

OTHER ESSAYS

An Evaluation of Keynes's Projected Possibilities

By C.-Y. CYNTHIA LIN*

ABSTRACT. At the onset of the Great Depression, John Maynard Keynes made some startlingly optimistic predictions about the economic possibilities his grandchildren might face a century later. Within the next 100 years, Keynes proclaimed, technological progress would solve the economic problem facing human beings, individuals would devote themselves to noneconomic pursuits instead, and no one would continue to strive for relative goods. Was Keynes right? This article examines each of Keynes's three main prophecies and concludes that, even though over 75 years have transpired since they were made, and even though they were founded in part on the belief held by most classical economists in the value of technological progress and economic growth, not one of Keynes's predictions has been realized.

*C.-Y. Cynthia Lin is an Assistant Professor at the Department of Agricultural and Resource Economics, University of California at Davis, One Shields Ave., Davis, CA 95618; e-mail: cclin@primal.ucdavis.edu. Her primary fields of interest are applied microeconomics and applied econometrics, with a focus on issues relating to energy and the environment. Cynthia received her bachelor's degree, *summa cum laude*, in Environmental Science and Public Policy from Harvard College in 2000. She received her Ph.D. in economics from Harvard University in 2006. Her graduate honors include an EPA Science to Achieve Results Fellowship, a National Science Foundation Graduate Research Fellowship, a Repsol YPF—Harvard Kennedy School Pre-Doctoral Fellowship in energy policy, a Rita Ricardo-Campbell Fellowship in Economics, a Jens Aubrey Westengard Scholarship, and Harvard Committee on Undergraduate Education Certificates of Distinction in Teaching for both her semesters of teaching. She wishes to thank Stephen Marglin for discussions and Geoff Brennan and Laurence Moss for their comments on earlier drafts of this article. She received financial support from an EPA Science to Achieve Results Fellowship and a National Science Foundation Graduate Research Fellowship.

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I

Introduction

AT THE ONSET OF the Great Depression, John Maynard Keynes made some startlingly optimistic predictions about the economy. In his 1930 essay “Economic Possibilities for Our Grandchildren,” he proclaimed: “[A]ssuming no important wars and no important increase in population, the *economic problem* may be solved, or be at least within sight of solution, within a hundred years” ([1930] 1972: 326, emphasis in original). In place of a struggle for subsistence, “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” ([1930] 1972: 328). The current economic slump was not the portent of a coming decline in prosperity, he asserted, but rather merely a “temporary phase of maladjustment” ([1930] 1972: 325) en route to the “destination of economic bliss” ([1930] 1972: 331). Was Keynes right? Now, over seven decades later, although Keynes’s prophecies may arguably represent the natural extension of the belief held by most classical economists in the powerful palliative effects of technological progress and economic growth, the social and economic situation of contemporary America appears to indicate that none of Keynes’s prophecies have been realized.

II

Absolute Needs Would Be Satisfied

KEYNES’S FIRST PROPHECY was that the absolute needs of human beings would eventually be satisfied. According to Keynes’s argument, absolute needs were those that individuals feel “whatever the situation of [their] fellow human beings may be” ([1930] 1972: 326). Throughout history, the struggle to fulfill these needs—a struggle Keynes termed the “economic problem”—had been the primary problem not only of the human race but also of all biological species. Like many classical economists, Keynes believed strongly that, by improving average living standards, technical improvements and capital accumulation initiated in the 16th century would

eventually solve the economic problem. If the economy continued to grow at its current rate, Keynes predicted, this solution would occur within the next century.

One major flaw with Keynes's argument is its failure to explain the continual existence of poverty. Despite the wars that have occurred since the Great Depression, the U.S. economy has grown at the 2 percent rate that Keynes predicted was needed to solve the economic problem (Barro and Sala-i-Martin 1999: 366). Yet, in 2000, approximately 31.1 million people were in poverty in the United States, representing 11.3 percent of the country's population (Dalaker 2001: 3). As official poverty statistics are based on "poverty thresholds intended to approximate the cost of basic necessities" (Short 2001: 1), people who are in poverty are those whose absolute needs are not being met. The existence and persistence of poverty suggest that, contrary to Keynes's claim, the economic problem is not in sight of a solution.

There are two possible reasons why poverty still exists. First, while Keynes may have been prescient in his forecast of the growth of the *average* standard of living, he may have overlooked the long-term distributional effects of economic progress. Economic growth may be welfare-enhancing in the aggregate, but it may benefit some more than—or even at the expense of—others. Keynes recognized that people would suffer differentially during the transition to economic prosperity. Across countries, he observed, those countries that were not at the forefront of progress were "suffering relatively." Within countries, those people whose labor had been replaced by machines would suffer from "technological unemployment" until new uses for their labor could be found ([1930] 1972: 325). However, Keynes failed to realize that relative suffering and technological unemployment were not mere transitory manifestations of "growing-pains . . . from the painfulness of readjustment between one economic period and another" ([1930] 1972: 321) but, rather, more persistent problems that would impede the full satisfaction of absolute needs. Instead of enabling the resolution of the economic problem for all, economic progress may instead widen the gap between the rich and the poor.

In addition to distributional issues, a second reason why poverty persists despite economic progress is that the absolute needs of

human beings have increased. If an absolute standard is used to determine poverty, then the set of goods used to determine the threshold may change over time. For example, goods such as running water, electricity, or phone service that may have been deemed luxuries in the past are now likely to be considered basic necessities for living in the United States. Similarly, advances in medical technology have enlarged individuals' absolute health care needs. It may be argued that the expansion of absolute needs itself is a sign of progress—that the very fact that Western society can and does expand its notion of what people deserve is an indication of success—since such an expansion represents an increase in the baseline utility level for all individuals. However, an alternative interpretation is that the enlargement of absolute needs reflects not an increase in baseline utility but rather an increase in the minimal requirements for achieving the baseline utility of the past. Economic progress has not facilitated the enhancement of welfare for all but has raised the minimal prerequisites for market participation. As markets have unfolded across geographical, technological, and temporal boundaries, participants need an ever-growing range of tools and skills to gain access to them to fulfill even their basic needs. As stores locate further away from homes and from other stores, cars become necessary for negotiating the geographical distance. As firms mechanize, automate, and computerize, technical skills and knowledge become necessary for participation in the labor market. As the time needed for each economic transaction diminishes, access to and possession of technology that facilitates the efficient use of time becomes necessary in order to keep pace. As medical advances have extended life expectancy, more wealth is needed to ensure that the minimum baseline utility is satisfied over the longer lifetime. Thus, while the absolute needs of the past may have been fulfilled, the economic progress that enabled their fulfillment has engendered its own set of absolute needs to be resolved. An increase in the minimum required level of consumption consequently does not necessarily imply an increase in the baseline level of utility but instead an increase in the level of consumption required to maintain a given baseline. Whether because of rising inequality or because of rising absolute needs, poverty has persisted despite Keynes's predictions to the contrary.

Rising absolute needs may explain the persistence of poverty in the face of economic growth and also betray a fundamental fallacy in Keynes's belief in the eventual resolution of the economic problem. At the heart of Keynes's argument is the premise that it is feasible to satiate one's absolute needs. However, if one's needs perpetually enlarge, then satiation is impossible. In addition to the aforementioned reasons for a rising poverty threshold, another explanation for an expansion of absolute needs lies in the human psyche. As Stanley Lebergott (1993) describes in his book *Pursuing Happiness: American Consumers in the Twentieth Century*:

In 1980, the Bureau of Labor Statistics directly asked American families: "What would be the smallest income . . . your family would need to make ends meet?" It rediscovered Durkheim: the more one has, the more one wants. Families with incomes below \$5,000 felt that \$7,822 a year would suffice. Families with incomes from \$5,000 to \$10,000 felt \$10,139 was needed. Those who averaged \$44,837 knew that almost three times that sum was absolutely necessary. (1993: 71–72)

Regardless of income, families believed their absolute needs were unsatisfied. Moreover, the higher the income, the greater the professed needs. This evidence suggests that absolute needs may be inherently insatiable.

Innovations in medicine may provide another reason why the economic problem remains unsolved. According to Stephen Marglin (2002), if quality of life depends on consumption and health, then an individual who maximizes lifetime utility will allocate his or her endowment of resources between consumption goods and investment in health so that the marginal returns per dollar of expenditure in the two realms are equal. As a consequence, satiation in one realm can only occur if there is satiation in the other. Thus, "as long as medical technology improves over time, the returns to health investment will continually grow and provide an attractive outlet for expenditure, which will prevent people from reaching satiation in ordinary consumption goods as well" (2002: 31–32). Absolute needs may therefore be unfulfilled because of rising utility baselines, greater prerequisites for maintaining utility, human nature, or tradeoffs between consumption and health.

The existence of poverty and the insatiability of absolute needs contradict Keynes's argument for an eventual resolution of the economic problem, and calls into question economists' overly optimistic attitude toward the effectiveness of technological progress and economic growth alone in addressing economic discontent.

III

Humans Would Abandon Economic Pursuits

KEYNES'S SECOND PREDICTION was that, once the economic problem was solved, individuals would abandon their life in the economy and devote themselves instead to noneconomic pursuits. Though he conceded that they were humankind's "traditional purpose" ([1930] 1972: 327), and though he prescribed them as a necessary means to eventual economic abundance, Keynes did not believe that economic pursuits were intrinsically worthwhile. He denounced economic activities as "habits and instincts of the ordinary man, bred into him for countless generations" ([1930] 1972: 327) and accused them of engendering such "pseudo-moral principles" and "semi-criminal, semi-pathological propensities" as avarice, usury, and precaution ([1930] 1972: 329–31). Such activities should only be pursued as the means to the end of acquiring leisure, not as ends in themselves. Once they have earned their leisure, Keynes maintained, humans should devote their energies instead to the "real values of life" ([1930] 1972: 327), for "it will be those peoples, who can keep alive, and cultivate into fuller perfection, the art of life itself and do not sell themselves for the means of life, who will be able to enjoy the abundance when it comes" ([1930] 1972: 328). Indeed, the real and permanent problem of the human race was not that of satisfying its absolute needs but rather that of occupying its leisure ([1930] 1972: 328). Unlike the rest of the biological kingdom, human beings can—and must—transcend the dictates of nature to pursue the true "enjoyments and realities of life" ([1930] 1972: 329).

One shortcoming with Keynes's claim is that he never specified what the "arts of life" actually are. Where does one draw the line between economic and noneconomic activities, or between the "love of money as a possession" and "the love of money as a means to the enjoyments and realities of life" ([1930] 1972: 329)? Moreover,

“activities of purpose” and the “arts of life” are not mutually exclusive pursuits, nor is the former a necessary prerequisite for the latter, as Keynes seemed to suggest ([1930] 1972: 332). Human beings have not heretofore devoted themselves exclusively to economic pursuits, as Lebergott (1993) explains:

What society is committed to mere physical survival? Even those with the grimmest prospects have devoted resources to art. So the cave painters of Lascaux mutely testify, as well as the decorations on the ostrich shells in which Hottentots held their tiny stocks of water. In the medieval world, the bards of poverty-stricken Wales and the harpers of Ireland were no less “functional.” In the twentieth century, a dour society bent on swift industrialization nonetheless financed Khatchaturian, Shostakovich, and socialist realism. And Mao’s China supported the composers of the Yellow River Concerto. (1993: 6–7)

The line Keynes drew between economic and noneconomic activities is less than clear-cut. As a consequence, his argument for choosing the latter over the former is tenuous at best.

A second flaw with Keynes’s claim that individuals would prefer to devote their time to noneconomic pursuits when given the opportunity is that this is contradicted by empirical evidence. Although the economy has grown at the rate Keynes predicted, Americans do not appear to be living any less in the economy than they did in 1930. As Marglin (2002) describes:

We worry about mortgage payments, car payments, retirement plans, the rising cost of day care for our children and nursing homes for our parents. Most American families find one income inadequate for their needs. This is true not only at the bottom of the distribution, where falling real wages have eroded the standard of living over the past quarter century, but in the middle and upper ranges of the distribution as well. (2002: 1)

Despite Keynes’s prediction to the contrary, people still spend much of their time working. In fact, Keynes himself never stopped working, despite his considerable wealth. As D.E. Moggridge writes in his biography of Keynes:

At the time of his death he was beginning a post-Budget memorandum for the Chancellor arguing that the wartime policy of cost-of-living stabilisation was now potentially unstable and that a gradual and controlled rise in prices and wages was desirable if the Chancellor was to avoid a sudden collapse of the policy. (1992: 835)

Ample empirical evidence indicates that individuals continue to work even when it is no longer necessary to do so.

There are several possible reasons for the continued pursuit of economic activity. One is habit. As Keynes admonished: “[W]e have been trained too long to strive and not to enjoy” ([1930] 1972: 328). Another possible explanation is ignorance: Without associations, duties, ties, customs, or conventions to guide them, individuals are at a loss as to how to occupy their leisure. As an example, Keynes cited the wealthy class, members of which have “failed disastrously” to use their free time wisely ([1930] 1972: 328). A third explanation is that it is the pursuit of leisure rather than leisure itself that humans enjoy: Keynes observed that “to those who sweat for their daily bread leisure is a longed-for sweet—until they get it” ([1930] 1972: 327). A fourth reason is existential. In modern society, being is working; one is defined by what one does for a living. As a consequence, people must work in order to exist. A fifth reason why people may spend much of their time working is that they enjoy their work. Keynes himself concedes that even during the era of economic abundance, everyone will need to perform some work, in the form of duties, tasks, and routines, in order to be contented. He estimated that three hours of work a day would be able to satisfy most people ([1930] 1972: 328–329); perhaps the true figure is actually higher. With even the wealthiest people still engaged in the economy, the idea of working for money is no longer disdained the way it once was.

Perhaps the most compelling explanation for the continued pursuit of economic activity is that doing so is a rational response to the extension of the human lifetime. Owing to advances in science and medicine, the human life expectancy has increased dramatically over the last 75 years. For example, life expectancy at birth in the United States has increased from 59.7 years in 1930 to 77.3 years in 2002 (Arias 2004). As a consequence, one must work harder and longer in order to accumulate enough financial assets to assure a commodious extended life. Although suicide would make this extra work unnecessary, most people prefer instead to live longer, investing heavily in their careers and postponing retirement.

Yet another line of argument is that while people may still be working, they are working less, just as Keynes predicted. According to

Lebergott (1993: 68): “[T]he terms on which U.S. workers exchanged work hours for goods and services . . . advanced markedly” between 1900 and 1990; people worked less and consumed more. In addition to working fewer hours a week, individuals enjoy more years of leisure during their lifetime—with schooling at one end and retirement at the other. It is thus unclear whether people would exit the economy entirely if their economic problem were solved.

A third drawback to Keynes’s argument is that it suffers from logical fallacies. In forming his case for the pursuit of noneconomic activities, Keynes made several hypocritical statements about the value of looking into the future. By denouncing precaution as a vice that should be rejected once the economic problem has been solved, Keynes appeared to express a distaste for caring about the hereafter. He lamented the “purposiveness” that induces humans to be “more concerned with the remote future results of [their] actions than with [the actions’] own quality or [the actions’] immediate effects on [their] own environment” ([1930] 1972: 329–330). In contrast, the truly virtuous, sane, and wise are those who “take the least thought for the morrow” ([1930] 1972: 331). Yet despite his disdain for forethought, Keynes himself partook in making projections: the main purpose of his essay, he freely declared, was “not to examine the present or the near future, but to disembarass [himself] of short views and take wings into the future” ([1930] 1972: 322). Moreover, despite his distaste for heedfulness, he urged his audience to ready themselves for the future: “[T]here will be no harm in making mild preparations for our destiny” ([1930] 1972: 332). Keynes’s tenet that “activities of purpose” are secondary to the “arts of life” ([1930] 1972: 332) is reminiscent of the religious creed that humankind’s worldly existence is secondary to its afterlife: both reflect an aversion to the mundane—and predominantly economic—realities of everyday human life, and both make an appeal to a better future as an end to justify humankind’s current pursuits. Thus, like the purposive money makers he criticized, Keynes, too, was trying to “secure a spurious and delusive immortality for his acts by pushing his interest in them forward into time” ([1930] 1972: 330). Hypocrisy, omissions, and empirical evidence therefore undermine Keynes’s argument that individuals would devote themselves to noneconomic activities.

IV

Humans Would No Longer Strive for Relative Goods

KEYNES'S THIRD CLAIM was that once their absolute needs were met, people would cease to strive for relative goods. According to his line of argument, relative needs, defined as those that "satisfy the desire for superiority" ([1930] 1972: 326), would exist as long as absolute needs did, for in their effort to fulfill their own relative needs, "strenuous purposeful money-makers" would enable the fulfillment of everyone's absolute needs ([1930] 1972: 328). However, once the economic problem was solved, relative needs would lose their function and therefore disappear. While there may still remain some individuals with "intense, unsatisfied purposiveness who will blindly pursue wealth," the rest of society would no longer be obliged to applaud or encourage them ([1930] 1972: 329). Under a realigned moral code that would no longer value wealth, relative goods would no longer endow superiority and thus would no longer be needed.

The main flaw with Keynes's third claim is its failure to explain the proliferation of material and consumer goods in the U.S. economy. Why does materialism exist and persist? One theory is that there are more goods in the economy because there are more absolute needs to satisfy. As explained earlier, an expansion of absolute needs may be due to a rise in the minimum level of utility society finds acceptable for its least well off, to an increase in the prerequisites needed to participate in the market economy, or to an immutable characteristic of human nature. Thus, Keynes's error may lie not in his belief that relative goods would lose their function but in his prediction that absolute needs would be satiated. Since the latter has yet to occur, relative goods still exist.

A second possible explanation for the abundance of goods in the economy is that relative needs will never be satiated. An individual's desire for relative goods may be innate. Thomas Hobbes ([1651] 1985) notoriously declared rivalry to be fundamental to the human condition: "[W]ithout a common Power to keep them all in awe, [men] are in that condition which is called Warre, and such a warre, as is of every man, against every man." As expounded in *Leviathan*, competition, diffidence, and glory are all universal aspects of human nature

([1651] 1985: 185). As a consequence, individuals may always feel a need to prove themselves superior to their peers, even when everyone's absolute needs have been met.

While the interdependence of individual preferences may evince the inherent rivalrous nature of human beings, the persistence of relative goods may reflect a channeling of that rivalry into the economic sphere. According to an empirical study by Richard Easterlin (1974), there is a positive association between happiness and income within countries but not across countries or across time. His study supports the relativity notion, that "each individual, in evaluating his happiness, compares his actual experience with a norm derived from his personal social experience" (1974: 117). Utility is derived not from absolute consumption expenditure but from relative consumption expenditure; individuals evaluate their happiness based on their relative, not absolute, income. Relative income affects not only happiness but also decisions about expenditure (Duesenberry 1952: 93), savings, fertility, and labor force participation (Easterlin 1974: 113). If individuals derived utility from relative income, no one would benefit from an increase in everyone's income. Thus, economic growth will never ameliorate the need for relative goods.

There are several possible reasons why individual competition has centered on economic activity. First, economic competition may exist simply because it can. When social status is no longer determined by birth, custom, or fiat, it is no longer discernable by reference to a rigid social structure. Instead, in the absence of sumptuary laws, wealth becomes a feasible signal of status. As Marglin (2002) explains, modernity has "broken down the barriers to channeling envy and other forms of rivalry into the economy. Wealth has become a principal barometer of human worth" (2002: 5). A second reason for the use of the economy as a site for competition is that no other viable alternative exists. Keynes himself admits that "of course there will still be many people with intense, unsatisfied purposiveness who will blindly pursue wealth—unless they can find some plausible substitute" ([1930] 1972: 329). In contrast to economic activities, the noneconomic arts of life are noncompetitive almost by definition. The economy is perhaps the only outlet for humankind's rivalrous nature. A third response is that the economy

is actually only one of many arenas for competition: from sports and recreation to politics and theater, human beings compete in all realms of life. The abundance and variety of awards, rankings, and ratings for all sorts of activities are testaments to the high value humans place on contests and those who win them. Thus, relative needs may persist because they reflect a perhaps distasteful aspect of human nature that people will never completely transcend.

Competition for relative goods may be not only intrinsic to human nature but also necessary for survival. In his argument for the eventual satiation of absolute needs, Keynes neglected to consider one absolute good whose scarcity economic growth will never be able to ameliorate: land. As long as land remains in fixed supply, there will always be competition for its possession. Moreover, given the heterogeneous nature of people's tastes and behavior, individuals will always have an incentive to enhance their relative wealth in order to enable them to "purchase" a desirable place to live. Scarcity of land may thus be a reason why humans may never choose to exit the economic sphere.

In addition to an expansion of absolute needs and the insatiability of relative needs, a third possible reason for the persistence of materialism is that consumption may serve purposes other than the satisfaction of absolute and relative needs. One possible function is existential: a consumerist culture fosters the belief that being is having. Perhaps people buy in order to affirm their existence. As Marglin asserts: "In individualistic society, commodities—goods and services purchased in the market—become the means of solving existential problems" (2002: 29). A second possible purpose for consumption is experiential. According to Lebergott: "economic activity aims not for output, but for experience via consumption" (1993: 3). Individuals consume not merely to satisfy preexisting needs but to try something new: "[E]xpenditures typically provide consumers with a mere ticket of admission to future experience" (Lebergott 1993: 8). These new experiences in turn create new needs to be fulfilled. Novelties that become necessities may therefore be a driving force behind the expansion of consumerism. As Easterlin explains: "[E]conomic growth does not raise a society to some ultimate state of plenty. Rather, the growth process itself engenders ever-growing wants that lead it ever onward" (1974: 121). Though the initial consumption of new goods may be driven by

a desire for experience, subsequent consumption is driven by needs generated by such experience.

The potentially endogenous nature of individual preferences has been exploited by suppliers of new goods. Through innovation and marketing, producers are able to induce consumers to demand their products. The significant amount of resources that firms dedicate to advertising is evidence of the enormous value of creating new needs for consumers to fulfill. Clever marketing enables producers to manipulate not only consumers' experiential needs but also their relative needs. According to Marglin: "[T]here is no doubt that advertising reinforces the demand for goods that we value because others have them" (2002: 27–28). The proliferation of products is driven by both supply and demand. The malleable nature of human wants and the propensity for these wants to expand are plausible reasons for the abundance of goods in the economy.

Lebergott (1993) suggests a more specific explanation for consumerism: the transition away from home production. According to his theory, consumerism first appeared when housewives began to buy goods they had previously produced. As family incomes rose, housewives could divert more resources to the purchase of new products facilitating household operation. The subsequent decline in the amount of time required for housework was a contributing factor for the increase in female labor participation after 1950, which, in turn, further increased family incomes and consumption spending (1993: 50–60). An extrapolation of Lebergott's argument would imply that the abundance of consumer products reflects the large number of quotidian tasks that economic progress has made easier, simpler, and faster. When Keynes envisioned the economic problem of the human race being solved, he may have underestimated the extent to which it could be solved. Despite his optimism, not even Keynes could fathom the ways in which people have made their lives more comfortable and enjoyable. His objections to economic pursuits may be tempered by the high standard of living such pursuits have made possible. Whether due to rising absolute needs, insatiable relative needs, marketing ploys, or innovations in household operation, consumerism contradicts Keynes's belief in the eventual elimination of relative needs.

Concluding Remarks

OVER THREE-QUARTERS of a century later, none of Keynes's three prophecies have stood the test of time. First, Keynes's predicted resolution of the economic problem by technological progress has been precluded by the adverse distributional effects of economic growth and by expanding absolute needs. Second, loopholes, logical fallacies, and empirical evidence undermine his claim that individuals would eventually devote themselves to noneconomic pursuits. Third, although Keynes believed that individuals in the future would no longer strive for relative goods, materialism is a persistent feature of American society and may reflect an intrinsic aspect of human nature. As is the case with many economists who are cognizant of the power of economic growth, perhaps Keynes's biggest mistake was his failure to fully envision all its consequences, both positive and negative. For though it may have improved average living standards and satisfied many absolute needs, economic progress has also engendered the persistence of poverty and the entrenchment of consumerism. Along with weaknesses in human nature, the adverse effects of economic growth limit the potential benefits of economic progress. Keynes's projected possibilities are thus not only unrealized, but perhaps unrealistic as well.

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