

October 2014 Quarterly Letter

“Thus, for the first time since his creation, man will be faced with his real, his permanent problem - how to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well.”

John Maynard Keynes, “Economic Possibilities for Our Grandchildren”, 1930

In this seminal essay Keynes posited that the compound rate of economic growth would be such that in two generations people in England and America would enjoy a four to eight-fold increase in living standards.

He was correct in this prediction. In 1930, per capita income in America was \$8,300 and as of 2006, in America, per capita income was \$44,300 (both figures are adjusted to 2006 dollars), this represents a more than five-fold increase in per capita income.¹

Keynes had already proven himself a great economist, indeed, he is considered the father of modern economics. However, a great economist is not necessarily a great social philosopher. Although the economic conditions which Keynes predicted are present, the social condition of excess leisure time and the quandary about how to use it is not present.

Adam Smith, writing a century and a half before Keynes, pointed to the unceasing quest for improvement as a central and inherent element of human nature:

“The desire of bettering our condition...comes with us from the womb and never leaves us until we go into the grave. In the whole interval which separates those two moments there’s scarce perhaps a single instance in which any man is so perfectly and completely satisfied with his situation as to be without any wish of alteration or improvement of any kind.”

Economists later refined Smith’s concept by explaining that people’s sense of what constitutes a “normal everyday” standard of living and therefore what distinguishes

¹In the last 35 years per capita gross domestic product in both the least developed and the most developed economies in the world has also increased dramatically.

progress from the lack of it, adapts over time to whatever their circumstances happen to be. As John Stewart Mill, another significant early economist, explained, “Men do not desire merely to be *rich* but to be *richer* than other men.”

Many, if not most of the activities and things which surround us were not available or even invented in 1930. Now these conveniences are so commonplace that being unable to afford them is part of our notion of poverty.

While it is true that hours worked among employed persons declined for much of the twentieth century, they have recently stabilized at levels far above the 15-hour work week Keynes envisioned.

In every country of the Western World, the number of women in the labor force has risen dramatically.

The United States is a striking counter point to Keynes’ prediction that increased wealth would produce greater leisure. The United States has a 30 – 40% higher per capita gross domestic product than France and Germany, but employed Americans work 30% more hours.²

Since the latter part of the twentieth century, it has become obvious that Europeans have become more skilled at taking time off from work. (Current French law mandates that workers get 30 paid vacation days per year. British law mandates 28 days.)

Perhaps Americans have become so obsessed with consumption that they are willing to trade away leisure to enable more consumption.

Curiously, as the income gap in America has widened, it is actually the lower wage earners who have more leisure time. The people who earn more are more willing to trade away their leisure time to put in more hours at work.³

Keynes’s prediction failed because he did not appreciate the incentives which induce people, even those with high standards of living, to work long and hard.

²A recent Gallup poll reported the average work week among Americans employed full time is 47 hours. According to the same poll, the figure has held steady for 14 years. (The percentage of workers employed full time is now 43%, down from 50% before the great recession.)

³The same Gallup poll reported a quarter of salaried full time workers spend 60 hours per week working. Workers paid by the hour averaged 44 hours per week.

There is one passage in Keynes's essay which correctly characterizes the modern American view... "Yet there is no country and no people, I think, who can look forward to the age of leisure and abundance without dread. For we have been trained too long to strive and not to enjoy." However, that one passage is buried in the body of a long essay which seeks to demonstrate that the big problem will be, not further striving, but what to do with all of our leisure time when we each enjoy the 15-hour work week Keynes predicted for us.

Very few people seem to be enjoying leisure. In her recent popular book entitled "Overwhelmed: Work, Love and Play When No One Has the Time" Brigid Schulte devotes hundreds of pages to the sense of anxiety we experience because of excessive, seemingly impossible demands on our time.

It is true Keynes did not consider the enormous growth in available leisure time activities. How could he have imagined the internet or television transmission systems, which bring us hundreds of channels appealing to every conceivable interest. How could he have imagined millions of people travelling to Disneyworld and Disneyland. (There are now six such amusement facilities in the United States, Europe and Asia.)

And although air travel existed, Keynes could not have conceived of the "Jet Age". This has permitted even people of moderate means to travel halfway around the world for recreation, social events or merely for the pleasure of travel.

More and more time is devoted to the lives of our children. In any suburban area, the end of the school day gives rise to traffic congestion as children are picked up, often one child per car, to be taken to structured after school activities.

The proliferation of automobiles has reached a point where one half the area of the City of Los Angeles is devoted to parking lots and roads, and many other cities of the world are not far behind.

However, it seems wealth is not the only goal. For some people, busyness is a goal in itself. For these people, status means a very busy schedule.

A bright spot in this picture is the increased time and resources people devote to charity.

The reader is left to think about how wisely we are utilizing our vastly increased economic well-being.