The Upside of the Downturn

Will putting the brakes on conspicuous consumption help put our economic house back in order?

By Taylor McNeil

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Economist Neva Goodwin, co-director of the Global Development and Environment Institute since its founding in 1994, is a leading proponent of what is called contextual economics, sometimes referred to as “economics as if people mattered.” She traces the origins of the current economic crisis back to attitudes that have been developing for decades and stem from our continual need for economic growth. Now might be the time, she says, to right the ship, to provide some balance to the power that corporations have had influencing our culture of consumption—and bring environmental sustainability into the equation.

“Shrinking inequality is the essential first step for turning this around,” says Neva Goodwin. Photo: Alonso Nichols
Tufts Journal: We’re in the worst economic situation since the Depression—how did we get here?

Ours is a culture which praises extravagant consumption—a result that is in some ways inevitable for the kind of economic system we have, where growth is so necessary and businesses that don’t grow have a hard time surviving. The bigger they get, the more they need to grow. To grow, they have to sell more, and in order to sell more they have to really impact the culture.

The impacts on the culture, both through advertising and through political contributions and other political influence, are critically important. They persuade people to buy more than they can afford—persuade them that they are going to look bad to their neighbors or the people they care about if they don’t appear wealthy. And they even persuade [former Federal Reserve chairman Alan] Greenspan that he ought to reduce the interest rate to keep people buying houses and other things to keep the bubble going.

Could it be argued that this growth model inevitably leads to the crisis we’re seeing now?

I think so. And the really interesting question is, are we at an historical inflection point? This has been gathering steam for at least a century, this impact of the economy on the culture.

In the 1960s, it was still somewhat under control. There was still an ethos of responsibility among business people. A good test is what embarrasses people. The New York Times this morning quoted a person who had worked for AIG who was asked, ‘Do you mind all this publicity?’ And he said, ‘Yes, it’s terrible. I feel as if I’m stripped naked.’ He didn’t say, ‘It’s terrible—people are suffering.’ But he was embarrassed. It’s gotten to be very, very hard to embarrass a corporate executive by saying, ‘You’re doing harm to people, to the environment.’ That has not been taken as embarrassing for quite a long time. Back in the ’60s, it would have been.

When did that change?

I think it’s been a continual erosion of social norms. The ’60s had a lot of conflict between those in power in the corporate world and young people, blacks, women, unions—groups that didn’t want to be kept down.

There is a fairly widespread belief that the conflict of the ’60s influenced a number of conservative thinkers to say, ‘We’ve got to get our act together and create a set of economic principles and, behind them, political principles, that will allow us to run the world the way we want.’

One of the obvious pieces was the persistent attack on unions, which has continued up until now. Ken Galbraith thought of the unions as the countervailing power against corporations. I think some of these conservatives read his work and said, ‘That’s the
power then that we need to get rid of.’ But there’s some sign that may be beginning to turn around, and unions may begin to come back to life.

**If we’re at this inflection point, how would it change things for the better?**

I almost think it’s gotten as bad as it can. That may not be true, of course. But changing for the better would mean people believing that it’s wrong to have the degree of income inequality that we do—that it’s wrong that within a single corporation there can be some salaries that are 500 times higher than others. Back in the ’60s, they were 50, maybe 70 times higher. That’s a very important norm that has changed.

The outrage over the bonuses that have recently been given to employees of bailed-out corporations is the leading edge of the feeling that we’ve gone much too far in this disparity. All of the income advantages from Reagan onwards have gone to the top 5 percent, and in many cases, the top 1 percent or less.

Shrinking inequality is the essential first step for turning this around. I do think that the current temper of the country, for the first time since 1980, is really trending toward believing that continued growth in inequality is not a good thing. And if you have less inequality in both income and wealth, you also have less psychological drive to consume, because people don’t have these big differentials to compare themselves to.

**What else has to change?**

To make our economy more sustainable, we need to examine the quantity and type of production and consumption. There is more throughput in the economy than the environment can sustain in absolute terms. The total quantity probably cannot continue growing for very much longer, because we live in physically finite world. But it probably can continue growing for a while.

**Would changing our energy consumption improve conditions?**

We’re going to enter a period where we transition to the post-carbon economy. I’m guessing that within 15 to 20 years that transition will be well along. This is a guess, and would be considered optimistic by a lot of people, who think it will take us much longer.

But the earth simply cannot afford that we continue with the intensity of carbon use that we’ve been using up until now. There are tremendous technological possibilities in solar and wind power, and tremendous possibilities for growth industries and for jobs. So there’s this transition period, when there are going to be lots of possibilities for people to earn a living, and to make money by investing in these new industries.

**And after this transition period—what happens?**

I’ve been trying to imagine what the next phases look like. Ultimately we have to get to something like a steady-state economy, where we find out how much of different
resources humanity can use each year. And of course the renewable resources—there’s a different answer for them than for the nonrenewable.

With the nonrenewable ones, it seems pretty clear that our use has to be steadily declining. With the renewable resources, we can presumably get into a balance, where we find out, for example, how many fish we can pull out of the sea each year, permanently. That will almost certainly be less than we’re pulling out now.

**Does it need to be the government saying this, and if so, what about the 50 percent or more people in this country who would vociferously argue against it? It might be rational to do that, but people are often not rational.**

One could hope that price signals would provide a lot of the motivation. As it becomes more expensive to burn petroleum, people will burn less. But if we wait until the price goes up because of dwindling supply or growing demand, we will have done irreparable harm to the earth.

It’s to be hoped instead that governments put caps or taxes on the use. I’m actually not terribly optimistic that we will. I would say there’s a 5 or 10 percent chance that humanity will make the intelligent choices that will land us in a reasonably good situation 50 years from now. But that 5 or 10 percent possibility is what one has to focus on, and keep trying to work towards.

**How do government subsidies play into this?**

There are a lot of black subsidies rather than green ones, like the subsidies that encourage mega-farming rather than sustainable farming. You don’t have to subsidize the sustainable farming—just take off the subsidies for the other. People complain about the subsidies going to rail transportation, which needs it, but other means of transportation have been highly subsidized—road building and airports are very much subsidized by governments. In some cases, just taking off the black subsidies would do it. In other cases, shifting them would make things move even faster.

**One advantage of an economic downturn is that people might be getting their values back in line, but many people are out of work, and those at the lower end of the socioeconomic scale are suffering the most.**

It’s possible that this collapsed bubble will result in some good changes, but the process is wrenchingly painful for many, many people who lose their jobs, lose their homes, can’t afford to go on in school. So there’s absolutely no way of being glad about what we’re going through, and yet, change must come.

We’re in this deep recession now, and let’s make the best of it. By making the best of it, let’s see if we can take this opportunity to make some pretty deep cultural changes, going back to values that were very much American values in the 19th century—of thrift and making do and a sense of responsibility to one’s employees.
Thrift is either alien or positively unattractive to a lot of young people today. You look really bad or nerdy if you are saving and careful with your money. That could change. It has changed before. But we’ve had a tremendously strong engine bringing us to where we are now, which was the motive of the corporations to sell ever more stuff.

**Getting back to the mere 5 to 10 percent optimism you feel for the likelihood of positive change—how do you maintain that in the face of the far greater probability that it won’t work out that way?**

Studies have shown that, on average, 50 percent of one’s outlook on life is genetic, and I think I was born an optimist. So I’m able to maintain a reasonable amount of optimism in spite of the fact that I know that the odds are not very good. That, and the fact that I’m working, in my own way, to try and improve the odds.

*The GDAE website, [www.gdae.org](http://www.gdae.org), provides information on the institute’s textbooks and other articles on contextual economics. The ideas touched on in this interview are elaborated on in a working paper by Neva Goodwin called "An Overview of Climate Change: What Does It Mean for Our Way of Life? What Is the Best Future We Can Hope for?".*

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