Economic Difficulties Awaiting our Grandchildren: A Retrospective on Keynes

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In the years of the Great Depression in the world and in the U. S. in particular, there was a wave of pessimism, and many thought that capitalism had reached its end and that even worse was yet to come. It was at this time and in this atmosphere that John Maynard Keynes, the distinguished British economist, published an essay called "Economic Possibilities for our Grandchildren," where he extrapolated economic growth and concluded that humankind was well on the way to solving the "economic problem", the struggle for subsistence, that had hitherto been its most pressing concern. He foresaw that in about a century, people would be working less and enjoying more, spending more time in leisure, arts, and literature.

Three quarters of a century have already passed since Keynes' essay and although he got the econometrics fairly right (in terms of his predictions for global GDP per capita), that golden age of less toil and more leisure seems today as far off as ever. In this paper, I shall look at his arguments, and try a comparative analysis with today's statistics and trends. I will argue that working hours did fall until about the 1970s and have been on the rise ever since and that, unfortunately, they will not fall significantly in the foreseeable future despite the global increase in production and productivity.

Keynes' essay

Keynes first presented "Economic possibilities for our Grandchildren" in several lectures around Britain in 1928 and the final version appeared in print in 1930 as the world was going through the Great Depression. Keynes deliberately did not dwell on the Depression, but took a long-term view in-

stead. My purpose in this essay is akin to his approach: not so much to speculate but forecast the future.

What can we reasonably expect the level of our economic life to be like a hundred years hence? "What are the economic possibilities for our grandchildren?"[1] In his essay, he calculated correctly that the living standards then had increased fourfold since medieval times and predicted that with the run-rate they would increase by another four to eight times over the next 100 years. Although there may be flaws in the arguments he gave as to why the said increases occurred and would occur, he got the numbers fairly correct as the global output has indeed risen four times in the last 75 years and is expected to rise further, putting his "four-to-eight times in 100 years" projection very much in place.

As a result of such increased production, Keynes foresaw reduced working hours (some 15 hours per week), more time spent in leisure, arts, sports, etc. He thought that the amount of production output that we have today would be enough to solve economic problems (i.e., the struggle for subsistence) for the first time in history. This would be the greatest achievement of humankind as "the economic problem, the struggle for subsistence, always has been hitherto the primary, most pressing problem of the human race—not only of the human race, but of the whole of the biological kingdom from the beginning of life in its most primitive forms." He "looked forward, therefore, in days not so very remote, to the greatest change which has ever occurred in the material environment of life for human beings in the aggregate."

The present situation

The puzzle that Keynes' essay presents is that although he was right in the econometric forecast, the conclusions which he thought would follow logically never materialized. Working hours, if anything, have been on the rise globally. They had been falling until the 1970s, but then the trend went nearly as rapidly into reverse, despite a continued healthy growth in national output. Statistics for the western world, and especially for the Anglo-Saxon countries, clearly pointed to increased working hours: "Most Americans work longer hours now than peasants did in the Middle Ages, and the working class does not seem to be on the verge of being freed from the struggle

for subsistence."[2] Real wages per hour have declined by more than 13 percent for Americans, but they also seem to be enjoying fewer vacation days over time. The Bureau of Labour Statistics reports that, even after three years at a job, Americans average just 10.2 annual vacation days. In 2000, 20 million workers did not get a single day of paid vacation. "Today Americans work, on average, a month longer each year than 20 years ago."[3]

Australia presents a similar picture. Beder[4] cites a 1998 study, reported in the *Sydney Morning Herald*, which found only 24 percent of workers work a standard 40-hour week, compared with 44 percent twenty years ago. The difference has been attributed mainly to overtime, often unpaid, with 30 percent working more than 49 hours per week compared with 19 per cent in 1978. In Australia, 43 percent do not get paid for their overtime.

In the UK, a report published in October 2003 by the Chartered Institute of Personnel and Development shows that the average working week for women has increased by three and a half hours to its current level of 33.9. The average working week for all workers stands at 39.6 hours and the proportion of those who work more than 48 hours a week has increased from 10 per cent to 25 per cent during the past five years.

Contrary to the general trend in the Anglo-Saxon world, continental Europe was able to reduce working hours between 1970 and 2002. Hours were down most of all in France (23.5 percent) with its legislated 35-hour week. Germans worked 17.1 per cent fewer hours, according to a new analysis of 19 countries by the Organization for Economic Cooperation and Development (OECD). Yet, it now seems to be changing for continental Europe also. France's new finance minister, Nicolas Sarkozy, complained that the 35-hour week, introduced in 1997, was a financial disaster, costing the state huge sums. The 35-hour week returned to the forefront of the political agenda in France over the summer when several companies reached deals with trade unions hat would require workers to work longer for the same pay or else face factory closures. The French government is expected to propose changes to existing legislation.

Germany also removed its voluntary 35-hour scheme recently, arguing that it was making the country less competitive. Companies have been moving their production to Eastern Europe and Asia, where labor is cheaper, and the International Monetary Fund (in the *Financial Times* on 4 August 2004)

warned those in the Euro zone to work more hours, calling for decisive leadership from the European Union to help free up labor markets and encourage longer working hours in the Euro zone. It seems then that continental Europe is also on the way to joining the Anglo-Saxon world in terms of ever-rising working hours.

Analysis

Research at Kyushu University has indicated that working longer hours may put workers at an increased risk of heart attack, and research at the University of Illinois indicates that couples working longer hours are more likely to have marital problems and divorce. Most Americans do indeed complain about their stressful daily schedules and their inability to balance work with other activities, and most say working less would help relieve many of their difficulties. Finally, it is also true that with today's production and productivity levels, we can be better off than our grandparents by working 15 hours a week only. Why, then, the long hours?

Some reasons that are frequently cited as to why we work long hours include job insecurity, unequal distribution of wealth, increased competition necessitating performance-related pay, outsourcing, and increased/enhanced needs that simply did not exist in Keynes' time. "Job insecurity is a major reason behind the rising working hours of middle manager and professionals. Two top business schools, Harvard and Stanford, have shortened their management courses because "potential customers are fearful of spending too many weeks away from their jobs."[5] Furthermore, "Although average living standards have continued to rise, the living standard at the bottom twenty percent of income distribution has stagnated or declined for the last 30 years."[6] Moreover, increased competition requires minimizing costs of production, and employers typically prefer, for various reasons, one overworking worker and one unemployed to two standard-time workers. Finally, we have now a variety of new needs that were non-existent in Keynes's time. Surprisingly, these are not the type of needs that Keynes labeled "relative needs," but in due course they have become "absolute needs" (e.g., one cannot survive in America without a car).

Although I am in agreement with the reasons above, I would like to dig further beneath the surface. We should realize that the working hours

were decreasing steadily from the 1800s, when many people in the western world worked 70 hours a week, to 50 hours last century. The declining trend continued until about 30 years ago as noted earlier.[7] To me, the single reason why the working hours are on the rise again is globalization. With globalization, two things are happening that are responsible for the reversal: labor moves to countries where it is valued more; production moves to countries where labor is cheap. Both sorts of mobility have become relevant in the last 30 years and it is this impact of globalization that Keynes could not have seen. Today, the leisure-loving French do not have to compete with their compatriots only (who are also protected by the 35-hour labor code) but also with the Algerian immigrant who is ready and more than willing to work 15 hours a day for half the pay. What is more, even if the government succeeds in preventing black market labor and limits on immigration, the French companies are all too ready to move their production to Eastern Europe or Asia, where labor is just as qualified, cheap, and abundant. This puts the French in almost direct competition with millions of workers globally and they have no choice but to work hard, just as the government has no choice but to increase the working hours.

The corollary of this is that the democratic regimes that were able to protect the working class by way of securing labor codes are no longer relevant in the face of globalization, which by definition recognizes no borders and no sovereigns. One sovereign will reduce the working hours, but the global forces will move the production to another one who has not done so. Hutchins and Milchen noted that "U.S. laborers have increased their output per hour by 30% since 1973...[o]ur average hourly wage in 1998 was US$12.77 instead of the US$18.40 we would have received simply by sharing in the benefits of our increased productivity." Widerquist says "many working Americans are constantly two paychecks away from homelessness," and Rorty points out,

> the bourgeoisification of the white proletariat which began in World War II and continued up through the Vietnam War has been halted, and the process has gone into reverse. America is now proletarianizing its bourgeoisie.…The question now is whether the average married couple, both working full-time, will ever be able to take home more than US$30,000 a year….But US$30,000 a year will not permit homeowner-

> ship or buy decent day-care. In a country that believes neither in public transportation nor in national health insurance, this income permits a family of four only a humiliating, hand-to-mouth existence. Such a family, trying to get by on this income, will be constantly tormented by fears of wage rollbacks and downsizing, and of disastrous consequences of even a brief illness.[8]

Conclusion

Some 80 years before Keynes, Karl Marx had foreseen in his labor theory of value that wages only compensate workers for the value of their labor power (their capacity to labor), which is equivalent to the value of the commodities required to reproduce it—essentially, subsistence or resources just sufficient enough to keep workers alive. This theory implied that workers' wages would always tend to a subsistence level. He also argued that in the face of automated production, the only way to keep rate of profit satisfactory was to increase the pace of production or to reduce wages, resulting in the "pauperization of the proletariat." We should keep in mind that the typical working week in Marx's time was 70 hours under terrible conditions. The pay was often so poor that children and expectant mothers also had to work. In many places, part of the wages was paid in the form of cheap liquor, and women were obliged to supplement their earnings by prostitution.

Until the 1970s, however, Marx's predictions, for the most part, did not materialize. Working conditions, including wages, improved significantly. As Stevenson aptly notes:

> Piecemeal reforms have significantly modified the economic system of capitalism, beginning with the British Factory Acts, which limited the worst exploitation of workers and children, and continued with National Insurance, unemployment benefits, the National Health Services (in Europe, though not in the United States), and steady progress by trade unions by increasing real wages and decreasing working hours. In fact, many of the specific measures proposed in the *Communist Manifesto* have long since come into effect in the so-called capitalist countries: graduated income tax, consolidation of much economic control in the hands of the state, nationalization of some major industries in some countries, free education in state schools. The unrestrained capitalist system as Marx knew it in the mid-nineteenth century has ceased to exist in

> the most developed countries—and this has happened by step-by-step reform, not by once-and-for-all revolution.[9]

A similar observation by West points to the same phenomenon:

> Whether in the totalitarian guise of fascism or in the more democratically accountable form of the New Deal in the USA (a mixture of Keynesian economics and neo-corporatism), what Frankfurt theorists variously termed "monopoly" or "state" capitalism demonstrated an unforeseen ability by means of more extensive state intervention to overcome the limitations of nineteenth-century liberal capitalism.[10]

All this had been achieved by the power of both state and democratic regimes, which entitle every individual one vote irrespective of social class—the importance of which Marx failed to see and in fact played down.

With the advance of globalization from the 1970s on, however, the sovereignty of the states, hence the power of the workers, has been weakened. Global multinationals do not have to abide by local legislation to the extent they can move elsewhere. This strips the working class of the protection of the labor code. The increased production and productivity will not be shared with the working class, whose rights are not properly protected. Therefore, we should expect our grandchildren to work even longer hours if no social change takes place in the mean time.

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1 J. M. Keynes, "Economic Possibilities for our Grandchildren," in *Essays in Persuasion* (New York: W. W. Norton & Co., 1963), 358-373.

2 K. Widerquist, "Economic Possibilities for our Grandparents," *USBIG discussion paper*, no. 65 (December 2003). <http://widerquist.com/usbig/ 25JAN-FEB2004.htm>.

3 D. Hutchins and J. Milchen, "Americans Working More, Earning Less," *Reclaim Democracy*, <http://reclaimdemocracy.org/labor/unpaid_over_time_rules.html>.

4 S. Beder, "Working Long Hours," *Engineers Australia* (March 2001), 42.

5 Beder, ibid.

[6] Widerquist, ibid.

[7] If we go back to pre-industrial times, we would be surprised to find out that in most societies life was slow and leisurely, and the hours of work required to meet the simple needs were for fewer than we spend today. According to anthropologists, hunter-gatherer societies were able to meet their needs and enjoy an adequate diet with 20-35 hours work per week.

[8] Richard Rorty, *Achieving our Country*, (Cambridge Massachusetts: Harvard University Press, 1998), 83-84.

[9] L. Stevenson, and D. L. Haberman, *Ten Theories of Human Nature* (Oxford: Oxford University Press, 1998), 145-146.

[10] David West, *An Introduction to Continental Philosophy* (Cambridge: Polity Press, 1996), 56.