

## **The Macroeconomics Of Down-Shifting: A Suitable Case For Modelling?**

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Down-shifting is an ugly word for a beautiful phenomenon: people reshaping their lives to enjoy more leisure and less income, less stress and – crucially – lower levels of consumption. In Australia it's also known as 'sea-changing', after the popular TV series *Sea Change*, in which the heroine gives up her overpaid, high-stress job in the big city for a more peaceful life in a small coastal town. There's a related phenomenon known as 'tree-changing', which involves a move to the inland forests instead of to the coast.

Whatever it's called, down-shifting is obviously beneficial both for the individuals concerned and for the planet. (In the case of sea-changing there is a potentially serious problem of coastal sprawl, but that's a separate issue). If we're going to persuade people in poor countries that they can't all aspire to the consumption levels of a New York investment banker, a great deal of down-shifting may turn out to be essential for our very survival.

Mainstream economists tend to stop at this point, treating down-shifting as nothing more or less than a welfare-improving reallocation of resources. To paraphrase Robert Frank, choosing more SUVs damages the environment, but choosing more piano lessons does not.

This, it seems to us, misses the point. Piano lessons are commodities, in the technical sense that they are bought and sold in the market. Down-shifting, by contrast, means more time for piano practice, which is not a commodity in this sense. In macroeconomic terms it means less consumption (of goods and services). For mainstream macroeconomists this is no problem: Say's Law ensures that aggregate supply falls at the same speed as aggregate demand, so that the adjustment to a down-shifted economy will be very largely painless. There may be short-run microeconomic adjustment difficulties, but there is no macroeconomic problem.

The average citizen, who has not been corrupted by exposure to economics (as Joan Robinson would have put it), does not believe this. Neither, it seems, does the average climate-change-denying politician, who raises the spectre of global depression at the very mention of green politics and the associated down-shifting. For the politicians, Say's Law applies in all conceivable situations except this one.

For once, they may be right. There are good reasons for worrying about the macroeconomic consequences of down-shifting. In the short period, elementary Keynesian theory suggests potentially serious consequences if consumption expenditure slows down or falls. The accelerator principle links business investment expenditure to the rate of growth of consumption, so that down-shifting may have disastrous effects on investment unless offsetting monetary or (more plausibly) fiscal policy measures are in place.

If you think the accelerator principle is too crude to serve as the basis for a viable theory of investment, consider the Kalecki profit equation. One way of thinking about down-shifting is to treat it as entailing a fall in capitalist consumption. The Kalecki profit equation

tells us that a drop in capitalist consumption leads, *ceteris paribus*, to an equal drop in total profits. It is difficult to imagine that this would not lead to a decline in investment spending and thus (again, *ceteris paribus*) to a slump.

Either way, our coal-fired politicians in Australia and their oil-powered colleagues in the United States do have a point. Down-shifting may seriously damage your economic health, unless it's accompanied by tax cuts or increased government expenditure.

There's also a long-period problem, associated with dynamic economies of scale: the faster the rate of growth of output, the faster the rate of growth of labour productivity, and vice versa. But down-shifting means that output grows more slowly than before, or starts to fall. If down-shifting takes place in rich country A but not (at least initially) in poor country B, then B's productivity growth rate can be expected to accelerate relative to that of A. Does this matter? What are the implications for A's terms of trade, its real exchange rate and the rate of growth of demand for A's exports?

According to Nicholas Kaldor, exports provide the only truly exogenous source of aggregate demand. A decline in exports is therefore likely to have serious deflationary implications for countries where down-shifting becomes important. Can they be avoided by increased specialization, or do dynamic economies of scale operate at the level of the entire economy and not just in individual industries?

These questions cry out for formal modeling, which we are not qualified to undertake. King, who for his sins is an academic economist, has tried to interest his younger colleagues in these issues, and to attract research students with econometric skills to work on them – entirely without success. We wonder whether someone, somewhere in the world, shares our concerns about the macroeconomics of down-shifting and is already working on the problem. Perhaps it's a suitable retirement project for a superannuated Old or Post Keynesian? We'd very much like to hear from any heterodox econometricians with an active interest in these problems.

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