



NEVA GOODWIN

ON THE FUTURE OF THE ECONOMY AND A WORLD OF WELL-BEING

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Neva Goodwin is the co-director, with William Moomaw, of the Global Development and Environment Institute (GDAE) administered jointly by the Fletcher School of Law and Diplomacy and the Graduate School of Arts & Sciences at Tufts University. She has served as editor of two series (6 volumes in each): the "Evolving Values for a Capitalist World" series published by the University of Michigan Press and "Frontier Thinking in Economic Issues" published by Island Press, Washington, DC. Dr. Goodwin has authored, co-authored, and edited numerous publications. Most recently, she was the lead author of *Microeconomics in Context*, a college-level

textbook (with a "transition economy" edition published in Vietnam and Russia, as well as the U.S. version published by Houghton Mifflin), and an editor of *New Thinking in Macroeconomics: Social, Institutional, and Environmental Perspectives*. She was interviewed by BRC publications manager Patti Marxsen.

PM: For over two hundred years, the western world has functioned on the premise of "enlightened self-interest" as articulated by Adam Smith in *An Inquiry into the Nature and Causes of the Wealth of Nations*. This philosophy has given us the modern world, where wealth is created through competition and the efficient use of resources. Why is that premise no longer valid?

NG: The original premise of Adam Smith is valid, but it's become narrowed beyond his original intention. When he published in *The Wealth of Nations* in 1776, he'd already written a book called *The Theory of Moral Sentiments* in 1759 and assumed some awareness of his earlier book. As a result, the classical economic view includes a lot of assumptions about social behavior. In *The Theory of Moral Sentiments* Smith talks about sympathy as a very important driving motive in human beings that assumes that we care what happens to other people, and we care what other

people think of us. What has changed is not that Smith's view of "enlightened self-interest" is no longer relevant, but what he would have meant by "enlightened." Modern economics, by contrast, is very focused on *getting*, on profits and consumption.

PM: How is the moral fabric of our society changed, so that we've come to think of "enlightened self-interest" as pure greed?

NG: Economics has taken us to a point that we believe the only purpose of the economy is to enable people to get as much as possible. In emphasizing a narrow, selfish kind of self-interest, it has legitimized selfishness and greed. There's a feedback loop here between this economic view of what is rational and the kind of behavior our society endorses; the implication in text books and a lot of economics writings is that rationality is identical with selfish behavior, and if you do anything that appears to be unselfish, you're irrational.

PM: Would Adam Smith be horrified to see what his philosophy has brought about?

NG: I think he would be very horrified. You know, his chair was the chair of moral philosophy; he was not known as an economist, but as a moral philosopher. I believe he'd be shocked to see a culture that praises greed and tolerates the tremendous distance between rich and poor that has developed in the world.

PM: So much of your work goes beyond the technical aspects of economics and encompasses the larger context we're discussing here. What is "contextual economics" and what are its goals?

NG: Contextual economics begins by asking, "What is the goal of the economy?" In standard economics, you find a built-in assumption that the goal of the economy is to maximize consumption. Period. Given that goal, you then have intermediate goals of wealth and efficiency, both of which are good because they allow you to maximize consumption. In fact, standard economics doesn't distinguish between the intermediate goals of wealth and efficiency and the final goal of maximizing consumption. It implies that they're all equally desirable.

In contextual economics, we start by asking what human beings really care about. We lay out a list of what a lot of people would consider as reasonable ultimate goals, recognizing that people will differ. Happiness is an obvious one, along with security, freedom, ability to be responsible for one's own life, opportunity to participate in society, self-respect, and so forth.



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PM: How do studies determine what matters most?

NG: In “happiness studies” people are asked not what makes them happy, but how satisfied they are with their lives. Then they’re asked which things produce or fail to produce that satisfaction. These studies have been going on since the 1950s. More recently, there’s a new field of “hedonic psychology,” best explained in a wonderful book published by the Russell Sage Foundation called *Well-Being*. “Well-being” is also the term we use in contextual economics as the overarching term for the goals of the economy, recognizing that it is composed of many elements.

PM: So “well being” is your ultimate goal and “wealth” is an intermediate goal, rather than an endpoint.

NG: Exactly, though there are some elements of well-being that are supported by wealth. For example, the obvious one is security in the sense of knowing that you are going to have a meal tomorrow and knowing that your children are going to live to grow up. A certain level of wealth is needed to achieve that kind of security. But studies have, indeed, indicated that as a society gets richer it does not get happier. That is a really clear finding in America based on 50 years of studies, with huge numbers of people being polled every year.

PM: Does wealth make us *unhappier*?

NG: It does look as if there’s been a slight decline in happiness in the last 50 years in this country. But when you go within the society and look at different people at any given moment in time, those who are wealthier are happier than those who are not. So as the society as a whole becomes wealthier, as a whole it doesn’t become happier but the happiness is divided up at any moment in time with more happiness by and large going to those who have more.

PM: Does happiness depend on how much you have in relation to your friends and neighbors?

NG: In our society, comparison with others, and status, and self-respect based on status are definitely important. Robert Frank’s book, *Luxury Fever*, emphasizes the distinction between the kind of thing you can buy to increase your status and the kind of thing you can buy to give you other kinds of pleasures. Interestingly, status goods don’t raise the overall happiness of the society because, while some people are happier, others are miserable and envious.

PM: What’s wrong with this picture?

NG: What I want to emphasize is how the economic system is pushing us in the wrong direction, towards the status goods. Those are the things you can never get enough of and those are the things that the producers can always sell more of. This brings us to the toughest macroeconomic question of all which is, “What do you do with an economic system addicted to always selling more?” It’s addicted to what we consider economic growth, or growth of Gross National Product (GNP), which means more things and more dollar value of “stuff” being sold every year.

PM: You make it sound like a treadmill.

NG: It *is* a treadmill. And environmentally we can’t afford to stay on it. Many people would say that we can’t afford it spiritually either, that it’s a path that’s leading us in the wrong direction. And the hedonic psychologists would say it’s not leading us to happiness, now or for the future.

PM: Does economics concern itself with the future?

NG: Instant gratification is encouraged by producers and advertisers in our economy. If you encourage a focus on the present, you can get people to buy more “stuff” and then you can lead them into debt, which benefits part of the economy. In contextual economics, we emphasize well-being now and into the future as well.

PM: It’s quite a complicated system, isn’t it, with deeply embedded dysfunction?

NG: Absolutely, and it’s going to be very, very difficult to unravel because powerful parts of the system have a built-in anti-social selfishness. But now we’re talking about institutions, not people. We’re talking about corporations where right now the culture seems to push the whole system towards choosing immoral people to be their leaders.

PM: How do such leaders affect our economy and our culture?

NG: It’s easier for a leader to destroy a good corporate culture than to implement a bad one. A leader can make a difference but the corporate culture can drift downwards, as so many corporations have done over the last 50 years in this country. Jim Wolfonson at the World Bank had all sorts of very positive ideas that the culture just ignored. Another good example is Walmart. When Walmart came along and behaved like the perfect competitor, it forced others to do the same.

PM: In what way did it behave like the perfect competitor?

NG: To begin with, it cut every cost to the bone. Now, it’s really uncomfortable to work at any level in a firm which is cutting every cost to the bone. It requires an intensity of pace and a lack of amenity which nobody likes. But standard economic theory

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predicted that firms would be forced to follow the competitors. Since Wal-Mart has come along, others have been forced to follow. As everybody in competition with Wal-Mart began to cut costs, Sam Walton found he had to go overseas to get cheaper goods made by workers with lower wages, something he didn't want to do at all. If you want really low wage workers you have to go outside of the United States.

PM: Your work identifies resource maintenance as a very important part of economics. In fact you describe it or define it as one of the four essential economic activities in addition to production, distribution, and consumption. But isn't resource maintenance implied by production, distribution, and consumption?

NG: Like other aspects of the economy, the answer depends on your time horizon. If you have a very short time horizon, you can produce, distribute, and consume without maintaining any resources. But it won't go on forever. And that's exactly what we're doing. We're acting as if we had a very short time horizon.

PM: You mean we're not thinking about the future?

NG: Right. We're failing to maintain a lot of important resources, which includes something that some people call social capital.

PM: Contextual economics distinguishes among five kinds of capital: natural, manufactured, human, social, and financial. Tell us about these forms of capital.

NG: Natural capital includes things like biodiversity and clean air and clean water; manufactured capital refers to productive machinery and equipment and factories and roads and transportation and the communication system; and financial capital

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of course is the one that people are most apt to think of if you use the word capital. Interestingly, it's the one we could survive without.

PM: Those three kinds of capital refer to things. But what about human and social capital?

NG: Human capital is the productive ability inherent in each person. If people learn to read and write, they increase their human capital. It makes them potentially more productive. If someone is starving or malnourished, that reduces human capital. So health, nutrition, education, and skills contribute to human capital.

The social capital of trust, honesty, responsibility, and behavior that would earn you self-respect as well as respect from others, is something that Adam Smith took for granted. An economy works much better when it has social capital, but our economy has been destroying social capital consistently. For example, although cooperation contributes at least as much to productivity as competition does, our economic system does not reward cooperation.

PM: As we all know, there are many unpaid workers in our economy. How should we compensate the labor of caretaking that includes motherhood, elder care, and other forms of often uncompensated labor?

NG: The ideal world would be one in which material compensation reflects the importance of the work in terms of human well-being. In such a world, nurses and educators and farm workers, and people who take care of children, and keep homes, and make

communities pleasant places to live, are the people who would be most rewarded. What got me into economics was asking the question, "Why, instead of being the best rewarded, are those people the least rewarded?"

PM: Is it because such workers are most often women?

NG: That's a big piece of it. Women don't ask as much as men do for compensation; they simply don't play the game as aggressively. But look at fieldwork in agriculture. In different societies it may be done by men, by women, or by both and it's always very low paid. And yet it's the thing that people depend on the most.

PM: Are there any insights from the world of contextual economics that would help us provide more security for elders?

NG: If we ask, "What is a good life and how are you going to achieve it?" you begin to recognize that a lot of what makes for a good life are what economists call "public goods," as opposed to "private goods." Private goods are what individuals purchase and use for themselves. Public goods cannot usually be sold; everybody gets to enjoy them. A great deal of the quality of life depends on public goods. Systems for retirement are a good example of this. You cannot let the market be solely responsible for public goods because it won't provide them. Economists recognize this, but in the current anti-government, pro-market environment it is not a very popular thought.

PM: Does this principle also relate to public education and healthcare?

NG: We need to recognize the limits of the market and realize that it only provides private goods. I think the single most important thing we could do now is to start striving towards a better balance between public and private.



PM: Is there a model of good balance?

NG: Economist Amartya Sen has emphasized the uniqueness of the state of Kerala within the country of India. Kerala is quasi-communist in its approach. It's not rich, but it emphasizes public goods. It also emphasizes primary education over higher education, and primary healthcare over heart transplants. With the same amount of money, they unquestionably achieve a higher quality of life for the majority of the population.

PM: Given the goal that you have set for yourself—to reform the way economic theory is used to shape the world—why have you adopted the strategy of writing textbooks and developing free on-line teaching modules?

NG: As an economist, one has to choose a point of entry. There are wonderful people working to formulate policy, and there are great activists. The point of entry that seemed the least well-served, and the one where I could help make a difference, was in education, because the available textbooks are mostly identical. Also, a lot of writing deals only with one piece of the problem. So I felt this was a great moment in history for a writer of textbooks to draw on the work of the last 20 or 30 years in feminist, ecological, radical, and other kinds of economics.

PM: For 12 years now you've co-directed the Global Development and Environment Institute at Tufts. How do the principles of the new economics that we've been discussing apply to global development?

NG: The theory now being taught in economics courses is both descriptive and prescriptive: it gives students an idea of the parameters of the possible, and also steers them toward preferring a particular kind of world. The economic models are very powerful in describing and prescribing how to create financial wealth and produce

lots of stuff, but they pay little attention to preserving and maintaining resources, and are quite destructive of well-being in the long run. As we develop the ideas of contextual economics, in our teaching materials and textbooks, we present models for economic strategies that are simultaneously supportive of individual goals and of social goals. We present as both possible and desirable economic behaviors that are good for the future and for the present. This requires taking account of the health of the whole globe, with its entire ecosystem and all its people, recognizing that this is an integrated system where we ultimately all benefit from behaving decently towards other people and the environment. That's a point of view that makes sense if you take a relatively long view; not if short-sighted selfishness is considered the only kind of rationality. But the choice of what point of view to take is not about facts; this is a purely individual decision that each person makes, usually unconsciously, about what matters in life.

PM: With global development in mind, what can people do as individuals regardless of who they are or where they live, to contribute to human well-being in other parts of the world?

NG: A good starting place is to think about what does contribute to well-being, and to consider how each of us has been led away from striving towards well-being as our economy focuses excessively on material affluence. The creation of a new economy will have to begin with each of us developing a more thoughtful personal sense of what really matters. ☺

For further information, or to access educational materials, please go to <http://www.gdae.org>.

BRC Recognized for Building Cultures of Peace

Psychologists for Social Responsibility (PsySR) has selected the Boston Research Center as the 2005 recipient of its Distinguished Contribution to Building Cultures of Peace Award. PsySR president Paul Kimmel presented a plaque to Ginny (Straus) Benson and Masao Yokota at a special ceremony during the annual meeting of the American Psychological Association in Washington, DC, in August. Previous recipients of the award, which has been given since 1998, include Ashoka, the Search for Common Ground, and True Majority. To learn more about how PsySR uses psychological knowledge and skills to promote peace with social justice at the community, national, and international levels, go to www.psysr.org.

A Symposium at the Center for the Study of World Religions

The Center cosponsored a symposium on October 7 at the Center for the Study of World Religions (CSWR) of the Harvard Divinity School. A panel discussion entitled *Perspectives on Religion and Globalization* featured CWSR director Don Swearer, Harvard-Yenching Institute director Tu Weiming, Yoichi Kawada of the Institute of Oriental Philosophy, and Hiroshi Kanno, director of the International Research Institute for Advanced Buddhism at Soka University in Tokyo. The panel explored the role and impact of Eastern traditions in our global society during a special visit from a delegation of Japanese scholars hosted by the BRC in October.