

# ECONOMIC POSSIBILITIES FOR OUR GRANDCHILDREN: PROGRESS AND PROSPECTS AFTER 75 YEARS

John Stutz

## Introduction

In 1930, as the Great Depression was beginning, John Maynard Keynes wrote an essay, *Economic Possibilities for our Grandchildren*.<sup>(1)</sup> In it he looked 100 years ahead, to a future in which learning to live well had replaced the struggle for subsistence as the basic problem facing humanity. The future discussed by Keynes is now only 25 years away. Beginning with current data on income, the paper shows that progress beyond the struggle for subsistence has been limited to the Developed Countries and will likely remain so through 2030. Among the Developed Countries, overwork rather than living well is increasing. A fundamental change in values is suggested as a response to this situation. Ways in which such a change might feed back, to enhance the prospects for the Developing Countries, are discussed. The paper concludes with a brief statement of directions for further research.

## The Economic Problem

Keynes began his essay by noting that, historically, humanity has faced what he called the *economic problem*, that is the struggle for subsistence. He observed that since the industrial revolution, the average standard of life in the U.S. and Europe had increased four-fold. He predicted that there would be a four- to eight-fold increase over the next 100 years (i.e., through 2030). Assuming an eight-fold increase, Keynes expected the economic problem to be solved. He hoped that this would result in a shift, from the pursuit of wealth to “living well.” After 75 years it is reasonable to ask if the changes anticipated by Keynes are in fact occurring.

Discussions of economic growth routinely use real Gross Domestic Product (GDP) per capita, developed based on purchasing power parity, as a measure of “income” reflective of the average level of material well-being in a country.<sup>(2)</sup> Keynes’ four- to eight-fold increases correspond to growth in income of 1.4 and 2.1 percent per year over 100 years. Table 1 places these figures in a long-term perspective, showing that Keynes’ assumptions were quite reasonable for the Developed Countries; that is, Western Europe, its “offshoots” and Japan. As Keynes expected, there has been substantial growth in income. Looking ahead to 2030, growth at the historic rate will raise the average income in the Developed Countries to \$36,476. This is the 32-fold increase Keynes hoped for (four-fold through 1930 and another eight-fold over the next 100 years).

**Table 1 –GDP Per Capita  
Before and After the Industrial Revolution<sup>(3)</sup>**

	Level (\$1990)			Growth (% Per Year)		1998 Population (Millions)
	1000	1820	1998	1000-1820	1820-1998	
1. Developed Countries	405	1,130	21,470	.13	1.67	838
2. Developing Countries	440	573	3,102	.03	.95	5,009
3. Ratio (1 as a percent of 2)	92	197	692	433	175	17

For the Developed Countries the question is whether they have made sufficient gains so that the economic problem can be considered to be solved. One way to approach this question is to examine data showing how individuals at different income levels spend their money. This type of analysis indicates that, by 1988, the lowest paid working class group in the U.S. (laborers) were devoting only 67 percent of their disposable income to “basics,” that is the purchases required to function socially and economically. The two higher paid working class groups—wage earners and salaried employees—devoted substantially less to basics.<sup>(4)</sup> The three groups just mentioned—laborers, wage earners and salaried employees—account for the bulk of those in the 20<sup>th</sup> to 80<sup>th</sup> percentiles of income in the U.S. These results suggest that, by 1988, the economic problem was “solved” for most workers in the U.S. What about the rest of the Developed Countries? Income in the U.S. in 1988 was at about the 1998 average for the Developed Countries. Further, those near the bottom of the income distribution generally fare better in the other Developed Countries than in the U.S.<sup>(5)</sup> Thus, by now, all but the poorest residents of the Developed Countries are able to purchase substantially more than “the basics.” This suggests that, in the Developed Countries the economic problem has largely been solved.

A rather different approach to the measurement of progress in solving the economic problem makes use of the relationship between income and Subjective Well-Being (SWB), a measurement of the average sense of individual well-being in a country developed on the basis of responses to standard survey questions.<sup>(6)</sup> SWB obeys the Law of Diminishing Returns: as the level of income in a country increases, the impact on SWB declines. Leading researchers describe the situation as follows:

“Above \$13,000 in 1995 purchasing power parity, there is no significant linkage between wealth and subjective well-being. The transition from a subsistence economy to moderate economic security has a large impact on happiness and life satisfaction, but above the level of Portugal or Spain, economic growth no longer makes a difference.”

This general line of analysis—considering average national SWB as a function of income rather than the other way around, and then using that function to choose a transition point—is standard practice among those who study SWB. The particular transition point selected is, however, a

matter of judgment.<sup>(7)</sup> Visual examination of the data in question suggests that \$15,000 is a reasonably conservative choice.

The Developed Countries have average incomes that range from \$15,000 to over \$30,000 (in \$1995). There is no evidence of an increase in SWB as the income more than doubles. The same absence of impact is evident if one examines the evolution of income and SWB for an individual country. In the U.S. for example, income has increased substantially since the 1950s, with no accompanying increase in SWB. Similar results obtain for other Developed Countries. If the economic problem were still significant for the Developed Countries, one would expect to see some increase in SWB with income, across countries or within each country over time.<sup>(8)</sup> The absence of such increases suggests that Keynes' economic problem has been solved in the Developing Countries.

The last row in Table 1 highlights a key feature of historic growth: significant differences in growth rates leading to dramatic differences in incomes between Developed and Developing Countries. A recent study describes the situation as follows:

Today income per capita differs across countries much more than it used to. Such differences were small up until the nineteenth century. They started to widen with the Industrial Revolution, and they expanded most during the last hundred years. Moreover, although differences in income per capita among rich countries have declined in the post-World War II period, the disparity between rich and poor countries has widened. At the same time, the number of middle-income countries has dwindled. We now have two polarized economic clubs: one rich, the other poor."<sup>(9)</sup>

Convergence not divergence is both the objective of many global policy initiatives and the assumed outcome of them.<sup>(10)</sup> We will return to the issue of convergence later.

### **The Permanent Problem**

After discussing the prospects for solving the economic problem (in the Developed Countries), Keynes went on to frame what he described as the real, permanent problem of "man" (i.e., humankind):

"How to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well."

Keynes anticipated difficulty in learning to live well. In particular, he expected that it would be hard to move from the pursuit of material affluence to a style of life that emphasized "leisure." Despite the materialistic behavior among the rich in his own day, Keynes expressed optimism about the future:

“I feel sure that with a little more experience we shall use the new-found bounty of nature quite differently from the way in which the rich use it to-day, and will map out for ourselves a plan of life quite otherwise than theirs.”

In considering whether Keynes’ optimism has been justified, it is useful to review experience to date in the rich countries, particularly the U.S. since U.S. norms and lifestyles have become more and more typical of the world as a whole.<sup>(11)</sup>

The fact that, in the U.S., hours of work are long is well known.<sup>(12)</sup> Some knowledge of the details of the U.S. experience are useful when considering whether “a little more experience” leads to progress in the utilization of opportunities for leisure as Keynes hoped. In the U.S. between 1990 and 2000, the hours worked by each adult in a two-parent family increased. For the richest 20 percent, the hours worked were the longest of any group, in 1990 and again in 2000.<sup>(13)</sup> Today, “time stress” is significant among the rich, in the U.S. and throughout the world. Analysis suggests that insufficient time to enjoy their wealth” is a significant cause of time stress for the rich.<sup>(14)</sup>

Why don’t the rich simply work less, making time to enjoy life? There are a number of factors that explain this situation: In a mobile society such as ours there is a need to construct and then reconstruct one’s social identity. Consumption—choice of home, car, clothes, etc.—plays an important role in this process. Positional consumption, that is consumption not to meet an absolute need—hunger, thirst, etc.—but rather to create superiority, leads to insatiability as Keynes noted. Unfortunately, positional consumption, for example having a “good” (i.e., larger and more luxurious than average) home, car, etc., has become a central feature of the process of identity creation. Once positional consumption is underway, adaptation, a basic element of human psychology, helps push the process along. Adaptation, not just to a high level of income but also to constant increases, creates a “treadmill” that is hard to step off, even when one has become “rich”<sup>(15)</sup> There have been many attempts to modify these mechanisms. Thus far, they have proved largely to be in vain. A study of the U.S.<sup>(16)</sup> during the period from 1900 to 2000 describes the result:

“Consumerism, the belief that goods give meaning to individuals and their roles in society, was victorious even though it had no formal philosophy, no parties, and no obvious leaders. Consumerism was the “ism” that won—despite repeated attacks on it as a threat to folk and high culture, to “true” community and individuality, and to the environment.”

Increasingly, consumerism is becoming typical of all Developed Countries, as well as the richest portion of the population in the Developing Countries.<sup>(17)</sup>

Looking ahead, how might things change so that we will recognize Keynes’ permanent problem and address it as he hoped we would? A good starting point would be a fundamental shift in values, triggered perhaps by a sense of our losses associated with overwork. The worldwide Slow Movement provides an example of such a shift. To appreciate how slowness can trigger a fundamental shift in values, consider the reaction of Carl Honoré, a harried

international correspondent and parent who, while rushing to catch a plane, noticed an advertisement for a book entitled *The One-Minute Bedtime Story*:

“So, at first glance, the One-Minute Bedtime series sounds almost too good to be true. Rattle off six or seven “stories,” and still finish inside ten minutes—what could be better? Then, as I begin to wonder how quickly Amazon can ship me the full set, redemption comes in the shape of a counter-question: Have I gone completely insane? As the departure lineup snakes towards the final ticket check, I put away the newspaper and begin to think. My whole life has turned into an exercise in a hurry, in packing more and more into every hour. I am Scrooge with a stopwatch, obsessed with saving every last scrap of time, a minute here, a few seconds there. And I am not alone. Everyone around me—colleagues, friends, family—is caught in the same vortex.”<sup>(18)</sup>

The Slow Movement has drawn together individuals who have had similar experiences and insights, related initially to food preparation and consumption but now including many areas of human activity. It has spread beyond the individual level, to include slow towns and cities, thus making a transition from individual values to public policy.

The Slow Movement and others like it, such as the Not So Big House (NSBH) Movement,<sup>(19)</sup> are interesting because they take into account the mechanisms that drive consumerism and provide outlets for them. For example, consider slow food. One can, with time, create an identity as a skilled cook, satisfy “positional needs” by demonstrating that skill to others, and address adaptation through lifelong improvement. Similar considerations apply to other activities such as music, painting, gardening, etc. The Slow and NSBH Movements also foster a very different attitude toward material consumption, one which emphasizes quality over quantity. This is illustrated in a recent description of a “slow” approach to the acquisition of material goods:

Living artfully might require taking the time to buy things with soul for the home. Good linens, a special rug, or a simple teapot can be a source of enrichment not only in our own life, but also in the lives of our children and grandchildren. The soul basks in this extended sense of time. But we can’t discover the soul in a thing without first taking time to observe it and be with it for a while. This kind of observation has a quality of intimacy about it; it’s not just studying a consumer guide for factual and technical analysis. Surfaces, textures, and feel count as much as efficiency.<sup>(20)</sup>

The approach to acquisition described above is what one might see in operation at an arts and crafts exhibit, an antique show, or a farmer’s market. The NSBH movement transfers this sensibility to our most significant consumer purchase—our home.

Were there an electorate with the values Keynes discussed, and strength and will to act on those values, it would not be hard to devise a wide range of policies that reflect those values. One such policy, under active consideration today, is a ban on advertising targeting young children.<sup>(21)</sup> Going further, based on a recognition of the adverse psychological impacts of

positional consumption and the strength of adaptation, one could justify a strongly progressive income tax as part of a societal effort to create a reasonable work-life balance. Indeed, an acknowledged policy expert has recently made this suggestion.<sup>(22)</sup> There is evidence that value-driven social policy can affect choices between overwork and leisure. Consider the current competing explanations for longer working hours in the U.S. compared to much of Western Europe focus on value-drive policy choices. One recent study claims that Europe's more aggressive tax policies explain most of the difference.<sup>(23)</sup> A response claims that a more plausible explanation is union action, leading to a shorter work week and wider availability of key holidays which, in turn, make leisure activities with family and friends a more attractive alternative.<sup>(24)</sup> Both of these explanations suggest that social/economic policy decisions can affect the attractiveness of leisure. Interestingly, the second explanation reflects a conscious attempt at work sharing, a mechanism that Keynes hoped would be part of the solution to the Permanent Problem.

While devising good policies is always a challenge, it is not the major hurdle here. The major hurdle is finding the points of entry and leverage from which to trigger a basic value shift. As Keynes saw, and illustrated so wonderfully in his essay, it is this shift that lies at the heart of the permanent problem. Addressing value shift fully is beyond the scope of this short paper. However, two comments are in order. As the examples provided earlier in this section show, value shift can address the mechanisms that drive consumerism, turning them in directions that increase our well-being. And, as the discussion in the next section will show, efforts to enhance well-being in the Developed Countries could dovetail with efforts to assist the Developing Countries.

## **Convergence**

Assume for a moment that Developed Countries chose, as Keynes hoped they would, to reject overwork and consumerism, and instead to cultivate the art of living well, particularly the satisfying use of "leisure." This could have a number of important effects which would enhance the ability of other countries to move ahead.

- A focus on time rather than material affluence among the residents of the Developed Nations would create a different model for affluence which, like consumerism today, could spread throughout the world. Because time-affluence reduces the emphasis on the accumulation of material wealth as a factor in SWB, adoption of this model world wide would likely result in a greater SWB at any given level of national income. The effect would be, in effect to lower the income levels required to "solve" the economic problem, to reflect some reasonable notion of need.
- How might the residents of the Developed Countries use leisure.? In the Developed Countries there are many examples of volunteer mentoring programs such as the Big Brothers and Sisters, assistance to business start-ups provided by retired businesspeople, etc. These leisure activities contribute to the well-being of both participants<sup>(25)</sup> and recipients. It is reasonable to anticipate that, in a world with both greater leisure and greatly enhanced

communications, such activities might be undertaken on a broad scale and with a wide geographic focus. This could contribute to convergence.

The argument being offered above is a classic example of what is usually called the “double dividend” or the “win-win” effect. As Keynes did, we begin from the premise, supported by the available research on SWB and consumerism, that greater leisure is a better choice for the “rich.” We then proceed to show that the use of that leisure could also enhance the prospects of the “poor.” One could go on to argue that there are other beneficial linkages, such as those to emissions and the environment.<sup>(26)</sup>

What about the effects of increased leisure on the “rich”? Substantial economic declines are possible. Is a shift to greater leisure likely to have such adverse effects? In considering this, it is useful to take the following points into account:

- At the time of the industrial revolution (i.e., 1840 to 1850), average working hours were substantially greater than they are today. The dramatic decline in hours has been accompanied by increased prosperity not decline.<sup>(27)</sup>
- Policies, such as those typical of a European-style welfare state, foster limited achievement of Keynes’ goals today. While many economists stress the adverse impact of such policies on GDP per capita, there is evidence that they have positive impacts as well.<sup>(28)</sup>
- Greater leisure is likely to foster development of human capital through longer formal education and greater lifelong learning. It also provides the opportunity for greater group and civic participation, thus contributing to social capital. Enhanced human and social capital can, in turn, make it possible for rich countries to continue to prosper and grow while living well.<sup>(29)</sup>

## **Concluding Remarks**

The discussion in this paper provides a starting point for the consideration of income and well-being in the context of our economic future. To continue this discussion one needs to place the points raised by Keynes’ essay within a broader discussion of the possibilities facing humanity in the next 100 years.<sup>(30)</sup> One also needs to turn back here and ask whether SWB provides an adequate framework for a discussion on well-being or whether a broader notion of well-being is needed.<sup>(31)</sup> And, of course, one needs to address the question of value shift in a systematic and thorough fashion. These interesting and important issues are left for another day.

## NOTES AND REFERENCES

- (1) Keynes, John Maynard, 1963, *Essays in Persuasion*, New York: W.W. Norton & Co.
- (2) The use of GDP per capita as well as some variants on it are discussed in Myers, Norman and Jennifer Kent, 2004, *The New Consumers: The Influence of Affluence on the Environment*, Washington, Covelo, London: Island Press.
- (3) The data in Table 2 are cited in North, Douglass C., 2005, *Understanding the Process of Economic Change*, Princeton and Oxford: Princeton University Press. The original source of the data is Maddison, Angus, 2001, *The World Economy: A Millennial Perspective*, Organisation for Economic Co-operation and Development.
- (4) Brown, Clair, 1994, *American Standards of Living*, Oxford, UK and Cambridge, MA: Blackwell Publishers.
- (5) See, for example, the paper by Smeeding and Rainwater in Wolff, Edward N., ed., 2004, *What Has Happened to the Quality of Life in the Advanced Industrialized Nations?* Cornwall, Great Britain: Cornwall Books, Ltd.
- (6) A very useful introduction to SWB is provided by the introduction to Diener, Ed and Eunkook M Suh, eds., 2000, *Culture and Objective Well-being*, Cambridge, MA and London, England: The MIT Press. Kahneman, Daniel, Ed Diener and Norbert Schwarz, eds., 1999. *Well-Being: The Foundations of Hedonic Psychology*, New York: Russell Sage Foundation provides a more extensive introduction.
- (7) The reasonableness of considering SWB as a function of income is discussed in the article by Diener in the first volume cited in (6). The essay in that volume by Inglehart and Klingemann uses the \$13,000 threshold. In Layard, Richard, 2005, *Happiness: Lessons from a New Science*. New York: The Penguin Press, using the data developed by Inglehart and Klingemann, Layard sets the threshold at \$20,000
- (8) The data upon which this argument rests are all provided in the volume by Layard cited in (7), and in the volume edited by Diener and Suh cited in (6).
- (9) Helpman, Elhanan, 2004, *The Mystery of Economic Growth*, Cambridge, MA and London, England: The Belknap Press of Harvard University Press.
- (10) See, for example, the discussion of the Market Forces and Policy Reform scenarios for the future presented in *Global Environment Outlook Scenario Framework: Background Paper for UNEP's Third Environmental Outlook*, 2004, Boston, MA: Stockholm Environment Institute-Boston Center.

- (11) DeGrazia, Victoria, 2005, *Irresistible Empire: America's Advance through 20<sup>th</sup>-Century Europe*, Cambridge, MA and London, England: The Belknap Press of Harvard University Press.
- (12) Schor, Juliet B., 1992, *The Overworked American: The Unexpected Decline of Leisure*, USA: Basic Books.

(13)

**AVERAGE WEEKLY HOURS WORKED BY EACH ADULT  
IN A TWO-PARENT FAMILY**

----- Income Quartile -----

Year	First	Second	Third	Fourth	Top	Average
1979	24	30	33	38	43	33
2000	27	36	39	41	42	37

Based on information provided in Mishel, Lawrence et al., 2003, *The State of Working America 2002/2003*, Ithaca, NY: Cornell University Press. Data was provided in terms of annual hours worked by two married individuals; assumed 2 weeks vacation and thus divided annual hours by 50 and then by 2 to determine individual weekly hours.

- (14) Hamermesh, Daniel S. and Jungmin Lee, 2003, *Stressed Out on Four Continents: Time Crunch or Yuppie Kvetch?*, Cambridge, MA: National Bureau of Economic Research.
- (15) For a description and discussion of these mechanisms see Jackson, Tim and Laurie Michaelis, 2003, *Policies for Sustainable Consumption*, a report to the Sustainable Development Commission; and Chapter 3 of Rayner, Steve and Elizabeth L. Malone, eds., 1998, *Human Choice & Climate Change: Volume I – the Societal Framework*, Columbus, OH: Battelle Press.
- (16) Cross, Gary, 2000, *An All-Consuming Century: Why Commercialism Won in Modern America*, New York: Columbia University Press.
- (17) On the spread of U.S. influence see the volume cited in (11). On consumers outside the rich countries see the volume cited in (2).
- (18) For an overview of the Slow Movement see Honoré, Carl, 2004, *In Praise of Slowness: How a Worldwide Movement Is Challenging the Cult of Speed*, San Francisco, CA: HarperCollins. The quote is from the preface to that volume.
- (19) Susanka, Susan, 2001, *The Not So Big House: A Blueprint for the Way We Really Live*, Newtown, CT: Taunton Press.
- (20) Moore, Thomas, 1992, *Care of the Soul: A Guide for Cultivating Depth and Sacredness in Everyday Life*, HarperCollins.

- (21) See, for example, the discussion in Part IV, particularly Chapter 12 of Kasser, Tim and Allen D. Kanner, eds., 2004, *Psychology and Consumer Culture: The Struggle for a Good Life in a Materialistic World*, Washington, DC: American Psychological Association.
- (22) See the volume cited in (21) for a discussion of the adverse psychological impacts. Such a tax is discussed in the volume cited in (7).
- (23) Prescott, Edward C., 2004. *Why Do Americans Work So Much More Than Europeans?*, Working Paper 10316, Cambridge, MA: National Bureau of Economic Research.
- (24) Alesina, Alberto, Edward Glaeser and Bruce Sacerdote, 2005, *Work and Leisure in the U.S. and Europe: Why So Different?*, Working Paper 11278, Cambridge, MA: National Bureau of Economic Research.
- (25) See, for example, the essay by Argyle in the volume edited by Kahneman et al. cited in (6).
- (26) See, for example, Chapter 2 in Princen, Thomas, Michael Maniates, and Ken Conca, eds., 2002, *Confronting Consumption*, Cambridge, MA and London, England: The MIT Press.
- (27) See the volume cited in (12).
- (28) Atkinson, A.B., 2001, *The Economic Consequences of Rolling Back the Welfare State*, Cambridge, MA and London, England: The MIT Press.
- (29) See, for example, the volume by North in (3) as well as the volume cited in (9).
- (30) For a much broader discussion of possible futures see Raskin, Paul et al., 2002, *Great Transition: The Promise and Lure of the Times Ahead*, Boston, MA: Stockholm Environment Institute – Boston.
- (31) For a discussion of multiple approaches to the definition of well-being see McCready, Stuart, ed., 2001, *The Discovery of Happiness*, Naperville, IL: SourceBooks, Inc.