

Issue no. 96, 2021

Consumerism and the denial of values in economics¹

Neva Goodwin

[Boston University, USA]

Copyright: Neva Goodwin, 2021

You may post comments on this paper at

<https://rwer.wordpress.com/comments-on-rwer-issue-no-100/>

1. Introduction

Twentieth-century economics pretended to be a value-free science. Among the values in fact adhered to and promulgated are two that turn out to be especially problematic: the goal of economic growth, and the elevation of consumerism. Growth is a macroeconomic issue, while consumerism plays out on the micro scale of individual motives, choices, and actions. Mediating between these are business enterprises, especially corporations. These are the actors whose interests are served by the promotion of consumerism and the belief that economic growth is good – indeed necessary – for everyone.

This paper will begin with brief comments on why the values of 20th-century economics – especially the elevation of consumption as a goal, and consumerism as the way to achieve it – are dangerous in today's context. Next will be a glance at the history of consumerism, along with the counter history of industrialization in the Marxist inspired world of the Soviet Union.

Economics, as a system of theory, beliefs and practices is not responsible for all the woes of today's world, but it is deeply entangled with many of them. Subsequent sections (5-8) will look again at the embeddedness of consumerism in the U.S. economy, and then consider some of the ways consumer-related – and other – values are learned: through morality passed on informally and through formal education; how they are embedded in, and promulgated through, business practices; and some critical roles for government. Discussions of business will include the possibility for new forms (industrial ecology will be emphasized) to move in more wholesome directions.

Dramatic changes in our economy are needed if it is to shift onto a path of social equity and environmental sustainability – to dodge the worst possibilities of climate change – and to cope with the damages that cannot be dodged. System change requires value change. The paper will conclude, in section 9, with suggestions for values that could be adopted in place of those of 20th-century economics, and ideas for how such values can change the field of economics.

¹ Sections 3 and 4 in this paper draw heavily on a 2004 unpublished manuscript by my late husband, the MIT historian Bruce Mazlish. I am grateful to Mark Hoffman and James Aronson for helpful comments on this paper.

2. The dangers in consumerist values, and in the “value-free” claim of 20th century economics

A culture of consumerism² is one in which individual identity, self-respect and social position are strongly tied to the purchase of marketed goods; spending money is seen as a pleasurable and desirable end in itself; and there is encouragement for the belief that the purchase and use of high-end goods, in particular, will bring happiness. In the modern culture of consumerism, emanating from the United States but spreading widely throughout the world, the motivation for firms to sell what they produce has become a –perhaps *the* – great driver of economic behavior. There are two major problems with a culture of consumerism. One is that such a culture appears to detract from overall well-being (see section 5, below). The other is that it is hard to restrict growth in a culture oriented toward purchasing.

Economists often say – and the rest of the world has believed them – that the only alternative to economic growth is economic collapse. As an example, growth was seen as so essential that, in order to sustain the consumption bubble of the 1990s and the early 21st century, Federal Reserve Chairman Alan Greenspan felt it necessary to lower federal interest rates nearly to zero. Consumers were encouraged to borrow money on the basis of inflated house values, so as to be able to spend beyond their incomes. It became evident that that consumption bubble was unsustainable when it turned out that the value of many capital assets was to a considerable extent fictional.³

In contrast to the economic assumptions and promotion of ever-increasing growth and consumption, another discipline – ecology – teaches us that, in a contest between finite nature and endless economic expansion, humanity will inevitably be the loser. The reality of climate change is beginning to force a recognition that many aspects of our existing economic system are unsustainable. The most obvious is an energy system built on fossil fuels – coal, petroleum and natural gas. Some of the other unsustainable contemporary human systems include many aspects of how we use natural resources (soil, water, biota), as well as the economic-cultural system employed to keep raising output and consumption – the activities generally used to define economic growth.

Environmentalists have had at least one positive effect on mainstream economists, emphasizing the need to internalize the costs of economic activity that have been externalized to the natural world. However, other *meta-externalities*⁴ – unwanted side effects of the whole economic system on its physical and social contexts – continue to be invisible to the theory. Critical meta-externalities show up in the impact of the economic system on the social context. (“The economic system” as just cited is a large concept; it includes not only all the economic activities of production, distribution, consumption, and maintenance of productive resources, but also the ways that ideas about the economy flow back and forth between economic actors and those who teach and theorize economics.) This impact is closely connected to the values embedded in 20th century economics.

² For an overview of this topic see Goodwin, Ackerman and Kiron, eds., 1997 *The Consumer Society*. Washington, DC., Island Press

³ These capital assets included home values as well as many far less tangible “values” (derivatives and other sorts of bundled, etiolated or overleveraged assets) that were bought and sold on stock exchanges.

⁴ I believe this term originated with me.

These values include the ideas that only selfish maximizing is rational; that work is essentially always a bad; that the goal of an economic system is to grow by perpetually maximizing output and consumption; and that markets are virtually always superior to governments in achieving economic goals, because markets are, in the ways that count in economic theory, more efficient.

Economists may point out that the literature in 20th-century economics includes many refinements – that the summary of the values embedded in 20th century economics just offered is far too simplistic. I would respond that the values cited here are, in fact, the ones that have been carried away from high school, undergraduate and graduate classes in economics, and they are the values often applied by decision makers, whether for personal or business decisions, or in public policy. These values are not only promulgated in classrooms; they have sunk deep and wide into a global culture to which very few societies in the world are immune.

Contemporary media, operating largely in the interests of business, have taken off from economic theory to promote a set of ideas about what is desirable and admirable. From the sales point of view, the self-interest of business is served by a culture of instant gratification and simplified thinking that urges material purchase as the answer to any discomfort. This is not the culture needed for the 21st century, when it is more than ever important that citizens and politicians care about the long run, and are able and willing to address intelligently the myriad highly complex issues that face modern societies.

3. The creation of the consumer society

Consumerism is closely allied with capitalism. It began as a Western phenomenon, becoming global with the global spread of capitalism. An overview of the historical aspects that appear to have been necessary for this huge shift include: a social revolution in the West, replacing feudalism with capitalism, and replacing a dominant aristocracy with a hegemonic bourgeois; the existence of a commercial revolution, which is pre-requisite for the institutional and productive arrangements required to supply an emerging consumer society; accelerating advances in science and technology; an urban-industrial expansion, shifting a large part of the growing population from a subsistence rural sector to a wage-paying factory locus; the spread of an ethos justifying both capitalism and the increased wealth of the ordinary worker; the encouragement of status ambitions and conspicuous consumption in both the middle and the working classes; and the development of institutions, such as advertising, to awaken and channel newly promoted wants.

Resting on this history, two 19th -20th century economic developments were critical in allowing mass consumption to come into being and to grow as the force supporting ever-increasing production. One development was the rise in price of human labor, relative to the prices of energy and raw materials – hence spreading purchasing power. The second development was that a growing proportion of the average household budget was liberated from purchasing necessities, and made available for "extras" – starting with pottery dishes and machine-loomed fabrics; moving on to bicycles and oil lamps; through Keyfitz's "standard package" of electric lighting, refrigerators, televisions and automobiles; to computer gadgets, cell phones, jet skis and \$5,000 barbecue grills.⁵

⁵ Keyfitz, Nathan, 1998. "Consumption and Population" In *Ethics of Consumption: The Good Life, Justice, and Global Stewardship*. Lanham, MD: Rowman and Littlefield

Although consumerism took root in the eighteenth century, it took some time before it fully blossomed. At the dawn of industrialization, it was not at all clear that workers would become consumers. Early British industrialists complained that their employees would work only until they had earned their traditional weekly income and then stop until the next week. Leisure, it appeared, was more valuable to the workers than increased income. This attitude, widespread in preindustrial societies, was incompatible with mass production and mass consumption. It could be changed in either of two ways.

Initially employers in England, where industrialization essentially began, responded by lowering wages and imposing strict discipline on workers to force them to work longer hours.

Over time, however, organized workers, political reformers, and humanitarian groups pressured for better wages, hours, and working conditions, while rising productivity made businesses more open to meeting some of these demands. Thus a second response to the preindustrial work ethic gradually evolved: As workers came to see themselves as consumers, they would no longer choose to stop work early and enjoy more leisure. Instead, they preferred to work full time, or even overtime, in order to earn and spend more. In the United States, the “worker as consumer” view was fully entrenched by the 1920s, when the labor movement stopped advocating a shorter workweek and instead focused on better wages and working conditions.

By now consumer spending accounts for about 70% of the U.S. economy.⁶ The economy that we have inherited from the nineteenth century’s combination of technological, managerial, social, and psychological innovations is one that appears to be dangerously threatened by depression or recession whenever consumer demand falters. To bring this point home, consider the need to build in automobile obsolescence, through changing fashions as well as by production of vehicles with a life expectancy shorter than technologically possible. What, it is worth asking, would happen to the U.S. economy if all buyers kept their cars for thirty years? Or what if we could keep using the same computers or cell phones for several decades?

In the twentieth century advertising came into being as a specialized profession whose task was to awaken desire for a product, not to provide information for one that was already in the buyer’s mind. Advertising, especially after the advent of TV, became a force rivalling that of religion and education in shaping public aspirations. Here is an example. In the 1880s, cigarette smoking was only beginning to catch on, with most tobacco use being in the form of pipe smoking, chewing tobacco, or cigars. What cigarette users there were, rolled their own (as any good cowboy picture would show). James Bonsack, an inventor, patented in 1881 a cigarette-making machine that could turn out 120,000 a day (a skilled hand worker might produce 3,000 a day). No existing market, however, could absorb anything like that output. Enter James Buchanan Duke. In 1884, he installed two Bonsack machines. As the machines allowed the price to be cut drastically, Duke needed a mass market. He created it by engaging in a national advertising campaign, coupled to an extensive sales organization whose aim was to promote the consumption of cigarettes all across the country and eventually the world. Duke created the “want” for cigarettes, awakening in large numbers of people a desire to consume his mass-produced item. Camels and eventually Marlboro men entered the cultural landscape. In this prototypical experience, mass consumption is on its way to becoming mass culture as well.

⁶ Federal Reserve Bank of St. Louis, 2020.

4. The Marxist alternative

We may look to the old Soviet Union for evidence that consumerism is not the only problem; industrialization according to a different ideology can also operate with cruel indifference to social and environmental externalities. Marx himself had paid little attention to the consumer, or even to the specialized production worker, simply assuming that goods will be "mechanically" produced without the push or pull of human desires. This was the theory at the time of the Bolshevik Revolution; however Lenin had to respond to different circumstances.

Russia had not gone through the stage of developed capitalism, with its accompanying consumption features – 90% of the population, for example, was still rural in 1917 – and could hardly assume an abundance of goods. Lenin's task, then, was to industrialize Russia by means of communism, or state planning. In pursuit of his goal he was even willing to import capitalist methods, under communist control, including the Taylor method of scientific management, and in 1929 the Ford Motor Company signed an agreement to produce cars in the [Soviet Union](#).⁷ All emphasis was on production and on the accumulation of capital. Consumption was a bourgeois, degenerate habit.

Stalin continued the process, only more brutally. Enormous leaps of heavy industry production occurred. The natural resources of Siberia, already plundered under the Tsar by Cossacks and trappers, was now exploited in the most blatant industrial fashion. Rich in raw materials, such as gold, coal and iron, this great undeveloped region became the source of over half of the Union's gross domestic product. The devastation of the environment matched the worst features of early capitalist depredations, and are still with the post-Soviet Union today.⁸

Marxian theory emphasizes the well-being of people in their roles as workers. This has been an important counterweight to the implication in much neoclassical writing that economists' prime concern should be with the well-being of people in their roles as consumers. It would be nice if the places in the world where Marxist economics are taken most seriously were leading in a move against consumerism, but unfortunately there is an overriding goal that continues to embrace both Soviet industrialization and consumerism in the West; the goal of economic growth. Moreover, as the countries in question have evolved since the tacit acceptance of Western (or at least more Western) economics in the 1990s, the behaviours of both producers and consumers have veered towards the culture of consumerism as described above.⁹ Capitalism as we know it appears to come in a package that includes both consumerism and growthism.

⁷ <https://www.history.com/this-day-in-history/ford-signs-agreement-with-soviet-union> "Ford's assistance in establishing motor vehicle production facilities in the USSR would greatly impact the course of world events, as the ability to produce these vehicles helped the Soviets defeat Germany on the Eastern Front during [World War II](#)."

⁸ See W. Bruce Lincoln, 1993, *The Conquest of a Continent. Siberia and the Russians* (N.Y.: Random House).

⁹ This has seemed more evident in China, where the conversion to capitalist systems of production and distribution started a decade earlier and took place over a longer time; indeed, it is sometimes argued that for many centuries there were aspects of both capitalism and consumerism in China (though not widely distributed among the population), while these ways of living and working are more foreign to Russian history and culture. It remains to be seen whether there will be lasting effects from a recent youth rebellion against the emphasis on economic growth, consumerism, and the 996 (working 9 to 9, 6 days a week) system.

5. Cultural and psychological aspects of value shaping

Societies living by consumerist values are producing a huge quantity of goods and services, but a large proportion of these do not contribute to well-being, while many well-being needs continue to go unmet. An example of perverse production is an agricultural system that contributes to ill-health; the unmet need here is for nutritious foods produced without inputs that sicken both land and people. For another example, we would on the whole be better off if we could keep our household appliances, clothes, and other products for much longer than is now permitted by fashion, planned obsolescence, and “keeping up with the Joneses.”

Because so much of the culture of consumerism in its modern form took shape in the U.S., it is worth looking at the cultural roots specific to this country. Historically American values have included a duality, between admirable thrift and ingenuity in the use of time and resources, vs. admiration of extravagant spending. The values cited in preceding sections of this paper have tilted very much towards extravagance. The possibility exists, however, for some eco- efficiency measures to be taken out of the frame of “low-class penny-pinching” and put into the frame of “smart business practices that also serve a noble purpose”. New value contextualization may be required to move in this direction. This can only come about through iterative, mutually reinforcing changes taking place in many parts of society. Obviously the discipline of economics is only one among many areas where value change is needed, but I believe it is an area of great significance. As I sketch out the broader landscape of value- shaping I will try to suggest where economic theory and education may fit in.

A major portion of value-learning occurs in childhood and youth. However values can be revealed and strengthened at a later age, and can also be concretized and contextualized; for example, when people become aware that concern for our children and grandchildren must imply concern for the biosphere. It often seems, and perhaps it is the case, that the most important single arena for the shaping of values is formal. However, next to every modern, formal education system there exists a parallel one that is not generally recognized as such. In the United States, for example, the total US expenditure on advertisement in 2019 amounted to over \$242 billion.¹⁰ By comparison, this total is more than one-third the size of all public – federal, state and local – expenditures on education, which in 2019 totalled about \$721 billion.¹¹ State funded education covers an immensely broad range of subjects and goals, while advertising has essentially a single goal: to promote consumption. And many children spend much more time in front of television sets than they spend in school.¹²

¹⁰ <https://www.statista.com/statistics/429036/advertising-expenditure-in-north-america/>

¹¹ <https://educationdata.org/public-education-spending-statistics>

¹² Data for 2007-2008 show that the average American child spends 6 hours and 45 minutes in school (National Center for Education Statistics. ‘Schools and Staffing Survey’.

https://nces.ed.gov/surveys/sass/tables/sass0708_035_s1s.asp). By comparison, in 2019, the average screen time for 8-12 year old children was 4 hours and 44 minutes, while the average for teenagers was 7 hours and 22 minutes, not including time spent using screens for school work (this was before Covid put children into virtual school, skewing all data.) (Siegel, Rachel. 2019. ‘Tweens, teens and Screens: The average time kids spend watching online videos has doubled in 4 years’ *Washington Post*. <https://www.washingtonpost.com/technology/2019/10/29/survey-average-time-young-people-spend-watching-videos-mostly-youtube-has-doubled-since/>)

Obvious loci for value-shaping are:

- In the lives of children, teens and adults at home or in societies at large: among family and friends; through leaders, commentators, and influencers who are seen on the news as well as other TV shows; the arts; formal, obvious advertising; and the informal promotion of various values through social media.
- At school: from peers; through examples given by admired people, including teachers; in the "fashions of thought" that percolate through textbooks and other curricular materials.
- Through action: we come to believe in, and give value to, what we do; even while what we do is, in turn, shaped by our beliefs and values.

The force of morality runs across all of these arenas. Religions, parents, schools and ethically oriented organizations can and do offer a variety of alternative moral beliefs to the widely held economic tenet that "only selfishness is rational; everything else is either irrational or just pretend".¹³ It is unfortunate that in the United States the ideology of capitalism and free markets, notably spearheaded by Milton Friedman, has been heavily politicized. It was adopted by President Reagan, used as a rallying cry during the Cold War, and has become a part of the political polarization of the 21st century. Thus the elevation of selfishness, which was first proposed as a tenet of economics in Mandeville's 1705 *Fable of the Bees*¹⁴, was refined for modern purposes and is now a central tenet for the powerful monied interests that are defending their privilege against forces seeking to diminish inequality and address environmental crises.

Morality is often seen as in a contest with pleasure. The young field that calls itself hedonic psychology¹⁵ (other people know it as happiness studies), sets out to clarify what actually contributes to happiness – an important question in a social/cultural/economic context where consumption is promoted as *the way* to happiness. Hedonic psychology has established strong evidence for a set of propositions that to some may sound like simple common sense, but that are directly opposed to basic assumptions in standard economics:

- Human well-being – the ultimate purpose of any economy – is not only tied to what people *have*, but also to how they feel about it and what they do with it. Leisure to enjoy the riches that advanced economies have accumulated in the last centuries is becoming one of the most significant scarce resources; for many, well-being will be

¹³ To be sure, at any time and place in human history it would be possible to find sociopaths guiding their lives exclusively by this cynical belief, and there have probably been societies other than our own wherein it became dominant; but the survival of the human species has required many contrary impulses to be built into our genetic as well as our cultural makeup. There is no longer much debate between "the selfish gene" and "group survival" among those who follow science. Both are understood to be relevant drivers of human, animal and even plant behavior.

¹⁴ First published in England in 1705, this predated the development of economics in any form now recognizable. Adam Smith did not make as much use of it as is sometimes claimed by 20th century economists who wished to cite Smith as the origin of this anti-moral stance.

¹⁵ See, e.g., E. Diener and E. M. Suh, 2000, ed *Subjective Well-Being across Cultures*, Cambridge, MA: MIT Press; and Kahneman, Daniel, Ed Diener and Norbert Schwarz, eds., 1999. *Well-Being: The Foundations of Hedonic Psychology*. New York: Russell Sage Foundation

better served by more *time* than by more *products*. This gives credibility to a scenario in which some systems of production and consumption could be modified to produce less output (thereby mitigating climate change and other environmental burdens) but more well-being.

- Individual increases in material wealth do not raise the happiness of the whole society; indeed, evidence from Japan and the US, where the standard of living has risen greatly since the 1950s, shows no increase – if anything a decline – in the happiness of the population as a whole.
- Wealth very much beyond basic needs, when it belongs to and is spent on behalf of individuals, operates within a zero-sum game wherein success by a few creates, among the rest, hopeless wishes for emulation, and overall well-being is not increased. By contrast, wealth that belongs to, and is spent on behalf of, a whole society can be used to promote public goods such as environmental protection and ecological restoration, for the well-being of present and future generations. More equal societies are better able to cope with emergencies; moreover, if a cultural norm of equality promotes more use of resources for public goods, less for private status consumption, they will be happier.

The last point was vigorously made by John Kenneth Galbraith; however he did not have access to the supporting data assembled in the 21st century by the exponents of hedonic psychology. More recently Robert Frank has effectively re-examined the psychological factors that make people feel deprived when they observe others living at a “higher” (more expensive) standard than theirs¹⁶. This line of thinking can be turned on its head in regards to the common association of morality with sacrifice. The critical element is the question of community. If an individual reduces their expenditures for environmental or other moral reasons, the enjoyment of virtue must contend with constant reminders of what they are missing. If an entire society sets out to consume less it is possible that much can be done without a feeling of cut-to-the-bone sacrifice.

6. Corporations, governments, and business education

Who decides what will be produced, how and for whom? These are, of course, the essential questions put forth by standard economics – except that the first two words – “who decides” are generally not included. The economic actors to whom this decision-making role has been effectively given in the capitalist world over the last half century are the large corporations, including banks and other financial entities. The ideological choice, to *let the market decide what to do, because it is always more efficient*, is in fact a choice to leave the decisions to the large corporations.

The discipline of economics could play an especially helpful role in rethinking growth in new terms, including industrial ecology (briefly discussed below). There is a need for the best theorists to address the question – on both the micro and the macro levels (i.e., both for firms and for societies) – of how economic health can be compatible with a cessation, a reduction,

¹⁶ See for example Robert Frank, 1999. *Luxury Fever: Money and Happiness in an Era of Excess*. Princeton, NJ: Princeton University Press

or at least a dramatic redefinition of growth. Such a basic reconceptualization must revisit a question that lies only partly within the domain of economics: which are the societal decisions that should be made by markets, and which should be made by other parts of the social structure?

Just to take one example, among many, of where this issue shows up, consider the deployment of financial capital, in the form of investments. Growth in the gross value of the stock market is generally considered necessary for pension funds, for university and philanthropic endowments, as well as the personal income of the investing class. In some other parts of the economy the necessity of growth is not quite so obvious; indeed, with the shrinking in the total human population that is expected to begin by 2050, if not sooner, an observer from another planet might wonder why we could not reasonably support a shrinkage in the size of the global economy. From the ecological point of view, that appears indeed quite appealing. Can it occur in ways that are not harmful for human well-being?

In a preferred world, as described, for example, by economists at the Next System Project of the Democracy Collaborative,¹⁷ small businesses are started and run by individuals in the communities where they live. Their production decisions are shaped by their perceptions of gaps or needs that need filling, and by their perceptions of their own competencies and the available resources. This alternative world is fast slipping away, as more and more production is monopolized, while the monopolists expand their power to direct the activities of the smaller businesses.¹⁸

It is not realistic simply to suggest that small businesses *should* be the principal makers of production decisions. A countervailing power is needed. When Galbraith used that term, he assumed that organized labor, i.e., labor unions, would be the countervailing power – but corporate power, with government allies, has broken the backs of the unions in the United States, and greatly reduced their power in some other parts of the world as well. Government is all the more needed – not to make the production decisions, but to change the system, countering power with power.

These are critical issues today. The terrifying reality that has emerged in the US during the Trump regime is the extent to which democracy can be subverted, to make it ever harder even for proposals that have wide popularity among the people (such as higher taxes on rich people and corporations) to be enacted into law. It is clear that there is corporate control of large parts of government in the US, including federal and state lawmakers, and the agencies that are

¹⁷ See <https://thenextsystem.org/> and James Gustave Speth and Kathleen Courrier, eds, 2021, *The New Systems Reader*, New York, Taylor and Francis

¹⁸ As examples, as of 2015 CVS controls 58 percent of the drug store business; Walgreens controls 31 percent; and Rite Aid controls 10 percent. (See <https://www.openmarketsinstitute.org/learn/monopoly-by-the-numbers> “Monopoly by the Numbers” Open Markets.) In the airline industry four companies—American, Delta, Southwest and United— control over 80 percent of the US market. (Koenig, Daving and Scott, Mayerowitz (2015). ‘Analysis: Consolidation of the U.S. Airline Industry Radically Reducing Competition’. <https://skift.com/2015/07/14/analysis-consolidation-of-u-s-airline-industry-radically-reducing-competition/>). The internet advertising space also exhibits significant concentration, with Google and Facebook earning 64% of all online advertising revenue in the U.S. (Gjorgievska, Aleksandra (2016). “Google and Facebook Lead Digital Ad Industry to Revenue Record.”) <https://www.bloomberg.com/news/articles/2016-04-22/google-and-facebook-lead-digital-ad-industry-to-revenue-record>.) For a general discussion see Goodwin et al, 2020, *Microeconomics in Context*, Fourth Edition, Pg. 559

supposed to control corporate activity. This is especially obvious in the continuing subsidies for fossil fuels by many governments around the world.¹⁹ If solar energy technologies had received anything like the money that has gone into R and D for fossil fuel (let alone nuclear) technologies, the development of sustainable energy systems would be far ahead of where they are today. Unfortunately the fossil fuel producers still possess great political power, through lobbying and other kinds of suasion of government officials.

A realignment of government, toward the good of the whole society instead of the benefit of the segment aligning with corporate profits, will be made easier when there are other pressures for change in corporate behavior. Some investors do seem to be lining up more on the side of “environmental, social and governance” (ESG) values in business. Consumers, too, can have leverage, when they direct their purchasing away from companies that have especially bad reputations for environmental or social abuses. But if government continues to align with the interests of big business, those two forces together are almost unbeatable.

There is an important public education job here – to raise the level of societal awareness about the places where government actions, paid for by the taxpayers, are doing harm, and where they could do more good. That education should not be restricted to economics classes; however it has an important place there, in the reintroduction of the concept of political and economic power, which was removed from the neoclassical version of this discipline when the decision was made to canonize Adam Smith, but shorn of any ideas – such as power – that overlap with the work of Karl Marx.

Business ideologies and neoclassical economics have a more than half-century history of affecting and reinforcing one another. The values promulgated and practiced by the business sector will be much harder to change if change does not simultaneously occur in the content of formal education – economics, especially including the use of economic theory in business schools. For deep value recontextualization to occur, however, changes in business and in economic theory must be joined by systemic change supported by iterative and mutually supportive shifts in norms, occurring throughout all parts of society.

¹⁹ Public dollars flow to fossil fuel companies in many ways, including but not limited to:

- Special giveaways that exempt oil and gas companies from paying taxes on much of their foreign income and allow inappropriate deductions for fossil fuel development, exploration, and production costs.
- Research and development tax credits that encourage expansion of fossil fuel infrastructure.
- Lax financial requirements for cleanup of oil and gas wells that leave the public with the bill (if the wells get cleaned up at all).
- Below-market leasing rates, royalties, and fees that encourage further oil and gas development and exploit our public lands.

The International Monetary Fund has estimated the global total of a particular type of fossil fuel subsidies for 2017 – specifically “fuel consumption times the gap between existing and efficient prices (i.e., prices warranted by supply costs, environmental costs, and revenue considerations)” – at \$5.2 trillion (an astonishing 6.5 percent of global GDP), noting that “Efficient fossil fuel pricing in 2015 would have lowered global carbon emissions by 28 percent and fossil fuel air pollution deaths by 46 percent, and increased government revenue by 3.8 percent of GDP” (Working Paper no. 19/89 downloaded 6-23-2021 at <https://www.imf.org/en/Publications/WP/Issues/%202019/05/02/%20Global-Fossil-Fuel-Subsidies-Remain-Large-An-Update-Based-on-Country-Level-Estimates-46509>)

7. Economic theory and possible futures

Returning to the ideology of economic growth, we should not dismiss it as always immoral or irresponsible; it can be a noble goal when it aims to lift people out of severe poverty. But, as ecologists have pointed out, you cannot indefinitely expand a subsystem (economic activity, in this case) within a non-growing super-system (the natural world). In other words, global economic growth cannot continue forever; if, in today's world, which has already reached and surpassed ecological limits,²⁰ it is desirable for some economies to grow, others must shrink.²¹ We cannot continue, let alone expand, the consumption and lifestyle patterns of the richest 15 per cent of the world's people.

If we nevertheless wish to preserve the idea of GDP growth within an over-full world, one possibility is for the content of GDP to be radically redefined and reorganized²². The money-flows represented in this measure need to represent an ever-larger proportion of intangibles, and proportionately (perhaps absolutely) less flows of material. That implies a continuation and acceleration of the strong, 100-year trend toward production of services, along with trends toward recycling, reuse and extended use. The goal here is to reduce extraction of raw materials as well as the absolute amount of material moving through the economic system.

If this scenario is considered without some additional trends (mentioned below), the result will be a higher labor content in most of what is purchased: services are generally more labor-intensive than goods (relative to the inputs of energy and materials), and recycling and reuse (with an implication of greater attention to repair and maintenance) imply increased inputs of labor into every item over the course of its (much increased) useful life.

The paycheck-effects of a shift toward more labor-intensive production could be lessened by a move to tax consumption, energy, and some raw materials, in place of taxing labor. This would also hasten the substitution of labor and intelligence for materials and energy. However, there are some thorns in this rosy picture. If production methods and/or the composition of output are indeed altered to raise the labor input in proportion to energy and materials, an inescapable corollary is that the relative price of labor must decline. This is precisely the opposite to the most dramatic and important price trends that have held constant for most of the period since the Industrial Revolution, when the price of labor rose because it was paired with increasing inputs of energy and raw materials.

²⁰ "Humans use as much ecological resources as if we lived on 1.6 Earths." The Ecological Footprint compares the resource demand of individuals, governments, and businesses against Earth's capacity for biological regeneration. See <https://www.footprintnetwork.org/>

²¹ Only a few economists have looked at the global economy with this in mind; one, from the early 1990s, was Alan Durning, with *How Much is Enough?* More recently Tom Athenasiou has written extensively on this subject. See for example [EcoEquity](#): Global economic justice as the key to emergency climate mobilization downloaded 6-27-21 at <https://www.ecoequity.org/2021/04/the-us-fair-shares-pledge-the-ndc-of-our-dreams/>

²² Writings on this topic sometimes refer to "green GDP". See, for example, Harris, Jonathan and Brian Roach, [Environmental and Natural Resource Economics – Global Development And Environment Institute \(tufts.edu\)](#); and Stjepanović, Saša, Daniel Tomić, and Marinko Škare. 2019. "Green GDP: An Analysis for Developing and Developed Countries." *E+M: Ekonomije a Management*, 22(4):4-17. Also Jackson, Tim, and Peter Victor. 2020. "The Transition to a Sustainable Prosperity-A Stock-Flow-Consistent Ecological Macroeconomic Model for Canada." *Ecological Economics*, 17:106787. doi.org/10.1016/j.ecolecon.2020.106787.

Here it is necessary to remember some other trends, e.g., towards reducing demand for human labor via automation; this used to be less true in the service sector, but a growing trend toward automation even here was accelerated during the Covid19 pandemic.²³ The overall trajectory of these combined trends could be one in which the quantity of output is ever less dependent on the amount of all inputs except for *embodied information*. This an aspect of manufactured capital which refers to the fact that all manufactured capital is not equal: a fifth-generation personal computer can vastly outperform a first-generation PC, with reduced inputs of many kinds in both production and operation; a high-tech windmill can similarly be compared to an older model. The increase in productivity in these examples is not due to more inputs but to better design – i.e., information embodied in the physical thing.

This combination of trends could lead to reduction in environmental harms, but it could bring about a dystopia in which huge numbers of people are left destitute when economic survival depends on a paycheck from work, and there is not enough work. Since in this section I have been playing with relative proportions among types of “capital” (manufactured capital; natural capital; and human capital, as translated into labor) I will add one other: *systems capital*, which refers to the relationships among economic actors²⁴. This term is appropriately applied to the quite new field of industrial ecology which attempts to put producers (and to some extent consumers) into relationships (e.g., through physical proximity) that will allow economic systems to imitate ecological systems.²⁵ It also refers to the relationships between ecological systems and systems of economic production. Thus, in an application of industrial ecology, energy and materials are used with maximum efficiency; waste is minimized; the end of one economic process is the beginning of another; waste-products of one process are inputs to

²³ A striking example is the system whereby restaurant customers use their cell phones to place their orders and also to pay their bill. As wait persons are then only needed to bring the food this wipes out myriad jobs that have been the stable recourse for young people in college, working in the arts, etc.

²⁴ I believe that this term is used for the first time here. The definitions offered in the text are purely in the economic context; the idea of systems capital could have other meanings if applied in fields such as sociology, anthropology, or possibly ecology, given recently observed synergies among communities of plants and microorganisms.

²⁵ This field took off quickly with the establishment of the *Journal of Industrial Ecology* in 1997; the journal *Progress in Industrial Ecology* (2004); and the [International Society for Industrial Ecology](#) (started in 2001). Here are a few examples of the concept in practice:

- a) Kalundborg Eco Industrial Park in Denmark has existed for over 40 years. It was created by nine companies that decided to apply “a circular approach to production, in which one manufacturer’s residual waste provides resources to another.” See <https://journeys.dartmouth.edu/envs3abinder/sample-page/kalundborg-eco-industrial-park/>
- b) The Rizhao eco- Industrial Park in China, established in 1991, is similar to that in Denmark, above. In 2011, “through a combination of symbiosis and cleaner production practices, 98 percent of the industrial solid waste in the park was recycled.” <https://www.greenbiz.com/article/lessons-chinas-industrial-symbiosis-leadership>.
- c) The Blue Marble Biomaterials and Anheuser-Busch Brewery partnership was announced in 2012. Blue Marble is a company that makes biochemical products, specifically targeting “high value flavoring and fragrance industries, which are ingredients in products such as bubblegum and shampoo.” The two companies signed a memorandum, agreeing that Blue Marble would “convert spent grains and biogas from the brewing process into green chemicals that can be used in other applications, such as food, cosmetics and personal care products.” See <https://www.forbes.com/sites/ericagies/2012/02/22/anheuser-busch-to-join-industrial-ecosystem/?sh=3420209a4153>

others. As a field of study, industrial ecology pulls in a multidisciplinary combination of engineering, sociology, economics, toxicology, ecology and other natural sciences.

Industrial ecology affords the opportunity to reconsider the balance between competition and cooperation in a healthy market system. As opposed to the standard picture of capitalism, as a system that works through the individual, unrelated efforts of each firm to maximize its own profits, industrial ecology depends upon the insight that many economic activities can be coordinated in a synergistic manner, so that the result is better than the result of uncoordinated action. In fact, such synergies have always existed in the relations between, for example, producers of final consumption goods and producers of intermediate goods. As multinational firms have become behemoths of size, it has been observed that they operate like whole cities of cooperation toward the goal of maximizing the firm's profits, whether this is achieved by setting units within the whole to compete against one another, or to be truly cooperative. The importance of social capital is recognized as it supports relationships of trust, in reducing transactions costs in these relationships. In a setting of industrial ecology the addition of physical/chemical/engineering possibilities to the list of synergistic relationships among economic actors adds a significant weight on the cooperative side in the balance between cooperation and competition.

The ability to realize large (no one knows yet how large) agglomerates of economic activities interrelated through the principles of industrial ecology may be a social function that will require public inputs. It may also require some new social capital, in the form of a changed perception (i.e., changed norms and recontextualized values) regarding competition, cooperation, and the goals and the responsibilities of business.

Change in what we produce and consume is one aspect of the necessary future; as noted, the other aspect will probably entail revision in how, and how much, we work. In addition to issues of labor productivity, another issue of great importance – many centuries overdue for consideration – is the kinds of work that are most essential for human survival and well-being. These include: raising children; producing food; providing education to assist people to develop, exercise and explore their mental, physical and spiritual potentials; providing home environments that are pleasant, comfortable and sanitary, and that support self-actualization; supporting and maintaining physical and mental health in children and adults; providing care for those who are sick, old or otherwise unable to care for themselves; and maintaining and restoring the health of the earth's ecosystems.

There are (at least) three striking characteristics of the foregoing list: these activities already have a high labor content, in proportion to other inputs; they have generally been among the least well-paid (often unpaid) categories of work; and women have been the predominant workers in most of the activities named here.

The question was raised, above, about how to provide resources to individuals who may be left out of highly productive systems that reduce most inputs except the intangible ones of social capital, systems capital, and embodied information. Put another way, this is a question about how to share among all members of society the output (or the money) produced in such a system. For people interested in the care economy – or for most women – this is not a new question.

The discussion in this section has dealt with the delicate balance that is likely to be required between applications of new definitions of efficiency, including dramatic reduction in

environmental harms; production of what is needed for a good society (including the essential work listed above); a fair distribution of the burdens of fulfilling essential needs; and fair, humane sharing of the output of a sustainable economy. The contribution of this paper is not a blueprint for how to achieve this balance, but a statement of the need for it, a discussion of some value shifts that seem required in order to move toward it, and a focus on what the discipline of economics can contribute toward such shifts. It is to this topic that I will now turn.

8. Values in economics?

A little semantics may be useful to start with.

- **Norms** are widely accepted assumptions that make it unnecessary for each individual to think through, in every instance, which contexts require the application of which values.
- One definition of **values** is the association of the ideas of *good or bad* – and the spectrum between them – that occur automatically to people when confronted with ideas, realities, behaviours, etc. In this discussion *good and bad* are best understood as *positive or negative*, not necessarily moral in connotation; they may concern what I perceive to be good for me, or in a context of achieving some particular (not necessarily moral) aim.
- The term, **ethics**, is often used to mean a collection of values in which good and bad do have a specifically moral tone.
- An **ethic** (in the singular), however, may be likened to a world-view; it summarizes a set of values and norms to serve as the magnetic north for a compass by which to set the overall course for an individual life, or for a society.

We are in global, social and environmental circumstances that call for a new ethic. Fortunately, at the same time, our current circumstances provide the foundation for such an ethic. The need lies in the fact that human actions are increasingly known to have consequences which affect others beyond the actors; metaphorically, we are all poisoning our neighbour's well, and we are all drinking our neighbour's water. The ethical foundations that arise in conjunction with this need will be illustrated here by the statement of several rules, many of which will appear familiar, or intuitively obvious, or both.

One aspect of the intersection between ecology and economics – bringing together both evolutionary and moral imperatives – is the simple **Budgetary Rule**:

In the long run, all economic and ecological actors must live within budget constraints; these include the communal planetary budget constraint, as well as those faced by each individual.

In principle, nothing in economics denies the budgetary rule. However, it may be found to be in conflict with another economic imperative – an **Investment Rule** that may be stated as follows:

It only makes sense to invest in activities where the present value of the payoff is at least as great as the present value of the resources invested.

When this investment rule is applied to environmental issues where the payoff (e.g., the benefit of retaining the protective ozone layer, of preserving productive soils, etc.) is often far out in the future, we run into the fact that the economic approach to investment involves discounting over time. In this procedure economically calculated costs and benefits are reduced by ever larger proportions as they are projected further into the future. Thus an event of fifty years hence, of almost any magnitude, is discounted down to insignificance in present calculations – while present costs are relatively easy to ascertain. At the beginning of this century some neoclassical economists, looking at the figures, concluded that it was not worthwhile to do much to avert global warming; the present discounted value of whatever happens in the year 2050 just did not warrant it. Now, of course, we are not only two decades closer to mid-century; we are also much, much closer to – already well into – the disasters of climate change.

One of the functions of ethics is to codify practical realities that are too subtle or complex to be thought through afresh in each individual instance. The practical reality to be addressed here is the fact that the future of the human race – including the fate not only of my grandchildren, but of his, and hers, and also yours – is bound up with the health of something much larger than any one of us; something which can be named the Earth's ecosystem. (Some people prefer a personification, and call it Gaia.) Increasing awareness of this ecological interconnectedness suggests that it is often inappropriate to apply the economic Investment Rule to issues involving ecosystem health.

Rather than inventing something completely new, I propose that we find a way of uniting two old rules that may, on the face of it, appear unrelated. The first is a simplified **Evolutionary Rule**:

Survival is the first objective.

The second is Christianity's familiar **Golden Rule**:

Do unto others as you wish that they would do unto you.

When "others" include Gaia, these meet in an **Environmental Rule** which says:

Do what is necessary to preserve the health of the ecosystem, for your own survival and wellbeing depends on it.

It is a nice coincidence that everyone else's survival depends upon the same thing.

It is not enough to have a new ethic, or new "rules"; it is necessary to assist people to shift their understanding of which value contexts fit which social issues. This is not so much a matter of learning new values as of learning new ways of applying them. There is, in fact, more likelihood of many interlocking changes in mental models taking place than of just one occurring in isolation.

9. Coda: an alternative economic theory

The question is not whether economics should be value-free; if, as is increasingly recognized, not even the most “hard” sciences are completely value-free, then economics, a science whose entire subject is human beings – their wants and their activities – can hardly be expected to be free from the values of the theorists in the field as well as of the human subjects. And, in fact, throughout the twentieth century the discipline of economics has played a major role in shaping values. As noted at the outset, economics education has provided mental models that ignore issues of power and powerlessness, elevate selfishness, denigrate government in favour of markets, disregard any intrinsic values in work, and agree that consumption is the primary goal for individuals, to be reached by constant growth in macroeconomic output.

20th century economics did not have to move so far away from both ethics and realism. When we look back we can see the voices of dissident economists raised again and again, and consistently squelched, as the discipline turned away from relevance and toward a narrow conception of rigor. Increasingly, the incentive and reward system of mainstream economics departments selected, for graduate training, individuals whose chief strength is in mathematics, while broader interests in the implications and applications of the field had, if anything, a negative effect on the student’s chances for successful completion of an economics doctorate. Each year the graduates of these programs are, on the whole, narrower in their interests and their knowledge than the existing practitioners in the field. As the narrowest of them are, in turn, the ones likely to be selected for academic promotion and tenure, mainstream economics has progressively turned its back on subjects that other people think should be important to the field.

Here is where the neoclassical insistence upon claiming value neutrality is most evidently harmful to the evolution of the discipline. Economists who feel free to admit to values as critical elements in their work have a strong link to relevance: they can ask such questions as, “What is the purpose of an economy? By what standards do we judge a better versus a worse economy?” As economists drawn to such questioning have been removed from the mainstream there has been a growing “outer circle” of economists who have been denied the more desirable opportunities to teach and do research or who have voluntarily declared themselves as outsiders because they simply could not agree with some essential mainstream tenets.²⁶

Starting in the early 1990s I have worked with a number of great colleagues to develop a full alternative that we call *contextual economics*²⁷. The name comes from our conviction that an economic system can only be understood when it is seen to operate within a social/psychological context that includes values, ethics, norms, motivations, culture, politics, institutions, and history; and a biophysical context that includes the natural world as well as the built environment.

²⁶ See N. Goodwin, 2008 “From Outer Circle to Center Stage: The Maturation of Heterodox Economics” in *Future Directions in Heterodox Economics*, Eds., John Harvey and Rob Garnett, University of Michigan Press. Available at http://www.bu.edu/eci/files/2021/01/Goodwin_Mat_Het.pdf

²⁷ See Goodwin et al, 2020, [Microeconomics in Context](#), Fourth Edition; [Macroeconomics in Context](#), Third Edition; [Principles of Economics in Context](#), 2nd Edition; and [Essentials of Economics in Context](#). Also Sebastian Dullien et al, [Macroeconomics in Context: A European Perspective](#). Related teaching materials may be found at <http://www.bu.edu/eci/education-materials/>

The starting point for our contextual economics textbooks is an inquiry into goals: What are the appropriate goals for an economy? And, relatedly: What are the appropriate goals for the discipline of economics? Contextual economics emphasizes that most traditionally understood economic goals – efficiency, maximizing production or consumption, earning money – are best understood as intermediate goals, that is, means to other ends. The relevant final goals might include, for example, the satisfaction of basic physical needs (e.g., for food, water and temperature regulation; happiness (including a good balance of comfort and stimulation); self-respect and the respect of others; self-actualization and a sense of meaning; fairness in the distribution of life possibilities; freedom; democracy and participation; and a natural environment that supports healthy human life. These may be summarized as *well-being*. The scope of consideration is all humans, in the present and in the future, and regardless of the extent of their involvement in market transactions.

In defining the economy contextual economics adds to the traditional trio of “production, consumption and exchange” a critical fourth function: *resource maintenance*. This includes upkeep of manufactured capital, maintenance and enhancement of a healthy stock of natural capital, and many of the kinds of work listed above as most essential for human survival and well-being. It may be that it was because this work is so often performed by women that resource maintenance has not previously been included in the list of essential economic functions; indeed, it was a leading feminist economist, Julie Nelson, who, as a collaborator on contextual economics textbooks, introduced this concept.

A focus on caring labor and on the nonmonetized, cooperative economies of households and communities inspired in contextual economics a structure that organizes discussion of a modern economy in three spheres:

- The **business sphere** is composed of profit-oriented firms, which, however, contain other important motivating forces beside the drive to maximize profits. It is worth noting that corporate charters were at one time granted on the assumption that corporate activities would promote human well-being. This concept is often forgotten, but the potential remains for it to be revived.
- The **public purpose sphere** is composed of governments and non-governmental organizations (NGOs). Like firms, they use money as the principal (though not the only) medium of exchange for procuring labor. Unlike firms, they have an announced goal of advancing the well-being of some defined portion of society, and do not have shareholders or owners to whom they must return a profit.
- The **core sphere** is composed of households and communities. Their principal use of money is for exchanges with the other two spheres. The motive for economic behavior in the core is the survival and well-being of individuals: self, family, and other community members. The resource-maintenance activities of the core sphere include the work that develops and maintains human capital. For children, that means nurturing, nutrition, basic education, and socialization; and for those already in the workforce, it means the refreshment of mind and body and spirit for enhanced health and vigour.

A balance is required between simplifications imposed for the purpose of making sense of the economy, and attempts to recognize the actual complexity of the world. Contextual economics

aims to pull this balance somewhat away from methodologies that require extreme simplification, towards a richer understanding of the nature of economic actors and economic activity. This has required a broader conception of “the economy,” to include economic activity that occurs not only in the business sector, but also within households and communities, and in governments and other public purpose organizations.

Such a broader conception, accompanied by appropriate value shifts, is essential in an era when climate change, as well as shortages of clean water, fertile soil and other natural resources, make it evident that if our economies continue in the direction they are going we are headed for catastrophe. There is a clear need to move away from the currently dominant mental models, towards new ones that give primacy to human well-being and the health of the Earth’s ecosystems as the ends to which wealth is only one of many means – and may not always be a desirable means.

Author contact: Neva.Goodwin@tufts.edu

You may post and read comments on this paper at <https://rwer.wordpress.com/comments-on-rwer-issue-no-100/>