think we can blame it all on the Protestants. In Catholic Ireland, the illegitimacy rate was below 1 percent until 1970. It is now 25 percent. Significantly, Chile and other Latin American countries are also experiencing a rapid increase in their illegitimacy rates.

There are many reasons for this alarming trend in illegitimacy. One is ill-considered government policies. Welfare programs for the poor in many countries have tried to give the greatest help to broken families for whom the need is perceived to be greatest. This seems very reasonable. But that help has encouraged family instability and illegitimate births by effectively rewarding these conditions. And easing divorce laws has not only increased the breakup of existing families, but also appears to alter people's desire to marry by devaluing the institution of marriage. Since Britain eased its divorce laws in 1969, its first-time marriage rate has fallen sharply.

In addition to the messages given by perverse government policies, people in Western countries have come to think differently about marriage and family in large part because of ideas and pressures they encounter in the modern world. One particularly strong influence is the media: People's customs and ethics are challenged daily by what they see on television.

The enormous economic opportunities available to women, as well as to men, in a rapidly growing international economy also place enormous strains on families. The fact is that being flexible about family obligations generally makes it easier for people to advance in a changing economy; putting your family first generally makes it more difficult to advance.

But so what? Why does this matter? Isn't the decline of family just a lifestyle change that is the consequence of living in the modern global economy? Isn't it a change that

may upset traditionalists but has no dire consequences, and may even allow people to adjust more easily to today's demands and opportunities?

Regrettably, the facts suggest otherwise. The reason for alarm is that newer research indicates that children brought up without a father face a staggeringly high risk of later social and economic problems. These problems make them much less equipped to deal with the opportunities and challenges of a growing, open economy.

In case you think I am exaggerating, consider this: Data from the United States indicate that even after adjusting for family income, children brought up in fatherless homes experience much slower cognitive and verbal development; are far less likely to succeed in school and far less likely to find good jobs and earn good incomes; and far more likely to commit crimes, far more likely to abuse their own children, and far more likely to end up on welfare. In other words, the children of broken families today are far less likely to succeed tomorrow—especially in a changing and demanding economy.

Data from Britain and other countries show similar patterns. These data underscore the critical economic function of families pointed out by Nobel economist Gary Becker of the University of Chicago in a recent speech in Venezuela. Becker described the crucial role of families as a source of investment in the human capital of the next generation. By human capital, he means not just the knowledge and skills that parents pass down to their children, but also the set of beliefs, customs, and ethics that strengthen the ability of children in later life to withstand the pressures of economic and social change. All of us know how important our own parents were in shaping our values and strength of character. But when the family institution crumbles, the ability of the next generation to function is severely reduced. That's why, in the United States and Britain, there is growing alarm about the economic as well as the social consequences of the decline of the family. It is noteworthy that those countries having unusually strong family institutions today, such as the Asian nations, are experiencing generally faster growth rates in the new global economy than are the older Western countries. Moreover, within the United States and Britain, the Asian community—with its stronger families and lower illegitimacy rates—has been doing far better economically than the rest of the population.

Not only is the institution of the family at risk in a changing society, but a foundation of strong families is essential for a nation to take full advantage of the opportunities presented by economic change. Intact families are crucial economic units. In fact, says Gary Becker, the data suggest that the long-term economic benefits of family stability are so great that the value to the national economy of a woman staying at home raising children may, over the long run, actually be greater than the income of her working husband.

THE RELATIONSHIP BETWEEN ORGANIZED RELIGION AND FREEDOM

What is true of the family is also true to a large extent of the institution of organized religion. In Britain and the United States, as in many other Western countries, the perceived value of religious practice has declined in recent decades. Changes in the economy and the access of people to new and challenging ideas have had the effect of causing many people to think of churches and religious practice as somehow outdated, or at least of little real value. But one of the results of this attitude, like the growing absence of two parents in a family, has been to weaken the ethical and social foundation of these countries. And paradoxically, the very freedom and opportunity that led people to reduce their enthusiasm for religious practice has eroded the strong moral foundation that people need in order to prosper and be happy in the new era of freedom.

This circular relationship between freedom, strong religious practice, and the ability to take advantage of freedom is illustrated in an interesting way by the soul-searching now going on in the Jewish community in the United States. For centuries, Jews around the world have reached back to their religious and ethical roots to help them withstand persecution. But the fear now in the American Jewish community is that freedom and acceptance in the United States means Judaism is at risk of disintegrating through intermarriage and the abandonment of religious observance. That in turn has made many in the American Jewish community worry that Jews may begin to experience much of the economic erosion and social problems that afflict other groups in the society. As a rabbi put it recently in a synagogue sermon in Washington, D.C., "Our existence was threatened in the past because people hated us. Now we are threatened because people love us so much they want to marry us."

Like the data on families, the data on churchgoing also show significant economic and social benefits associated with religious practice. After adjusting for family income, for instance, people who are regular churchgoers are more likely to be married and to have stable and happy marriages. They are far less likely to have problems in life with drug or alcohol addiction, or to commit crimes, or to suffer illness. People who attend church regularly also have more stable patterns of employment and experience stronger income growth over time. The stabilizing influence of religion is very strong, and it reinforces the stability provided by the institution of family.

Not only does religious practice seem to help prevent social and economic disintegration, but it can lead to a dramatic turnaround for people whose lives have fallen apart. Studies in the United States and Britain show remarkable successes for religious-based anti-drug and anti-poverty programs. On the other hand, feelings of alienation and confusion seem to accompany rapid economic change in countries where religious institutions have grown weaker, such as Britain. Consider the remarkable outpouring of public emotion in Britain during the funeral of Princess Diana. The English are not exactly known for displays of mass hysteria. What was particularly interesting were the comments of many ordinary Britons in the street who tried to explain their depth of emotion. In case after case, people said that one of the main reasons they were so upset was that they identified deeply with Princess Diana's sense of betrayal, anxiety, and alienation in her daily life.

Interestingly, just as a recognition of the importance of the family has begun to develop in Britain, the United States, and other similar countries, recognition of the role and value of religion also seems to be making a strong comeback. The United States has always been a relatively religious country. But we have seen a rapid growth of more fundamentalist Christian churches in recent years, especially among middle-class and lower-income people. The pace and uncertainty of life have caused many to embrace churches with strong ethical and moral requirements. In a recent example of this development, almost a million Christian men came to Washington in a remarkable display of repentance and emotion, and expressing their desire to strengthen their own families and communities through a greater commitment to Christian values.

So it is that religious practice has a critical economic role, just like families. It is crucial to the ability of a society to deal with the strains that accompany economic opportunity.

THE VALUE AND PROTECTION OF THE COMMUNITY

The third institution that plays such a role is the collection of organizations and associations that can be loosely called “community.” What do I mean by the word community? I mean those formal or informal associations that bind people together in some way. It can be the neighborhood you live in, with the relationships and way of life that give the place an identity of its own. It can be a trade union, in which workers band together. Or it can be a church, where the institution not only serves a religious purpose, but also gives a sense of identity and stability to its members.

These institutions of community fulfill three functions that are particularly important in a changing world:

First, they enable people to act together for some common objective or simply to protect each other from the pressures and uncertainties of a changing world. In this way, they reduce anxiety and the feeling of being overwhelmed by change. One of the ways in which communities typically do this is by including a system of rules or codes of behavior. Often these expected behaviors are not even put in writing. Think about our own neighborhoods: We have to behave in certain ways to be accepted, and these invisible rules we follow strengthen our communities and enable them to function effectively. The rules and codes provide a strong framework or skeleton that enables individuals to gain strength from the structure itself.

Second, the institutions of community serve to reinforce the general ethics of the society. Thus, in combination with strong families and a strong sense of religious commitment, communities are another element in a social system of ethics that provides a stable foundation helping people to withstand change.

The third related function of the community institution is that it acts as an intermediary or bridge between the individual and the larger, more impersonal institutions of a society, such as government or large businesses. This feature of community institutions makes them in a sense representative bodies, as well as organizations that may provide services on a more human scale to the individuals within those communities. (I will say more about this in a moment when I talk about how we can strengthen societies to deal with change.)

The desire of individuals to be part of a community, for the reasons I mentioned, can lead to community institutions that are sometimes quite unusual and occasionally very disturbing. Let me mention three examples to illustrate this point.

In Korea and other Asian countries, sophisticated loan associations developed over the years when banking was primitive in order to capitalize new ventures. These loan associations had very strict codes of behavior regarding the obligation to pay back loans and to lend to the common pool of capital. People from these countries emigrated to the United States, and in many American cities they set up the same institutions—with their own codes of behavior—in the neighborhoods where they had settled. So today, in many relatively poor parts of American cities, there is an Asian loan and investment system running in parallel with the official banking system. Significantly, the strong social obligations on borrowers mean these associations are quite prepared to lend in high-risk neighborhoods, unlike the official banks. Thus, in many American cities, successful Asian enterprises exist in neighborhoods where other groups that lack this strong community institution, such as African-Americans, find it extremely difficult to start and succeed in business.

The second example concerns the American West. Everyone is familiar with movies showing covered wagons traveling west to open up the wilderness, and with the stereotype of the rugged, individualistic American pioneer, depending entirely on his own efforts to be successful. But in fact, the wagon trains moving west were very tightly knit communities. Most of these groups actually had a written constitution and a system of strict rules and expectations for their members. Everything was extremely formal and collective. They were very strong communities. They just happened to be mobile communities. And the pioneers formed these tight communities with their rules to enable them to deal with unexpected dangers and to take advantage of vast opportunities. Without these artificial but strong communities, many of the individuals in those wagons literally would have perished.

A third example of communities is a very negative one; namely, the urban gangs. Increasingly, in American cities and in the cities of other countries, we see gangs of young men exploiting their neighborhoods. But one of the interesting features of these gangs is that they have very strong internal rules and codes of behavior. In fact, when you talk at length to former gang members, as I have done, you find that many young men gravitate to gangs precisely because they offer the firm rules and identity that these young men lack in other parts of their lives. Invariably, the members of gangs are people whose own families have disintegrated, and the other institutions around them have eroded or collapsed.

The reason I mention this last example is because it underscores the fact that people are determined to belong to community institutions, even bad ones, because they want the value and protection that comes with structure. So if good community institutions decline, bad ones will take over.

The problem today in many countries facing change is that the community institutions that are so important for the reasons I have mentioned are under enormous pressure. One reason for this is simply that modern governments and modern people tend to overlook the importance of communities and community institutions and thus do not take into account how economic and social change can undermine them. This often happens in the case of urban development. All too often, urban planners completely overlook the subtle but crucial importance of strong neighborhoods and community institutions when they develop new cities and neighborhoods. As cities grow, this can lead to alienation and severe social problems. It means that the people affected are less able to withstand the pressures of change. This can lead to severe political and social problems, and sometimes even to a radical reaction against modernization.

HOW POLICIES PROMOTING STRONG SOCIAL INSTITUTIONS PROMOTE ECONOMIC PROSPERITY

What, then, can be done to make the impact of globalization and economic growth on society as benign and beneficial as possible? How can we make sure that economic growth and opportunity can be reconciled with the maintenance of traditional values and institutions—and ensure that the institutions are strengthened to be prepared to take advantage of new economic opportunities? And to the extent that government is involved in designing policies to deal with these questions, what are the general principles that need to be kept in mind?

We should start answering these questions by applying to social policy the principle that Hippocrates applied to medicine: First, do no harm. The track record of governments in general shows that they have ignored Hippocrates' advice. For example, governments

all over the Western world have constructed welfare systems that undermine the family as an institution. The United States has just gone through a wrenching debate over welfare reform. As a result of that debate, it is now generally accepted that when a welfare system ignores the crucial importance of preserving intact families and rewarding work, it helps to increase the illegitimacy rate to the devastating levels I mentioned earlier. But even taking corrective action now means that the United States is still going to experience many decades of damage resulting from its ill-conceived welfare systems of the past.

It is far better, of course, to avoid bad welfare policies in the first place. There are always calls for a stronger social safety net to ensure that economic growth does not leave people behind. But we must make sure that any approach to social services and social welfare specifically seeks to protect and strengthen the family unit, rather than focusing on strictly shattered families, because if it focuses only on broken families, we will simply get more of such households.

Governments also generally have had a poor record in pursuing tax policies designed to strengthen the family while spurring economic improvement. In both Britain and the United States, the Social Security system is a good example of tax policies that have resulted in lower savings by ordinary families and a retirement system that has reduced family wealth creation rather than increasing it.

Governments in many countries have, in addition, done much to weaken the institution of marriage through easier divorce laws. It is very important that we do not fall into this trap of assuming that a more liberal approach to marriage is somehow the more modern thing to do. In countries around the world, we are learning the hard way that making marriage easier to dissolve also makes it appear a less valuable institution to the young.

Furthermore, governments have tended to weaken the social function of community institutions and religious organizations, usually unintentionally and often while actually trying to strengthen these organizations. A friend of mine has characterized the typical result of government action in this area as "The helping hand strikes again." This unintended effect can occur for several reasons. One of the most common reasons is government's desire to raise the quality of services provided to the needy. Governments in Britain, the United States, and elsewhere, for instance, have introduced licensing and other regulations for social service providers with the intent of improving standards. However, the most effective community and religious institutions providing social services tend to be operated by people without professional qualifications in those areas. So the result of regulations is that many successful organizations are actually barred from helping people—or at least from providing services through any government program.

Even policies designed to privatize social services can have this effect. In Britain and in the United States, governments often have privatized social services through contracts with private professional organizations with no particular connection to any community. The result has been the growth of expensive and impersonal social service businesses—businesses that lack the values and local identity of traditional community organizations. Worse still, these private organizations typically lobby government to increase licensing and other barriers in order to freeze out competition from the traditional organizations. Just as disturbing, even when government decides to privatize by contracting with the traditional community institutions, the usual result is that these institutions become more and more dependent on government, and the government's agenda becomes their agenda. Slowly but surely, they cease to be true community institutions and instead become agents of the state.

In some cases, government has literally eliminated community institutions, as in the case of urban development. In city after city in Western countries, well-meaning attempts to improve neighborhoods have been accomplished with bulldozers and new construction. But the bulldozers do not just remove unsightly buildings. They also destroy the less visible community institutions that hold a neighborhood together. The result in some cities has been a distressing paradox: an urban wilderness of violence and social problems in neighborhoods where the buildings win architectural awards.

Preserving the Family. What should policymakers do, besides doing no harm? The most important goal, without question, should be to preserve the family by strengthening marriage. The family, as I have tried to show, is the most important institution in dealing with change. It is important both as a means of protecting moral values and traditions and as the means of providing children with the human capital they need to succeed in adulthood. But while preserving the family must be the primary goal, this can be accomplished only in a society in which the other institutions I referred to are healthy.

If we think that only the government can accomplish this objective, or is even the most important tool to do so, we are likely to fail. The most important way to strengthen all these institutions is to raise understanding through public discussions so that ordinary people instinctively understand their importance and act accordingly. So I would suggest that we take steps to foster a much more intensive public discussion of the critical economic and social role of families.

This discussion should include a thorough discussion of the essential but very different roles of husbands and wives. I don't want to sound like a male chauvinist, because the role of the mother in equipping children to survive in the changing world is vital, but I do think that much of the discussion should now focus on the role of the father. In recent decades, the father's role has become less and less understood, with men being seen increasingly as merely a source of cash for a family. That is one reason why government policies have unwittingly undermined the role of fathers and helped to trigger the collapse of families and the institution of the family in general. Even men often underestimated their own roles and obligations in contributing to the human capital of their children, as role models and guides. One of the strong themes of the Promise Keepers organization is to remind men of their role and their obligation in holding a family together.

Much of the erosion of understanding of the dynamics of families stems from the trivialization of the institution on television. So it is important to force a debate within the media. Look at the campaign by some public figures, such as former Education Secretary William Bennett, to embarrass media company executives by confronting them at stockholders' meetings with examples of the trivial and destructive programs they are financing. Such efforts are slowly causing changes in program content without regulation. Meanwhile, in America we are introducing a system of television ratings that at least informs parents about the content of particular programs.

A public discussion should, of course, also examine the role of religious and community institutions. It is important to study these institutions and to talk about them so that there is a better understanding of their importance. Politicians may or may not have a role in this debate. In Britain during the 1980s, Margaret Thatcher constantly emphasized the importance of these fundamental institutions, and did much to trigger the rethinking that is now continuing. Prime Minister Tony Blair also is not embarrassed to talk about values and family. In America, on the other hand, while politicians vigorously discuss these issues, I think it is accurate to say there is a widespread degree of public cynicism whenever politicians talk about values.

On the other hand, church leaders and business leaders have the opportunity and platform to push the public debate. In fact, I believe business leaders may be placed best of all, precisely because ordinary people do not typically expect them to talk about anything other than commerce.

Reforming Welfare and Tax Policy. So what should the government do? Several things besides doing no harm. The first is to make sure the welfare system promotes marriage and work, not illegitimacy and non-work. If we look at the evidence, there seems to be three keys to staying out of poverty. First, finish school. Second, get a job—any job—and stick with it. Third, get married and have a job, or have a spouse with a job, before you have children. So for a welfare system to work, it must have financial incentives and—just as important—social pressures reflecting these three keys. In practice, this means three policy directives:

- **First**, all benefits for people with school-age children must be tied to work—ideally, work in the private sector but, if necessary, public service.
- **Second**, government must focus on achieving a system of sound, basic public education so people acquire the fundamental skills they need to be trainable in the workplace.
- **Third**, taxes and benefits should be such that people who marry, have children, and work earn higher incomes than those on welfare.

Governments also can change tax laws and Social Security programs to strengthen the ability of working families to build savings and assets to pass on from one generation to the next. In the case of Social Security, of course, that is exactly what has been happening in Chile and Britain, among other countries. The Chilean and British reforms are a model pertinent to all, and the work of people like Jose Piñera, the Chilean Minister of Labor responsible for privatizing the state pension system, has contributed to a profound change in the public debate in the United States.

Empowering the Community. The broad way in which government can strengthen families is by giving them far greater control, especially financial control, over the design of services they receive and the choice over who should provide those services. In the United States, we often call this empowerment. The simple fact is that institutions grow weaker when they are not able to exercise real power. That has been increasingly so with the family. But there are ways in which policy reforms can change the power structure to strengthen the role of families.

The same is also true of the social role of community and religious institutions. These institutions can be strengthened by giving ordinary people the ability to vote with their feet by deciding, as individuals, which institutions and organizations will receive money and play a crucial part in their lives.

Let me emphasize that what I am talking about is not the same as decentralization or privatization, although it may involve both. Both decentralization and privatization are needed to achieve democracy and economic improvement. But decentralization can mean bad government that is merely closer to your community. That certainly is better than remote government, but it still may not empower families and stimulate local institutions.

Nor does privatization necessarily strengthen these institutions, as I mentioned earlier. The key to privatizing social services is to avoid contracting with organizations as the form of privatization, and instead to focus on some form of vouchers. Vouchers put financial power in the hands of ordinary people, rather than government officials, to decide who will provide the services. And we know from experience that if they are allowed to,

people will tend to turn to local organizations they know. Just as important, and unlike contracting, vouchers mean the provider of services must satisfy the people served, not the government, in order to prosper. That is why in education, health care, housing, employment training, and other areas, vouchers—not private contracting—is the right way to privatize.

Consider some practical examples of what I have described.

One such example is in housing. In addition to vouchers and housing subsidies to help renters, housing policy designed to increase ownership among low-income people has been a powerful way to strengthen community institutions. I have seen several clear instances of this. In the early 1970s, and more aggressively in the 1980s under Margaret Thatcher, Britain embarked on a policy of selling public housing to tenants at deep discounts. The effect has been quite remarkable. You can walk through neighborhoods in Britain that once were 100 percent public housing and pick out the houses that have been purchased under this program. The doors are freshly painted. Gardens are improved and maintenance is up-to-date. And the neighborhood has taken on a new life because people now have an ownership stake in the future.

In the United States, we have been experimenting with tenant management and ownership of public housing. While ownership has been transferred in only a few instances, control of the organization and management of buildings has been transferred to tenants in many cases. One result of transferring the property right of management is that buildings that were once decaying are now being properly maintained. Empowering tenants in this way has given them the incentive to work collectively to improve their future. In several instances, resident groups have taken steps to develop businesses and social service organizations within their neighborhood. In other words, the transference of control itself has strengthened or actually created the community institutions that are so crucial in dealing with change.

Perhaps the most remarkable housing example of all for me came on a trip I took to the Philippines some 15 years ago. A World Bank official took me to one of the squatter communities on the edge of Manila. In this area, the World Bank had merely provided concrete foundations and water and sewer connections to a number of individual sites. But crucially, in return the government had given the squatters either property rights or a 99-year lease on a site. Those two steps transformed the area. Instead of the typical wooden shacks, there were three- and four-story buildings. The official told me, “We used to give housing aid to places like this, and then I would come back a few years later to see how the housing had deteriorated. Now we do this and I come back to see how the neighborhood has improved.” The crucial change, of course, was ownership.

It is also very important to permit people the widest latitude in controlling not just their own property, but also the use of buildings in the community in which they live. Such freedom often leads to a mixture of homes and businesses that urban planners would consider chaotic. But experience shows this freedom is what leads to strong communities. By contrast, the gleaming, orderly, and carefully planned communities built by many governments in Latin America and elsewhere have rarely led to strong stable communities.

Another practical example is in health care. Communities can be strengthened, perhaps surprisingly, by wise health care policies. One element of a successful health care program is to give much wider choice and financial control to patients. That has been a trend in a number of countries, and you have taken steps in that direction here in Chile. Choice and competition in health care stimulates innovation and efficiency.

But there is another aspect of reform to consider. I mentioned much earlier that one of the crucial features of community institutions is that they act as a humanizing bridge between the individual and very large impersonal institutions in society. In health care, there seems to be a desperate need for such intermediary institutions. In the United States, we have a strong and competitive health care market, and we have seen the growth of very competitive medical business organizations. But there is a growing concern among Americans that these health organizations are remote and impersonal. Increasingly, people say these organizations do not take into account the anxiety of ordinary people that stems from their confusion about health care and their feeling of vulnerability when they are sick. That has led to increasing demands for controls and regulations on these private companies. In other words, ordinary Americans feel increasingly powerless in a provider-dominated market, and they want the government to protect them. But needless to say, this regulation will slow down innovation and increase costs.

A better way to deal with this public concern would be to make it easier, through deregulation, for intermediary institutions that are part of the community to act as organizers of health care. By this, I do not mean they should practice medicine. What I do mean is that sophisticated and fairly large community institutions, such as churches and unions, could act as sophisticated buyers of health care for their own members. The individual would not be locked into a particular intermediary, but could choose between different membership organizations.

As it happens, about 10 million government workers and legislators in the United States are actually under such a system. In this system, unions and other employee-sponsored organizations negotiate with insurers, hospitals, and even individual doctors on behalf of groups of employees. The important point is that these organizations are part of the community. They are not artificial structures developed by government, nor are they medical or insurance organizations. This arrangement has led to a very different and more harmonious relationship between the employees and the health care system. Right now, there is great interest outside the government employee system for organizations such as churches in the black community to carry out the same intermediary function.

CONCLUSION

I have suggested ways to stabilize the institutions and values of a society in order to take advantage of economic change rather than being weakened by it. Many developing countries do not yet face the calamity we are now dealing with in the United States and, to a lesser extent, Europe. The basic institutions I have emphasized as critical to dealing with change are largely intact in these developing countries. If they were as strong in countries like the United States and Britain, there would be less turmoil and anxiety today.

To put it another way, although the so-called First World countries of Europe and North America may have the most advanced economies, their social institutions are not well-positioned to deal with a changing world. It is the countries of South America and Asia, on the other hand, that could be said to have established a strong "first world" family and community infrastructure.