Seven Habits of Highly Effective Economies

Stephen Covey first published *The Seven Habits of Highly Effective People* in 1989.My children can name all seven habits because they are drilled into them at their local public school. More effective people undoubtedly would create a more effective economy. Below I attempt to apply the seven habits to an effective economy.

Habit 1: Be Proactive

The whole point of this habit is to take personal responsibility for your actions. It is to realize that one’s own decisions determine the effectiveness of one’s life. The Victorian concept of deserving and undeserving poor comes to mind. To be sure, poverty in the US can be caused by illness, accident, age (being born into a poor family), or inability to find work. Still, it is a concept best applied to people born into Third World countries who, due to no fault of their own, face institutional barriers to becoming wealthy.

Choosing to drop out of school, have children out of wedlock, take illicit drugs, commit crimes, and not show up for work are qualities in no short supply among America’s poor. These are all active choices people make that directly result in poverty. Take any two states in the US and you will find if one state has more high school dropouts, out of wedlock births, illicit drug use, and criminal activity, while maintaining a lower employment rate, it will be the poorer of the two.

When citizens take responsibility for their own choices they are being proactive. Proactive people are highly effective people. A collection of proactive people produce proactive economies.

Habit 2: Begin with the End in Mind

The idea is to discover one’s values and one’s goals. Countries that want to be prosperous must think about how that wealth is created. Economic freedom, for instance, is highly correlated with per capita GDP. People who save a portion of their income begin with end of prosperity in mind. People who spend their entire income and then max out their credit cards quickly come to an end with the beginning in mind.

Teaching students that economic freedom and fiscal responsibility are ideals to be valued and sought after help them to set end goals that define how they begin their economic lives.

Habit 3: Put First things First

This is the physical manifestation of the first two habits. For economies these are the public policies that allow them to implement the first two habits. This begins with educational policy which does not shy away from financial literacy, the importance of savings, and the importance of taking responsibility for ones choices. Countries that are effective teach their children the value of education, family planning, healthy consumption habits, honesty, integrity, and industriousness.

Governments that run up debt and unfunded pension liabilities are not beginning with the end in mind, (see Greece and Detroit). Social safety net programs that refuse to address criminal activity, laziness, drug use, or out of wedlock births do long term damage to those who need the safety net the most.

By focusing government policy on increased consumption today regardless of future consequences, countries doom their citizens to a permanent underclass.

Habit 4: Think Win-Win

There is no habit more imbedded in a free market economy than think win-win. Free market economies are based on voluntary exchange. Voluntary exchange, by its very nature, involves two or more parties that believe they are benefiting from a transaction. If I buy a banana from the store, the store wins by having my money and I win by obtaining a tasty potassium conveyance.

Rent seeking activity is the enemy of win-win. When countries allow individuals and companies to lobby government officials for special favors or access to others’ wealth they are not engaging in win-win thinking. While individuals can become wealthier by making wealth or taking wealth from others, a country (absent an offensive war that takes other countries’ wealth) can only become wealthier by creating wealth.

Because trade and exchange are win-win, lowering trade barriers is a key ingredient to being a highly effective economy.

Habit 5: Seek First to Understand, Then to be Understood

Countries that encourage people through the political process to first ask, what’s in it for me don’t possess habit 5. J.F.K.’s corollary was “Ask not what your country can do for you; ask what you can do for your country.” Politicians who promise to take other people’s stuff to give it to those who support them do their society a disservice. By classifying people into categories, based on income, race, ethnicity, gender, or other qualifying characteristics, governments pit one group against another. They attempt to convince voters that their lives would be better but for people in other groups.

Effective economies are made up of people who see value in everyone – even the [bourgeois capitalists](http://www.reuters.com/article/2013/11/15/us-venezuela-economy-idUSBRE9AD1F320131115). Venezuela is not an effective economy.

Habit 6: Synergize

This habit encourages people to use the strengths of people through positive teamwork. Adam Smith refers to this as specialization and division of labor. It is what he concluded in his *Inquiry into the Nature and Causes of the Wealth of Nations* (1776) as a key determinant of the effectiveness of an economy.

Giving people the autonomy to seek out and use their strengths requires that they have property rights to their work product. This allows them to specialize and trade with others. Large amounts of government regulations regarding the production and transfer of goods and serves work to decrease an economies synergies.

Habit 7: Sharpen the Saw

Constant self-improvement makes people more effective over time. Countries that believe that the best is yet to come are effective if they devote their time and resources to improvement in knowledge, technology, infrastructure, and wealth creation. Countries that disincentivize self- improvement through highly progressive tax codes are not effective economies. Tax codes should be set up to encourage rather than discourage continuous self-improvement.

Taken together, the same habits that make individuals effective, also work to make economies effective. What is good for the goose is also good for the gander. Perhaps it would be worth encouraging the educational establishment to apply the seven habits to macroeconomic policy. If they did so, we would find our economy to be entirely more effective.