

The Economic Dimension of Future Justice

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Future justice has an economic dimension because economic decisions made today will have an impact on the level of wellbeing achievable by people in the future. For example, decisions today to use less of our non-renewable natural resources, such as coal and oil, will influence how much of these resources will be available for people to use in the future. Simply put, the less coal we use today, the more coal there will be for use by people in the future. As will be seen, along similar lines of logic, if we decide to use output produced today to increasing the capital stock or to developing better ways to produce things or to developing new and improved products then the total quantity and quality of goods and services that people in the future will be able to produce and enjoy will be increased.

Many people express concern that economic decisions made today will cause a burden on people in the future. People fear that environmental degradation, the ageing population and the increasing prevalence of obesity will put pressure on the wellbeing of people in the future. However, in this chapter I will argue that in terms of material living standards there is strong reason to believe that people in the future will be better off than people are today. Furthermore, the contribution of increased material living standards to wellbeing for rich countries like Australia is very small. It seems that economic

growth, at least in its current form, is having a rather limited effect on increasing wellbeing. From these considerations, I will argue that future justice is not served by emphasising economic growth. Instead, the focus should be on helping people today who suffer from low levels of wellbeing. These people include poor people, both within Australia and overseas, the mentally ill, and the unemployed. Insofar as we shift from an emphasis on economic growth to helping these people, economic activity can contribute to justice both now and in the future. This, it will be argued, suggests that the need is for responsible economic growth.

But first we should consider more fully the link between what we decide to consume now and people's consumption possibilities in the future. Consumption refers to that part of output, or gross domestic product (GDP), used to satisfy human needs and wants, such as food, clothing, housing, entertainment, and so on. The relation of coal usage to consumption is that, other things being equal, greater coal usage leads to greater consumption. Consider the importance of coal usage for the production of electricity. The production of electricity makes a substantial contribution to wellbeing, enabling people to heat and cool their houses, run their computers, and, through the activities of industry, enabling the production of a huge range of goods and services which in turn improve wellbeing. If our use of coal today leaves little coal for people in the future, or forces people in the future to use less productive means of producing energy, then the well-being of people in the future will have suffered. Our decision today to reduce coal stocks by a large amount may have been very beneficial for our wellbeing today but would be detrimental to the wellbeing of people in the future.

The balancing described in the previous paragraph, between coal usage today and coal usage in the future is complicated by the following considerations. The productivity of coal use will almost certainly be greater in the future, thereby requiring a smaller amount of coal to produce a given

amount of wellbeing. Over the last 200 years, since the beginning of the industrial revolution, productivity has consistently increased. The amount of coal required to produce a given amount of goods and services has tended to decrease. Furthermore, alternative energy sources, developed over the past 200 years, such as oil, have reduced our reliance on coal. This trend can also be reasonably inferred to continue into the future with the development of solar power and other energy sources. Thus it seems reasonable to infer that people in the future will need less coal to achieve a certain level of wellbeing. In addition, past experience suggests that over time we discover more deposits of non-renewable resources. As one commentator put it: '50 years ago we had 20 years of known oil reserves left. Now, 50 years later, we still have 20 years of reserves left'. Taking these considerations into account reduces the 'just' amount of coal that we should leave in the ground for use by people in the future.

For future justice, another aspect of coal usage, especially the brown coal that is such an important part of coal reserves in Australia, is that it contributes to increased carbon in the atmosphere, and this, the experts argue, contributes to global warming. Thus coal usage today may have an unjust effect on people in the future through the negative effects on wellbeing caused by global warming. This consideration suggests we should, in the interests of future justice, reduce coal usage today. The pollution caused by coal usage and other activities is, in the language of economics, an externality and should be addressed by imposing a tax on the pollutant or by a tradeable permits scheme. The latter is currently being pursued by the Australian government.

There are many decisions made today, in addition to deciding the rate of natural resource usage, that will influence the wellbeing of people in the future. A major decision, central to economic thinking, is the level of saving decided on today. The more people save today, which means the more people refrain from consuming goods and services today, and instead

allocate society's output to increasing the size of the capital stock today the greater will be the level of output in the future and thus the greater the amount of goods and services available for consumption by people in the future. Thus an economic aspect of future justice is to make the appropriate allocation of output produced today between consumption for people today and saving today, that is increasing the capital stock.

In addition to increases in the capital stock, improvements in technology also lead to increases in output produced per worker. Improvements in technology are enhanced by expenditure on research and development (R and D) in industry and universities. These expenditures are the result of decisions made today and have the same intertemporal nature as discussed earlier with respect to coal usage. That is, just as less coal usage now means less consumption now but more coal is available for the future and so more consumption in the future, so also does more expenditure on R and D mean that consumption today is less but consumption in the future will be greater.

While decisions made today have an impact on people's consumption possibilities in the future, many of the people in the future are not around to be involved in the making of today's decisions. Some of the people who will be alive in the future are children at present, and many others of course are not yet born. Taking this into account seems to suggest that people in the future are at our mercy. One can see a general awareness of this apparent weak position of people in the future in that appeals to the wellbeing of people in the future, and the future of our children, often strike a responsive chord. Sometimes one hears people arguing that economic growth is needed to protect people in the future.

However, the record over the last 200 years suggests that people in the future have been treated very favourably insofar as the level of consumption of goods and services per person is concerned. Positive economic growth has been sustained and has produced a strong upward trend in the consumption of goods and services per person in Australia over the last 200

years. Living standards — that is, the consumption of goods and services per person — have risen many-fold. For example, the consumption of goods and services per person in Australia in 2009 is over five times its level in 1900. Thus, over the 20th century, the economic decisions made in Australia, year after year, were very beneficial for future generations, at least with regard to the consumption of goods and services.

Indeed, from the point of view of future justice it seems that people in the past — for example, the beginning of the 20th century — made economic decisions that were too generous. They made sacrifices of consumption that were to the benefit of people five times better off. This is similar to the average resident of Broadmeadows transferring income to the average resident of Toorak.

One reason for this is that the people making the decisions were also part of the future. People saved for their own future retirements and this saving built up the capital stock, which contributed to increased output for all people alive when the savers approached retirement. Generations overlap. The lack of a clear distinction between people alive today and people alive in the future seems to have guaranteed future justice in Australia.

Given that economic growth is reasonably expected to continue, it is reasonable to infer that people in the future will have even greater levels of consumption than we do today. Thus from this perspective, ‘business as usual’ will not harm future generations, at least as far as the consumption of goods and services is concerned.

At the current time, the ageing population, the tendency to increased obesity, and the threat of global warming are highlighted in current debates as posing a threat to the well-being of people in the future. The proportion of people aged 65 years and above in the population is expected to roughly double in the next 40 years from a little over 10% to a little over 20%. Because older people tend to work less, being mainly retired, and tend to consume more health services, this large

increase is expected to put considerable demands on the population of working age. However, the projected continuation of economic growth is shown by Ross Guest and myself, (2001) to reduce the threat of the ageing population to insignificance.

The prevalence of obesity is also expected to increase considerably in the future. The proportion of the population who are obese is projected to almost double from about 17% of the population today to about 30% by 2025. Some people fear an increased burden of health costs on society caused by an increased prevalence of obesity. However, as for the ageing population, these costs will be dwarfed by the positive effect on output of future economic growth.

Exactly the same argument works for policies directed to reduce the speed of global warming. Their cost is insignificant when measured against the increase in output caused by sustained economic growth. And even when the costs of ageing, obesity and pollution control are added up, they still do not amount to much against the yardstick of economic growth. Thus tackling these issues is easily affordable.

But now we turn to the view mentioned at the beginning of this chapter that economic growth, at least in its current form, is having a rather limited effect on increasing wellbeing. In recent years, a growing number of economists are questioning the use of the consumption of goods and services per person as a measure of wellbeing. This scepticism is largely due to the results of happiness surveys. Happiness surveys, in which individuals are asked to rate their happiness on a scale going from 'very unhappy' to 'very happy' have shown for the rich countries of the world such as Australia virtually no increase in the average level of happiness for the last two or three decades. So while consumption per person has been increasing, this seems to have done little to increase people's happiness.

The ineffectiveness of consumption growth to increase happiness is not apparent for poor people. Poor countries show substantially lower levels of happiness than rich countries,

implying that poor countries that move out of poverty, which many are doing at the current time, will experience increases in their average levels of happiness. Furthermore, poor people in rich countries report substantially lower levels of happiness. When they become better off — for example, when an unemployed person gets a job — his or her happiness tends to increase. The ineffectiveness of consumption growth is a problem for the well-off.

The main reason put forward by economists to explain the ineffectiveness of consumption is that well-off people are concerned to a substantial extent with relative levels of consumption. This is sometimes called the attempt to ‘keep up with the Joneses’. The goods that are particularly important in contributing to relative comparisons are called positional goods, or Veblen goods, after the 19th century American economist and sociologist, Thorstein Veblen. It is easy to see that if people get happiness from consuming more than their relatives, friends, colleagues and neighbours, then an increase in everybody's consumption level will not lead to an increase in happiness. It is impossible for everybody to get ahead of everybody else. The futile attempt to get ahead by working more to increase consumption relative to the consumption levels of other people is called the hedonic treadmill.

Avner Offer (2006) establishes another reason for the disappointing outcome from consumption growth. He observes that the positive effects of consumption are sometimes accompanied by negative effects, and that the negative effects are somewhat insidious in being hard to recognise and/or hard to prevent. For example, consumption growth has been accompanied by a large increase in the fast-food industry. This is identified by some as an important cause of increasing obesity. However, some people have trouble in resisting the temptation of fast foods even though they recognise the possibility of weight gain, and the associated losses in wellbeing due to being less attractive and less healthy.

The risks to wellbeing from economic growth may be unevenly spread across people. Some people may suffer these risks, while others are unaffected. For example, people who are less tempted by fast foods will be able to enjoy the convenience of fast foods without being induced to consume excessively. Another example comes from drug abuse. High levels of income, the result of economic growth, have made recreational drugs more accessible to many people, including teenagers. However, it appears that some teenagers, perhaps 20%, are prone to develop mental disorders from the consumption of cannabis. This subgroup is then put at risk by the wide availability of cannabis.

More generally, it appears that for rich countries economic growth cannot be expected to be effective in reducing health and social problems. Richard Wilkinson and Karen Pickett (2009) have shown that among rich countries, those countries with the highest per capita income levels do not show a significantly lower value of an index of health and social problems. This index includes a wide range of indicators of health and social problems; that is, indicators of trust, mental illness, life expectancy, infant mortality, obesity, children's educational performance, teenage births, homicides, imprisonment rates, and social mobility. Higher incomes do not seem to reduce these health and social problems.

It is disappointing that economic growth has become so ineffective at improving the average level of wellbeing and in closing the gap between those with low wellbeing and the rest of the community. Economic growth is one thing that capitalist economies are very good at creating. In the past, and for poor countries today, the success of capitalism in creating rich countries out of poor countries has added immensely to people's wellbeing. The opportunities for a long, healthy and satisfying life are far more widespread across people than 200 years ago. Then, for the vast majority of people living in what are now rich countries, life was short, unhealthy, cold in winter, and lacked many of the satisfactions that we now take for

granted. But we seem to have reached a break in the road and economic growth can no longer guarantee improvement in the quality of life on average across the populations of rich countries.

We would serve future generations well by developing a more nuanced view of economic growth, in which there is a greater awareness of its costs as well as its benefits. By discovering how to make economic growth more responsible, that is discovering the policies and putting the policies in place which yield responsible economic growth, future generations will gain. Pollution control is one of these but as we shall see there are others. There will be costs in making the switch and these costs will be borne sooner rather than later. Discovering policies is not costless. Resources need to be directed to create and consider alternatives. Putting improved policies into practice is also costly. It requires sustained political activity and a reorganisation of priorities. The latter will downgrade some policy directions that are of great value to some people.

The weak relation between economic growth and well-being suggests that economic growth should not be regarded as an objective of economic policy. A high rate of economic growth may deliver higher levels of consumption goods and services to people in the future but this does not guarantee that they will enjoy higher levels of wellbeing. Thus economic growth cannot be justified on the grounds that it treats people in the future well, that it addresses future justice.

Responsible growth includes tempering higher incomes with more equal incomes. Wilkinson and Pickett (2009) show that among rich countries those with more equal income distributions achieve better socioeconomic outcomes. The index of health and social problems is lower for those rich countries with more equal income distributions. Wilkinson and Pickett use the definition of income that tries to capture purchasing power, that is income after taxes paid and government benefits received.

An explicit focus on happiness can give valuable guidance to where important socioeconomic problems lie. Richard Layard (2005) has put forward a list of priority areas by identifying the groups of our unhappiest citizens. These groups include the poor, the mentally ill, and the unemployed. Two hundred years of economic growth has not prevented substantial numbers of people being in these groups, even though it has provided us with much higher levels of consumption of goods and services, way above the levels required for subsistence. Future justice would be well served by ensuring better outcomes for these groups of unhappy people.

An emphasis on economic growth as a desirable objective has probably contributed to the shift in economic policy in recent decades towards free markets, competition and privatisation. This shift has led to many improvements in efficiency and been of great benefit to people. For example, the availability of cheaper clothing due to the reduction in protection of the textile industry has been very beneficial for many poor families. However, the shift may also be having undesirable effects on people both now and in the future for three reasons.

First, this shift has tended to cause a suspicion of the value of government expenditure because government activities are not subject to the 'market test'. This suspicion has tended to limit the level of government expenditure. Given that many socioeconomic problems are increased by government neglect, the suspicion of the value of government expenditure may contribute to those problems.

Second, applying economic analysis to the pursuit of economic growth highlights the disincentive effects of taxation. High tax rates are argued to discourage labour supply, and this reduces economic growth. However, Yew-Kwang Ng (2008) has pointed out that the disincentive effects of taxation are exaggerated if the importance of comparisons of relative levels of consumption — that is, the effect of 'keep up with the Joneses' referred to above — is ignored. If some of the benefit that people perceive they receive from consumption is due to

an improvement in consumption relative to other people then the benefit that one person receives from extra consumption is offset to some extent by the loss suffered by other people. In the language of economics, this is a negative externality. A positive rate of tax, either on consumption or income, can correct this negative externality. Furthermore, in as far as economic growth leads to an increase in the riskiness of consumption, even if only for a subset of the population, another negative externality is imposed. Taking account of these negative externalities implies that some of the apparent disincentive effect of taxation is in fact beneficial for people's wellbeing.

Third, it may be, although I do not know strong evidence for this, that an emphasis on free markets and competition encourages a more selfish perspective among people. There is some evidence, albeit contested, that students who study economics are more selfish and less concerned for others than are students in other disciplines (see Lateri, 2008). Jean Twenge and Keith Campbell (2009) report trend increases in anxiety and in narcissism over the last few decades. One result of this trend may be the selfish basis of Australia's immigration policy. It is striking to me that immigration policy in Australia is strongly oriented towards skilled migrants, with a very small component based on humanitarian concerns. For 2009–2010 the Australian migration program is set at 108,100 places for skilled migrants, while the humanitarian program offers only 13,750 places. The sentiments expressed in the 19th century by the American poet, Emma Lazarus, subsequently engraved on a plaque in the pedestal of the Statue of Liberty, which are

Give me your tired, your poor,
Your huddled masses yearning to breathe free,
The wretched refuse of your teeming shore.
Send these, the homeless, tempest-tossed to me,
I lift my lamp beside the golden door!

do not seem to stir the hearts of today's affluent Australian population. Instead, skilled migrants are seen as enhancing

economic growth, and immigration policy is growth-oriented rather than humanitarian. Given the high income level of Australia, compared with many countries in the world, this focus on economic growth rather than humanity is disappointing. It is also bitterly ironic in that the enhanced economic growth will do little for the wellbeing of the incumbent inhabitants.

Insofar as adopting market-based policies to enhance economic growth also encourages selfishness, it may have the perverse effect of increasing the severity of the problem of population ageing, referred to above. Guest and McDonald (2003) set out an analysis of the wellbeing of older people, that shows the importance of the generosity of the working population. If people become less concerned with the wellbeing of others, then they will be less disposed to make transfers through the tax, social security and health systems to older people and so the wellbeing of older people, especially with regard to health services that they are able to afford, will suffer.

For several reasons, then, the focus on economic growth causes an inappropriate mix of government activity relative to private activity. It tends to squeeze the former and inflate the latter. Shifting the mix towards relatively more government activity would lead to benefits for people living now and in the future.

The education system in Australia comprises a large proportion of GDP and thus is the outcome of important economic decisions. Furthermore, education is a direct way through which economic decisions today influence the wellbeing of people in the future — that is, the children when they grow up and their children, and so on, that is a direct way to future justice. However, education policy could be improved by recognising the limited value of consumption goods and services on people's wellbeing. At present, there is a strong emphasis in education policy on the objective of preparing people for the labour market. Education curriculum is often evaluated on the basis of how it would improve the labour

productivity of the educated. Economists evaluate education by calculating the rate of return, where the benefits are assumed to be the increase in wages and labour force participation made possible by education. But these benefits, because they ignore the importance of relative comparisons of consumption, are overstated. Furthermore, the benefits from education that arise from activity outside the labour market are excluded by these evaluations.

A better basis for education policy would be an explicit recognition that the aim of education is to improve the lifetime happiness of those educated. Lifetime happiness would take into account, not just the benefits from increased labour market productivity, adjusted downwards for the relativity effect in consumption and upwards for the satisfaction and interest offered by jobs, but also the benefits from activity outside the labour market, such as enjoyment of reading, the arts, sport and interacting with other people. As it happens, these activities are very important in determining the levels of individuals' happiness. The importance for happiness of social interactions leads Layard (2005) to recommend the promotion of family-friendly policies, because activities within the family make an important contribution to happiness.

One can see from the discussion in this chapter that the phrase 'future justice' has an elasticity of meaning which may have surprised you. First, 'future' does not describe a well-defined group of people, because people's lives overlap. Many, indeed most of the people alive today will be alive next year. Many of today's economic decision-makers — for example, working adults — will be alive in 30 years time. Thus many of the people of the 'future' are in fact around today. Furthermore, the people to be born in the future are linked through their parents with people alive today, and insofar as people care about their children then the people of the future are protected in the decision-making of people today. This overlapping explains why people have consistently treated 'future people' very well.

Second, justice has been interpreted as wellbeing or happiness. This is in keeping with the consequentialist philosophy, that is a focus on outcomes, on which economics is based. It contrasts with the idea that future people have a 'right' to something and instead frames the question of future justice in terms of 'a bit more' or 'a bit less'. From this perspective, this chapter has emphasised the view that injustice occurs when the wellbeing of subgroups of people is a lot less than for other people. The chapter argues that it does not seem that this injustice will be mitigated if economic growth in its current form continues.

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