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Stop The Treadmill!

Barry Schwartz
Swarthmore College, bschwar1@swarthmore.edu

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Suppose you believe that a central aim of public policy in a democratic society should be improving the welfare of its citizens. Even when resources are plentiful, this is a challenging task because of the difficulty of determining what ‘welfare’ consists in. Beyond basic necessities, there is great variation in what people want out of life. This is true with respect to material goods, and also true with respect to what people want from their work, their medical care, their educational opportunities, their relationships with others, their public institutions, the arts and just about everything else. So any specific commitment of public resources is likely to please some people and displease others.
The way to solve this problem, we are often told, is to provide a wide range of opportunities and let people choose for themselves whatever promotes their personal welfare. Since each individual is in the best position to judge his or her welfare, putting decisions into the hands of individuals is a solution to the social welfare problem that can’t be improved on. To improve welfare, you must increase freedom of choice, not because increased choice is necessarily good in itself, but because it increases the chances that each individual will be able to find something that serves his or her interests.

This is the central dogma of neoclassical economics. Economists assume that we know what we want, and that we are rational, so that if we have the opportunity – freedom to choose – we will choose whatever gives us the greatest satisfaction. These assumptions go a long way towards explaining the Reagan/Thatcher revolution, and they contribute to the current enthusiasm of many in the US for the privatisation of pensions and health insurance, for choice in schooling and, more generally, for the libertarian view that the best government is the least government. Whatever else initiatives like these may achieve, each has the virtue of allowing individuals to pursue welfare as they see fit: risky retirement investments or safe ones, open classrooms or highly structured ones etc. On this view, the real virtue of the competitive free market is not so much what it gains in economic efficiency (narrowly defined as output per unit of input) over other economic systems, as what it gains for individuals in opportunities to choose.

The importance of choice also casts light on the emphasis that developed societies place on increasing the material wealth of their citizens. The value of material wealth has more to do with its relation to freedom of choice than with its relation to luxurious standards of living. It is roughly true that the wealthier a person is, the freer they are to live the kind of life they want and to make the choices they want. Wealth liberates: per capita GDP is a decent proxy for the amount of freedom enjoyed by individuals in a society. It is an admittedly imperfect measure: civil rights don’t require wealth, and wealth doesn’t buy freedom of speech or assembly. But even with civil rights, if you have to struggle to exhaustion every day just to meet your basic needs, freedom of speech or assembly becomes the kind of luxury you rarely get to enjoy.

The view that choice is essential to collective welfare seems compelling, on account of the reasonable assumption that if some choice is good then more choice is better. Adding further options can’t make anyone worse off and will surely make some better off. It’s what economists call ‘Pareto efficient’. And increasing wealth is what makes more of these options real for more and more citizens.

The Challenge of Affluence is a frontal assault on this view. Avner Offer is an economic historian who has long been concerned with figuring out what matters most to quality of life. And what the book tells us, in some 450 amply annotated pages (he seems to have read every relevant source in the social sciences), is that it’s not what economists think it is. Offer makes the powerful argument, with data derived mostly from research in the UK and the US, that not only has our unprecedented affluence failed to make us better off, it may actually have made us worse off; not only does affluence fail to solve the most basic human problems, it creates new ones. We measure the wrong things, we adopt policies designed to promote the wrong things, and we spend money on the wrong things. We have wasted too much time listening to economists. There is an extensive literature on the determinants of wellbeing that for more than forty years has studied people across the globe. The results indicate that wealth is extremely important as people struggle from poverty to subsistence. After that, the welfare gains diminish, and other aspects of life become more important. This amounts to an argument that people living in poor countries should be taking their cues from economists, but people living in rich countries should not. Yet nations like the US and Britain continue to promote policies designed to push per capita GDP still higher, while at the same time neglecting the promotion of policies that might actually make citizens better off. A close reading of Offer’s book will make plain the poverty of imagination and wilful neglect of evidence that this blinkered approach to public policy represents.

Offer’s key insight, from which most of his analysis derives, is that ‘economic resources are not final goods.’ What this means is that wealth is a means to an end, not an end in itself. The true ‘end’ is ‘welfare’, or ‘life satisfaction’, or ‘utility’. We all know this: we all know that wealth is at best a proxy for welfare, which is what we really care about. But ‘welfare’, ‘life satisfaction’ and ‘utility’ are not especially easy to define or to measure; each has a significant inherently subjective component. It is thus tempting to use wealth as a stand-in, especially because money is fungible, so that each of us can use it to get the things that provide us with satisfaction. It seems perfectly reasonable to assume that the more money we have, the better able we will be to use it to provide us with what we value – material goods, leisure time, education. More precisely, it seems reasonable to assume that the relation between money and welfare is monotonic – that the more money we have, the more welfare we have – even if it is not linear (as implied by the ‘law’ of diminishing marginal utility).

Offer criticises this line of thinking. ‘The paradox of affluence and its challenge,’ he writes, ‘is that the flow of new rewards can undermine the capacity to enjoy them.’ There are two main reasons for this. First, freedom of choice is not an unalloyed good, in part because people can be paralysed by too wide a choice, in part because they often choose badly, and in part
because even when people overcome paralysis, and choose well, the thought of all those attractive options they left on the table can undermine their satisfaction with the option they chose. Economists believe that choice shouldn’t work this way, but it does. And affluence requires more choice: it poses problems that take time and energy to solve. In the US, if you can’t afford a private school, you don’t have to decide which school is right for your child. If you can afford a private school, your life has just grown a good deal more complicated.

Second, affluence exposes one of our principal weaknesses: our inability to exert self-control. Offer quotes Hume: ‘There is no quality in human nature, which causes more fatal errors in our conduct, than that which leads us to prefer whatever is present to the distant and remote.’ We have a powerful tendency to indulge short-term passions at the expense of long-term interests, and increased wealth feeds this myopia, by giving us the wherewithal to indulge such preferences. The market offers us one novel consumption opportunity after another, and ‘novelty tends to produce a bias towards short-term rewards, towards individualism, hedonism, narcissism and disorientation.’ As an example, Offer has an entire chapter on the obesity epidemic that now plagues the developed world: this is myopia in action. More generally, he says, ‘the thrust of empirical work since the 1960s . . . is that the rational consumer is a fiction, and that choice is often fallible. The choices people make do not always accord with what . . . they would judge as being good for themselves.’ And further, ‘a great deal is at stake here: at a technical level, the assumption of consistency in choice, which is a pillar of economic analysis. At the level of ideology, the justification of market outcomes as being both efficient and equitable. At the political level, the bias in favour of deregulation, privatisation and low taxes.’

Problems of self-control are not new, even if wealth exacerbates them. What have people done in the past to help solve them? The answer is that they – we – relied on a network of restraints provided by the state and by various social and religious institutions; but, as Offer points out, these restraints have weakened. Whether this is a result of affluence, of capitalism, of liberalism or of modernity more generally is hard to say, but whatever the cause, each of us is now pretty much on our own. Nanny states, meddling pastors, strict parents and nosy neighbours have a much smaller hold on us than they used to. Advertisers dangle attractive treats in front of our eyes and noses, and there is precious little to stand between us and the products they want us to buy and consume. The market shoves shiny toys in our faces, and we can afford to buy them.

Offer observes that consumption has shifted increasingly from time-saving devices, like washing machines, to time-using devices, like iPods and DVRs. We want to have a good time, but a pervasive aspect of our psychology does us in; we adapt. New acquisitions give us pleasure, but for much less time than we expect. We become bored, we feel cheated or short-changed, and we’re off to find the next new thing. This process of adaptation has been referred to as the ‘hedonic treadmill’, and Offer provides a nice discussion of the evidence for it. But, as on exercise treadmills, we don’t actually get anywhere. We don’t even get any exercise.

Moreover, choosing these pleasure machines and then using them takes time, and time spent getting and consuming is time not spent on other things. The time we spend on the hedonic treadmill is time we don’t spend nurturing and sustaining relations with friends, family and community. This is doubly unfortunate. First, the literature on the determinants of wellbeing makes it clear that once a society has enough material wealth to live above subsistence, close relations to others are crucial to wellbeing. Second, it is friends, family and community that can collectively help us solve our self-control problems. As our social ties weaken, these become more acute.

Nor is the hedonic treadmill the only one we’re running on. Offer points out how much we care about what he calls ‘regard’, how we look to others. Status or regard can be derived from many things: virtues of character, occupation, acts of kindness or charity, and of course wealth. In a society in which efforts are concentrated on increasing GDP, and life is oriented towards consumption, wealth becomes an increasingly important yardstick of status, and other things recede into the background. Thus the treadmill: how much wealth is enough? The answer is: more wealth than your neighbours. A rising tide that lifts all boats doesn’t change your own relative position; you may get a better car, but you won’t get more status. The result is a kind of arms race of wealth acquisition that thrives on inequality, but leaves no one better off. Twenty years ago Robert Frank wrote a brilliant book about the quest for status, Choosing the Right Pond, and Offer’s contribution brings Frank’s analysis up to date. We run faster and faster, for longer and longer, just to keep up. And it isn’t only about status. As Fred Hirsch pointed out long ago in Social Limits to Growth, there are certain goods that are inherently scarce and can’t be increased by improved economic efficiency (e.g., a house in the best neighbourhood, or admission to the best university), so that the only way to assure access to them is by out-doing your neighbour.

Concern for status and competition for time also weakens our commitment to our partners (Offer shows that marital satisfaction has been going down as GDP has been going up) and increases the costs associated with having children (he has an excellent chapter on this, called ‘Women and Children Last: The Retreat from Commitment’). The single-minded
pursuit of increased GDP leads to increased inequality, which has significant negative effects on both psychological and physical health. It leads to increased insecurity, which, as Jacob Hacker has recently pointed out in *The Great Risk Shift*, afflicts the white-collar classes as much as it does the blue-collar. It leads to decreased trust as we are constantly bombarded by advertisements from an industry that depends on trust while at the same time undermining it. And it leads to decreased virtue, because money seems to crowd out ethics.

In the early 1990s, Switzerland was preparing for a referendum about where it would site nuclear waste dumps. Citizens had strong views on the issue, and were well informed. Two social scientists, Bruno Frey and Felix Oberholzer-Gee, went to a number of Swiss cantons to sample public opinion. When asked whether they would be willing to have a waste dump in their community, about 50 per cent of respondents said yes – even though people generally thought such a dump was potentially dangerous and would lower the value of their property. The dumps had to go somewhere, and like it or not, people had obligations as citizens. Apparently, there is not much of a nimby problem among the Swiss. Frey and Oberholzer-Gee then asked the same group a slightly different question: whether, if they were given an annual payment equivalent to six weeks of an average Swiss salary, they would be willing to have the dumps in their communities. These people had two reasons to say yes: obligations as citizens and a financial incentive. Yet only about 25 per cent of respondents agreed. Adding the financial incentive cut acceptance in half.

It seems self-evident that if people have one good reason to do something, and you give them a second, they’ll be more likely to do it: you’re more likely to order a dish that tastes good and is good for you than one that just tastes good. Yet the Swiss who were given two reasons to accept a waste site were less likely to say yes than those given only one. Frey and Oberholzer-Gee explained this result by arguing that reasons don’t always multiply; sometimes, they compete. The Swiss who were not offered incentives had to decide whether their responsibilities as citizens outweighed their distaste for having nuclear waste dumped in their backyards. Some thought yes, and others no. But that was the only question they had to answer.

The situation was more complex for those who were offered cash incentives. They had to answer another question before they even got to the issue of accepting the waste: ‘Should I approach this dilemma as a Swiss citizen or as a self-interested individual? Citizens have responsibilities, but they’re offering me money. Maybe the cash is an implicit instruction to me to answer the question based on the calculation of self-interest.’ Now, taking the lead of the questioners, with their self-interested hats squarely on their heads, citizens concluded that six weeks’ pay wasn’t enough. Indeed, they concluded that no amount of money was enough. Put another way, the offer of money undermined the moral force of the situation. Morality is for suckers, the offer of money seemed to be saying, even if only implicitly. To take a more mundane example, Fred Hirsch observed, in discussing the commercialisation of romance, that ‘orgasm as a consumer’s right rather rules it out as an ethereal experience.’

Ask yourself if it is possible to run a society in which children are neglected, marriages are unstable, jobs are precarious, trust is absent and virtue has disappeared. Offer’s answer is clear. And so was Adam Smith’s. The father of the free market, who in *The Wealth of Nations* saw competition as a somewhat miraculous virtuous circle, wrote another important book, *The Theory of Moral Sentiments*, in which he argued that people’s ‘natural sympathy’ for one another would impose restraints on what each person was willing to do to others in pursuit of self-interest. Smith was right about the ‘sympathy’ part, but not about it being ‘natural’. ‘Sympathy’ reined us in and kept the world from becoming Hobbesian, but it wasn’t ‘natural’; it was sociocultural. It was so pervasive in Smith’s milieu that he seemed to take it for granted. But 250 years of the pursuit of wealth in market societies has made it all but disappear. Not only does life become ‘nasty and brutish’ in a world without virtue, but the magic of the market stops working as well. Markets depend on virtue for their efficiency, even as they undermine it.

The story Offer tells has been told before by various social scientists in various ways. What he adds is a genuine economic analysis. The book is full of the kind of data that economists take seriously – on advertising, buying a car, income, occupational status. This is a book that uses the tools of economics to illuminate the myopic lens through which economics views the world. Because of this, one can hope that economists will afford this book a measure of serious attention and respect that they have not given to its predecessors. And this matters, because economists rule the roost in the social sciences, and I don’t see them ceding their position to psychologists or sociologists any time soon. If there is a problem with Offer’s book, it is that although the words and sentences should be comprehensible to any educated person, the graphs and tables that present data are almost indiscernible for anyone who has not had some training in economics. Offer would have done a real service by translating the data into English.
You might read Offer’s book, be persuaded by his arguments, but still feel compelled to pursue policies that aim to raise GDP. The reason is that not everyone in your society has attained the level of economic status in which subsistence is no longer an issue and Offer’s problems start to kick in. If massive inequality is inevitable, and the only way to raise the economic status of the poor is by pursuing policies that enable those who aren’t poor to acquire more wealth (and more problems), then you’re stuck. And this is pretty much the line we’ve been fed. It’s the neoliberal ‘official story’. I don’t buy it. It seems to me that if Offer is right, and I think he is, then one can tackle poverty by a significant redistribution of wealth. In the old days, one would have to justify such redistribution morally by arguing that a shilling in a poor person’s pocket produced more utility than the same shilling in a rich person’s pocket. Although redistribution made some better off at the expense of others, the gains outweighed the losses. The beauty of Offer’s analysis is that if you take it to its logical conclusion, it implies that everyone benefits from redistribution. That the poor benefit is obvious; but the rich benefit also because, with less wealth, they are less plagued by choice and less tempted to succumb to loss of self-control. This is a true Pareto efficient policy.

And if you combine redistribution of wealth with policies designed to enhance ‘in-kind’ goods and services rather than GDP, you can make real social progress. Instead of giving people more money, tempting them to run for even longer on the hedonic treadmill, you could provide better schools, better health care, greener parks and more comfortable community centres from which everyone can benefit. Reduce the working week so that people will have more time to spend as citizens, partners and parents. An important step in this direction would be a new system of national accounts – one that measures what really matters to wellbeing, instead of what’s easy to measure. I’m not sure that Offer would endorse any of these proposals, but it seems to me that if he takes his own analysis seriously, he should. And so should the rest of us.