The Health, Wealth and Happiness of Nations
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“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”

Smith (Wealth of Nations (1776))
“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”

Smith (Wealth of Nations (1776))

“No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable.”

Smith (Wealth of Nations (1776))
“Designing institutions to force (or nudge) entirely self-interested individuals to achieve better outcomes has been the major goal posited by policy analysts for governments to accomplish for much of the past half century. Extensive empirical research leads me to argue that, instead, a core goal of public policy should be to facilitate the development of institutions that bring out the best in humans.”

Elinor Ostrom (Nobel Lecture, (2009))
Plan

• Enlightenment then

• Six Pillars of Success

• Enlightenment Now?

• The New Pillars of Success

➢ “Community Capitalism”
Wealth

Income

Real GDP per capita (2013 prices)

1776

0 5,000 10,000 15,000 20,000 25,000 30,000

1270 1370 1470 1570 1670 1770 1870 1970

Sources: Bank of England Millennium of Data

Wealth

UK wealth per capita £ (2000 prices)

1776

0 50,000 100,000 150,000 200,000 250,000 300,000 350,000 400,000 450,000

1760 1800 1840 1880 1920 1960 2000

Source: McLaughlin, E. et al. (2014) 'Historical wealth accounts for Britain: progress and puzzles in measuring the sustainability of economic growth'
Sources: Our World in Data, based on data from Bourguignon & Morrisson (1820-1992), and the World Bank (1981-2015)
The image presents two graphs related to health trends over time:

1. **UK Life Expectancy, Years**
   - The graph shows the increase in life expectancy in the UK from 1776 to 2008.
   - Key milestones include the Bronze Age (starchy diets, 1,500 years ago) and Hunter-gatherers (2 million years ago).
   - The data sources are Our World in Data and *Enlightenment Now*.

2. **Children Born per Woman (UK)**
   - This graph illustrates the change in fertility rates from 1841 to 2016, focusing on the proportion of children surviving past age 5 and those dying before age 5.
   - The data sources are Our World in Data calculations, based on Gapminder data.

The graphs highlight significant improvements in health and survival rates over the centuries, reflecting advancements in medical knowledge, sanitation, and public health initiatives.
Happiness

Social development points

Year

1  200  400  600  800  1000  1200  1400  1600  1800  2000

1776

1000

100

10

Hours worked (per week, average)

Year

500  1550  1600  1650  1700  1750  1800  1850  1900  1950  2000

1776

Sources: Morris (2010, 2011).

Sources: Bank of England Millennium of Data
The Consumption Basket

Political Economy

Percentage of years in which the 'Great Powers' fought one another

Sources: Levy (1992) and Bank calculations.
Political Economy

1816

2015

Source: Our World In Data, Wimmer and Min (2006), Centre for Systemic Peace

BANK OF ENGLAND
What Happened?

• Neo-classical story: *private innovation* inspires an (industrial) revolution

Spinning Jenny

Water Frame

Steam Engine

Hargreaves (1764)  
Arkwright (1769)  
Watt (1775)
Problems with this Neo-classical Story

• How do we explain the inflection point?
  ➢ The long history of innovation

• How do we explain the patterns of growth?
  ➢ The long history of booms and busts
Timeline of Innovation

12th C

13th C

14th C

15th C

16th C

17th C

18th C
Long-Run Growth Decomposed

Average 10-year growth (%)

Sources: Broadberry and Wallis (2017) and Bank calculations
Six Pillars of Success

• *Private, public* and *third* sectors – mutually-supporting

• *Institutions* as much as innovation explained the Golden Era

- Public limited company
- Limited liability banking
- Measurement systems
- Public education
- Public infrastructure
- Civil society
The Rise of the PLC

Companies in the UK

Limited companies per thousand people

Corporate equity


Nominal paid up capital (Hannah (2014))
Nominal paid up capital (Joint stock companies incl. railways prior to 1948)
Market value (Revell(1967))
Market value (PNFC and FC balance sheets)
Market value (Hannah (2015) for 1910)

The Rise of Banking

Broad money (% of GDP)

Per cent of nominal GDP

Number of bank branches


Measurement Systems - The Rise of the Auditor

Number of accountants

Measurement Systems - The Rise of GDP

Number of countries with GDP/income estimates in UN statistical accounts

Number of countries/areas with national income estimates

Sources: United Nations and Bank calculations.
Source: Barro and Lee (2016).
The Rise of Public Spending

Government spending as a share of output (%)

Source: Clark (2009).
The Rise of Transport

**Roads**

- Mileage
- Source: Cambridge Group for the History of Population and Social Structure (LHS), and Department for Transport (RHS)

**Rail**

- Miles
- Source: Cambridge Group for the History of Population and Social Structure and Office of Rail and Road.

Turnpike Roadway (LHS)

RHS

1830 1850 1870 1890 1910 1930 1950 1970 1990 2010

Mileage

- 0
- 5,000
- 10,000
- 15,000
- 20,000
- 25,000
- 30,000
- 35,000
- 40,000

1600 1650 1700 1750 1800 1850 1900 1950 2000

Miles

- 0
- 5,000
- 10,000
- 15,000
- 20,000
- 25,000
- 30,000
- 35,000
- 40,000

1600 1650 1700 1750 1800 1850 1900 1950 2000
The Rise of Charities

Number of registered charities

Enlightenment Now?

- Wealth, health, happiness no longer ascending for everyone
- Signs of erosion of the six pillars
- From “Age of Enlightenment” to “Era of Anxiety”
- ‘Market economy’ model – “capitalism” – being questioned
Wage Stagnation

Real wages

Index, 1965 = 100

Sources: US Bureau of Economic Analysis, ONS and Bank calculations.
Wage Stagnation

Median real weekly employee pay (CPIH-adjusted to 2018 prices), by age and cohort, 1975-2018

Falling Home Ownership


(In-work) Poverty Rising?

Source: Joseph Rowntree Foundation (2020).
Peak Health?

Male life expectancy at birth (years)

Source: ONS.
Peak Health?

Prescriptions for anti-depressants

Defined daily dosage per 1,000 people per day

- Iceland
- US
- Australia
- UK
- Sweden
- Spain
- Norway
- Germany
- France

Guardian Graphic | Source: OECD. Note: According to the World Health Organization, defined daily dosage is the assumed average maintenance dose per day for a drug used for its main indication in adults.
Peak Climate?

How concerned, if at all, are you about climate change?

[Graph showing percentage of concerned and not concerned from 2005 to 2019]
Peak Happiness? - Easterlin Paradox

Life Ladder (2018 Gallup world poll)

GDP per capita, PPP (current international $)

Sources: Gallup and OECD
Rising Inequality?

Within Country

Mean log deviation

Regional Inequality in UK


Source: Industrial Strategy Council (2020).
Rising Populism?

Populist vote share in Europe

Source: The Guardian.
Death of the Public Company?

Net issuance

- Issuance
- Buybacks
- Net Issuance

£bn

Source: Bank of England and Bank calculations.

London Stock Exchange

- IPO (Main market (LHS))
- Listed companies (Main market (RHS))

Source: London Stock Exchange and Bank calculations.
Banking for Everyone?

Financial sector share in employment and growth

Number of bank branches

Source: Cecchetti and Kharroubi (2012).

Education for All?

Source: Elliot Major and Machin (2019).
Creaking Transport Infrastructure?

Sources: Department for Transport and Bank calculations.

Source: Cambridge Group for the History of Population and Social Structure, Office of Rail and Road and Bank calculations.
Social Infrastructure Creaking?

Source: Local Trust and OCSI.
The Trust Deficit

Source: Edelman Trust Barometer.
The New Model?

• More market?
  ➢ Populist right

• More state?
  ➢ Populist left

• Whither Third Pillar?
  ➢ Raghu Rajan

• Is there a non-radical alternative?
  ➢ Embraces all three pillars
  ➢ Repurposes them for 21st century, Smith-style
  ➢ Reconstruct the six pillars of success
Purposeful Companies

• Primacy of the shareholder?

• Companies as a social, not a legal, contract

• Plural set of stakeholders—shareholders, staff, customers, creditors, society, environment

• ‘B’-corporations, statements of purpose, corporate governance codes

• Is a new Companies Act needed?
Purposeful Banking

• Is banking socially-purposed?

• Banking as a utility service/network?
  ➢ Branches
  ➢ Digital banking/payments
  ➢ Central bank digital currencies

• Financing companies/households
  ➢ Regional banks?
  ➢ Infrastructure banks?
  ➢ Development banks?
New Measurement Systems

• Companies
  ➢ Beyond ‘P+L’
  ➢ ESG reporting
  ➢ Integrated reporting

• Economies
  ➢ Beyond ‘GDP’ – well-being metrics
  ➢ From Bhutan to New Zealand
  ➢ Keeping score of ‘success’ – education, health, transport, economy
New Educational Model

• 150 years – academic education of the young

• Next 50 years
  ➢ Teaching all ages
  ➢ Academic, vocational, interpersonal

• Making lifelong learning a reality

• Educational passports, lifelong educational credits
New Public Infrastructure

• Re-investing in existing public infrastructure
  ➢ Road, rail, bike
  ➢ Digital infrastructure

• Investing in new public infrastructures
  ➢ Open data commons
  ➢ Digital twins
  ➢ ARPA (Advanced Research Projects Agency)?
New Civil Society

- Back to the meaning of “work”

- Making lifelong civic contributions a reality

- Recognising and rewarding civic contributions
  - Volunteering passports
  - Volunteering credits
The stakes are high …

“If [justice] is removed, the great, the immense fabric of human society […] must in a moment crumble into atoms.”

Adam Smith (Moral Sentiments (1759))

The opportunities are too …

“The core goal of public policy should be to facilitate the development of institutions that bring out the best in humans.”

Elinor Ostrom (Nobel Lecture (2009))